



Mercy Projects
(A California Not-for-Profit Religious Corporation)

**FINANCIAL STATEMENTS AND
ACCOUNTANT'S COMPILATION REPORT**

For the Year Ended
December 31, 2022



MERCY PROJECTS

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ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors of
Mercy Projects
Murrieta, California

Management is responsible for the accompanying financial statements of Mercy Projects, (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows 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 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 the completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

We are not independent with respect to Mercy Projects as of and during the year ended December 31, 2022, because we performed accounting services for the Organization from September 2022 through December 2022.

A handwritten signature in blue ink, consisting of the stylized letters "MPK".

Murrieta, California
November 13, 2023

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MERCY PROJECTS*Statement of Financial Position**December 31, 2022*

ASSETS

Current assets:

Cash and cash equivalents	\$	1,128,263
Receivables		51,225
Inventory		4,332
Total current assets		<u>1,183,820</u>

Noncurrent assets:

Property and equipment, net		14,978
Receivables, long-term portion		<u>150,675</u>

Total Assets	\$	<u>1,349,473</u>
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LIABILITIES AND NET ASSETS**Liabilities**

Current liabilities:

Accounts payable	\$	4,530
Accrued payroll liabilities		15,685
Deferred compensation liability, current portion		<u>50,000</u>
Total current liabilities		70,215

Long-term liabilities:

Deferred compensation liability		<u>150,000</u>
Total liabilities		<u>220,215</u>

Net Assets

Without donor restrictions		<u>1,129,258</u>
Total Liabilities and Net Assets	\$	<u>1,349,473</u>

See accompanying accountant's compilation report and notes

MERCY PROJECTS*Statement of Activities**For the Year Ended December 31, 2022*

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions and donations	\$ 1,270,595	\$ 1,300	\$ 1,271,895
Sales of merchandise	23,960	-	23,960
Less, costs of merchandise	(9,723)	-	(9,723)
Net sales of merchandise	14,237	-	14,237
Interest income	5,208	-	5,208
Other income	1,811	-	1,811
Net assets released from restrictions	1,300	(1,300)	-
Total revenues, gains, and other support	1,293,151	-	1,293,151
Expenses			
Program services			
Ministry	973,747	-	973,747
Supporting services:			
Management and general	88,481	-	88,481
Fundraising and development	56,887	-	56,887
Total expenses	1,119,115	-	1,119,115
Change in net assets	174,036	-	174,036
Net Assets			
Beginning of year	979,036	-	979,036
Restatement (Note 8)	(23,814)	-	(23,814)
Beginning of year, restated	955,222	-	955,222
End of year	\$ 1,129,258	\$ -	\$ 1,129,258

See accompanying accountant's compilation report and notes

MERCY PROJECTS*Statement of Functional Expenses**For the Year Ended December 31, 2022*

	Program Services		Supporting Services		Total Expenditures
	Ministry	Management And General	Fundraising and Development		
Salaries and wages	\$ 233,678	\$ 65,292	\$ 44,674	\$	343,644
Payroll taxes	6,598	1,844	1,261		9,703
Employee benefits	5,140	1,436	983		7,559
Total Salaries and Benefits	245,416	68,572	46,918		360,906
Cost of goods sold	9,723	-	-		9,723
Occupancy	12,110	3,384	2,315		17,809
Printing and publications	6,912	1,931	1,321		10,164
Information technology	8,121	2,269	1,552		11,942
Travel	18,387	-	-		18,387
Bank and merchant fees	9,017	2,520	1,724		13,261
Equipment rental	756	211	145		1,112
Insurance	-	946	-		946
Office supplies	-	4,619	-		4,619
Taxes and fees	877	245	168		1,290
Postage and shipping	1,227	343	235		1,805
Depreciation	1,117	-	-		1,117
Professional fees	-	1,100	-		1,100
Advertising and marketing	-	-	2,004		2,004
Dues and subscriptions	2,577	720	493		3,790
Conferences and meetings	-	1,604	-		1,604
Outside services	63	17	12		92
Total Other Operating	70,887	19,909	9,969		100,765
Grants and assistance to others for ministry	667,167	-	-		667,167
Total Expenses	\$ 983,470	\$ 88,481	\$ 56,887	\$	1,128,838
Less expenses included with revenues on the statement of activities					
Cost of goods sold	(9,723)	-	-		(9,723)
Total expenses included in the expense section on the statement of activities	\$ 973,747	\$ 88,481	\$ 56,887	\$	1,119,115

See accompanying accountant's compilation report and notes

MERCY PROJECTS*Statement of Cash Flows**For the Year Ended December 31, 2022*

Cash Flows from Operating Activities

Change in net assets	\$	174,036
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Adjustments to reconcile change in net assets to
net cash provided (used) by operating activities:

Depreciation expense		1,117
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(Increase) decrease in operating assets:

Receivables		(180)
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Inventory		(4,332)
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Prepaid expenses		31,580
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Increase (decrease) in operating liabilities:

Accounts payable		3,784
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Accrued payroll liabilities		(3,253)
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Deferred compensation liability		200,000
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Net cash provided (used) by operating activities		<u>402,752</u>
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Cash Flows from Investing Activities

Repayment of loans receivable		1,000
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Issuance of loans receivable		<u>(200,000)</u>
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Net cash provided (used) by investing activities		<u>(199,000)</u>
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Net increase (decrease) in cash		203,752
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Cash and cash equivalents

Beginning of year		<u>924,511</u>
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End of year	\$	<u><u>1,128,263</u></u>
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See accompanying accountant's compilation report and notes

MERCY PROJECTS

Notes to Financial Statements

December 31, 2022

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Mercy Projects (Organization) was formed in California in 1980 as a tax-exempt not-for-profit corporation under Section 501 (c)(3) of the Internal Revenue Code. The mission of Mercy Projects is to be a Christ-centered, family-focused ministry assisting vulnerable children, the poor, and the widow. The Organization operates primarily in Ukraine, with other programs in Kosovo, Armenia, the Republic of Georgia, and Russia. The approach to ministry programs is to strengthen vulnerable families and children by providing ministry services, grocery support, counseling, Christian case workers, and spiritual assistance.

Other program objectives include:

- Providing for families with at-risk children and supporting child development by supporting families and keeping children out of institutions.
- Training and encouraging families and social workers to find family solutions for at-risk children in their community both locally and internationally.
- Sending Americans on short and long-term service projects overseas to areas where Mercy Projects provides ministry program services.

A substantial part of revenue sources is derived from contributions and donations.

Basis of Presentation and Accounting

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (US GAAP). The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). ASC 958 addresses general-purpose external financial statements appropriate for not-for-profit organizations. The Organization does not use fund accounting.

Under the provisions of the ASC 958, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met either by the actions of the not-for-profit Organization to satisfy a particular purpose restriction, or by the passage of time. Some donor restrictions are perpetual (or permanent) in nature, whereby the donor has stipulated the funds be maintained in perpetuity, whereby the corpus of the donation must remain unspent.

MERCY PROJECTS

Notes to Financial Statements

December 31, 2022

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements Adopted

1. Leases (Topic 842), Accounting Standards Update (ASU) 2016-02

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). The amendments in ASU 2016-02 create FASB ASC Topic 842, Leases, and supersede the requirements in ASC Topic 840, Leases. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the statement of financial position a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. On April 8, 2020, the FASB voted to defer the effective date of ASU 2016-02 by one additional year. The ASU is now required to be effective for the Organization's 2022 year.

The ASU has been adopted by the Organization in the current year, effective January 1, 2022, and utilized all available practical expedients. The adoption did not have a material impact on the Organization's financial statements for the year ending December 31, 2022, as there were no existing lease contracts that would be treated differently under the application of ASC 842.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

The Organization has elected the practical expedient to not separate lease and non-lease components for all classes of leased assets.

Cash and Cash Equivalents

The Organization considers cash on hand, certificates of deposit with original maturity dates of three months or less at the date of investment, as well as money market funds and other similar instruments readily convertible to cash to be cash and cash equivalents.

Custodial Credit Risk

Occasionally, the Organization may maintain cash on deposit at a single banking institution more than FDIC limits of \$250,000. For the year ending December 31, 2022, the Organization maintained cash on deposit in excess of the FDIC limits in the amount of \$824,122.

Inventory

Inventory comprises program-related artisan crafts, sourced from merchants in Eastern Europe and held for resale to raise awareness for the Organization's mission. Items are stated at the lesser of cost or net realizable value. The value of crafts on hand for resale as of December 31, 2022, was \$4,332.

MERCY PROJECTS

Notes to Financial Statements

December 31, 2022

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid Expenses

Certain costs paid out in advance of the applicable period to which they apply are classified as prepaid expenses.

Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$1,000 per unit or invoice. Purchased property and equipment is capitalized at cost. Minor repairs and maintenance costs, which do not extend the life or add value to the property and equipment, are expensed as incurred. Donations of property and equipment are recorded as contributions at their estimated fair value at the time of donation. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose or time of use. Property and equipment are depreciated using the straight-line method of depreciation over the estimated useful lives of the related assets, which are classified within the following asset types:

Buildings (Located outside of the United States)	30-50 years
Furniture and fixtures	5-7 years
Machinery and equipment	3-7 years

Revenue Recognition

Contributions

The Organization accounts for contributions in accordance with *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958), Accounting Standards Update (ASU) 2018-08 Contribution revenue and bequests are accounted for under ASC Topic 958-605, Not-for-Profit Entities, Revenue Recognition. Management has elected the net asset release policy option for contributions with donor restrictions. As part of this election, the Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized.

For those donor-restricted contributions for which restrictions do not expire during the period, this results in an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

MERCY PROJECTS

Notes to Financial Statements

December 31, 2022

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Merchandise Sales

The Organization sells merchandise to raise awareness for its mission, as part of its program activities. Sales are incidental and not a significant part of operating activities. Sales are recognized at the time of purchase and exchange of consideration for the goods provided.

In-Kind Contributions of Goods

Donated materials, supplies, and other noncash items are recorded as in-kind contributions at their estimated fair value, in accordance with FASB ASC 958-605-30, at the date the contribution is made. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose, whereby they are reported as increases to net assets with donor restrictions. The number of in-kind contributions received during the year was not material to the financial statements and has not been estimated and recorded.

In-Kind Contributions of Services

The Organization follows the recognition criteria for contributed services as stated in FASB ASC 958-605-25. During the year ended December 31, 2022, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services and have not been recorded on the financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

In accordance with fair value measurements, as stated in FASB ASC 820, the Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

MERCY PROJECTS

Notes to Financial Statements

December 31, 2022

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The Organization has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, which are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the Organization's own assumptions about the factors market participants would use in pricing an investment and is based on the best information available in the circumstances.

There are no assets or liabilities measured at fair value for the 2022 year.

Accrued Vacation

The Organization provides an accrued vacation benefit to eligible employees. Amounts are accrued at the end of each year based on available total hours and applicable hourly pay rate, respectively, per employee. Accrued vacation amounts are included in accrued payroll liabilities and were \$10,569 for the year ending December 31, 2022.

Income Taxes

The Organization is a non-profit religious corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. Accordingly, no provision has been made for income taxes. Management has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels.

The primary tax positions evaluated are related to the Organization's continued qualification as a tax-exempt religious entity and whether there are unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

MERCY PROJECTS

Notes to Financial Statements

December 31, 2022

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function, as shown in the Statement of Functional Expenses. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Such allocations are determined by management on an equitable basis.

The significant expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Insurance	Time and effort
Occupancy	Percentage of square footage of use
Supplies	Time and effort
Information Tech / Outside services	Time and effort
Depreciation	Percentage of square footage and use of the related asset
Postage, printing, and shipping	Time and effort

NOTE 2 – LIQUIDITY AND AVAILABLE RESOURCES

The Organization's financial assets available within one year of the Statement of Financial Position date for general expenditure are as follows:

Current assets:

Cash and cash equivalents	\$ 1,128,263
Receivables	51,225
Inventory	<u>4,332</u>
Total	<u>\$ 1,183,820</u>

The Organization's policy for liquidity management requires that it structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Cash in excess of daily requirements is maintained in a reserve bank account. There are no current donor restricted amounts for the 2022 year, which would reduce the financial assets available for general expenditure.

MERCY PROJECTS*Notes to Financial Statements**December 31, 2022*

NOTE 4 – RECEIVABLES

Receivables consisted of the following on December 31, 2022:

Receivables	
Current portion	
Loans receivable	\$ 51,225
Noncurrent portion	
Loans receivable	150,675
Total receivables	<u>\$ 201,900</u>

The Organization made a short-term loan to a Ukrainian missionary in 2021 in the amount of \$2,000 for housing needs, with amounts to be repaid in 2023. The balance due as of December 31, 2022, was \$1,000.

In April 2022, the Organization issued a note receivable to an officer in the amount of \$200,000 as an advance for living costs. The note bears a rate of interest of 4.00% and matures in December 2026. Payments of interest and principal are made in variable amounts on bi-weekly basis with an annual payment of approximately \$50,000 per year for the years 2023-24, with a final payment of approximately \$50,000 in 2026. During 2022, no payments of principal were made and thus interest receivable of \$900 was accrued and capitalized to the loan balance as of December 31, 2022, to result in a total loan receivable of \$200,900.

The schedule of future payments on the note receivable is estimated as follows:

Year	Principal	Interest	Total
2023	\$ 50,225	\$ 5,890	\$ 56,115
2024	50,927	4,323	55,250
2025	53,116	2,005	55,121
2026	46,632	71	46,703
	<u>\$ 200,900</u>	<u>\$ 12,289</u>	<u>\$ 213,189</u>

MERCY PROJECTS*Notes to Financial Statements**December 31, 2022*

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2022, consisted of the following:

Property and equipment being depreciated:	
Buildings	\$ 67,000
Furniture and fixtures	46,458
Machinery and equipment	17,157
Total property and equipment being depreciated	<u>130,615</u>
Accumulated depreciation	<u>(115,637)</u>
Property and equipment, net	<u>\$ 14,978</u>

The Organization recognized depreciation expense of \$1,117 during the year ending December 31, 2022.

NOTE 6 – DEFERRED COMPENSATION LIABILITY

During 2022, the Organization's board of directors committed by official vote to set aside \$200,000 to be paid to the executive director over a 4-year period, beginning in 2023, as part of a nonqualified deferred compensation plan. This amount is intended as additional compensation to provide a source of retirement benefits. A schedule of future repayments of the amounts due is as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 50,000
2024	50,000
2025	50,000
2026	50,000
	<u>\$ 200,000</u>

As of December 31, 2022, the total liability for deferred compensation payable was \$200,000.

NOTE 7 – NET ASSETS

The Organization did not have any net assets with donor restrictions, nor any board-designated net assets, as of December 31, 2022.

NOTE 8 – RESTATEMENT TO NET ASSETS

Net assets without donor restrictions have been restated by (\$23,814) as of January 1, 2022, due to the removal of loans receivable as the amount was not truly due to the Organization.

MERCY PROJECTS

Notes to Financial Statements

December 31, 2022

NOTE 9 – SUBSEQUENT EVENTS

Events after December 31, 2022, have been evaluated through November 13, 2023, the date at which the Organization's financial statements were available to be issued.

The war in Ukraine, beginning in February 2022, resulted in a 25-35% increase in funding through contributions for the Organization in 2022. We continue to spend those funds based on support for ministry initiatives with our ministry partners inside Ukraine. The refugee crisis has generally stabilized though we continue to support our staff living outside the country of Ukraine. Our efforts during 2022 are to help families, communities, churches, and people still living in Ukraine. Most churches in Ukraine have men from their churches serving in the military, and they request support including vehicles for transporting the wounded, protective armor, winter clothing, medical first-aid kits, financial aid for families, and bulk foodstuff for the military units protecting their communities.

This is an important point to understand in the Ukraine conflict. The churches fully support their military, not only with their prayers but through active fundraising efforts to provide things the military needs (that their government does not provide). The churches know and have experienced in occupied territories, that if they do not defend their religious freedoms by supporting their military, then those freedoms will vanish.