MERCY-USA FOR AID AND DEVELOPMENT, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

AND

SINGLE AUDIT REPORT

DECEMBER 31, 2018

Contents

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mercy-USA for Aid and 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 statements of financial position as of December 31, 2018 and 2017, the related consolidated statements of activities, and cash flows for the years then ended, functional expenses for the year ended December 31, 2018 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, 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 20, 2019 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 20, 2019

MERCY-USA FOR AID AND DEVELOPMENT, INC.

Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	$ 3,556,687	$ 3,631,842
Pledges & Grants Receivable (Note 5)	953,537	1,028,918
Notes Receivable - Micro-lending/SED (Note 1)	6,000	18,857
Prepaid Insurance & Expenses	13,012	15,100
Total Current Assets	4,529,236	4,694,717
Fixed Assets (Note 6)		
Building, Vehicles, Furniture & Equipment	1,473,879	1,446,379
Less: Accumulated Depreciation	(513,800)	(417,952)
Total Fixed Assets	960,079	1,028,427
Other Assets		
Security Deposits	9,169	9,169
Travel Advance	-	250
Total Other Assets	9,169	9,419
Total Assets	$ 5,498,484	$ 5,732,563
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	702,143	$ 800,385
Deferred Revenue	453,906	177,313
Tenant Security Deposit	5,610	6,893
Accrued Payroll & Taxes	4,768	3,521
Advance Rent	4,200	1,510
Total Current Liabilities	1,170,627	989,622
Net Assets		
Without Donor Restrictions	3,021,813	3,198,061
With Donor Restrictions (Note 9)	1,306,044	1,544,880
Total Net Assets	4,327,857	4,742,941
Total Liabilities and Net Assets	$ 5,498,484	$ 5,732,563

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

MERCY-USA FOR AID AND DEVELOPMENT, INC.

Consolidated Statements of Activities
Years Ended December 31, 2018 and 2017

	2018			2017		
SUPPORT AND REVENUE	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Contributions From Public	$ 875,388	$ 3,821,015	$ 4,696,403	$ 1,012,491	$ 3,814,437	$ 4,826,928
US Agency for International Development (USAID)	-	4,547,106	4,547,106	-	2,723,742	2,723,742
NGO Grants	-	197,617	197,617	-	-	-
United Nation (UN) Grants	-	3,738,333	3,738,333	-	4,043,036	4,043,036
Global Fund to Fight AIDS, Tuberculosis & Malaria (GFATM) Grants	-	322,583	322,583	-	572,771	572,771
Contribution In-Kind - UN agencies (Note 4)	-	5,772,680	5,772,680	-	8,465,481	8,465,481
Rental Income	81,153	-	81,153	76,220	-	76,220
Dividend Income	13,298	-	13,298	8,215	-	8,215
Gain/Loss on Foreign Currency Fluctuation	85,790	-	85,790	49,936	-	49,936
Gain/Loss on Sale of Equipment	-	-	-	1,518	-	1,518
Program Fees	9,171	-	9,171	17,646	-	17,646
Net Assets Released From Restrictions:						
Satisfaction of Service Restrictions (Note 9)	18,638,170	(18,638,170)	-	19,970,753	(19,970,753)	-
Total Support and Revenue	19,702,970	(238,836)	19,464,134	21,136,779	(351,286)	20,785,493
EXPENSES						
Program Services:						
Food, Shelter and Orphan Assistance	12,556,265	-	12,556,265	14,969,850	-	14,969,850
Health	5,940,023	-	5,940,023	4,443,951	-	4,443,951
Economic Vitalization	244,345	-	244,345	255,023	-	255,023
Education	573,649	-	573,649	301,929	-	301,929
Total Program Services	19,314,282	-	19,314,282	19,970,753	-	19,970,753
Supporting Services:						
Management and General	269,706	-	269,706	96,545	-	96,545
Fund Raising	295,230	-	295,230	326,256	-	326,256
Total Supporting Expenses	564,936	-	564,936	422,801	-	422,801
Total Expenses	19,879,218	-	19,879,218	20,393,554	-	20,393,554
Change In Net Assets	(176,248)	(238,836)	(415,084)	743,225	(351,286)	391,939
Net Assets - Beginning of Year	3,198,061	1,544,880	4,742,941	2,454,836	1,896,166	4,351,002
Net Assets - End of Year	$ 3,021,813	$ 1,306,044	$ 4,327,857	$ 3,198,061	$ 1,544,880	$ 4,742,941

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

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

CASH FLOWS FROM OPERATING ACTIVITIES	**2018**	**2017**
Change in Net Assets	$ (415,084)	$ 391,939
Adjustments to Reconcile Change in Net Asset to Cash Used in Operations:		
Loss (Gain) on Disposal of Assets, net	-	(1,518)
Depreciation	99,931	96,296
Change in:		
Prepaid Insurance and Expenses	2,088	5,372
Pledges and Grants Receivable	75,381	(116,715)
Notes Receivable - Micro-lending/SED	12,857	(8,857)
Other Assets	250	(296)
Accounts Payable	(98,242)	(105,602)
Deferred Revenue	276,593	(538,274)
Accrued Payroll and Taxes	1,247	1,108
Tenant Security Deposits	(1,283)	-
Advance Rent	2,690	1,510
Net Cash Used in Operating Activities	(43,572)	(275,037)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(31,583)	(189,584)
Proceeds from Sale of Assets	-	1,568
Net Cash Used in Investing Activities	(31,583)	(188,016)
Net Decrease in Cash	(75,155)	(463,053)
Cash and Cash Equivalents - Beginning of Year	3,631,842	4,094,895
Cash and Cash Equivalents - End of Year	$ 3,556,687	$ 3,631,842

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

MERCY-USA FOR AID AND DEVELOPMENT, INC.

Statement of Consolidated Functional Expenses
Year Ended December 31, 2018
(With Combined Comparative Totals for 2017)

Expenditures	Food, Shelter & Orphan Assistance	Health	Economic Vitalization	Education	Total Program Services	Management & General	Fund Raising	Total Expenditures	2017 Total Expenditures
Grants	$ 262,130	$ -	$ 73,330	$ 125,000	$ 460,460	$ -	$ -	$ 460,460	$ 339,281
Salaries & Wages	2,403,793	2,076,874	72,876	131,038	4,684,581	80,739	37,037	4,802,357	3,720,638
Employee Benefits	74,692	301,020	21,301	3,108	400,121	26,658	-	426,779	335,363
Advertising & Promotion	-	-	-	-	-	199	142,811	143,010	139,749
Transportation Expenses	375,743	560,129	4,180	45,020	985,072	887	207	986,166	818,652
Commercial Insurance	6,000	-	-	-	6,000	5,194	-	11,194	5,245
Conference, Meeting & Seminars	-	-	-	-	-	3,516	18,056	21,572	17,437
Consultants & Other Professional Services	47,615	71,015	3,325	12,962	134,917	1,606	27,052	163,575	117,433
Dues, Subscriptions, Fees, etc.	-	8,597	-	-	8,597	4,248	330	13,175	12,058
Legal	7,429	1,670	79	-	9,178	325	-	9,503	8,929
Accounting	2,895	28,260	-	-	31,155	7,462	-	38,617	32,274
Occupancy & Warehousing	138,443	111,382	10,779	26,580	287,184	20,696	16,172	324,052	272,233
Postage & Shipping, etc.	1,293	2,612	694	605	5,204	14,356	485	20,045	7,830
Printing & Copying	3,932	-	192	178	4,302	11,452	4,529	20,283	18,132
Program Materials	8,686,692	1,664,133	3,247	162,701	10,516,773	-	-	10,516,773	12,739,497
Telephone	27,327	60,943	1,457	1,015	90,742	2,422	-	93,164	77,427
Travel	151,637	241,751	18,506	33,591	445,485	9,772	1,448	456,705	395,140
Bank Charges/Currency Adjustment	67,578	90,404	8,157	9,560	175,699	3,372	46,951	226,022	178,693
Office Supplies and Equipment	49,294	148,791	2,504	6,568	207,157	4,493	152	211,802	161,769
Payroll Taxes	-	761	-	-	761	12,780	-	13,541	4,528
Indirect cost	232,423	554,173	20,638	13,258	820,492	-	-	820,492	894,950
Depreciation	17,349	17,508	3,080	2,465	40,402	59,529	-	99,931	96,296
Total	$ 12,556,265	$ 5,940,023	$ 244,345	$ 573,649	$ 19,314,282	$ 269,706	$ 295,230	$ 19,879,218	$ 20,393,554

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.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

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

Basis of Presentation (Continued)

Net Assets Without Donor Restriction—Net assets that are not subject to or are no longer subject to donor imposed stipulations.

Net Assets With Donor Restriction—Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Organization has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

Financial Instruments

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, pledges receivable, accounts payable and accrued liabilities, are stated at carrying cost at December 31, 2018 and 2017, which approximates fair value due to the relatively short maturity of these instruments.

New Accounting Pronouncement

During the year ended December 31, 2018, the Organization adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14—*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions.

A footnote on liquidity has also been added (Note 10).

The accompanying summarized information from the 2017 financial statements has been restated to conform to the 2018 presentation and disclosure requirements of ASU 2016-14.

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

Income Taxes

The Organization is organized as a nonprofit corporation and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Organization follows the guidance of ASC-740-10, Accounting for Uncertainty in Income Taxes. The Organization recognizes the tax (benefit) expense from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities. The Organization had no uncertain tax positions at December 31, 2018 or 2017. The Organization files an exempt organization return with the Internal Revenue Service (IRS). The Organization had no taxable unrelated business income for the years ended December 31, 2018 and 2017. Accordingly, a provision for income taxes has not been established in the accompanying financial statements. 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.

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

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 $143,010 and $139,749 for the years ending December 31, 2018 and 2017, respectively.

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 Recognition

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. Deferred revenue was $453,906 and $177,313 for the years ending December 31, 2018 and 2017, respectively. 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.

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

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, 2018, and 2017, were $6,000 and $18,857, respectively. There was no allowance for uncollectible against these loans.

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

	2018	2017
Bosnia	$ 6,000	$ 18,857

2) CASH AND CASH EQUIVALENTS

The total cash held by the Organization at December 31, 2018 includes $3,306,283 not covered by insurance provided by the Federal Deposit Insurance Corporation. As of December 31, 2017, the uninsured amount was $3,197,109.

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.

3) PROGRAM AND SUPPORTING SERVICES (Continued)

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.

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 $5,772,680 and $8,465,481 in fiscal years 2018 and 2017, respectively.

5) PLEDGES AND GRANTS 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, 2018 and 2017 are as follows:

	2018	2017
Grants Receivable	$ 914,644	$ 989,737
Pledges Receivable	38,451	39,181
Others	442	-
	$ 953,537	$ 1,028,918

6) FIXED ASSETS

Fixed assets are comprised of the following:

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
Fixed Assets				
Building	$ 1,071,903	$ -	$ -	$ 1,071,903
Office Equipment	125,748	31,583	(3,778)	153,553
Office Furniture	10,024	-	-	10,024
Audio Visual Equipment	7,225	-	-	7,225
Automobiles	218,311	-	-	218,311
Others	13,168	-	(305)	12,863
TOTAL	1,446,379	31,583	(4,083)	1,473,879
Less Accumulated Depreciation	(417,952)	(99,931)	4,083	(513,800)
Net Fixed Assets	$ 1,028,427	$ (68,348)	$ -	$ 960,079

	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

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 100% match on eligible employee contributions to the plan up to a maximum allowable by the plan. This was increased from 50% match in the previous years. The Organization contributed $45,506 and $12,134 in fiscal years 2018 and 2017, 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, 2018 and 2017 the Organization collected $26,661 and $37,544 respectively, on behalf of Mercy-USA for Aid & Development, (Canada) and received $77,064 and $85,419, respectively, from Mercy-USA for Aid & Development, (Canada). As at December 31, 2018 and 2017, an amount of $335 and $808, respectively, was payable to Mercy-USA for Aid and Development, (Canada) and no amount was receivable from them.

9) DONOR RESTRICTED NET ASSETS

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

Purpose restriction accomplished:

	2018	2017
Albania Programs	$ 117,600	$ 97,460
Bosnia Programs	97,824	99,067
Indonesia Programs	298,045	190,924
Lebanon Programs	196,867	1,063,956
Somalia & Kenya Programs	14,205,799	14,510,181
Syria Programs	3,291,283	3,619,804
Gaza Programs	136,715	191,067
Rohingya Refugees Program	165,315	125,687
United States Programs	41,679	57,936
Pakistan	43,651	-
Yemen	28,801	-
India Programs	14,591	14,671
Total Restrictions Released	$ 18,638,170	$ 19,970,753

9) TEMPORARILY RESTRICTED NET ASSETS (Continued)

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

	2018	2017
Albania	$ 2,054	$ 2,261
Lebanon	3,351	2,502
Bosnia	2,030	2,603
Somalia and Kenya	117,473	218,286
Syria	-	230,605
Indonesia	4,602	6,306
Gaza	449,395	386,648
India	57	-
Rohingya Refugees	336,351	240,892
USA	-	1,394
Yemen	9,047	30,048
Pakistan	381,684	423,335
Total	$ 1,306,044	$ 1,544,880

10) LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's working capital and cash flows have variations during the year attributable to the timing of grants and contribution receipts. Monthly cash outflows vary each year based on the specific requirements of the events and programs that year.

The following reflects the Organization's financial assets as of the balance sheet date, reduced by the amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions.

	2018
Current Assets, at Year End	$ 4,529,236
Less:	
Assets with Donor Restrictions	(1,306,044)
Financial assets available within one year to meet needs for general expenditures within one year	$ 3,223,192

11) 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.

12) 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, 2018.

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 2017. 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.

13) SUBSEQUENT EVENTS

The Organization has evaluated events through September 20, 2019 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, 2018

Federal/Pass Through Grantor Program Title	Federal CFDA Number	Grant Identifying Number	Award Amount	Provided to Subrecipients	Total Federal 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	$ -	$ 904,783
Integrated Health, Nutrition WASH and Pastoral Food Security Program	98.001	AID-OFDA-G-16-00126	5,470,174	-	2,974,113
Integrated Health, Nutrition, WASH and Agriculture and Food Security Program in Somalia	98.001	720FDA18GR00257	3,098,618	-	355,943
Integrated Agriculture and Food Security, Nutrition and WASH Intervention in Garissa County	98.001	720FDA18GR00125	749,974	-	312,267
Total Federal Financial Assistance			$ 10,818,256	$ -	$ 4,547,106

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, 2018. 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 the 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 20, 2019, the date the accompanying reports were available to be issued. No significant event was noted that required adjustment or disclosure in the accompanying reports.

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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, 2018 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2019.

<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.

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 (Continued)

<u>Compliance and Other Matters</u>

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.

<u>Purpose of this Report</u>

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 20, 2019

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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, 2018. 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.

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance (Continued)

Opinion on Each Major Federal Program

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, 2018.

Report on Internal Control Over Compliance

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 20, 2019

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 AND DEVELOPMENT, INC.

Supplemental Statement of Revenue and Program Expenses
Year Ended December 31, 2018
(With Combined Comparative Totals for 2017)

	ALBANIA	LEBANON[1]	BOSNIA	INDONESIA	SOMALIA & KENYA	SYRIA	GAZA	INDIA	ROHINGYA REFUGEES	USA	PAKISTAN	YEMEN	NOT DESIGNATED	TOTAL	TOTAL 2017
REVENUES															
Contributions from Public:															
General	$ 10,035	$ 36,716	$ 9,251	$ 172,841	$ 254,032	$ 817,880	$ 199,462	$ 500	$ 260,774	$ 285	$ -	$ 1,800	$ 875,388	$ 2,638,964	$ 2,850,137
Food Aid	12,000	31,000	11,000	15,500	71,000	146,295	-	14,148	-	30,000	2,000	6,000	-	338,943	346,761
Orphan Fund	13,177	-	9,000	16,000	-	-	-	-	-	-	-	-	-	38,177	37,128
Education	5,681	-	7,500	7,000	-	-	-	-	-	-	-	-	-	20,181	13,350
Zakat	76,500	130,000	60,500	85,000	350,000	948,138	-	-	-	10,000	-	-	-	1,660,138	1,579,552
US Government Grants															
US Agency for International Development (USAID)	-	-	-	-	4,547,106	-	-	-	-	-	-	-	-	4,547,106	2,723,742
NGO Grants	-	-	-	-	197,617	-	-	-	-	-	-	-	-	197,617	-
United Nations (UN) Grants	-	-	-	-	2,589,968	1,148,365	-	-	-	-	-	-	-	3,738,333	4,043,036
Global Fund to Fight AIDS, Tuberculosis & Malaria (GFATM) Grants	-	-	-	-	322,583	-	-	-	-	-	-	-	-	322,583	572,771
Gifts In Kind - UN Agencies	-	-	-	-	5,772,680	-	-	-	-	-	-	-	-	5,772,680	8,465,481
Rental Income	-	-	-	-	-	-	-	-	-	-	-	-	81,153	81,153	76,220
Dividend Income	-	-	-	-	-	-	-	-	-	-	-	-	13,298	13,298	8,215
Gain/Loss on Foreign Currency Fluctuation	-	-	-	-	-	-	-	-	-	-	-	-	85,790	85,790	49,936
Gain/Loss on Sale of Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,518
Events Ticket Sale	-	-	-	-	-	-	-	-	-	-	-	-	9,171	9,171	17,646
Total Revenues	$ 117,393	$ 197,716	$ 97,251	$ 296,341	$ 14,104,986	$ 3,060,678	$ 199,462	$ 14,648	$ 260,774	$ 40,285	$ 2,000	$ 7,800	$ 1,064,800	$ 19,464,134	$ 20,785,493
EXPENDITURES															
Program Services:															
Food, Shelter & Orphan Assistance	$ 15,190	$ 41,688	$ 16,520	$ 195,518	$ 8,290,450	$ 3,669,357	$ -	$ 14,591	$ 165,315	$ 75,184	$ 43,651	$ 28,801	$ -	$ 12,556,265	$ 14,969,850
Economic Vitalization	10,724	-	65,525	94,766	-	-	-	-	-	73,330	-	-	-	244,345	255,023
Health	-	26,357	-	-	5,729,036	184,630	-	-	-	-	-	-	-	5,940,023	4,443,951
Education	91,686	128,822	15,779	7,761	186,313	-	136,715	-	-	6,573	-	-	-	573,649	301,929
Total Program Services	$ 117,600	$ 196,867	$ 97,824	$ 298,045	$ 14,205,799	$ 3,853,987	$ 136,715	$ 14,591	$ 165,315	$155,087	$ 43,651	$ 28,801	$ -	$ 19,314,282	$ 19,970,753

MERCY-USA FOR AID AND DEVELOPMENT, INC.

Indirect Cost Allocation
Year Ended December 31, 2018

Expenditures	Total Cost	Allowable Indirect	Unallowable Indirect	Fund Raising Cost	Program Cost	Excluded Program Cost*	Total Direct Cost
Grants	$ 460,460	$ -	$ -	$ -	$ 460,460	$ -	$ 460,460
Salaries & Wages	4,802,357	80,739	-	37,037	4,684,581	-	4,721,618
Employee Benefits	426,779	26,658	-	-	400,121	-	400,121
Advertising & Promotion	143,010	199	-	142,811	-	-	142,811
Transportation Expenses	986,166	887	-	207	985,072	-	985,279
Commercial Insurance	11,194	5,194	-	-	6,000	-	6,000
Conference, Meetings & Seminars	21,572	3,516	-	18,056	-	-	18,056
Consultants & Other Professional Services	163,575	1,606	-	27,052	134,917	-	161,969
Dues, Subscription, Fees etc.	13,175	4,248	-	330	8,597	-	8,927
Legal	9,503	325	-	-	9,178	-	9,178
Accounting	38,617	7,462	-	-	31,155	-	31,155
Occupancy & Warehousing	324,052	20,696	-	16,172	287,184	-	303,356
Postage & Shipping	20,045	14,356	-	485	5,204	-	5,689
Printing & Copying	20,283	11,452	-	4,529	4,302	-	8,831
Program Materials	10,516,773	-	-	-	10,516,773	5,772,680	4,744,093
Telephone	93,164	2,422	-	-	90,742	-	90,742
Travel	456,705	9,772	-	1,448	445,485	-	446,933
Bank Charges/Currency Adjustment	226,022	3,372	-	46,951	175,699	-	222,650
Office Supplies & Equipment	211,802	4,493	-	152	207,157	-	207,309
Payroll Taxes	13,541	12,780	-	-	761	-	761
Loss on Sale of Assets	-	-	-	-	-	-	-
Indirect Cost	820,492	-	-	-	820,492	-	820,492
Depreciation	99,931	59,529	-	-	40,402	-	40,402
Total	19,879,218	269,706	-	295,230	19,314,282	5,772,680	13,836,832
Reclassify Overhead Charged to Program Costs	-	820,492	-	-	-	-	(820,492)
Total	$ 19,879,218	$ 1,090,198	$ -	$ 295,230	$ 19,314,282	$ 5,772,680	$ 13,016,340

Base = Total Direct Cost	
Pool Cost	$ 1,090,198
Base Cost	$ 13,016,340
Indirect Rate	8.38%

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