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

FINANCIAL STATEMENTS AND
ACCOUNTANT'S COMPILATION REPORT

For the Year Ended
December 31, 2025

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, 2025, 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, 2025, because we performed accounting services for the Organization from January 2025 through December 2025.



Murrieta, California
October 29, 2026

MERCY PROJECTS
Statement of Financial Position
December 31, 2025

ASSETS		
Current assets:		
Cash and cash equivalents	$	211,919
Receivables		602,635
Inventory		1,170
Total current assets		815,724
Noncurrent assets:		
Property and equipment, net		217,720
Total Assets	$	1,033,444
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities:		
Accounts payable	$	5,058
Accrued payroll liabilities		28,301
Deferred compensation liability		50,000
Total current liabilities		83,359
Total liabilities		83,359
Net Assets		
Without donor restrictions		950,085
Total Liabilities and Net Assets	$	1,033,444

See accompanying accountant's compilation report and notes

MERCY PROJECTS
Statement of Activities
For the Year Ended December 31, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions and donations	$ 905,132	$ -	$ 905,132
Sales of merchandise	15,629	-	15,629
Less, costs of merchandise	(12,126)	-	(12,126)
Net sales of merchandise	3,503	-	3,503
Investment earnings, net of expenses	111,834	-	111,834
Other income	17	-	17
Total revenues, gains, and other support	1,020,487	-	1,020,487
Expenses			
Program services			
Ministry	803,768	-	803,768
Supporting services:			
Management and general	95,694	-	95,694
Fundraising and development	44,956	-	44,956
Total expenses	944,418	-	944,418
Change in net assets	76,069	-	76,069
Net Assets			
Beginning of year	874,016	-	874,016
End of year	$ 950,085	$ -	$ 950,085

See accompanying accountant's compilation report and notes

MERCY PROJECTS

Statement of Functional Expenses

For the Year Ended December 31, 2025

	Program Services	Supporting Services		
	Ministry	Management And General	Fundraising and Development	Total Expenditures
Salaries and wages	$ 117,011	$ 32,694	$ 22,370	$ 172,075
Payroll taxes	7,802	2,179	1,492	11,473
Employee benefits	4,253	1,188	813	6,254
Total Salaries and Benefits	129,066	36,061	24,675	189,802
Accounting	-	15,630	-	15,630
Advertising and marketing	-	-	12,528	12,528
Bank and merchant fees	6,396	1,787	1,223	9,406
Conferences and meetings	313	575	60	948
Cost of goods sold	12,126	-	-	12,126
Provision for credit losses	-	31,250	-	31,250
Depreciation	6,400	-	-	6,400
Dues and subscriptions	772	216	148	1,136
Equipment rental	1,673	468	320	2,461
Information technology	4,286	1,198	819	6,303
Insurance	-	888	-	888
Legal	-	10	-	10
Occupancy	10,577	2,955	2,022	15,554
Office supplies	3,626	1,013	693	5,332
Postage and shipping	8,493	2,373	1,624	12,490
Printing and publication	2,732	763	522	4,017
Taxes and fees	1,682	507	322	2,511
Travel	25,198	-	-	25,198
Total Other Operating	84,274	59,633	20,281	164,188
Grants and assistance to others for ministry	602,554	-	-	602,554
Total Expenses	$ 815,894	$ 95,694	$ 44,956	$ 956,544
Less expenses included with revenues on the statement of activities				
Cost of goods sold	(12,126)	-	-	(12,126)
Total expenses included in the expense section on the statement of activities	$ 803,768	$ 95,694	$ 44,956	$ 944,418

See accompanying accountant's compilation report and notes

MERCY PROJECTS
Statement of Cash Flows
For the Year Ended December 31, 2025

Cash Flows from Operating Activities		
Change in net assets	$	76,069
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense		6,400
Provision for credit losses		31,250
Realized and unrealized (gain) loss on operating investments		(14,979)
(Increase) decrease in operating assets:		
Inventory		5,067
Prepaid expenses		35,300
Interest receivable		(34,521)
Increase (decrease) in operating liabilities:		
Accounts payable		(2,028)
Accrued payroll liabilities		7,858
Deferred compensation liability		(50,000)
Net cash provided (used) by operating activities		60,416
Cash Flows from Investing Activities		
Repayment of loans receivable		50,175
Issuance of notes receivable		(550,000)
Sales of investments		460,804
Net cash provided (used) by investing activities		(39,021)
Net increase (decrease) in cash		21,395
Cash and cash equivalents		
Beginning of year		190,524
End of year	$	211,919

See accompanying accountant's compilation report and notes

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.

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

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, 2025, the Organization did not maintain cash on deposit in excess of the FDIC limits or investments in excess of SIPC limits.

Investments
The Organization holds current operating funds in more liquid assets (cash and cash equivalents) and holds long-term assets in investments that will maximize total return with minimal risk to principal (such as fixed income mutual funds and other similar investments). The Organization does not use margin accounts, short-selling, commodities, index futures, options, or the use of derivatives and other alternative investments.

The Organization follows the guidance of ASC 958-320 Not-for-profit entities - Investments in equity and debt securities and ASC 958-325, Not-for-profit entities – Investments – Other. By these standards, including the revised guidance under ASU 2016-01, the Organization has elected to report all portfolio investments at fair value, including the portfolio-wide reporting at fair value which is applied to holdings of endowment funds. Any debt or equity investments acquired at cost are measured at fair value in the Statement of Financial Position, with resulting changes in fair value measurement offset to the investment returns / loss account in the Statement of Activities. These fair value changes are reported within the appropriate class of net assets – with donor restrictions or without donor restrictions – as required by ASC 958-321-15 and ASC 958-220-45, depending on the presence of donor restrictions. The investment returns / loss account includes the aggregate of all realized and unrealized capital gains and losses and dividend income, less external and direct internal investment expenses.

Receivables
Private party notes receivable are carried at amortized cost and an estimate for credit loss is recorded based on expected losses over the life of the financial asset.

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.

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

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

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.

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.

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

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, 2025, 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:

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.

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

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 and presented with accrued payroll liabilities.

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.

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:

Expense	**Method of Allocation**
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

Advertising Costs
Advertising costs are expensed as incurred and were $12,528 for the year ending December 31, 2025.

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	$	211,919
Receivables		602,635
Total	$	814,554

The Organization's policy for liquidity management requires that it structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. Cash more than daily requirements is maintained in a reserve bank account, invested in certificates of deposit and other more liquid marketable securities, as well as invested in notes receivable due from private parties. There are no current donor restricted amounts for the year 2025, which would reduce the financial assets available for general expenditure.

NOTE 3 – RECEIVABLES

Receivables consisted of the following on December 31, 2025:

Receivables		
Current portion		
Officer loan receivable	$	49,364
Interest receivable		34,521
Private company notes receivable		550,000
Estimated allowance for credit loss		(31,250)
Total receivables, net	$	602,635

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 January 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 $50,013 in 2026. During 2025, $50,175 of principal payments were made to result in a total loan receivable balance outstanding as of December 31, 2025, of $49,364.

The schedule of future payments on the officer loan receivable is as follows:

Year	Principal	Interest	Total
2026	$ 49,364	$ 649	$ 50,013

NOTE 3 – RECEIVABLES (continued)

In June 2025, the Organization issued two notes receivable to a private company, Quantum Unity, Inc. in the amounts of $300,000 and $100,000 respectively. In December 2025, the Organization issued a third note receivable to Quantum Unity, Inc. in the amount of $150,000. The Organization has made these investments to generate additional a greater return on funds to expand its program activities.

The $300,000 note bears a rate of interest of 42% per annum and matures in June 2026. Interest-only payments are made in amounts of $10,500 monthly with the entire principal balance of the loan payable in full by June 2026.

The $100,000 note bears a rate of interest of 60% per annum and matures in June 2026. The Organization elected to receive one annual interest payment of $60,000, and repayment of the full principal balance in June 2026. As of December 31, 2025, the loan receivable had accrued interest receivable of $34,521.

The $150,000 note bears a rate of interest of 60% per annum and matures in December 2026. The Organization elected to receive an annual payment of $90,000, and repayment of the full principal balance in December 2026.

No compounding shall apply, and no portion of any unpaid interest shall accrue additional interest. The borrower grants a security interest to the Organization with priority in its assets. In the event of default, the Organization has rights to take possession of the collateral and liquidate it.

As of December 31, 2025, the balance of the principal balance of the notes receivable was $550,000 and is measured at amortized cost. Interest receivable on the notes was $34,521. The Organization has recorded an estimated credit loss in the amount of $31,250.

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

Year	Principal	Interest	Total
2026	$ 550,000	$ 188,979	$ 738,979

NOTE 4 – CONCENTRATION RISK

The Organization holds a note receivable from a single private company, which exposes the Organization to concentration of credit risk. At year-end, the gross note receivable balance was $550,000, reduced by an allowance for credit losses of $31,250, for a net carrying amount of $518,750. The Organization's maximum exposure to credit loss is the gross carrying amount of the note, reduced by amounts expected to be recovered from collateral or other credit enhancements. The note is secured by a security interest in the borrower's assets. Management estimated expected credit losses using a current expected credit loss method based on expected borrower payments, current borrower financial condition, collateral information, and reasonable and supportable forecasts.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2025, consisted of the following:

Property and equipment being depreciated:		
Buildings	$	247,000
Furniture and fixtures		46,458
Improvements		34,251
Machinery and equipment		17,157
Total property and equipment being depreciated		344,866
Accumulated depreciation		(127,146)
Property and equipment, net	$	217,720

The Organization recognized depreciation expense of $6,400 during the year ending December 31, 2025.

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:

Year	Amount
2026	$ 50,000

As of December 31, 2025, the total liability for deferred compensation payable was $50,000.

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, 2025.

NOTE 8 – FOREIGN OPERATIONS

In connection with its ministry abroad, the Organization maintains facilities in Kyiv, Ukraine, and Armenia. As of December 31, 2025, property and equipment in these countries, net of accumulated depreciation, totaled $217,720. Account balances relating to foreign operations are reflected in the financial statements in US dollars.

NOTE 9 – SUBSEQUENT EVENTS

Events after December 31, 2025, have been evaluated through October 29, 2026, the date at which the Organization's financial statements were available to be issued.

In July 2026, the borrower under the Organization's note receivable from a private company defaulted on the note. Management determined that the default resulted solely from conditions that arose after December 31, 2025, and did not provide additional evidence about conditions that existed as of that date. Accordingly, the default has been treated as a nonrecognized subsequent event, and no adjustment has been made to the note receivable or allowance for credit losses reported as of December 31, 2025.

At December 31, 2025, the outstanding balance of the note receivable was $550,000. The Organization cannot reasonably estimate the financial effect of the default as of the date these financial statements were available to be issued.

The war in Ukraine began in February 2022 and continues to influence our ministry there. Donations for Ukraine Relief declined since that time but remained steady during 2025. The war continues unabated, and Mercy Projects continues to conduct teen discipleship, youth camps, and family sponsorship ministries. In addition to those ministries, all conducted in the country by our staff, we organize and deliver Humanitarian Aid to war zones in the country.

A significant expansion was our purchase of a building in Kyiv to provide daycare and education to refugee families. Our staff operates this Learning Center, and the ministry in Ukraine is now:

1. The Learning Center
2. Teen Discipleship ministry
3. Family Sponsorships
4. Relief Aid for war affected families.

In Armenia, the Sustainable Farm Project in Stepanavan expanded to include three cabins for tourists and teams, a new dining hall, and twenty-seven dairy cows. We envision the farm becoming a training center for Christian believers from this Caucasus region.