Controlling Tuberculosis in Somalia

During 2006, Mercy-USA for Aid and Development continued carrying out its well-recognized tuberculosis (TB) treatment and prevention program in Somalia. This program consists of specialized treatment centers with public education and community outreach.

Opened in 1994, Mercy-USA’s center in Mogadishu was the first specialized TB treatment facility to begin operation in Somalia after the outbreak of civil war in 1990. M-USA’s second center opened in the northeastern city of Bossaso in 1995, and the third began in 1999 at our mother/child health clinic (MCH) in the southern town of Jilib. Mercy-USA’s fourth center opened in 2005 in the northern city of Las Anod.

These four centers, which have a cure rate of about 80% to 85%, treated more than 1,200 TB patients in 2006. M-USA utilizes the most effective TB treatment strategy, the Directly Observed Treatment Short-course (DOTS) method.

In addition to testing and treatment, our centers educate their local communities about TB prevention. During 2006, approximately 45,000 persons benefited directly or indirectly through health education seminars and educational radio programs conducted by Mercy-USA health personnel.

The TB centers in Bossaso and Las Anod are supported by a sub-grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM). Additionally, through an agreement with the United Nations World Food Programme (WFP), our Bossaso and Mogadishu Centers are providing food for TB patients and their families. Since 1994, the World Health Organization (WHO) has been providing Mercy-USA with all TB medicines free-of-charge.

Protecting the Health of Mothers and Children in Somalia

Since 1997, Mercy-USA for Aid and Development has operated a mother/child health clinic (MCH) in the Jilib District of southern Somalia. The MCH not only serves mothers, children, and women of childbearing age, but also the general public.

The clinic provides curative services, labor and delivery, pre-natal and post-natal care, immunizations, and micronutrients like vitamin A supplements. In 2006, the MCH treated over 5,000 children under the age of five and over 10,000 women. Many of these patients were also immunized against measles, diphtheria, pertussis, tetanus, polio or tuberculosis. M-USA also distributed vitamins (especially vitamin A) and provided health and nutrition seminars to over 3,400 mothers. In addition, Mercy-USA took part in a campaign against measles in which over 13,000 children were vaccinated in the Jilib District. This campaign was carried out in partnership with UNICEF.

Mercy-USA also continues to chlorinate over 100 wells and other water sources in Jilib and around Somalia’s capital city Mogadishu to prevent waterborne illnesses like cholera. UNICEF provides M-USA with vaccines, medicines, chlorine and other medical supplies.

Since 1990, Somalia has not had a widely recognized or strong central government, and has been ravaged by intermittent civil war, famine, drought and flooding. This tragic situation has led to a total collapse of the country’s fragile public infrastructure, including the health care system. Non-governmental organizations, like Mercy-USA, have been filling the gap left by the absence of government institutions. M-USA is primarily responsible for health services in the Jilib District.
**Mercy-USA Rebuilds Village Destroyed by the December 2004 Tsunami**

From August 2005 to July 2006, Mercy-USA for Aid and Development rebuilt homes in Aceh, Indonesia that were destroyed by the December 2004 Tsunami. Ninety-seven homes in the village of Seubun Ketapang in Aceh Besar District were constructed.

On August 16, 2006, M-USA officially handed over the new homes to the families in a formal ceremony that included local and national Indonesian government officials, community members and a children’s program.

In April 2007, Mercy-USA completed construction on a deep well to provide fresh water for the residents of Seubun Ketapang. This well also includes a tower with a 5,000-liter tank capacity.

**Helping to Restore the Livelihoods of Tsunami-Affected Farmers in Indonesia**

From July 2005 to July 2006, with the support of the United Nations Food and Agriculture Organization (FAO), Mercy-USA for Aid and Development distributed 87 hand tractors, 4 threshers and 1,300 hoes and rakes that are being used by over 3,000 farming families on the island of Simuelue and Aceh Timur District.

M-USA also provided 1,930 of these families with 63,000 pounds of rice and other vegetable seeds, as well as 456,000 pounds of various fertilizers. These inputs are helping these families to feed themselves and to grow additional produce for sale on the market.

**Mercy-USA Assists Vulnerable Lebanese Children and Their Families**

From October to December 2006, Mercy-USA for Aid and Development’s office in Lebanon carried out two projects to help vulnerable children and their families stay warm during the cold winter months. During November and December, Mercy-USA distributed 4-month’s worth of heating oil to more than 400 families (over 2,000 persons) in the Bekaa Valley (Baalbek, Hermel, and seven villages in the Western Bekaa) and the town of Kfar Chouba in south Lebanon.

In October 2006, M-USA provided winter jackets to 1,300 young schoolchildren in the Baalbek and Hermel areas. These jackets helped them to stay warm while studying in classrooms that had minimal heating or no heating at all.
Relief for Drought-Affected Communities in Kenya and Somalia

In the spring of 2006, Mercy-USA for Aid and Development assisted communities severely affected by a prolonged drought in Kenya and Somalia.

Food Distribution in Kenya

During March and April 2006, M-USA distributed maize (corn) meal and cooking fat to approximately 6,050 persons affected by severe drought in the Kajiado District of southwestern Kenya.

The table below identifies the towns and villages reached and the number of clients served.

<table>
<thead>
<tr>
<th>Name of Town/Village</th>
<th>Number of Beneficiaries (Persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lenkishon</td>
<td>600</td>
</tr>
<tr>
<td>Emurwa Dikir</td>
<td>600</td>
</tr>
<tr>
<td>Il Marba</td>
<td>1,200</td>
</tr>
<tr>
<td>Il Misigyo</td>
<td>500</td>
</tr>
<tr>
<td>Partimáro</td>
<td>600</td>
</tr>
<tr>
<td>Lesoi</td>
<td>600</td>
</tr>
<tr>
<td>Oreni</td>
<td>300</td>
</tr>
<tr>
<td>Enkaroni – Purko</td>
<td>600</td>
</tr>
<tr>
<td>Lele</td>
<td>1,050</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>6,050</strong></td>
</tr>
</tbody>
</table>

Each person received about nine pounds of maize meal and one pound of cooking fat. Mothers with children and the elderly received extra portions. M-USA’s distribution team was accompanied by Mrs. Helen Nkaisserry, the wife of the area member of parliament, and two local councilors.

Food and Water Distribution in Somalia

In April 2006, M-USA distributed approximately 37,000 gallons of fresh drinking water to over 1,700 drought-affected persons and over 5,000 livestock in six villages in the Hiraan Region of central Somalia. The table below identifies the towns and villages reached and the approximate number of clients served.

<table>
<thead>
<tr>
<th>Name of Recipient Village</th>
<th>Number of Beneficiaries (Persons)</th>
<th>Number of Beneficiaries (Livestock)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baadi-keen</td>
<td>280</td>
<td>800</td>
</tr>
<tr>
<td>Raqso</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>Teedaan</td>
<td>420</td>
<td>1,200</td>
</tr>
<tr>
<td>Meracadde</td>
<td>420</td>
<td>1,200</td>
</tr>
<tr>
<td>Sulmo</td>
<td>210</td>
<td>900</td>
</tr>
<tr>
<td>Yabaalayyeele</td>
<td>315</td>
<td>900</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>1,715</strong></td>
<td><strong>5,030</strong></td>
</tr>
</tbody>
</table>

During April 2006, M-USA also distributed maize and sorghum (a staple grain consumed widely in Africa) to about 5,000 drought-affected villagers in nine villages in the Jilib District of southern Somalia. Each person received about 24 pounds of maize and 10 lb. of sorghum. The villages served included Buulo Balley, Buulo Mareer, Buulo Nasiib, Buulo Taag, Haaji Abdalla, Ismool Haramka, Liimoole, Madhooko and Sheekh Ahmed Yare.

In early 2006, the United Nations estimated that at least 11 million children and adults living in the Horn of Africa had been suffering from acute food shortages due to a prolonged drought. More than 5 million of those affected lived in Kenya and Somalia.

Pastoral and agro-pastoral communities are particularly vulnerable to prolonged drought. These communities depend on livestock and farming as their major sources of income and food. The extended drought caused crops to fail and killed or severely weakened many livestock. This, in turn, caused the price of animals to drop by about 75% to 90%, thereby further undermining the purchasing power and the coping ability of the people.

Children are frequently the most vulnerable in the affected communities, and the losses of livestock threaten the ability of families to survive. Failed crops and livestock deaths contributed to increased malnutrition among children, which was as high as 25 percent in the worst affected areas.
Mercy-USA for Aid and Development assisted survivors of the May 27, 2006 earthquake on the Indonesian Island of Java. M-USA's office in Indonesia provided 1,000 earthquake-affected families in four districts of Java (Pundong, Imogiri, Bambanglipuro and Klaten) with 1,000 one-month food packages containing rice, baby food, sardines, noodles, sugar, tea, coffee and condensed milk.

These families also received 1,000 household kits containing a small kerosene cooking unit, a frying pan, a pot, cooking utensils, a basin, a plastic pail and female hygiene items. In addition, Mercy-USA distributed 100 Water-Proof Family Tents.

The magnitude-6.3 quake, which struck near the ancient city of Yogyakarta, 250 miles east of the capital, Jakarta, left over 5,700 dead and over 650,000 other persons injured or homeless.

Safe Drinking Water to Thousands in Somalia

From June 2006 to February 2007, Mercy-USA for Aid and Development repaired and rehabbed 25 wells and boreholes in Somalia. Twenty wells were repaired in Jilib District, and five wells/boreholes were rehabbed in the Hiraan region.

Combined, these 25 vital water sources are now providing safe drinking water to over 160,000 persons, as well as to approximately 1.1 million livestock. Many of the beneficiaries are pastoralists or agro-pastoralists and thus depend on raising and herding livestock to make their living and indeed for their very survival. M-USA plans to expand this life-saving project to other regions of Somalia.

Mercy-USA Opens an Agriculture Education Center in Bosnia

In 2006, Mercy-USA for Aid and Development opened an Agriculture Education Center (AEC) in the Brcko District of Bosnia. This center is being carried out in cooperation with Brcko district authorities, who donated approximately one acre of farmland, and the Agriculture Institute of Sarajevo, which is providing technical assistance.

The AEC project, which includes a 10,900 square-foot greenhouse, is serving as a theoretical and practical training center for all farmers in and around the Brcko District. This project, funded by a US Department of Agriculture (USDA) grant and the generous support of M-USA’s private donors, will directly and indirectly benefit approximately 4,000 farmers per year.

Projects, funded under this USDA agreement, have assisted approximately 15,000 people directly through the distribution of agricultural inputs and seedlings, as well as the provision of technical training. In addition, thousands more have indirectly benefited through general improvements to the Brcko District’s environment.

With USDA's support, Mercy-USA helped returnee and formerly displaced families take an important step towards a return to self-sufficiency in the near and long term by facilitating the production of food at home.

Under two previous USDA grants, M-USA provided over 6,460 displaced and returnee families in Brcko District with various agricultural inputs to assist them in reviving their small farming businesses. Mercy-USA has also trained executives and managers in the wheat milling industry and other agri-businesses.
During 2006, Mercy-USA for Aid and Development provided meat, rice, pasta, beans, cooking oil, flour, other food items and clothing to over 100,000 vulnerable persons. These distributions took place in Albania, Bangladesh, Bosnia, India, Indonesia, Kenya, Lebanon, Pakistan, Somalia, as well as to Chechen and Palestinian refugees in Turkey and Lebanon respectively.

M-USA distributed the above food items and clothing to orphans, the elderly, displaced individuals, refugees, persons with disabilities and those living in poverty. Food was provided as hot meals and food packages during the Muslim fasting month of Ramadan, while the clothing was distributed as gifts during Eid ul-Fitr, the holiday that marks the end of the fast. Fresh qurbani meat was distributed during the Muslim holiday of Eid ul-Adha.

Seasonal Food Aid and Clothing Provided Around the World
Computer Software and English Language Training in Bosnia

Since 1998, through a mobile center (computers and other training materials are moved from one fixed site to another), Mercy-USA for Aid and Development has been providing computer software training to individuals in towns throughout the Tuzla Canton. Three-month training courses are given in the leading basic office software, Windows, Microsoft Word and Excel.

At the end of each training session, students are tested, and if they have mastered the required skills, they receive a certificate. Employers in the region recognize the quality of the training and some have requested M-USA to setup specific courses for their employees. As of December 2006, over 1,200 persons have graduated from this program.

In 2004, Mercy-USA initiated a series of intensive English language courses in Srebrenik Municipality in northeastern Bosnia. As of December 2006, over 350 persons have successfully completed these courses.

Improving the Nutrition and Academic Performance of Children in Kenya

In 2006, Mercy-USA for Aid and Development, in partnership with the World Food Programme (WFP) and the local community, improved the kitchen and food storage facilities at six schools participating in a WFP-funded school feeding program. These schools located in the Kariobangi slum area of Nairobi, Kenya have over 8,000 children enrolled in them. The objectives of this program were to improve nutrition, increase attendance, reduce dropout rates and improve overall academic performance, especially among girls.

During May and June 2006, M-USA made repairs to the kitchens and food storage rooms in six of the participating schools and installed new jikos (locally-designed, relatively inexpensive and efficient wood and charcoal burning stoves) in four of these schools.
INDEPENDENT AUDITORS’ REPORT

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

We have audited the accompanying statement of financial position of Mercy-USA For Aid & Development, Inc. (a not-for-profit organization) as of December 31, 2006 and 2005, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mercy-USA For Aid & Development, Inc. as of December 31, 2006 and 2005 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The data contained in the supplemental statement is presented for information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 8, 2007 on our internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 the internal control over financial reporting and compliance. That report is intended to be read in conjunction with this report in considering the results of our audit.

Alan C. Young & Associates, P.C.
Certified Public Accountants and Consultants
2900 W. Grand Blvd., Suite 210
Detroit, MI 48202
(313) 873-1000
(313) 873-1000 (Fax)
www.alencyoung.com

Statement of Financial Position
December 31, 2006

USA OPERATIONS OVERSEAS OPERATIONS TOTAL TOTAL-
OPERATIONS OPERATIONS 2006 2006-

ASSETS
Current Assets:
Cash and Cash Equivalents
$1,841,309
460,414
$2,301,723
Inventory
47,665
178,695
226,360
Prepaid & Accrued Expenses
0
4,600
4,600
Notes Receivable - Related-Party
0
5,954
5,954
Total Current Assets
2,357,564
337,424
2,694,988

Fixed Assets:
Vehicles, Furniture & Equipment
43,112
147,236
190,348
Less: Accumulated Depreciation
32,607
139,223
171,830
Total Fixed Assets
10,499
9,023
20,640

Other Assets:
Security Deposits
5,600
0
5,600
6,376
Total Other Assets
5,600
0
5,600
6,376

Total Assets
$2,346,945
$2,346,945
$2,726,786
$2,687,647

LIABILITIES AND NET ASSETS
Current Liabilities:
Accounts Payable
$85,254
$68,312
$153,566
$455,694
Deferred Revenue
0
0
0
489
Accrued Payroll & Taxes
53,524
80,312
133,836
524,170
Total Current Liabilities
$141,778
$68,312
$212,090
$550,373
Net Assets:
Unrestricted
2,207,574
83,824
2,291,398
2,159,297
Temporarily Restricted
81,817
266,825
348,642
5,085
Total Net Assets
$2,289,391
$330,649
$2,620,040
$2,214,382

Total Liabilities and Net Assets
$2,346,945
$2,346,945
$2,726,786
$2,687,647

Audit Letter from Certified Public Accountants
Year Ended December 31, 2006
Statement of Activities Year Ended December 31, 2006
### Statement of Functional Expenses
Year Ended December 31, 2006

#### CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in Net Assets</td>
<td>$424,841</td>
<td>($533,567)</td>
</tr>
<tr>
<td>Adjustments to Recognize Change in Net Asset</td>
<td>3,186</td>
<td>(1,875)</td>
</tr>
<tr>
<td>to Cash Provided by Operations</td>
<td>21,019</td>
<td>24,047</td>
</tr>
<tr>
<td>(Gain)/Loss on Sale of Asset</td>
<td>(15,008)</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Restricted (Gain)/Loss from Investments</td>
<td>0</td>
<td>(15,008)</td>
</tr>
<tr>
<td>Unrestricted (Gain)/Loss from Investments</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Change in:</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>564</td>
<td>4,172</td>
</tr>
<tr>
<td>Prepaid/Deferred/Suspending/Travel Advance</td>
<td>12,291</td>
<td>15,913</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>(168,698)</td>
<td>(468,990)</td>
</tr>
<tr>
<td>Advances to Sub Contractors</td>
<td>(97,897)</td>
<td>(2,237,843)</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>(409)</td>
<td>632</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>24,571</td>
<td>78,829</td>
</tr>
<tr>
<td>Accrued Payroll Taxes</td>
<td>24,571</td>
<td>78,829</td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of Equipment</td>
<td>(2,232)</td>
<td>(4,079)</td>
</tr>
<tr>
<td>Proceeds from Sales of Assets</td>
<td>(9,858)</td>
<td>(14,475)</td>
</tr>
<tr>
<td>Net Cash Provided by (Used in) Investing Activities</td>
<td>(1,085)</td>
<td>(20,493)</td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds (Payments) from Notes Receivable</td>
<td>3,320</td>
<td>7,000</td>
</tr>
<tr>
<td>Net Cash Provided by (Used in) Financing Activities</td>
<td>3,320</td>
<td>7,000</td>
</tr>
<tr>
<td>Increase/(Decrease) in Cash</td>
<td>39,932</td>
<td>(791,745)</td>
</tr>
<tr>
<td>Cash and Cash Equivalents - Beginning of Year</td>
<td>1,957,442</td>
<td>2,742,387</td>
</tr>
<tr>
<td>Cash and Cash Equivalents - End of Year</td>
<td>$2,097,374</td>
<td>$2,957,442</td>
</tr>
</tbody>
</table>
1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activity
Mercy-USA For Aid & Development, Inc. 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, 1986. 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 assistance, health care, food, shelter and education mainly in Kenya, Somalia, Bosnia, Indonesia, Lebanon, and Albania well over in the United States and other countries around the world with the help of the Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFTAM), United States Department of Agriculture (USDA), United Nations Food and Agriculture Organization (FAO), United Nations Children Fund (UNICEF) 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 to the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation
Mercy USA for Aid & Development follows the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements for Nonprofit Organizations. Under SFAS No. 117, the Organization is required to report information regarding the financial position and activities according to three classes of net assets, unrestricted, permanently restricted net assets, and temporarily restricted net assets.

To ensure proper usage of restricted and unrestricted assets, the Organization maintains its accounting in accordance with fund accounting principles. The assets and liabilities 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 Board, and the resources invested in fund assets. These assets are accounted for in accordance with fund accounting in the general operating fund.

Temporarily Restricted Fund:
Temporarily restricted net assets are those assets received with donor stipulations that time restrictions expire in a future period. The use of those assets are restricted for a period of time and are reported in the statement of activities as net assets released from restrictions.

Contributions
In accordance with SFAS No. 116, "Accounting for Contributions Received and Expenditures Incurred in Connection with Certain Activities of Not-for-Profit Organizations," contributions are recorded at their estimated fair market values at the date of receipt. Contributions are reported in the statement of activities as net assets released from restrictions.

Grants
Grant support is recognized in the period when expenditures are incurred for the specific purpose established under the grant agreements.

Investments
The organization has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, Investments in marketable securities with readily determinable fair values and all investments in marketable securities are valued at their fair value in the balance sheet of financial position. Accordingly, marketable investments are accounted at their estimated fair market value at the date of acquisition. Unrealized gains and losses are included in the change in net assets.

Unrealized net assets and the restrictions are net (either by expiration or release by or used in the operating period in which the income and gains are recognized).
1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, Mercy-USA For Aid & Development, Inc. considers all highly liquid
debt instruments purchased with maturities 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 or, if acquired as contributions, at fair market value at the
date of donation. Depreciation is recorded on a straight-line basis over the estimated useful life of the
assets.

Temporarily Restricted Net Assets

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

<table>
<thead>
<tr>
<th>Purpose Restriction Accomplished</th>
<th>$151,887</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albanian Program</td>
<td>201,221</td>
</tr>
<tr>
<td>Bosnia Program</td>
<td>484,298</td>
</tr>
<tr>
<td>Indonesia Program</td>
<td>173,567</td>
</tr>
<tr>
<td>Lebanon Program</td>
<td>875,302</td>
</tr>
<tr>
<td>Somalia &amp; Kenya Program</td>
<td>74,298</td>
</tr>
<tr>
<td>Pakistan Emergency Program</td>
<td>15,673</td>
</tr>
<tr>
<td>Bangladesh Program</td>
<td>34,852</td>
</tr>
<tr>
<td>Chapel, Refugee</td>
<td>29,054</td>
</tr>
<tr>
<td>India Program</td>
<td></td>
</tr>
<tr>
<td>Total Restrictions Released</td>
<td>$1,489,013</td>
</tr>
</tbody>
</table>

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporary restricted net assets are available for specific programs and have a balance
of $296,925 at December 31, 2006.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting
principles requires management to make estimates and assumptions. These estimates and
assumptions affect the reported amounts of assets and liabilities and 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.

3) PROGRAM AND SUPPORTING SERVICES

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

Program Services

Economic Integration

The provision of ways for needy individuals and their communities to sustain themselves
and improve their quality of life. It addresses the immediate needs of communities devastated
by natural and man-made disasters.

Health Services

The improvement of individual and community health through education, immunization, and
other preventative measures. It also includes the operation or funding of clinics, hospitals,
and other health care institutions: improvement, rehabilitation and renovation of the
medical equipment and the provision of medicines, medical supplies and
medical equipment to health care facilities.

Food and Shelter

The provision of all types of food and shelter, water filtration materials, and necessary
household and personal items.
3) PROGRAM AND SUPPORTING SERVICES (Continued)

Refugee and Orphan Assistance

The refugee and orphan assistance includes specific projects or other assistance for orphans around the world and refugees residing in North America.

Civil Society

The support of initiatives that encourage fair and representative governance structures and strengthen citizen participation in society.

General Program

General program includes all ancillary program services needed to maintain and enhance the specific program sectors.

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) INVESTMENTS

Investments consist of money market funds, stocks and Corporate Fixed Income and are carried at fair value at December 31, 2006. Dividends and capital gains earned on the shares are reinvested in the fund.

Any change in investment market values has been recorded as unrealized gain or loss.

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Fair Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Money Market Funds</td>
<td>$99,561</td>
<td>$99,561</td>
<td>$0</td>
</tr>
<tr>
<td>Stocks</td>
<td>$271,332</td>
<td>$380,414</td>
<td>$65,634</td>
</tr>
<tr>
<td>Corporate Fixed Income</td>
<td>$23,887</td>
<td>$23,887</td>
<td>$0</td>
</tr>
<tr>
<td>Total</td>
<td>$384,780</td>
<td>$480,414</td>
<td>$65,634</td>
</tr>
</tbody>
</table>
5) **PLEDGES AND ACCOUNTS RECEIVABLE**

Accounts Receivable / Pledges Receivable – USA Operations

Pledges receivable at December 31, 2006 were collected in 2007.

Accounts Receivable – Overseas Operations

Accounts receivable – Overseas operations consist of Albania and Bosnia grant funding receivable from the United States Department of Agriculture (USDA), Somalia grant funding receivable from the Global Fund to Fight AIDS, Tuberculosis and Malaria and Indonesia grant funding receivable from the United Nations Food and Agriculture Organization (FAO).

6) **FIXED ASSETS**

The fixed assets comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>USA Operations</th>
<th>Overseas Operations</th>
<th>Total 2006</th>
<th>Total 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobles</td>
<td>$17,301</td>
<td>$77,913</td>
<td>$95,214</td>
<td>$115,443</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>15,991</td>
<td>50,303</td>
<td>67,294</td>
<td>76,528</td>
</tr>
<tr>
<td>Office Furniture</td>
<td>2,993</td>
<td>6,897</td>
<td>9,890</td>
<td>10,917</td>
</tr>
<tr>
<td>Audio Visual Equipment</td>
<td>5,750</td>
<td>6,083</td>
<td>11,838</td>
<td>10,938</td>
</tr>
<tr>
<td>Others</td>
<td>450</td>
<td>7,135</td>
<td>7,585</td>
<td>9,975</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>(33,977)</td>
<td>(105,316)</td>
<td>(139,293)</td>
<td>(148,450)</td>
</tr>
<tr>
<td>Total</td>
<td>$5,305</td>
<td>$43,020</td>
<td>$48,325</td>
<td>$69,755</td>
</tr>
</tbody>
</table>

During the year, a new office was opened at Lebanon.

7) **PENSION PLAN**

The Organization started a 401(k) pension plan from January 1, 2000 for all employees 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. Employer provides a 50% match on eligible employee contributions to the plan up to a maximum allowable by the plan. The Organization contributed $6,604 and $7,523 in the years 2006 and 2005 respectively to the plan.
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 the financial statements of Mercy-USA For Aid & Development, Inc. (a non
profit Organization) as of and for the year ended December 31, 2006, and have issued our
report thereon dated May 8, 2007. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Mercy-USA For Aid & Development, Inc.'s
internal control over financial reporting as a basis for designing our auditing procedures 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 Mercy-USA For Aid & Development, Inc.'s
internal control over financial reporting. Accordingly, we do not express an opinion on the
effectiveness of the Mercy-USA For Aid & Development, Inc.'s internal control over financial
reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control
deficiency, or combination of control deficiencies, that adversely affects the Mercy-USA For Aid
& Development, Inc.'s ability to initiate, authorize, record, process, or report financial data
reliably in accordance with generally accepted accounting principles such that there is more
than a remote likelihood that a misstatement of the Mercy-USA For Aid & Development, Inc.'s
financial statements that is more than inconsequential will not be prevented or detected by the
Mercy-USA For Aid & Development, Inc.’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that
results in more than a remote likelihood that a material misstatement of the financial statements
will not be prevented or detected by the Mercy-USA For Aid & Development, Inc.'s internal
control.

12
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)

Our consideration of internal control was for the limited purpose described in the first paragraph
of this section and would not necessarily identify all deficiencies in internal control that might be
significant deficiencies or material weaknesses. We did not identify any deficiencies in internal
control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mercy-USA For Aid & Development,
Inc's financial statements are free of 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.

This report is intended solely for the information and use of management and Board of
Directors of Mercy-USA For Aid & Development, Inc and is not intended to be and should not
be used by anyone other than those specified parties.

Alan C. Young, CPA

May 8, 2007
### 2006 Financial Audit

#### Supplemental Statement of Revenues and Program Expenses

**Year Ended December 31, 2006**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenues</td>
<td>$202,100</td>
<td>$279,220</td>
<td>$207,570</td>
<td>$160,500</td>
<td>$110,171</td>
<td>$1,547</td>
<td>$41,824</td>
<td>$1,012,094</td>
<td>$1,427,284</td>
<td>$1,622,144</td>
</tr>
<tr>
<td>Revenue</td>
<td>$21,800</td>
<td>$279,220</td>
<td>$29,000</td>
<td>$79,000</td>
<td>$1,547</td>
<td>$41,824</td>
<td>$1,012,094</td>
<td>$1,427,284</td>
<td>$1,622,144</td>
<td></td>
</tr>
<tr>
<td>Expense</td>
<td>$180,300</td>
<td>$280,000</td>
<td>$184,570</td>
<td>$141,500</td>
<td>$6,171</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>$202,100</td>
<td>$279,220</td>
<td>$207,570</td>
<td>$160,500</td>
<td>$110,171</td>
<td>$1,547</td>
<td>$41,824</td>
<td>$1,012,094</td>
<td>$1,427,284</td>
<td>$1,622,144</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenses</td>
<td>$10,000</td>
<td>$23,000</td>
<td>$10,000</td>
<td>$56,000</td>
<td>$11,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Revenue</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Expense</td>
<td>$10,000</td>
<td>$23,000</td>
<td>$10,000</td>
<td>$56,000</td>
<td>$11,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Net Income</td>
<td>$10,000</td>
<td>$23,000</td>
<td>$10,000</td>
<td>$56,000</td>
<td>$11,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

### Notes

1. Includes Pretax adjustments in unadjusted.

---

**Explanation**

- Revenue: Includes contributions from public, government, and other sources.
- Expense: Includes salaries and wages, supplies, and other expenses.

**Supplemental Statement of Revenues and Program Expenses**

Year Ended December 31, 2006

---

**Mercy News**
## Indirect Cost Allocation Schedule

**Year Ended December 31, 2006**

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>Total</th>
<th>Allocable Indirect</th>
<th>Fund Raising</th>
<th>Program</th>
<th>Exclusive Program</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>$111,920</td>
<td>$0</td>
<td>$0</td>
<td>$111,920</td>
<td>$0</td>
<td>$111,920</td>
</tr>
<tr>
<td>Scholarships</td>
<td>3,360</td>
<td>0</td>
<td>0</td>
<td>3,360</td>
<td>0</td>
<td>3,360</td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>64,257</td>
<td>84,500</td>
<td>0</td>
<td>84,500</td>
<td>0</td>
<td>84,500</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>40,099</td>
<td>2,822</td>
<td>0</td>
<td>2,822</td>
<td>0</td>
<td>2,822</td>
</tr>
<tr>
<td>Advertising &amp; Promotion</td>
<td>33,545</td>
<td>1,211</td>
<td>0</td>
<td>1,211</td>
<td>0</td>
<td>1,211</td>
</tr>
<tr>
<td>Transportation Expenses</td>
<td>1,567</td>
<td>3,546</td>
<td>600</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Commercial Insurance</td>
<td>4,146</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Conference, Meetings &amp; Seminars</td>
<td>10,707</td>
<td>0</td>
<td>120</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Consultant &amp; Other Professional Services</td>
<td>4,537</td>
<td>3,969</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Dues, Subscriptions, Fees etc.</td>
<td>8,049</td>
<td>490</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Legal</td>
<td>14,985</td>
<td>10,032</td>
<td>0</td>
<td>10,032</td>
<td>0</td>
<td>10,032</td>
</tr>
<tr>
<td>Accounting</td>
<td>72,302</td>
<td>6,390</td>
<td>10,964</td>
<td>0</td>
<td>0</td>
<td>10,964</td>
</tr>
<tr>
<td>Occupancy &amp; Warehousing</td>
<td>20,875</td>
<td>2,204</td>
<td>3,345</td>
<td>0</td>
<td>0</td>
<td>3,345</td>
</tr>
<tr>
<td>Postage &amp; Shipping</td>
<td>6,362</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Printing &amp; Graphics</td>
<td>70,303</td>
<td>3,321</td>
<td>13,378</td>
<td>0</td>
<td>0</td>
<td>13,378</td>
</tr>
<tr>
<td>Program Materials</td>
<td>71,357</td>
<td>3,256</td>
<td>8,817</td>
<td>0</td>
<td>0</td>
<td>8,817</td>
</tr>
<tr>
<td>Telephones</td>
<td>40,381</td>
<td>3,159</td>
<td>0</td>
<td>3,159</td>
<td>0</td>
<td>3,159</td>
</tr>
<tr>
<td>Travel</td>
<td>10,835</td>
<td>5,860</td>
<td>0</td>
<td>5,860</td>
<td>0</td>
<td>5,860</td>
</tr>
<tr>
<td>Bank Charges/Currency Adjustment</td>
<td>1,662</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Office Supplies &amp; Equipment</td>
<td>3,257</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>246,393</td>
<td>4,261</td>
<td>0</td>
<td>4,261</td>
<td>0</td>
<td>4,261</td>
</tr>
<tr>
<td>Loss on Sales of Assets</td>
<td>21,246</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Indirect Cost</td>
<td>2,092,905</td>
<td>195,909</td>
<td>77,461</td>
<td>273,370</td>
<td>0</td>
<td>273,370</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,499,991</td>
<td>1,499,991</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>total</td>
<td>$2,592,905</td>
<td>$345,202</td>
<td>$77,461</td>
<td>$1,199,370</td>
<td>$0</td>
<td>$1,199,370</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Note</th>
<th>Total Direct Cost</th>
<th>Direct Cost</th>
<th>Indirect Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$492,362</td>
<td>$1,499,991</td>
<td>$25,439</td>
</tr>
</tbody>
</table>

*Excluded program costs include in-kind program material expenses and administrative costs included in the indirect costs.
Founded in 1986, Mercy-USA, for Aid and Development (M-USA), is a nonprofit relief and development organization dedicated to alleviating human suffering and supporting individuals and their communities in their efforts to become more self-sufficient. M-USA’s projects focus on improving health and promoting economic and educational growth around the world.

Board of Directors
Ms. Zakia Mahasa, Chairperson

Mr. Faizil Baksh
Dr. Ali El-Menshawi

• All members of the Board of Directors serve as volunteers.

Mr. Umar al-Qadi, President & CEO
Mr. Anas Alhaidar, CFO

Independent Financial Auditors
Alan C. Young & Associates, P.C. Certified Public Accountants

MERCY-USA FOR AID AND DEVELOPMENT

44450 Pinetree Drive, Suite 201 • Plymouth, MI 48170-3869
Telephone 734-454-0011 • 1-800-55-MERCY (1-800-556-3729)
Facsimile 734-454-0303
e-mail mercyusa@mercyusa.org • http://www.mercyusa.org

• Registered with the United States Agency for International Development (USAID)
  • Special Consultative Status with United Nations
  • Member of InterAction

Other Mercy-USA Offices

Albania
  Tirana
Bosnia
  Tuzla
Indonesia
  Banda Aceh
Kenya
  Nairobi
Lebanon
  Sidon
Somalia
  Mogadishu
Founded in 1986, Mercy-USA, for Aid and Development (M-USA), is a nonprofit relief and development organization dedicated to alleviating human suffering and supporting individuals and their communities in their efforts to become more self-sufficient. M-USA’s projects focus on improving health and promoting economic and educational growth around the world.

Special ways to join Mercy-USA in “Helping People Help Themselves”™

These special ways of joining M-USA in this vital effort include:

1) encouraging your employer to match your donation, or
2) donating stocks, or
3) making a bequest.

Please call us at 1-800-55MERCY (1-800-556-3729) to discuss options.

Contribution / Pledge Form

Personal Information

Name__________________________________________________________
Address_________________________________________________________________
City______________________________________________________________
State/Province________ Zip/Postal Code_____________________________
Country________________ Work Phone__________________________
Home Phone________________ Fax__________________________
E-mail__________________________________________________________

☑ One Time Donation ☐ Monthly Donation
☐ $10 ☐ $25 ☐ $50 ☐ $100 ☐ $250 ☐ Other $____

☐ Check
☐ Credit Card (Fill out Section A)
☐ Bank Auto Withdrawal (Fill out out Section B)
☐ Pledge

I give my permission to Mercy-USA/Mercy-USA (Canada) to withdraw from my Credit Card or Bank Account the amount I have indicated above. I also understand that I may change or end a monthly donation agreement at any time with a written notice.

A) Credit Card Information (Charged in US Currency)

Account No._____________________________________________________
Expiration Date_________________Security Code ________________
Signature________________________________________________________

B) Banking Information (For Banks in the US Only)

Please include a voided check to avoid any delays due to inaccurate data.

☐ Checking Account ☐ Savings Account

Bank Route (ABA) No. (9 digits)_________________________________
Account No._____________________________________________________
Starting with the ______/______/20____
Signature________________________________________________________
Date__________________________

Important!

Please fill out the Personal Information section. Kindly send your tax deductible donation made payable to: Mercy-USA for Aid and Development

US Federal Tax # 38-2846307
44450 Pinetree Drive, Suite 201, Plymouth, MI 48170-3869

or

Mercy-USA for Aid and Development (Canada)

Canadian Federal Tax # 89458-5553-RR0001
Fiesta RPO P.O. Box 56102, 102 Hwy. #8, Stoney Creek, ON L8G 5C9 Canada
Telephone 734-454-0011 1-800-55-MERCY (1-800-556-3729)
Facsimile 734-454-0303
e-mail mercyusa@mercyusa.org http://www.mercyusa.org