MERCY-USA FOR AID & DEVELOPMENT, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

AND

SINGLE AUDIT REPORT

YEAR ENDED DECEMBER 31, 2012

Contents

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mercy-USA for Aid and Development, Inc (the Organization) and its overseas operations, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, statement of functional expense and other supplemental information as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2013 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control over financial reporting and compliance.

Alan C. Young & Asso.

Detroit, Michigan
September 20, 2013

Consolidated Statements of Financial Position
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 3,291,369	$ 4,429,330
Pledges & Accounts Receivable	730,988	81,067
Notes Receivable - Micro-Lending/SED	6,000	10,000
Prepaid Insurance & Expenses	10,377	10,037
Total Current Assets	4,038,734	4,530,434
Fixed Assets:		
Building, Vehicles, Furniture & Equipment	1,058,240	214,513
Less: Accumulated Depreciation	(195,656)	(153,418)
Total Fixed Assets	862,584	61,095
Other Assets:		
Security Deposits	500	5,600
Total Other Assets	500	5,600
Total Assets	$ 4,901,818	$ 4,597,129
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	$ 830,944	$ 441,787
Deferred Revenue	356,861	298,311
Tenant Security Deposit	6,625	-
Accrued Payroll & Taxes	353	333
Advance Rent	1,283	-
Total Current Liabilities	1,196,066	740,431
Net Assets:		
Unrestricted	1,535,800	1,503,334
Temporarily Restricted	2,169,952	2,353,364
Total Net Assets	3,705,752	3,856,698
Total Liabilities and Net Assets	$ 4,901,818	$ 4,597,129

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

Mercy-USA for Aid & Development, Inc.

Consolidated Statements of Activities
Years Ended December 31, 2012 and 2011

	2012			2011		
SUPPORT AND REVENUE	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Contributions From Public	$ 333,002	$ 2,305,999	$ 2,639,001	$ 289,949	$ 2,922,376	$ 3,212,325
US Agency for International Development (USAID)	-	3,032,110	3,032,110	-	1,987,460	1,987,460
United Nation (UN) Grants	-	1,620,833	1,620,833	-	850,808	850,808
Global Fund to Fight AIDS, Tuberculosis & Malaria (GFATM) Grants	-	273,899	273,899	-	267,782	267,782
Contribution In-Kind - UN agencies	-	2,099,922	2,099,922	-	744,324	744,324
Rental Income	27,769	-	27,769	-	-	-
Dividend Income	3,458	-	3,458	5,667	-	5,667
Gain on Foreign Currency Fluctuation	19,121	-	19,121	22,541	-	22,541
Gain on Sale of Equipment	110	-	110	-	-	-
Program Fees	1,000	-	1,000	-	-	-
Net Assets Released From Restrictions:						
Satisfaction of Service Restrictions	9,516,175	(9,516,175)	-	6,269,339	(6,269,339)	-
Total Support and Revenue	$ 9,900,635	$ (183,412)	$ 9,717,223	$ 6,587,496	$ 503,411	$ 7,090,907
EXPENSES						
Program Services:						
Food, Shelter and Orphan Assistance	$ 1,224,989	$ -	$ 1,224,989	$ 574,452	$ -	$ 574,452
Economic Vitalization	205,726	-	205,726	265,929	-	265,929
Health	7,528,404	-	7,528,404	5,278,161	-	5,278,161
Education	606,457	-	606,457	446,626	-	446,626
Total Program Services	9,565,576	-	9,565,576	6,565,168	-	6,565,168
Supporting Services:						
Management and General	134,882	-	134,882	121,347	-	121,347
Fund Raising	167,711	-	167,711	207,836	-	207,836
Total Supporting Expenses	302,593	-	302,593	329,183	-	329,183
Total Expenses	9,868,169	-	9,868,169	6,894,351	-	6,894,351
Change In Net Assets	32,466	(183,412)	(150,946)	(306,855)	503,411	196,556
Net Assets - Beginning of Year, as Restated	1,503,334	2,353,364	$3,856,698	1,810,189	1,849,953	$3,660,142
Net Assets - End of Year	$ 1,535,800	$ 2,169,952	$ 3,705,752	$ 1,503,334	$ 2,353,364	$ 3,856,698

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

Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (150,946)	$ 196,556
Adjustments to reconcile Change in Net Asset to Cash Provided by (Used in) Operations:		
Loss (Gain) on Disposal of Assets	(46)	15
Depreciation	53,287	20,561
Change in:		
Repayments from/(Payments for) Notes Receivable	4,000	2,000
Prepaid Insurance and Expenses	(340)	105
Pledges and Accounts Receivable	(649,921)	47,179
Other Assets	5,100	-
Accounts Payable	389,157	175,459
Deferred Revenue	58,550	298,311
Accrued Payroll and Taxes	20	(58,896)
Other Liabilities	7,908	-
Net Cash Provided by (Used in) Operating Activities	(283,231)	681,290
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment/Building	(854,840)	(48,267)
Proceeds from Sale of Assets	110	549
Net Cash Used in Investing Activities	(854,730)	(47,718)
Increase (Decrease) in Cash	(1,137,961)	633,572
Cash and Cash Equivalents - Beginning of Year	4,429,330	3,795,758
Cash and Cash Equivalents - End of Year	$ 3,291,369	$ 4,429,330

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

1) NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Nature of Activity</u>

Mercy-USA for Aid & Development, Inc. (the Organization) is a nonprofit organization exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. It was incorporated in the State of Michigan on September 23, 1988. The organization is also licensed by the States of Michigan, Illinois, New Jersey and California to solicit public funds. Mercy-USA is involved in the relief and development for individuals and communities providing economic vitalization, health care, food and shelter and education mainly in Kenya, Somalia, Bosnia, Indonesia, Lebanon and Albania and also in the United States and other countries around the world with the help of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), United States Agency for International Development (USAID), United Nations Food and Agriculture Organization (FAO), United Nations Children Fund (UNICEF), World Food Program (WFP) and other United Nations grants as well as through public contributions.

<u>Basis of Accounting</u>

The financial statements of Mercy-USA for Aid & Development, Inc. have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The financial statements include the amounts of the Organization and its various overseas locations. All significant inter-branch transactions and accounts are eliminated.

<u>Translation of Currencies</u>

Financial statements in currencies other than United State dollars are revalued for accounting as per FASB Accounting Standards Codification Topic 830, *Foreign Currency Matter*s. The adjustments for currency exchange rates are included in the net income for those transactions that impact cash flow and are excluded for those that do not.

<u>Financial Statement Presentation</u>

In accordance with accounting standards applicable to not-for-profit organizations, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

To ensure proper usage of restricted and unrestricted assets, the Organization maintains its accounting according to fund accounting principles. The assets, liabilities and net assets are classified in accordance with specified restrictions and objectives. The Organization's funds are described below and are placed in the following categories:

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

Unrestricted Fund:

Unrestricted net assets are those currently available for use of the Organization Board, and the resources invested in fixed assets. These assets are accounted for internally in the general operating fund.

Temporarily Restricted Fund:

Temporarily restricted net assets are those assets received with donor stipulations that limit the use of the donated assets. When stipulated time restrictions expire or purpose restrictions are accomplished, these net assets are reclassified as unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The Organization does not have any permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or the nature of any donor restrictions.

Certain restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restrictions.

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in subsequent years are reported at the present value of their net realized value, using risk-free interest rates applicable to the years in which the promises are to be received.

Income Taxes

Accounting Standards Codification Topic, *Accounting for Uncertainty in Income Taxes*, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting interim periods. The Organization's federal tax returns for the prior three years remain subject to examination by the Internal Revenue Service.

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

Grants

Grant support is recognized as revenue when expenditures are incurred for the specific purpose established under the grant agencies.

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 maturity 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 if purchased or, at fair market value when received as contributions. Depreciation is recorded on a straight-line basis over the estimated useful life of the assets. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. Assets with an individual cost of $ 250 and over are capitalized.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2) **CASH AND CASH EQUIVALENTS**

The total cash held by the Organization at December 31, 2012, includes $456,265 not covered by insurance provided by the Federal Deposit Insurance Corporation. As of December 31, 2011 the uninsured amount was $1,038,491. Federal insurance limits decreased on January 1, 2013 to a maximum of $250,000 for all accounts.

3) **PROGRAM AND SUPPORTING SERVICES**

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

Program Services

Economic Vitalization

The provision of ways for needy individuals and their communities to sustain themselves and to improve their quality of life; and assistance in reviving the economies of communities devastated by natural and man-made disasters.

Health Services

The improvement of individual and community health through education, immunization, nutrition support, safe water, hygiene, sanitation and other preventive measures. It also includes the operation or funding of clinics, hospitals, and other health care institutions; improvement, rehabilitation and renovation of the existing health care infrastructure; and the provision of medicines, medical supplies and medical equipment to health care facilities.

Food and Shelter

The provision of all types of food and shelter, winterization materials, and necessary household and personal items.

Orphan Assistance

The orphan assistance includes specific projects or other assistance for orphans around the world.

Education

The improvement of attendance and academic performance, especially among girls, through daily school lunch programs. It also includes construction of school buildings, as well as repairs and renovations to existing schools. Additionally, the provision of vocational and technical training especially to orphans and other vulnerable children and youth.

Management and General

Includes the services necessary to maintain an adequate working environment, provide proper administrative support for the Organization's programs, and manage the financial and budgeting responsibilities of the Organization.

Fundraising

Provides the structure necessary to encourage and secure support from individuals and organizations.

4) CONTRIBUTIONS IN-KIND

These consist of food, medicines and medical supplies etc. provided by UNICEF and World Food Program for distribution to needy people. The amounts recognized in the statement of activities are based on fair value of the goods received at the time of donation. The Organization received $2,099,922 and $744,324 in fiscal years 2012 and 2011, respectively.

5) PLEDGES AND ACCOUNTS RECEIVABLE

Accounts receivable consist of Somalia/Kenya grant funding receivable from the USAID and the United Nations Grant agencies. Details of Accounts Receivable as of December 31, 2012 and 2011 are as follows:

	2012	2011
Grants Receivable	$ 709,527	$ 75,364
Pledges Receivable	21,461	5,703
	$ 730,988	$ 81,067

6) FIXED ASSETS

Fixed assets are comprised of the following:

	2012	2011
Automobiles	$ 75,129	$ 75,129
Office Equipment	133,563	106,199
Office Furniture	11,194	13,301
Audio Visual Equipment	8,464	9,661
Building	820,000	-
Others	9,890	10,223
	1,058,240	214,513
Less: Accumulated Depreciation	(195,656)	(153,418)
Total	$ 862,584	$ 61,095

In fiscal year 2012, the Organization acquired the commercial building that it had been renting for several years in the past at a cost of $ 820,000. As part of the purchase agreement, all other tenant leases were taken over by the Organization.

6) **FIXED ASSETS (Continued)**

The security deposits from all tenants were also transferred to the Organization. No borrowings or loan was obtained towards the purchase of the building. In addition, the Organization had asset disposals of $11,113 resulting in a net gain on disposal of $46.

The depreciation for the years ended December 31, 2012 and 2011 was $ 53,287 and $20,561 respectively.

7) **PENSION PLAN**

The Organization started a 401(k) pension plan on January 1, 2000 for all employees in the headquarters in the USA, who have attained the age of 20 ½ years. Employees may join the plan on January 1 or July 1 that coincides with or follows the date of employment after the completion of one year of service. The employer provides a 50% match on eligible employee contributions to the plan up to a maximum allowable by the plan. The Organization contributed $9,882 in fiscal years 2012 and 2011, respectively, to the plan.

8) **RELATED PARTY TRANSACTIONS**

The Organization partners with Mercy-USA for Aid & Development, (Canada) towards providing relief and development activities. For the years ended December 31, 2012 and 2011 the Organization, collected $68,208 and $38,737 respectively, on behalf of Mercy-USA for Aid & Development, (Canada) and received $87,204 and $61,594, respectively, from Mercy-USA for Aid & Development, (Canada). As at December 31, 2012, an amount of $ 280 was payable to Mercy- USA for Aid and Development, (Canada) and no amount was receivable from them.

9) **TEMPORARILY RESTRICTED NET ASSETS**

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

Purpose restriction accomplished:	
Albania Programs	$ 85,257
Bosnia Programs	91,409
Indonesia Programs	108,436
Lebanon Programs	182,669
Somalia & Kenya Programs	7,559,351
Syria Programs	957,351
Gaza Programs	372,512
Bangladesh Programs	90,136
United States Programs	15,466
India Programs	35,530
Other Programs	18,058
Total Restrictions Released	$ 9,516,175

Temporarily restricted net assets are available for specific programs and have a balance of $2,169,952 and $2,353,364 at December 31, 2012 and 2011 respectively.

10) CONTINGENCY

The Organization is the recipient of several grants. The expenditures for each program are subject to audit by appropriate agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Organization expects such amounts, if any to be immaterial.

11) PRIOR PERIOD ADJUSTMENT

During fiscal year ended December 31, 2012, the Organization identified certain errors in the previously reported temporarily restricted net asset balance which resulted in temporarily restricted net assets being understated by $789,744. Although, the total net assets balance did not change, the balances in Unrestricted and Temporarily restricted net assets for prior years changed. The errors identified related to fiscal year 2011 and prior. To correct this error, a prior period adjustment is made to properly state the beginning net assets for 2011.

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
As Previously Reported at 12/31/2010	$ 2,599,933	$ 1,060,209	$ 3,660,142
Reclassification Adjustment	(789,744)	789,744	-
Amounts as restated, 12/31/2010	$ 1,810,189	$ 1,849,953	$ 3,660,142

12) SUBSEQUENT EVENTS

The Organization has evaluated events through September 20, 2013 the date that the accompanying financial statements were available to be issued. No significant subsequent event was noted that required adjustment or disclosure in the financial statements.

Mercy-USA for Aid & Development, Inc.

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

FEDERAL/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT IDENTIFYING NUMBER	AWARD AMOUNT	EXPENDITURES
U.S. Agency for International Development (USAID)				
Emergency Nutrition and WASH Support Program in Kenya	98.001	AID-OFDA-G-12-00064	$ 1,206,718	$ 687,001
Integrated Health, Nutrition and WASH Project in Somalia	98.001	AID-OFDA-G-11-00145	3,887,639	1,750,236
Nutrition Rehabilitation Services for Children and PLW in Kenya	98.001	AID-OFDA-G-11-00091	865,936	184,956
Integrated Health, Nutrition and WASH Program for Mogadishu IDP	98.001	AID-OFDA-G-11-00250	956,037	409,917
Total Federal Financial Assistance			$ 6,916,330	$ 3,032,110

See Notes to Schedule of Expenditures of Federal Awards.

1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs of Mercy-USA for Aid & Development, Inc. (the Organization) under program of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, cost principles for non-profit organizations, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

3) EXPENDITURE REPORTS

Management has reconciled the expenditures reported in the Schedule of Expenditures of Federal Awards to those amounts reported in the annual or final cost reports.

4) SUBSEQUENT EVENTS

All subsequent events related to the major programs were evaluated through September 20, 2013, the date the accompanying reports were available to be issued. No significant event was noted that required adjustment or disclosure in the accompanying reports.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Mercy-USA for Aid & Development, Inc. (the Organization), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with

Compliance and Other Matters (Continued)

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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alan C. Young & Asso.

Detroit, Michigan
September 20, 2013

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Mercy-USA for Aid & Development, Inc.'s (the Organization) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2012. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Alan C. Young & Asso.

Detroit, Michigan
September 20, 2013

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency (ies) identified	____ Yes	X None reported
• Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major program(s):

• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency (ies) identified	____ Yes	X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	____ Yes	X No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
98.001	U.S. Agency for International Development (USAID) Integrated Health, Nutrition and WASH Program for Somalia, Kenya and Mogadishu and Nutrition Support Program for Kenya and Mogadishu

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

Auditee qualified as low-risk auditee?	____ Yes	X No

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS

No Financial Audit Findings.

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS

No Federal Program Audit Findings

PRIOR YEAR FINDINGS

SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS

None

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS

None

OTHER SUPPLEMENTAL INFORMATION

Mercy-USA for Aid & Development, Inc.

Statement of Functional Expenses
Year Ended December 31, 2012
(With Combined Comparative Totals for 2011)

Expenditures	Food, Shelter & Orphan Assistance	Economic Vitalization	Health	Education	Total Program Services	Management & General	Fund Raising	Total Expenditures	2011 Total Expenditures
Grants	$ 81,014	$ -	$ -	$ 412,975	$ 493,989	$ -	$ -	$ 493,989	$ 608,915
Salaries & Wages	128,874	83,395	1,785,457	57,203	2,054,929	53,790	8,518	2,117,237	1,360,447
Employee Benefits	2,891	14,419	157,176	-	174,486	15,640	-	190,126	99,513
Advertising & Promotion	-	-	-	-	-	810	104,559	105,369	146,049
Transportation Expenses	6,750	13,325	910,381	4,296	934,752	1,055	-	935,807	840,901
Commercial Insurance	-	-	-	-	-	1,877	-	1,877	1,483
Conference, Meeting & Seminars	1,960	449	2,008	-	4,417	685	-	5,102	2,834
Consultants & Other Professional Services	5,200	1,605	6,000	10,047	22,852	1,564	1,100	25,516	65,114
Dues, Subscriptions, Fees, etc.	6,388	-	164	-	6,552	3,033	-	9,585	3,475
Legal	2,620	1,679	290	-	4,589	330	-	4,919	6,022
Accounting	-	-	23,475	-	23,475	3,417	-	26,892	14,300
Occupancy & Warehousing	5,219	7,242	143,134	7,316	162,911	5,499	-	168,410	121,740
Postage & Shipping, etc.	-	432	2,662	381	3,475	4,185	5,899	13,559	25,217
Printing & Copying	953	119	504	267	1,843	1,324	12,961	16,128	14,124
Program Materials	869,256	48,419	3,751,860	72,818	4,742,353	-	-	4,742,353	2,854,442
Telephone	2,043	2,630	60,896	1,563	67,132	2,843	-	69,975	52,853
Travel	50,924	15,487	178,715	4,244	249,370	2,057	7,056	258,483	124,952
Bank Charges/Currency Adjustment	14,471	1,254	59,939	1,293	76,957	493	27,618	105,068	105,285
Office Supplies and Equipment	2,995	2,580	113,133	1,237	119,945	2,984	-	122,929	83,768
Payroll Taxes	-	-	1,435	-	1,435	4,139	-	5,574	4,849
Loss on Sale of Assets	-	-	-	-	-	64	-	64	15
Indirect cost	43,431	10,724	310,306	31,459	395,920	-	-	395,920	337,492
Depreciation	-	1,967	20,869	1,358	24,194	29,093	-	53,287	20,561
Total	$ 1,224,989	$ 205,726	$ 7,528,404	$ 606,457	$ 9,565,576	$ 134,882	$ 167,711	$ 9,868,169	$ 6,894,351

Mercy-USA for Aid & Development, Inc.

Supplemental Statement of Revenue and Program Expenses
Year Ended December 31, 2012
(With Combined Comparative Totals for 2011

	ALBANIA	LEBANON*	BOSNIA	INDONESIA	SOMALIA & KENYA	SYRIA	BANGLADESH	GAZA	INDIA	USA	OTHERS**	NOT DESIGNATED	TOTAL	TOTAL 2011
REVENUES														
Contributions from Public:														
General	$ 5,810	$ 5,487	$ 3,179	$ 3,060	$ 222,531	$ 880,788	$ 9,246	$ 18,968	$ 3,695	$ 466	$ 39,604	$ 333,002	$ 1,525,836	$ 2,262,703
Food Aid	10,000	28,000	10,000	16,000	58,633	72,448	19,000	-	14,000	15,000	14,587	-	257,668	227,271
Orphan Fund	10,540	50	4,956	950	2,100	-	-	-	-	-	-	-	18,596	18,809
Zakat	60,000	150,000	5,000	30,000	25,000	335,414	10,000	200,000	17,000	-	4,487	-	836,901	703,542
US Government Grants														
US Agency for International Development (USAID)	-	-	-	-	3,032,110	-	-	-	-	-	-	-	3,032,110	1,987,460
United Nations (UN) Grants	-	-	-	-	1,620,833	-	-	-	-	-	-	-	1,620,833	850,808
Global Fund to Fight AIDS, Tuberculosis & Malaria (GFATM) Grants	-	-	-	-	273,899	-	-	-	-	-	-	-	273,899	267,782
Gifts In Kind - UN Agencies	-	-	-	-	2,099,922	-	-	-	-	-	-	-	2,099,922	744,324
Rental Income	-	-	-	-	-	-	-	-	-	-	-	27,769	27,769	-
Dividend Income	-	-	-	-	-	-	-	-	-	-	-	3,458	3,458	5,667
Gain/Loss on Foreign Currency Fluctuation	-	-	-	-	-	-	-	-	-	-	-	19,121	19,121	22,541
Gain/Loss on Sale of Equipment	-	-	-	-	-	-	-	-	-	-	-	110	110	-
Program Fees	-	-	-	-	-	-	-	-	-	-	-	1,000	1,000	-
Total Revenues	$ 86,350	$ 183,537	$ 23,135	$ 50,010	$ 7,335,028	$ 1,288,650	$ 38,246	$ 218,968	$ 34,695	$ 15,466	$ 58,678	$ 384,460	$ 9,717,223	$ 7,090,907
EXPENDITURES														
Program Services:														
Food, Shelter & Orphan Assistance	$ 14,842	$ 58,494	$ 14,707	$ 20,784	$ 113,208	$ 917,120	$ 19,927	$ -	$ 35,530	$ 15,675	$ 14,702	$ -	$ 1,224,989	$ 574,452
Economic Vitalization	8,909	-	61,110	135,707	-	-	-	-	-	-	-	-	205,726	265,929
Health	-	59,408	-	-	7,425,409	40,231	-	-	-	-	3,356	-	7,528,404	5,278,161
Education	61,506	64,767	15,592	1,137	20,734	-	70,209	372,512	-	-	-	-	606,457	446,626
Total Program Services	$ 85,257	$ 182,669	$ 91,409	$ 157,628	$ 7,559,351	$ 957,351	$ 90,136	$ 372,512	$ 35,530	$ 15,675	$ 18,058	$ -	$ 9,565,576	$ 6,565,168

* Includes Palestinian refugees in Lebanon.
** Includes Egypt, Libya, Yemen and Pakistan

Mercy-USA for Aid & Development, Inc.

Indirect Cost Allocation
Year Ended December 31, 2012

Expenditures	Total Cost	Allowable Indirect	Unallowable Indirect	Fund Raising Cost	Program Cost	Excluded Program Cost*	Total Direct Cost
Grants	$ 493,989	$ -	$ -	$ -	$ 493,989	$ -	$ 493,989
Salaries & Wages	2,117,237	53,790	-	8,518	2,054,929	-	2,063,447
Employee Benefits	190,126	15,640	-	-	174,486	-	174,486
Advertising & Promotion	105,369	810	-	104,559	-	-	104,559
Transportation Expenses	935,807	1,055	-	-	934,752	-	934,752
Commercial Insurance	1,877	1,877	-	-	-	-	-
Conference, Meetings & Seminars	5,102	685	-	-	4,417	-	4,417
Consultants & Other Professional Services	25,516	1,564	-	1,100	22,852	-	23,952
Dues, Subscription, Fees etc.	9,585	3,033	-	-	6,552	-	6,552
Legal	4,919	330	-	-	4,589	-	4,589
Accounting	26,892	3,417	-	-	23,475	-	23,475
Occupancy & Warehousing	168,410	5,499	-	-	162,911	-	162,911
Postage & Shipping	13,559	4,185	-	5,899	3,475	-	9,374
Printing & Copying	16,128	1,324	-	12,961	1,843	-	14,804
Program Materials	4,742,353	-	-	-	4,742,353	2,099,922	2,642,431
Telephone	69,975	2,843	-	-	67,132	-	67,132
Travel	258,483	2,057	-	7,056	249,370	-	256,426
Bank Charges/Currency Adjustment	105,068	493	-	27,618	76,957	-	104,575
Office Supplies & Equipment	122,929	2,984	-	-	119,945	-	119,945
Payroll Taxes	5,574	4,139	-	-	1,435	-	1,435
Loss on Sale of Assets	64	-	64	-	-	-	-
Indirect Cost	395,920	-	-	-	395,920	-	395,920
Depreciation	53,287	29,093	-	-	24,194	-	24,194
Total	9,868,169	134,818	64	167,711	9,565,576	2,099,922	7,633,365
Reclassify Overhead Charged to Program Costs	-	395,920	-	-	-	-	(395,920)
Total	$ 9,868,169	$ 530,738	$ 64	$ 167,711	$ 9,565,576	$ 2,099,922	$ 7,237,445

Base = Total Direct Cost	
Pool Cost	$ 530,738
Base Cost	$ 7,237,445
Indirect Rate	7.33%

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