

Mercy Projects
Financial Statements
December 31, 2018

Mercy Projects

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Independent Accountant's Compilation Report

To Board of Directors at Mercy Projects:

Management is responsible for the accompanying financial statements of Mercy Projects (a nonprofit organization), which are comprised of the Statement of Financial Position as of December 31, 2018, the related statement of Activities, Cash Flows, and Functional Expenses for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with the Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The Honest Accountant, LLC

The Honest Accountant, LLC

Marietta, GA

July 25, 2019

Mercy Projects
Statement of Financial Position
As of December 31, 2018

ASSETS

| | |
|---|---------------------------------|
| Cash and cash equivalents | \$ 92,448 |
| Current portion of Note Receivable (note 3) | 3,999 |
| Prepaid expenses | 96 |
| Building | 788,250 |
| Equipment | 17,157 |
| Furniture | 46,458 |
| Accumulated depreciation | (294,248) |
| Long Term portion of Note Receivable (note 3) | <u>29,751</u> |
| Total Assets | <u><u>\$ 683,911</u></u> |

LIABILITIES AND NET ASSETS

| | |
|---|---------------------------------|
| Current Liabilities: | |
| Accounts Payable | \$ 715 |
| Accrued Liabilities and Credit Card | <u>35,876</u> |
| Total Current Liabilities | \$ 36,591 |
| Net Assets: | |
| Without Donor Restrictions | <u>\$ 647,320</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 683,911</u></u> |

See Independent Accountant's Compilation Report as well as the Notes to the Financial Statements

Mercy Projects
Statement of Activities
For the 12 months ended December 31, 2018

| | Total |
|--|--------------------|
| SUPPORT AND REVENUES: | |
| Merchandise Sales | \$ 4,761 |
| Less: Cost of Goods Sold | 2,287 |
| Gross Profit | 2,475 |
| Contributions | 742,239 |
| Rental Income | 15,000 |
| Interest and Dividend Income | 3,079 |
| TOTAL SUPPORT AND REVENUES | \$ 762,793 |
| EXPENSES: | |
| Program services | 677,045 |
| General and administrative | 58,073 |
| Fundraising | 40,537 |
| TOTAL EXPENSES | \$ 775,654 |
| CHANGE IN NET ASSETS | \$ (12,861) |
| CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS | \$ (12,861) |
| NET ASSETS WITHOUT DONOR RESTRICTIONS AT BEGINNING OF YEAR | 660,181 |
| NET ASSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR | \$ 647,320 |

See Independent Accountant's Compilation Report as well as the Notes to the Financial Statements

Mercy Projects
Statement of Cash Flows
For the 12 months ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|--|-----------------|-----------|
| Change in net assets | \$ (12,861) | |
| Adjustments to reconcile change in net assets to cash provided by operating activities: | | |
| Depreciation | 20,808 | |
| Changes in: | | |
| Prepaid expenses | 27,009 | |
| Notes Receivable - Long Term | 2,921 | |
| Accounts Payable | (5,413) | |
| Accrued Liabilities and Credit Card | <u>(10,716)</u> | |
| Net cash flows provided by operating activities | | \$ 21,747 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | | |
|---|--|-------------------------|
| Cash used in acquisition and retirement of fixed assets | | - |
| Net increase in cash and cash equivalents | | \$ 21,747 |
| Cash and cash equivalents at beginning of year | | <u>\$ 70,701</u> |
| Cash and cash equivalents at end of year | | <u><u>\$ 92,448</u></u> |

See Independent Accountant's Compilation Report as well as the Notes to the Financial Statements

Mercy Projects
Statement of Functional Expenses
For the 12 months ended December 31, 2018

| | Program | Gen. and Admin. | Fund Raising | Total Expenses |
|--|----------------|----------------------------|-------------------------|---------------------------|
| Compensation of officers, directors, etc. | 71,455 | 20,077 | 14,014 | 105,546 |
| Other salaries and wages | 61,416 | 17,256 | 12,046 | 90,718 |
| Other employee benefits | 11,838 | 3,326 | 2,322 | 17,486 |
| Payroll taxes | 7,901 | 2,220 | 1,550 | 11,671 |
| Legal fees | 17 | 5 | 3 | 25 |
| Accounting | 863 | 243 | 169 | 1,275 |
| Occupancy | 10,428 | 2,930 | 2,045 | 15,404 |
| Travel | 2,950 | 829 | 579 | 4,358 |
| Conferences, conventions, and meetings | 66 | 19 | 13 | 98 |
| Depreciation, depletion, etc | 14,087 | 3,958 | 2,763 | 20,808 |
| Insurance | 1,730 | 486 | 339 | 2,556 |
| Program Services | 470,363 | | | 470,363 |
| Printing, Publications, Advertising, Marketing | 8,009 | 2,250 | 1,571 | 11,830 |
| Computer/Web exp | 2,706 | 760 | 531 | 3,997 |
| Telephone/Internet | 1,952 | 548 | 383 | 2,883 |
| Supplies | 1,257 | 353 | 247 | 1,857 |
| Dues/Subscriptions/Reference | 5,483 | 1,541 | 1,075 | 8,099 |
| Equipment rental and maintenance, no vehicle | 1,538 | 432 | 302 | 2,272 |
| Postage and shipping, including mailing services | 1,290 | 363 | 253 | 1,906 |
| Staff Development | 589 | 165 | 115 | 870 |
| Payroll Service | 524 | 147 | 103 | 774 |
| Public Relations | 582 | 163 | 114 | 859 |
| Total Expenses | 677,045 | 58,073 | 40,537 | 775,654 |

Note: Allocations between Program, General & Administrative, and Fundraising costs are based on employee time

Mercy Projects
Notes to Financial Statements
For the Year Ended December 31, 2018
(See Independent Accountant's Compilation Report)

1. NATURE OF ORGANIZATION:

Mercy Projects was incorporated in 1980 in California as a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income taxes. Contributions by the public are deductible for income tax purposes. Mercy Projects has been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the Code.

The objectives of Mercy Projects are:

- To provide for families with at-risk children and to support child development by supporting families and keeping children out of institutions.
- To partner with, train and encourage families and social workers to find family solutions for at-risk children in their community both locally and internationally.
- To send Americans on short and long-term service projects overseas to areas where Mercy Projects is working.

For the year ended December 31, 2018, except for renting office space to an unrelated business for \$15,000, interest income on bank deposits of \$3,079, and a \$2,475 profit from the sales of Mercy Projects merchandise, all of Mercy Projects revenue is from contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Mercy Projects have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. A summary of the significant accounting policies is described below to enhance the usefulness of the financial statements to the reader.

CASH:

Cash includes amounts on deposit in checking and savings accounts.

LIQUIDITY:

Mercy Projects primarily relies upon it's donor base to provide the funds to meet their obligations throughout the year. This fundraising is primarily conducted through a regular newsletter where recipients are updated on the happenings within the organization and asked to donate if they feel inclined to give. An additional fundraising avenue involves Mercy Projects meeting with churches and asking the congregations to give should they feel moved by the mission of the organization. While there are some additional income streams, they are not the driving factor in terms of Mercy Projects being able to meet their cash needs.

Mercy Projects
Notes to Financial Statements
For the Year Ended December 31, 2018
(See Independent Accountant's Compilation Report)

BUILDINGS, EQUIPMENT, AND DEPRECIATION:

Buildings and equipment are recorded at cost when the asset is purchased or fair market value at the date of donation. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis.

Useful life is 39 years for buildings located in the U.S. and 20 years for buildings located outside the U.S.

In 2018 there was no acquisition of additional fixed assets. As of the end of 2018, all Furniture and Equipment has been fully depreciated.

Schedule of Fixed Assets:

| | |
|-------------------------------|-------------------|
| Buildings & Land | \$ 788,250 |
| Furniture & equipment | <u>63,615</u> |
| | \$ 851,865 |
| Less accumulated depreciation | <u>-294,248</u> |
| | <u>\$ 557,617</u> |

Depreciation expense was \$20,808 for the year ended December 31, 2018.

NET ASSETS:

The financial statements report amounts by classification of net assets as follows:

- *Without donor restrictions* amounts are those currently available at the discretion of the board for use in the organization's operations and those resources invested in buildings and equipment.
- *With donor restrictions* amounts are those which are stipulated by donors for specific operating purposes, for specific projects, or for any other desired purpose. Mercy Projects has no net assets with donor restrictions as of December 31, 2017, nor any at December 31, 2018.

All contributions are considered to have no donor restrictions, unless specifically restricted by the donor or subject to legal restrictions.

Mercy Projects records contributions as with donor restrictions if they are received with donor stipulations that limit their use either through purpose, or time restrictions, or both. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activity as net assets released from restrictions. It is Mercy Project's policy to record contributions with donor restrictions received and expended in the same accounting period as contributions with donor restrictions and as net assets released from restrictions.

Mercy Projects
Notes to Financial Statements
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(See Independent Accountant's Compilation Report)

As of December 31, 2018, Mercy Projects has no specific board-designated funds.

PUBLIC SUPPORT, REVENUE AND EXPENSES:

Contributions are recorded when cash or unconditional promises-to-give have been received, or ownership of donated assets to be used directly in the operations, is transferred. Goods given to the ministry that do not have an objective basis for valuation are not recorded.

Revenue is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Mercy Projects receives donated gifts, which are recorded as support at the estimated fair market value on the date of the gift.

CONTRIBUTED SERVICES:

Statement of Financial Accounting Standards No. 116, Accounting for Contributions Received and Contributions Made, requires recording the value of donated services that create or enhance non-financial assets or require specialized skills. Volunteers have contributed significant amounts of their time to activities of the organization, however, since the above requirements were not met, the value of the contributed services is not recorded in the financial statements.

FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the statement of activities. Certain costs, such as depreciation and payroll, have been allocated among the program services and supporting activities.

ALLOCATION OF JOINT COSTS:

Mercy Projects is applying the American Institute of Certified Public Accountants' Statement of Position 98-2, Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that include Fund Raising. This statement requires all costs which contain any fundraising appeal be allocated to fundraising unless three tests are met: purpose, audience and content. Since all three tests were not met, all costs have been allocated to fundraising for the year ended December 31, 2018.

USE OF ESTIMATES:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that

Mercy Projects
Notes to Financial Statements
For the Year Ended December 31, 2018
(See Independent Accountant's Compilation Report)

affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

OPERATIONS OUTSIDE THE U.S.:

Program activities of Mercy Projects are located in Eastern Europe. The area of ministry is expanding to include local programs in southern California with Safe Families for Children. This exposes the ministry to additional and different risks than if the operations were all in the U.S.

3. LONG-TERM NOTE RECEIVABLE:

In 2016, an apartment was purchased by Mercy Projects for a Ukrainian worker for \$45,000. He made a down payment of \$5,000 and Mercy Projects is carrying a note receivable from him for \$40,000. The note carries a 7% interest rate and matures on December 31, 2025. There is a minimum monthly payment of \$500. As of December 31, 2018, the balance on the note is \$33,750. A minimum principal payment of \$3,999 is due in 2018.

4. LONG-TERM DEBT:

Mercy Projects had no long-term debt as of December 31, 2018.

5. RELATED PARTY TRANSACTIONS

There were no related party transactions in 2018.

6. LEASES

Mercy Projects has no leases.

7. PENSION PLANS

Mercy Projects does not have a pension plan.

8. CONTINGENCIES

There are no known contingent liabilities as of the date of this report.

9. SUBSEQUENT EVENT

There are no known subsequent events since the end of the fiscal year.

Mercy Projects
Notes to Financial Statements
For the Year Ended December 31, 2018
(See Independent Accountant's Compilation Report)

10. TAX YEARS THAT REMAIN SUBJECT TO EXAMINATION

The Company files a Federal form 990 and California form 199, Return of Organization Exempt from Income Tax. Though not subject to income tax, the company is subject to review of these forms for the calendar years 2016, 2017, and 2018. With few exceptions, earlier returns are no longer subject to review.