MERCY-USA FOR AID & DEVELOPMENT, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

AND

SINGLE AUDIT REPORT

DECEMBER 31, 2017

Contents

Alan C. Young & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mercy-USA for Aid & Development, Inc.
Plymouth, Michigan

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mercy-USA for Aid and Development, Inc. (a nonprofit organization) (the Organization) and its overseas operations, which comprise the consolidated statement of financial position as of December 31, 2017 and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal awards, the statement of functional expense and other supplemental information as identified in the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 7, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control over financial reporting and compliance.

Alan C. Young & Asso.

Detroit, Michigan
September 7, 2018

Mercy-USA for Aid & Development, Inc.

Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	$ 3,631,842	$ 4,094,895
Pledges & Accounts Receivable (Note 5)	1,028,918	912,203
Notes Receivable - Micro-lending/SED (Note 1)	18,857	10,000
Prepaid Insurance & Expenses	15,100	20,472
Total Current Assets	4,694,717	5,037,570
Fixed Assets (Note 6)		
Building, Vehicles, Furniture & Equipment	1,446,379	1,338,381
Less: Accumulated Depreciation	(417,952)	(403,192)
Total Fixed Assets	1,028,427	935,189
Other Assets		
Security Deposits	9,169	7,623
Travel Advance	250	1,500
Total Other Assets	9,419	9,123
Total Assets	$ 5,732,563	$ 5,981,882
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	$ 800,385	$ 905,987
Deferred Revenue	177,313	715,587
Tenant Security Deposit	6,893	6,893
Accrued Payroll & Taxes	3,521	2,413
Advance Rent	1,510	-
Total Current Liabilities	989,622	1,630,880
Net Assets		
Unrestricted	3,198,061	2,454,836
Temporarily Restricted (Note 9)	1,544,880	1,896,166
Total Net Assets	4,742,941	4,351,002
Total Liabilities and Net Assets	$ 5,732,563	$ 5,981,882

The accompanying notes are an integral part of these financial statements.

Mercy-USA for Aid & Development, Inc.

Consolidated Statements of Activities
Years Ended December 31, 2017 and 2016

	2017			2016		
SUPPORT AND REVENUE	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Contributions From Public	$ 1,012,491	$ 3,814,437	$ 4,826,928	$ 962,768	$ 3,715,274	$ 4,678,042
US Agency for International Development (USAID)	-	2,723,742	2,723,742	-	1,925,749	1,925,749
United Nation (UN) Grants	-	4,043,036	4,043,036	-	2,479,837	2,479,837
Global Fund to Fight AIDS, Tuberculosis & Malaria (GFATM) Grants	-	572,771	572,771	-	468,646	468,646
Contribution In-Kind - UN agencies (Note 4)	-	8,465,481	8,465,481	-	2,102,767	2,102,767
Rental Income	76,220	-	76,220	71,737	-	71,737
Dividend Income	8,215	-	8,215	9,103	-	9,103
Gain/Loss on Foreign Currency Fluctuation	49,936	-	49,936	30,095	-	30,095
Gain/Loss on Sale of Equipment	1,518	-	1,518	-	-	-
Program Fees	17,646	-	17,646	20,315	-	20,315
Net Assets Released From Restrictions:						
Satisfaction of Service Restrictions (Note 9)	19,970,753	(19,970,753)	-	10,653,520	(10,653,520)	-
Total Support and Revenue	21,136,779	(351,286)	20,785,493	11,747,538	38,753	11,786,291
EXPENSES						
Program Services:						
Food, Shelter and Orphan Assistance	14,969,850	-	14,969,850	6,671,110	-	6,671,110
Economic Vitalization	255,023	-	255,023	356,107	-	356,107
Health	4,443,951	-	4,443,951	3,595,215	-	3,595,215
Education	301,929	-	301,929	130,240	-	130,240
Total Program Services	19,970,753	-	19,970,753	10,752,672	-	10,752,672
Supporting Services:						
Management and General	96,545	-	96,545	94,897	-	94,897
Fund Raising	326,256	-	326,256	201,281	-	201,281
Total Supporting Expenses	422,801	-	422,801	296,178	-	296,178
Total Expenses	20,393,554	-	20,393,554	11,048,850	-	11,048,850
Change In Net Assets	743,225	(351,286)	391,939	698,688	38,753	737,441
Net Assets - Beginning of Year	2,454,836	1,896,166	4,351,002	1,756,148	1,857,413	3,613,561
Net Assets - End of Year	$ 3,198,061	$ 1,544,880	$ 4,742,941	$ 2,454,836	$ 1,896,166	$ 4,351,002

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

CASH FLOWS FROM OPERATING ACTIVITIES	**2017**	**2016**
Change in Net Assets	$ 391,939	$ 737,441
Adjustments to reconcile Change in Net Asset to Cash Provided by (Used in) Operations:		
Loss (Gain) on Disposal of Assets, net	(1,518)	571
Depreciation	96,296	79,345
Change in:		
Prepaid Insurance and Expenses	5,372	(8,398)
Pledges and Accounts Receivable	(116,715)	(103,782)
Notes Receivable - Micro-lending/SED	(8,857)	2,000
Other Assets	(296)	(2,447)
Accounts Payable	(105,602)	14,022
Deferred Revenue	(538,274)	636,525
Accrued Payroll and Taxes	1,108	1,429
Advance Rent	1,510	-
Net Cash Provided by (Used in) Operating Activities	(275,037)	1,356,706
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(189,584)	(181,502)
Proceeds from Sale of Assets	1,568	10,000
Net Cash Used in Investing Activities	(188,016)	(171,502)
Net Increase (Decrease) in Cash	(463,053)	1,185,204
Cash and Cash Equivalents - Beginning of Year	4,094,895	2,909,691
Cash and Cash Equivalents - End of Year	$ 3,631,842	$ 4,094,895

The accompanying notes are an integral part of these financial statements.

1) NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activity

Mercy-USA for Aid & Development, Inc. (the Organization) is a nonprofit organization exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. It was incorporated in the State of Michigan on September 23, 1988. The Organization is also licensed by the States of Michigan, Illinois, New Jersey and California to solicit public funds. Mercy-USA is involved in the relief and development for individuals and communities providing economic vitalization, health care, food and shelter and education mainly in Somalia, Syria, Kenya, Bosnia, Indonesia, Lebanon and Albania and also in the United States and other countries around the world with the help of the United States Agency for International Development (USAID), Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), , United Nations Children Fund (UNICEF), World Food Program (WFP) and other United Nations grants as well as through public contributions.

Basis of Accounting

The financial statements of Mercy-USA for Aid & Development, Inc. have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The financial statements include the amounts of the Organization and its various overseas locations. All significant inter-branch transactions and accounts are eliminated. Consolidated branches include:

- Albania
- Bosnia
- Indonesia
- Kenya, Somalia
- Lebanon
- Turkey

Translation of Currencies

Financial statements in currencies other than United States dollars are revalued for accounting as per FASB Accounting Standards Codification Topic 830, *Foreign Currency Matter*s. The adjustments for currency exchange rates are included in the net income for those transactions that impact cash flow and are excluded for those that do not.

Financial Statement Presentation

In accordance with accounting standards applicable to not-for-profit organizations, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

1) NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

To ensure proper usage of restricted and unrestricted assets, the Organization maintains its accounting according to fund accounting principles. The assets, liabilities and net assets are classified in accordance with specified restrictions and objectives. The Organization's funds are described below and are placed in the following categories:

Unrestricted Fund:

Unrestricted net assets are those currently available for use of the Organization's Board.

Temporarily Restricted Fund:

Temporarily restricted net assets are those assets received with donor stipulations that limit the use of the donated assets. When stipulated time restrictions expire or purpose restrictions are accomplished, these net assets are reclassified as unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The Organization does not have any permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or the nature of any donor restrictions.

Certain restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restrictions.

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in subsequent years are reported at the present value of their net realized value, using risk-free interest rates applicable to the years in which the promises are to be received.

1) NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Accounting Standards Codification Topic, *Accounting for Uncertainty in Income Taxes*, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting interim periods. The Organization's federal tax returns for the prior three years remain subject to examination by the Internal Revenue Service.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a program basis in the statement of activities. Costs are allocated between fund raising, management and general and the appropriate program based on evaluations of the related benefits. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide the overall support and direction of the Organization.

Cash and Cash Equivalents

Cash includes cash on hand and cash in checking and savings accounts. For financial statement purposes, The Organization considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates market value.

Fixed Assets

Fixed assets are stated at cost if purchased or, at fair market value when received as contributions. Depreciation is recorded on a straight-line basis over the estimated useful life of the assets. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. Assets with an individual cost of $1,000 and over, and a useful life in excess of one year are capitalized.

Advertising

The Organization expenses advertising costs as incurred. Advertising expense was $139,749 and $106,008 for the years ending December 31, 2017 and 2016, respectively.

1) NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue Reorganization

Funds provided under grant or contract, which are not considered contributions, are deemed to be earned and reported as revenue when the Organization has either incurred expenditures or completed the deliverables in compliance with the specific terms and conditions of the grant or contract. Grants or contract funds received for which no corresponding expenditures or performance has yet been made are accounted for as deferred revenue. Expenditures and performance made in advance of funds received are recorded as grants or accounts receivables.

Commodities are received and reported at fair value and recognized as revenue as the commodities are distributed for program purposes.

Contributions, including unconditional promises to give, are recognized initially at fair value as revenue in the period received at net realizable value.

Grants

Grant support is recognized as revenue when expenditures are incurred for the specific purpose established under the grant agencies.

Microfinance Loans Receivable

Microfinance loans receivable are recorded in the consolidated statements of financial position at their unpaid principal balances net of allowance for loan losses. Interest income is accrued based on the outstanding principal amount and contractual terms of each individual loan. A loan in considered impaired when, based on current information, it is probable that the organization will not receive all amounts due in accordance with the contractual terms of the underlying loan agreement. When an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan receivable and the present value of the estimated future cash flows, including amounts recoverable from guarantees and collateral discounted at the loan receivable's original effective interest rate. All loan receivable losses are recognized in the consolidated statements of activities. When a loan is uncollectible, it is written off against the related reserve for loan impairment. Loan balances are written off when management determines that the loans are uncollectible and when all necessary steps to collect the loan are exhausted. The balance outstanding as of December 31, 2017, and 2016, were $18,857 and $10,000, respectively. There was no allowance for uncollectible against these loans.

1) NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Microfinance loans receivable were concentrated in the following country as of December 31:

	2017	2016
Bosnia	$ 18,857	$ 10,000

2) CASH AND CASH EQUIVALENTS

The total cash held by the Organization at December 31, 2017 includes $3,197,109 not covered by insurance provided by the Federal Deposit Insurance Corporation. As of December 31, 2016, the uninsured amount was $3,335,292.

3) PROGRAM AND SUPPORTING SERVICES

Mercy-USA for Aid & Development, Inc.'s program and supporting services are as follows:

Program Services

Food and Shelter

The provision of all types of food and shelter, winterization materials, and necessary household and personal items.

Orphan Assistance

The orphan assistance includes specific projects or other assistance for orphans around the world.

Health Services

The improvement of individual and community health through education, immunization nutrition support, safe water, hygiene, sanitation and other preventive measures. It also includes the operation or funding of clinics, hospitals, and other health care institutions; improvement, rehabilitation and renovation of the existing health care infrastructure; and the provision of medicines, medical supplies and medical equipment to health care facilities.

Economic Vitalization

The provision of ways for needy individuals and their communities to sustain themselves and to improve their quality of life; and assistance in reviving the economies of communities devastated by natural and man-made disasters.

3) PROGRAM AND SUPPORTING SERVICES (Continued)

Education

The improvement of attendance and academic performance, especially among girls, through daily school lunch programs. It also includes construction of school buildings, as well as repairs and renovations to existing schools. Additionally, the provision of vocational and technical training especially to orphans and other vulnerable children and youth.

Management and General

Includes the services necessary to maintain an adequate working environment, provide proper administrative support for the Organization's programs, and manage the financial and budgeting responsibilities of the Organization.

Fundraising

Provides the structure necessary to encourage and secure support from individuals and organizations.

4) CONTRIBUTIONS IN-KIND

These consist of food, medicines and medical supplies etc. provided by UNICEF and World Food Program for distribution to needy people. The amounts recognized in the statement of activities are based on fair value of the goods received at the time of donation. The Organization received $8,465,481 and $2,102,767 in fiscal years 2017 and 2016, respectively.

5) PLEDGES AND ACCOUNTS RECEIVABLE

Accounts receivable consist of Somalia/Kenya grant funding receivable from the USAID and the United Nations Grant agencies. Details of Accounts Receivable as of December 31, 2017 and 2016 are as follows:

	2017	2016
Grants Receivable	$ 989,737	$ 785,896
Pledges Receivable	39,181	126,244
Others	-	63
	$ 1,028,918	$ 912,203

6) FIXED ASSETS

Fixed assets are comprised of the following:

	Balance January 1, 2017	Additions	Deletions	Reclassifications	Balance December 31, 2017
Fixed Assets					
Building	$ 934,110	$ 113,873	$ -	$ 23,920	$ 1,071,903
Office Equipment	173,941	20,891	(51,694)	(17,390)	125,748
Office Furniture	20,354	1,225	(10,668)	(887)	10,024
Audio Visual Equipment	13,289	3,589	(2,385)	(7,268)	7,225
Automobiles	186,092	50,006	(15,647)	(2,140)	218,311
Others	10,595	-	(1,192)	3,765	13,168
TOTAL	1,338,381	189,584	(81,586)	-	1,446,379
Less Accumulated Depreciation	(403,192)	(96,296)	81,536	-	(417,952)
Net Fixed Assets	$ 935,189	$ 93,288	$ (50)	$ -	$ 1,028,427

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
Fixed Assets				
Building	$ 856,410	$ 77,700	$ -	$ 934,110
Office Equipment	176,120	10,525	(12,704)	173,941
Office Furniture	16,159	5,425	(1,230)	20,354
Audio Visual Equipment	9,639	4,000	(350)	13,289
Automobiles	120,740	83,852	(18,500)	186,092
Others	10,595	-	-	10,595
TOTAL	1,189,663	181,502	(32,784)	1,338,381
Less Accumulated Depreciation	(346,060)	(79,345)	22,213	(403,192)
Net Fixed Assets	$ 843,603	$ 102,157	$ (10,571)	$ 935,189

7) PENSION PLAN

The Organization started a 401(k) pension plan on January 1, 2000 for all employees in the headquarters in the USA, who have attained the age of 20 ½ years. Employees may join the plan on January 1 or July 1 that coincides with or follows the date of employment after the completion of one year of service. The employer provides a 50% match on eligible employee contributions to the plan up to a maximum allowable by the plan. The Organization contributed $12,134 and $11,637 in fiscal years 2017 and 2016, respectively, to the plan.

8) RELATED PARTY TRANSACTIONS

The Organization partners with Mercy-USA for Aid & Development, (Canada) towards providing relief and development activities. For the years ended December 31, 2017 and 2016 the Organization collected $37,544 and $65,023 respectively, on behalf of Mercy-USA for Aid & Development, (Canada) and received $85,419 and $75,632, respectively, from Mercy-USA for Aid & Development, (Canada). As at December 31, 2017 and 2016, an amount of $808 and $19,700, respectively, was payable to Mercy-USA for Aid and Development, (Canada) and no amount was receivable from them.

9) TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

Purpose restriction accomplished:

	2017	2016
Albania Programs	$ 97,460	$ 70,464
Bosnia Programs	99,067	67,318
Indonesia Programs	190,924	139,418
Lebanon Programs	1,063,956	99,910
Somalia & Kenya Programs	14,510,181	7,416,915
Syria Programs	3,619,804	2,693,090
Gaza Programs	191,067	-
Rohingya Refugees Program	125,687	-
United States Programs	57,936	151,172
India Programs	14,671	15,233
Total Restrictions Released	$ 19,970,753	$ 10,653,520

The details of the temporarily restricted net assets are as below:

	2017	2016
Albania	$ 2,261	$ -
Lebanon	2,502	5,879
Bosnia	2,603	-
Somalia and Kenya	218,286	177,474
Syria	230,605	768,966
Indonesia	6,306	-
Gaza	386,648	489,070
Rohingya Refugees	240,892	-
USA	1,394	1,394
Others	453,383	453,383
Total	$ 1,544,880	$ 1,896,166

10) CONTINGENCY

The Organization is the recipient of several grants. The expenditures for each program are subject to audit by appropriate agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Organization expects such amounts, if any to be immaterial.

11) NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, in May 2014. The objectives of this ASU are to improve upon revenue recognition requirements by providing a single comprehensive model to determine the measurement of revenue and timing of recognition. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This ASU also requires expanded qualitative and quantitative disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

ASU 2014-09 is effective for fiscal years beginning after December 15, 2017.

The Organization’s management has not determined the impact on the Organization’s financial statements because of implementing ASU 2014-09.

The FASB issued ASU 2016-02, Leases (Topic 842), in February 2016. ASU 2016-02 requires the recognition by lessees of assets and liabilities that arise from all lease transactions, except for leases with a lease term of 12 months or less. The lessee accounting model under ASU 2016-02 retains two types of leases: finance leases, which are to be accounted for in substantially the same manner as the existing accounting for capital leases, and operating leases, which are to be accounted for (both in the statements of activities and the statements of cash flows) in a manner consistent with existing accounting for operating leases. ASU 2016-02 also requires expanded qualitative and quantitative disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019.

The Organization’s management has not determined the impact on the Organization’s financial statements because of implementing ASU 2016-02.

11) NEW ACCOUNTING PRONOUNCEMENTS (Continued)

The FASB issued ASU 2016-14, Presentation of Financial Statements of Not For-Profit Entities, in August 2016. ASU 2016-14 modifies the requirements related to financial statement presentation for non-profit organizations. The major provisions of ASU 2016-14 are as follows:

- Information about net assets and changes in net assets will be reported for two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.
- Reporting of expenses by both function and nature in one location will be required for all non-profit organizations.
- Either the direct method or the indirect method for presenting operating cash flows may continue to be used, but the requirement for those entities using the direct method to prepare a reconciliation with the indirect method will be eliminated.
- Quantitative information that communicates the availability of the organization's financial assets as of the statement of financial position date to meet cash needs for general expenditures within one year will be required to be presented on the face of the financial statements or in the notes to the financial statements.
- Qualitative information on how the organization manages its liquid available resources and liquidity risks will be required to be disclosed in the notes to the financial statements.
- Reporting of the "underwater" amounts of donor-restricted endowment funds in net assets with donor restrictions and enhanced disclosures about "underwater" endowments will be required.
- Other enhanced disclosures regarding board designations and appropriations, the nature of net assets with donor restrictions, and functional expense allocation methods will also be required.

ASU 2016-14 is effective for fiscal years beginning after December 15, 2017.

The Organization’s management has not determined the impact on the Organization’s financial statements because of implementing ASU 2016-14.

12) SUBSEQUENT EVENTS

The Organization has evaluated events through September 7, 2018 the date that the accompanying financial statements were available to be issued. No significant subsequent event was noted that required adjustment or disclosure in the financial statements.

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal/Pass Through Grantor Program Title	Federal CFDA Number	Grant Identifying Number	Award Amount	Provided to Subrecipients	Expenditures
U.S. Agency for International Development (USAID)					
Emergency Integrated Nutrition and WASH Support Program	98.001	AID-OFDA-G-17-00269	$ 1,499,490	$ -	$ 561,357
Integrated Health, Nutrition WASH and Pastoral Food Security Program	98.001	AID-OFDA-G-16-00126	5,470,174	-	2,162,385
Total Federal Financial Assistance			$ 6,969,664	$ -	$ 2,723,742

See Notes to Schedule of Expenditures of Federal Awards.

1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs of Mercy-USA for Aid & Development, Inc. (the Organization) for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

3) EXPENDITURE REPORTS

Management has reconciled the expenditures reported in the Schedule of Expenditures of Federal Awards to those amounts reported in the annual or final cost reports.

4) INDIRECT COST RATE

The Organization has elected not to use the percent deminimis indirect cost rate allowed under the Uniform Guidance.

5) SUBSEQUENT EVENTS

All subsequent events related to the major programs were evaluated through September 7, 2018, the date the accompanying reports were available to be issued. No significant event was noted that required adjustment or disclosure in the accompanying reports.

Alan C. Young & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Mercy-USA for Aid & Development, Inc.
Plymouth, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Mercy-USA for Aid & Development, Inc. (the Organization), which comprise the consolidated statements of financial position as of December 31, 2017 and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 7, 2018.

<u>Internal Control over Financial Reporting</u>

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alan C. Young & Asso.

Detroit, Michigan
September 7, 2018

Alan C. Young & Associates, P.C.
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Mercy-USA for Aid & Development, Inc.
Plymouth, Michigan

Report on Compliance for Each Major Federal Program

We have audited Mercy-USA for Aid & Development, Inc.'s (the Organization) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2017. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

<u>Opinion on Each Major Federal Program</u>

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

<u>Report on Internal Control Over Compliance</u>

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Alan C. Young & Asso.

Detroit, Michigan
September 7, 2018

SECTION 1 – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report Issued: Unmodified

Internal Control over Financial Reporting:

- Material Weakness(es) Identified? ____ Yes __X__ No
- Significant Deficiency(ies) Identified ____ Yes __X__ None Reported
- Noncompliance Material to Financial Statements Noted? ____ Yes __X__ No

Federal Awards

Internal Control over Major Program(s):

- Material Weakness(es) Identified? ____ Yes __X__ No
- Significant Deficiency(ies) Identified ____ Yes __X__ None Reported

Type of auditor's report issued on compliance for major program(s): Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a) ____ Yes __X__ No

Identification of Major Program(s):

CFDA Number(s)	Name of Federal Program or Cluster
98.001	U.S. Agency for International Development (USAID) Integrated Health, Nutrition and WASH Program for Somalia;

Dollar Threshold used to Distinguish Between Type A and Type B programs: $750,000

Auditee Qualified as Low-Risk Auditee? __X__ Yes ____ No

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS

No Financial Audit Findings.

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS

No Federal Program Audit Findings.

SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS

None

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS

None

OTHER SUPPLEMENTAL INFORMATION

Mercy-USA for Aid & Development, Inc.

Statement of Consolidated Functional Expenses
Year Ended December 31, 2017
(With Combined Comparative Totals for 2016)

Expenditures	Food, Shelter & Orphan Assistance	Health	Economic Vitalization	Education	Total Program Services	Management & General	Fund Raising	Total Expenditures	2016 Total Expenditures
Grants	$ 144,275	$ -	$ 20,006	$ 175,000	$ 339,281	$ -	$ -	$ 339,281	$ 109,365
Salaries & Wages	1,968,622	1,563,340	82,845	46,471	3,661,278	13,725	45,635	3,720,638	2,912,428
Employee Benefits	75,126	235,812	20,524	-	331,462	3,901	-	335,363	197,255
Advertising & Promotion	-	-	-	-	-	-	139,749	139,749	106,008
Transportation Expenses	418,457	391,758	6,029	2,200	818,444	208	-	818,652	655,456
Commercial Insurance	4,600	-	79	-	4,679	566	-	5,245	338
Conference, Meeting & Seminars	5,761	2,064	610	-	8,435	408	8,594	17,437	6,250
Consultants & Other Professional Services	70,325	7,020	5,222	13,619	96,186	168	21,079	117,433	58,126
Dues, Subscriptions, Fees, etc.	5,815	5,117	-	-	10,932	1,126	-	12,058	6,049
Legal	8,629	-	216	-	8,845	84	-	8,929	7,856
Accounting	2,783	28,260	-	-	31,043	1,231	-	32,274	28,619
Occupancy & Warehousing	129,317	92,185	10,033	8,313	239,848	2,124	30,261	272,233	246,570
Postage & Shipping, etc.	2,203	1,144	682	293	4,322	2,253	1,255	7,830	4,515
Printing & Copying	3,832	302	978	438	5,550	2,635	9,947	18,132	9,340
Program Materials	11,560,221	1,083,677	65,400	30,199	12,739,497	-	-	12,739,497	5,030,918
Telephone	23,731	50,813	1,378	1,126	77,048	379	-	77,427	69,039
Travel	145,979	206,664	16,978	236	369,857	2,233	23,050	395,140	325,930
Bank Charges/Currency Adjustment	55,318	73,729	1,375	2,005	132,427	603	45,663	178,693	165,131
Office Supplies and Equipment	48,986	107,360	2,403	1,733	160,482	264	1,023	161,769	85,834
Payroll Taxes	-	544	-	-	544	3,984	-	4,528	2,435
Loss on Sale of Assets	-	-	-	-	-	-	-	-	571
Indirect cost	279,870	580,794	17,186	17,100	894,950	-	-	894,950	941,472
Depreciation	16,000	13,368	3,079	3,196	35,643	60,653	-	96,296	79,345
Total	$ 14,969,850	$ 4,443,951	$ 255,023	$ 301,929	$ 19,970,753	$ 96,545	$ 326,256	$ 20,393,554	$ 11,048,850

Mercy-USA for Aid & Development, Inc.

Supplemental Statement of Revenue and Program Expenses
Year Ended December 31, 2017
(With Combined Comparative Totals for 2016)

	ALBANIA	LEBANON[1]	BOSNIA	INDONESIA	SOMALIA & KENYA	SYRIA	GAZA	INDIA	Rohingya Refugees	USA	NOT DESIGNATED	TOTAL 2017	TOTAL 2016
REVENUES													
Contributions from Public:													
General	$ 6,571	$ 8,699	$ 9,142	$ 5,430	$ 355,760	$ 993,327	$ 88,645	$ 2,573	$ 366,579	$ 920	$ 1,012,491	$ 2,850,137	$ 3,017,268
Food Aid	14,000	49,000	14,000	14,000	95,000	118,163	-	12,098	-	30,500	-	346,761	311,079
Orphan Fund	10,800	-	11,528	14,800	-	-	-	-	-	-	-	37,128	28,882
Education	5,350	-	5,000	3,000	-	-	-	-	-	-	-	13,350	7,235
Zakat	63,000	10,000	62,000	160,000	380,000	878,036	-	-	-	26,516	-	1,579,552	1,313,578
US Government Grants													
US Agency for International Development (USAID)	-	-	-	-	2,723,742	-	-	-	-	-	-	2,723,742	1,925,749
United Nations (UN) Grants	-	992,880	-	-	2,118,039	932,117	-	-	-	-	-	4,043,036	2,479,837
Global Fund to Fight AIDS, Tuberculosis & Malaria (GFATM) Grants	-	-	-	-	572,771	-	-	-	-	-	-	572,771	468,646
Gifts In Kind - UN Agencies	-	-	-	-	8,305,681	159,800	-	-	-	-	-	8,465,481	2,102,767
Rental Income	-	-	-	-	-	-	-	-	-	-	76,220	76,220	71,737
Dividend Income	-	-	-	-	-	-	-	-	-	-	8,215	8,215	9,103
Gain/Loss on Foreign Currency Fluctuation	-	-	-	-	-	-	-	-	-	-	49,936	49,936	30,095
Gain/Loss on Sale of Equipment	-	-	-	-	-	-	-	-	-	-	1,518	1,518	-
Events Ticket Sale	-	-	-	-	-	-	-	-	-	-	17,646	17,646	20,315
Total Revenues	$ 99,721	$ 1,060,579	$ 101,670	$ 197,230	$14,550,993	$ 3,081,443	$ 88,645	$ 14,671	$ 366,579	$ 57,936	$ 1,166,026	$ 20,785,493	$ 11,786,291
EXPENDITURES													
Program Services:													
Food, Shelter & Orphan Assistance	$ 15,269	$ 1,055,099	$ 16,224	$ 16,313	$10,247,313	$ 3,441,847	$ -	$ 14,671	$ 125,687	$ 37,427	$ -	$ 14,969,850	$ 6,671,110
Economic Vitalization	9,033	-	59,824	165,657	-	-	-	-	-	20,509	-	255,023	356,107
Health	-	3,126	-	-	4,262,868	177,957	-	-	-	-	-	4,443,951	3,595,215
Education	73,158	5,731	23,019	8,954	-	-	191,067	-	-	-	-	301,929	130,240
Total Program Services	$ 97,460	$ 1,063,956	$ 99,067	$ 190,924	$14,510,181	$ 3,619,804	$191,067	$ 14,671	$ 125,687	$ 57,936	$ -	$ 19,970,753	$ 10,752,672

1 Includes Palestinian refugees in Lebanon.

Mercy-USA for Aid & Development, Inc.

Indirect Cost Allocation
Year Ended December 31, 2017

Expenditures	Total Cost	Allowable Indirect	Unallowable Indirect	Fund Raising Cost	Program Cost	Excluded Program Cost*	Total Direct Cost
Grants	$ 339,281	$ -	$ -	$ -	$ 339,281	$ -	$ 339,281
Salaries & Wages	3,720,638	13,725	-	45,635	3,661,278	-	3,706,913
Employee Benefits	335,363	3,901	-	-	331,462	-	331,462
Advertising & Promotion	139,749	-	-	139,749	-	-	139,749
Transportation Expenses	818,652	208	-	-	818,444	-	818,444
Commercial Insurance	5,245	566	-	-	4,679	-	4,679
Conference, Meetings & Seminars	17,437	408	-	8,594	8,435	-	17,029
Consultants & Other Professional Services	117,433	168	-	21,079	96,186	-	117,265
Dues, Subscription, Fees etc.	12,058	1,126	-	-	10,932	-	10,932
Legal	8,929	84	-	-	8,845	-	8,845
Accounting	32,274	1,231	-	-	31,043	-	31,043
Occupancy & Warehousing	272,233	2,124	-	30,261	239,848	-	270,109
Postage & Shipping	7,830	2,253	-	1,255	4,322	-	5,577
Printing & Copying	18,132	2,635	-	9,947	5,550	-	15,497
Program Materials	12,739,497	-	-	-	12,739,497	8,465,481	4,274,016
Telephone	77,427	379	-	-	77,048	-	77,048
Travel	395,140	2,233	-	23,050	369,857	-	392,907
Bank Charges/Currency Adjustment	178,693	603	-	45,663	132,427	-	178,090
Office Supplies & Equipment	161,769	264	-	1,023	160,482	-	161,505
Payroll Taxes	4,528	3,984	-	-	544	-	544
Indirect Cost	894,950	-	-	-	894,950	-	894,950
Depreciation	96,296	60,653	-	-	35,643	-	35,643
Total	20,393,554	96,545	-	326,256	19,970,753	8,465,481	11,831,528
Reclassify Overhead Charged to Program Costs	-	894,950	-	-	-	-	(894,950)
Total	$ 20,393,554	$ 991,495	$ -	$ 326,256	$ 19,970,753	$ 8,465,481	$ 10,936,578

Base = Total Direct Cost	
Pool Cost	$ 991,495
Base Cost	$ 10,936,578
Indirect Rate	9.07%

* Excluded program costs include in-kind program material expenses and administrative costs included in the indirect cost.