

PROJECT MERCY, INC.

FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017



A Limited Liability Company
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Project Mercy, Inc.
Fort Wayne, Indiana

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying combined financial statements of PROJECT MERCY, INC. (a non-profit organization) which comprise the statement of financial position as of December 31, 2018 and 2017, and the related 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 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 from the financial statements.

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

Basis for Qualified Opinion

As discussed in Note A-2 to the financial statements, the accompanying combined financial statements do not include certain assets, liabilities, net assets, revenues and expenses of overseas operations in Ethiopia. In our opinion, generally accepted accounting principles require that such operations be included in the combined financial statements of PROJECT MERCY, INC. as of December 31, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of not reporting the overseas operations as discussed in the preceding paragraph, the combined financial statements referred to above present fairly, in all material respects, the financial position of PROJECT MERCY, INC. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A-14 to the financial statements, as of and for the years ended December 31, 2018 and 2017, Project Mercy, Inc. adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.



THE SEIGEL GROUP, LLC
Certified Public Accountants
Auburn, Indiana

April 24, 2019

PROJECT MERCY, INC.

Combined Statements of Financial Position
As of December 31, 2018 and December 31, 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS:</u>		
Cash - Unrestricted	\$ 1,672,352.26	\$ 1,488,854.15
Cash - Restricted	1,660,089.63	1,483,815.68
Prepaid expenses	18,937.18	644.20
Inventory	20,875.00	16,150.00
Donated assets	47,308.00	47,308.00
Property, equipment and improvements, net	53,950.15	44,814.63
Total Assets	<u>\$ 3,473,512.22</u>	<u>\$ 3,081,586.66</u>
<u>LIABILITIES:</u>		
Accounts payable - Trade	\$ 8,889.54	\$ 5,174.96
Payroll taxes and withholdings payable	6,310.69	2,255.56
Total Liabilities	<u>\$ 15,200.23</u>	<u>\$ 7,430.52</u>
<u>NET ASSETS:</u>		
Without donor restrictions	\$ 1,750,914.36	\$ 1,543,032.46
With donor restrictions	1,707,397.63	1,531,123.68
Total Net Assets	<u>\$ 3,458,311.99</u>	<u>\$ 3,074,156.14</u>
Total Liabilities and Net Assets	<u>\$ 3,473,512.22</u>	<u>\$ 3,081,586.66</u>

THE SEIGEL GROUP

The accompanying notes are an integral part of the financial statements.
See Independent Auditors' Report.

PROJECT MERCY, INC.

Combined Statement of Activities
Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Support and Revenue:</u>			
Grants and contributions	\$ 1,521,540.89	\$ 388,041.01	\$ 1,909,581.90
Merchandise sales	5,754.00	-	5,754.00
Interest and dividend income	13,144.09	-	13,144.09
Miscellaneous income	214.38	-	214.38
In-kind gifts	55,751.10	-	55,751.10
Realized gain (loss) on investments	(122.02)	-	(122.02)
Realized gain (loss) on sale of assets	(73.70)	-	(73.70)
Net assets released from restrictions	<u>211,767.06</u>	<u>(211,767.06)</u>	<u>-</u>
 Total Revenue and Other Support	 \$ 1,807,975.80	 \$ 176,273.95	 \$ 1,984,249.75
 <u>Expenses:</u>			
Overseas program	\$ 1,054,282.39	\$ -	\$ 1,054,282.39
Management	401,669.73	-	401,669.73
Fundraising	<u>144,141.78</u>	<u>-</u>	<u>144,141.78</u>
 Total Expenses	 \$ 1,600,093.90	 \$ -	 \$ 1,600,093.90
 <u>Change in Net Assets</u>	 \$ 207,881.90	 \$ 176,273.95	 \$ 384,155.85
 <u>Net Assets, December 31, 2017</u>	 <u>1,543,032.46</u>	 <u>1,531,123.68</u>	 <u>3,074,156.14</u>
 <u>Net Assets, December 31, 2018</u>	 <u>\$ 1,750,914.36</u>	 <u>\$ 1,707,397.63</u>	 <u>\$ 3,458,311.99</u>

THE SEIGEL GROUP

The accompanying notes are an integral part of the financial statements.
See Independent Auditors' Report.

PROJECT MERCY, INC.

Combined Statement of Activities
Year Ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Support and Revenue:</u>			
Grants and contributions	\$ 1,618,875.52	\$ 195,072.84	\$ 1,813,948.36
Merchandise sales	9,489.00	-	9,489.00
Interest and dividend income	5,947.47	-	5,947.47
Miscellaneous income	8,818.49	-	8,818.49
In-kind gifts	90,390.00	6,000.00	96,390.00
Realized gain (loss) on investments	(399.01)	-	(399.01)
Net assets released from restrictions	181,988.62	(181,988.62)	-
	<hr/>	<hr/>	<hr/>
Total Revenue and Other Support	\$ 1,915,110.09	\$ 19,084.22	\$ 1,934,194.31
	<hr/>	<hr/>	<hr/>
<u>Expenses:</u>			
Overseas program	\$ 1,335,597.09	\$ -	\$ 1,335,597.09
Management	417,630.95	-	417,630.95
Fundraising	128,399.31	-	128,399.31
	<hr/>	<hr/>	<hr/>
Total Expenses	\$ 1,881,627.35	\$ -	\$ 1,881,627.35
	<hr/>	<hr/>	<hr/>
<u>Change in Net Assets</u>	\$ 33,482.74	\$ 19,084.22	\$ 52,566.96
	<hr/>	<hr/>	<hr/>
<u>Net Assets, December 31, 2016</u>	1,509,549.72	1,512,039.46	3,021,589.18
	<hr/>	<hr/>	<hr/>
<u>Net Assets, December 31, 2017</u>	\$ 1,543,032.46	\$ 1,531,123.68	\$ 3,074,156.14
	<hr/>	<hr/>	<hr/>

THE SEIGEL GROUP

The accompanying notes are an integral part of the financial statements.
See Independent Auditors' Report.

PROJECT MERCY, INC.

**Combined Statement of Functional Expenses
Year Ended December 31, 2018**

	Overseas Program	Management	Fundraising	Total
Accounting services	\$ -	\$ 62,024.85	\$ -	\$ 62,024.85
Bank service charge	5,129.96	-	-	5,129.96
Computer services	-	76,837.80	-	76,837.80
Consulting services	-	3,500.00	4,500.00	8,000.00
Depreciation	3,290.90	1,265.72	506.30	5,062.92
Dues and donations	700.00	400.00	-	1,100.00
Ethiopia operations and capital	832,457.95	-	-	832,457.95
Employee benefits - 403(b) match	3,352.21	3,884.73	1,961.14	9,198.08
Evangelism	13,616.00	-	-	13,616.00
Insurance - General	-	3,971.04	-	3,971.04
Insurance - Group	13,172.04	30,505.36	14,752.67	58,430.07
Legal services	-	946.20	-	946.20
Meals and meetings	-	12,341.77	476.74	12,818.51
Miscellaneous	26.99	246.09	-	273.08
Office expense	-	2,841.04	-	2,841.04
Payroll taxes	10,064.19	10,476.69	6,695.35	27,236.23
Postage and mailing fees	7,999.61	-	-	7,999.61
Printing and publicity	-	-	11,224.99	11,224.99
Registration fees	55.00	-	3,533.05	3,588.05
Rent, storage and utilities	15,000.00	35,044.82	-	50,044.82
Repair and maintenance	-	7,072.59	-	7,072.59
Salaries and wages	128,120.35	131,893.70	84,093.65	344,107.70
Security	-	904.89	-	904.89
Taxes - Property	-	13,172.40	-	13,172.40
Telephone	2,440.54	2,736.32	2,411.84	7,588.70
Trash removal	-	624.22	-	624.22
Travel & mileage	18,856.65	979.50	13,986.05	33,822.20
	<u>\$ 1,054,282.39</u>	<u>\$ 401,669.73</u>	<u>\$ 144,141.78</u>	<u>\$ 1,600,093.90</u>

THE SEIGEL GROUP

The accompanying notes are an integral part of the financial statements.
See Independent Auditors' Report.

PROJECT MERCY, INC.

Combined Statement of Functional Expenses
Year Ended December 31, 2017

	Overseas Program	Management	Fundraising	Total
Accounting services	\$ -	\$ 49,513.76	\$ -	\$ 49,513.76
Bank service charge	4,427.95	-	-	4,427.95
Computer services	-	110,463.94	-	110,463.94
Depreciation	2,683.81	1,032.20	412.90	4,128.91
Dues and donations	1,040.00	700.00	-	1,740.00
Ethiopia operations and capital	1,106,169.35	-	-	1,106,169.35
Employee benefits - 403(b) match	4,141.11	3,873.12	2,313.06	10,327.29
Evangelism	17,016.00	-	-	17,016.00
Insurance - General	-	3,875.53	-	3,875.53
Insurance - Group	16,290.38	36,467.38	18,245.20	71,002.96
Legal services	1,115.00	425.00	-	1,540.00
Meals and meetings	13.97	970.06	373.59	1,357.62
Miscellaneous	-	142.11	-	142.11
Office expense	119.70	1,672.27	-	1,791.97
Payroll taxes	11,763.16	11,611.04	7,005.97	30,380.17
Postage and mailing fees	8,526.97	-	-	8,526.97
Printing and publicity	1,032.50	-	9,427.50	10,460.00
Registration fees	-	-	3,487.83	3,487.83
Rent, storage and utilities	15,000.00	36,314.19	-	51,314.19
Repair and maintenance	-	7,814.04	-	7,814.04
Salaries and wages	138,432.21	135,745.55	80,053.34	354,231.10
Security	-	432.00	-	432.00
Taxes - Property	-	12,925.80	-	12,925.80
Telephone	2,102.11	2,768.81	2,102.15	6,973.07
Trash removal	-	572.48	-	572.48
Travel & mileage	5,722.87	311.67	4,977.77	11,012.31
	<u>\$ 1,335,597.09</u>	<u>\$ 417,630.95</u>	<u>\$ 128,399.31</u>	<u>\$ 1,881,627.35</u>

THE SEIGEL GROUP

The accompanying notes are an integral part of the financial statements.
See Independent Auditors' Report.

PROJECT MERCY, INC.

Combined Statements of Cash Flows
For Years Ended December 31, 2018 and December 31, 2017

	2018	2017
<u>Cash Flows Provided From (Used For) Operating Activities:</u>		
Change in net assets	\$ 384,155.85	\$ 52,566.96
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	5,062.92	4,128.91
Non-cash contribution of securities	(9,028.35)	(9,680.24)
Non-cash contribution of tangible assets	-	(6,000.00)
Realized (gain) loss on investments	174.36	399.02
Realized (gain) loss on sale of assets	73.70	-
Proceeds from sale of donated securities	8,853.99	18,945.97
 (Increase) decrease in operating assets:		
Prepaid expenses	(18,292.98)	-
Inventory	(4,725.00)	7,087.50
 Increase (decrease) in operating liabilities:		
Accounts payable - Trade	3,714.58	(10,238.30)
Other liabilities	4,055.13	(4,036.99)
 Net Cash Provided From (Used For) Operating Activities	\$ 374,044.20	\$ 53,172.83
 <u>Cash Flows Provided From (Used for) Investing Activities:</u>		
Purchase of office equipment	\$ (14,272.14)	\$ -
 Net Cash Provided From (Used For) Investing Activities	\$ (14,272.14)	\$ -
 <u>Cash Flows Provided From (Used For) Financing Activities:</u>	-	-
 Net Increase (Decrease) In Cash	\$ 359,772.06	\$ 53,172.83
 <u>Beginning Cash</u>	2,972,669.83	2,919,497.00
 <u>Ending Cash</u>	<u>\$ 3,332,441.89</u>	<u>\$ 2,972,669.83</u>

THE SEIGEL GROUP

The accompanying notes are an integral part of the financial statements.
See Independent Auditors' Report.

PROJECT MERCY, INC.

Notes to Financial Statements
December 31, 2018 and December 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

1. **Purpose and Ministry Outreach:**

The vision of Project Mercy is to “renew the heart of a nation by freeing people from physical and spiritual poverty”. Their mission is to transform how people live and think and build strong, self-sufficient communities in Ethiopia and beyond through new knowledge, better health, sustainable food sources and strengthened character for all people as a living example of the love of Jesus Christ. This international ministry was started in 1977 to provide emergency relief and relocation assistance to Ethiopian refugees. At its peak, the ministry grew to reach seven countries in Africa with its focus on assisting displaced refugees in Djibouti, Guinea, Ivory Coast, Kenya, Liberia, Malawi, and Sudan. In 1993 the Organization shifted its focus to creating a Relief and Development model that can be used by others to help break the cycle of famine and poverty in communities. They have taken an integrated and holistic community development approach in aiding rural communities in Ethiopia with a variety of programs to address both the physical and spiritual needs of the areas.

Project Mercy operates the Glenn C. Olsen Primary General Hospital, which provides surgical procedures, pediatric and labor wards and diagnostic services for those within the Yetebon community and surrounding area. To date, the facility has serviced more than 84,000 patients and performed hundreds of surgeries, including those performed by volunteer medical teams. Additionally, community health related instructions are delivered on topics such as personal hygiene and sanitation, nutrition, communicable and non-communicable disease control hits/tips, etc. by the hospital. People come from far away due to the excellent care provided, such that it services an area with approximately 1.5 million people. Patients in the hospital voluntarily receive prayers from nurses and/or doctors as part of their holistic care and service.

The Medhane-Alem School has roughly 1650 students enrolled in Pre-Kindergarten through grade 12, and there are over two hundred graduates of the high school who are currently enrolled in various universities within Ethiopia or graduated and serving their country. The School Meal Program also provides two meals per school day to students in Pre-K to 8th grade. Where Project Mercy’s school was the first ever and only opportunity for children to receive formal education in the area, there are now five additional schools serving the rural villages in and around Yetebon. Project Mercy supports some of these additional schools with enhancements like new buildings to improve the quality of learning.

Many of the students give back to the community by teaching literacy, HIV/AIDS prevention, family planning, basic arithmetic and back yard gardening to families in the hard to reach mountain areas surrounding Yetebon. Thousands of people have benefited from this initiative, and more than 9,000 can now read and write for the first time because of these programs.

A Health Science College was opened in the fall of 2014 which provides training in midwifery. The goal is to train new midwives through an intense and accelerated one-year program and provide short-term (5 to 10 day) training for current, in-service, health care professionals. At the end of its first year, the Health Science College successfully graduated 100% of its students – all of whom passed the Certification of Competency (COC) exams administered by the government. The second cohort of 52 students was enrolled in the early spring of 2016. At the conclusion of the one-year accelerated program for Midwifery (for those students that had already attended a three-year Clinical Nursing curriculum), forty-three out of the fifty-one graduates achieved the highest ranking of COC Level 4 certification. Graduations for the second cohort were held in the Fall of 2017. The third cohort of 43 students started class the first quarter of 2018 and will graduate in the summer of 2019.

PROJECT MERCY, INC.

Notes to Financial Statements
December 31, 2018 and December 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

A Skills Enhancement Program is empowering women and men from the community by training them in marketable skills that they can use to earn an income. Women are being trained in traditional spinning of cotton, weaving baskets and creating embroidered table linens. Men are learning masonry, construction material fabrication, carpentry and metal working. In addition to learning a valuable trade, every individual enrolled in our Skills Enhancement Program must also learn basic reading, writing, and arithmetic. It is important to teach them these skills to help them make a better living and eventually run their own businesses.

Additional funding and expertise continue to be invested in a Dairy Cattle Breeding Program, which is dramatically increasing the milk production through successful crossbreeding and artificial insemination. Barns have been constructed on the 350-acre site in Cha Cha, Ethiopia, the new water well was made operational, and equipment is in place to also plant and assist with crop management. Local, poor farmer families receive a cross-bred heifer when that heifer is six months pregnant. After caring for and getting acclimated with their new heifer for approximately three months, beneficiaries start enjoying nutritional and financial benefits of having an animal that gives more than four times the daily milk yield vs indigenous cows. Since the beginning of distribution until now, 113 families have received a crossbred heifer...35 of whom took their heifer home in 2018.

2. Principles of Combination:

The combined financial statements currently do not include the assets, liabilities, net assets, revenues and expenses of the overseas operations in Ethiopia. Under the American Institute of Certified Public Accountants ASC topic 958 (formerly Statement of Position 94-3) consolidation is required when both economic interest and control tests are met. The economic interest exists because Project Mercy in the United States provides substantial resources for the operations in Ethiopia, while control is present due to effective board oversight.

3. Basis of Accounting and Reporting Periods:

The accounts of the Organization are maintained on the accrual basis for financial reporting purposes. This summary of the Organization's significant accounting policies is presented to aid the reader in understanding and assessing the financial statements. These policies are in conformity with accounting principles generally accepted in the United States of America and have been applied consistently in all material respects.

4. Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Organization defines cash and cash equivalents as all highly liquid investments available for current use with an initial maturity of three months or less.

5. Contributions:

Individuals, businesses, churches, and foundations make contributions. Contributions are recognized when a donor makes a promise to give to the Organization without conditions. Unconditional promises to give are recorded at their net realizable value. Contributions having donor restrictions are reported as increases in net assets with donor restrictions. Upon the expiration of a restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Project Mercy reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

PROJECT MERCY, INC.

Notes to Financial Statements
December 31, 2018 and December 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

6. **Receivables and Uncollectible Accounts:**

The Organization uses the allowance method to determine the amount of uncollectible pledges receivable. Such method is based on both prior years' experience and analysis by management of the specific pledges made. There were no pledges receivables at either fiscal year ended December 31, 2018 or December 31, 2017.

7. **Inventory:**

Inventories are valued at the lower of cost or net realizable value using the average cost method of valuation. Inventories consist of baskets and bracelets and other jewelry items for sale that are manufactured by skilled artisans in Ethiopia.

8. **Property and Depreciation:**

Office equipment and furniture are recorded at cost and are being depreciated over an estimated useful life for financial statement purposes of five to ten years using the straight-line method of depreciation. Vehicles are being depreciated over five years. Donated assets are recorded at their estimated fair market values on the date of the donation. Assets donated with explicit restrictions regarding their use and cash contributions restricted for the purpose of acquiring property and equipment are recorded as restricted assets. The Organization currently operates using a capitalization limit of \$1,000.

The Organization reports expirations of donor restrictions when the property and equipment specified by the various donors are placed in service, and donor restricted net assets is reclassified to unrestricted net assets at that time. Expenditures for maintenance and repairs are charged to operations as incurred.

9. **Investments:**

Investments consist of individual stocks with readily determinable fair values that were contributed by donors. They are valued at fair market value on December 31, 2018 and December 31, 2017 in the statements of financial position. Unrealized gains and losses are included in the changes in net assets. Investment income is considered unrestricted whether or not the underlying assets are unrestricted or donor restricted. At the end of 2015 the Board voted and established a policy to liquidate all donated securities within three days of receipt. All securities on hand at the time of this decision were also liquidated.

10. **Income Taxes:**

Income taxes are not provided for in the financial statements since the Organization is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Management evaluates all tax positions taken or expected to be taken on its annual information returns, including the position that the Organization continues to qualify to be treated as a 501(c)(3) organization for both federal and state purposes. For the years ended December 31, 2018 and December 31, 2017, management does not feel it has taken any tax positions that would not be sustained under examination. Therefore, no interest or penalties have been accrued or charged to expense as of December 31, 2018 and December 31, 2017, or the years then ended.

The annual information returns for the Organization are subject to examination by taxing authorities for a period of three years from the date they are filed.

PROJECT MERCY, INC.

Notes to Financial Statements
December 31, 2018 and December 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

11. Estimates:

The preparation of these 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.

12. Functional Expenses:

The Organization has allocated expenses for programs, management and general, and fundraising on a functional basis in the statement of activities. Accordingly, certain costs have been allocated based on estimates of personnel time, space and usage of supplies.

13. Subsequent Events:

The Company did not have any reportable subsequent events through April 24, 2019, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended December 31, 2018.

14. Accounting Pronouncements Adopted:

In August 2016, the FASB issued (ASU) 2016-14, *Not-for-Profit Entities: Topic 958*. The amendments in this Update affect not-for-profit entities (NFPs) and the users of their general-purpose financial statements. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources. Project Mercy implemented this ASU effective for the year ended December 31, 2018. The comparative financials for the year ended December 31, 2017 have also been presented under (ASU) 2016-14 for comparative purposes.

15. Recent Accounting Pronouncements:

In February 2016, the FASB issued (ASU) 2016-02, *Leases*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018. Project Mercy has not yet implemented this ASU.

NOTE B - EXCESS CASH DEPOSITS:

The organization had funds on deposit that exceeded the federally insured limit of \$250,000 per financial institution at December 31, 2018 and December 31, 2017. At such dates the uninsured cash balances totaled \$2,154,772 and \$1,815,931 respectively.

PROJECT MERCY, INC.

Notes to Financial Statements
December 31, 2018 and December 31, 2017

NOTE C – LIQUIDITY AND AVAILABILITY:

Financial assets available for general expenditure (that is assets without donor or other restrictions limiting their use) within one year of the balance sheet date are \$1,672,352 in unrestricted cash.

Project Mercy's liquidity policy is to keep in unrestricted reserves nine months of expenses based upon the current year's approved net operating expense budget for both U.S. and Ethiopian operations. This policy is a cash management guideline only and is not designed to limit authorized and necessary spending on operations but to alert the board of potential risks so appropriate action can be taken. In 2018, Project Mercy's expenses including the funds sent overseas were \$1,603,694 which can be covered by the cash reserves. Project Mercy does not currently have any debt that would require cash payouts.

NOTE D - INVESTMENTS:

Investments in marketable securities with readily determinable fair values are so valued in the Statement of Financial Position. Investments are stated at fair value of \$0 at December 31, 2018 and at \$0 at December 31, 2017.

NOTE E - PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at December 31, 2018 and December 31, 2017:

	<u>Dec 31, 2018</u>	<u>Dec 31, 2017</u>
Furniture, fixtures and equipment	\$ 48,217	\$ 53,091
Leasehold improvements	54,500	54,500
Transportation equipment	23,943	23,943
	<u>\$ 126,660</u>	<u>\$ 131,534</u>
<u>Less:</u> Accumulated depreciation	72,710	86,719
	<u>\$ 53,950</u>	<u>\$ 44,815</u>

NOTE F - IN-KIND DONATIONS:

A number of unpaid volunteers have made generous contributions of their time with various clerical and ministry-related functions. The value of this contributed time is not reflected in the statements since it is not susceptible to objective measurement or valuation.

In-kind donations are received by the Organization and are included as both a contribution and an expense in the financial statements at donor cost. In-kind contributions included in these financial statements at December 31, 2018 were \$55,751 and consisted of professional services for accounting and IT. In-kind contributions included in these financial statements at December 31, 2017 were \$96,390 and consisted of \$90,390 of professional services for accounting and IT as well as a manual hay baler to be shipped to Ethiopia valued at \$6,000.

The contributed services are valued at \$55,751 and \$90,390 for the years ended December 31, 2018 and December 31, 2017 respectively. Various equipment and furnishings for use in different programs in Ethiopia are currently being stored at Project Mercy until they can be shipped overseas. The total value of these items was \$47,308 at both December 31, 2018 and December 31, 2017.

PROJECT MERCY, INC.

Notes to Financial Statements
December 31, 2018 and December 31, 2017

NOTE G - CONCENTRATIONS:

Two board members gave the Organization both personally and through a foundation amounts totaling 10.0% of contributions and a member of the finance committee gave 11.1% of contributions for the year ended December 31, 2018. These same board members gave the Organization both personally and through a controlled family foundation amounts totaling 19.9% of contributions for the year ended December 31, 2017.

Two charitable foundations gave grants to the Organization of 16.2% and 10.5% of total contributions for the year ended December 31, 2018. Altogether, these five contributors gave 47.8% of contributions received in 2018.

NOTE H - DONOR RESTRICTED NET ASSETS:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes by donors during the years ended December 31, 2018 and December 31, 2017. The restrictions that were satisfied were essentially funds forwarded to overseas projects, primarily for the Yetebon Health Center and Clinic and the related staff housing facilities, for the high school and other community schools, for the orphan care institute, for the cattle breeding program, for craft projects, for food and other basic necessities, and for evangelism and ministry outreach.

Donor restricted net assets exist at December 31, 2018 and December 31, 2017 in the amounts of \$1,707,398 and \$1,531,124 respectively. Such balances consist primarily of funds for specific Ethiopian projects, which are now in process or construction scheduled for the near future. During 2018, a donor who had given a restricted gift for the Legatafo Project requested that half of the gift be moved to the Social Media/Donor Engagement project and the remaining half be returned to the donor as shown in the reclass column of the following table. A summary of changes in donor restricted net assets is as follows:

PROJECT MERCY, INC.

Notes to Financial Statements
December 31, 2018 and December 31, 2017

NOTE H - DONOR RESTRICTED NET ASSETS (continued):

<u>Restriction Description</u>	<u>12/31/2017</u>	<u>Contribution</u>	<u>Met Restriction</u>	<u>Reclass</u>	<u>12/31/2018</u>
African Language Bible	600	-	-	-	600
Flood Relief	22,000	-	-	-	22,000
Food/Famine Relief	3,915	10	(3,925)	-	-
Medical Support	892	500	(1,276)	-	115
Support for Mother of Triplets	1,800	-	-	-	1,800
Food Baskets/House kids	650	3,000	-	-	3,650
Designated support	22,896	-	-	-	22,896
Travel Support Fund	1,500	-	(1,500)	-	-
Finance Accountant	35,922	40,000	(46,918)	-	29,004
Volunteer support	7,510	9,705	(10,884)	-	6,331
Legatafo Project	335,454	-	-	(170,966)	164,488
Legatafo - Septic	9,764	-	-	-	9,764
Legatafo - Electric	20,000	-	-	-	20,000
Miconazole Distribution	494	-	-	-	494
Student Clinic at the School	19,405	18,590	(2,667)	-	35,328
Hospital Residences	88,388	-	-	-	88,388
HSC Facilities	57,158	-	-	-	57,158
Medhane-Alem School	181,606	-	-	-	181,606
Scholarships	8,000	500	(6,614)	-	1,886
Tractor	-	60,000	-	-	60,000
Water Project Phase II	132,221	-	-	-	132,221
Yetabon Pump House	4,931	-	-	-	4,931
Water Well Phase II - Legatafo	6,829	-	-	-	6,829
Cha Cha Breeding Program	98,873	-	-	-	98,873
Dairy Herd Expansion	45,051	35,000	(4,314)	-	75,737
Cattle Barn	-	150,000	-	-	150,000
High School	214,000	-	-	-	214,000
Medhane-Alem New Class Rooms	100,000	55,000	-	-	155,000
Fiber Optic Cable Project	40,000	-	-	-	40,000
Birthing Mothers Care Assessments	2,533	6,185	-	-	8,718
Mandated Salary Increases	16,793	(16,793)	-	-	-
STEM Program	1,132	26,344	(8,064)	-	19,412
Church Relation Media Production	3,500	-	-	-	3,500
Social Media/Donor Engagement	-	-	(40,123)	85,483	45,360
Donated School Equipment/Chairs	41,308	-	-	-	41,308
Donated Hay Baler	6,000	-	-	-	6,000
Total Temp. Rest. Net Assets	\$ 1,531,124	\$ 388,041	\$ (126,284)	\$ (85,483)	\$ 1,707,398

NOTE I - LEASE OBLIGATIONS:

The Organization leases overseas warehouse and office space from one of the founders of Project Mercy for \$1,250 per month under a month-to-month lease in both 2018 and 2017.

The Organization uses the management and fundraising headquarters in Fort Wayne, Indiana by paying \$2,000 per month for rent in addition to the property taxes on the facility. The total combined amounts for these payments for the years ended December 31, 2018 and December 31, 2017 were \$37,172 and \$36,314 respectively. A corporation owned in part by a founder of Project Mercy owns the building.

PROJECT MERCY, INC.

Notes to Financial Statements
December 31, 2018 and December 31, 2017

NOTE J - RETIREMENT SAVINGS PLAN:

The Organization maintains a Retirement Savings Plan under Internal Revenue Code 403(b). To qualify as a participant under the Plan, an individual must be an Eligible Employee, satisfy minimum age and service conditions and any allocation conditions required under the Plan. Eligible Employees are those who complete 1,560 hours of service during a Plan year, and shall be eligible to receive matching or employer contributions. The minimum age requirement is 21, while the minimum service requirement is one year of service. Participants are always 100% vested in their salary deferrals as well as their employer matching contributions. During the year ended December 31, 2018 Project Mercy contributed 3% of each eligible employee's salary into the plan. Company expense for 2018 plan year was \$9,198. During the year ended December 31, 2017 Project Mercy contributed 3% of each eligible employee's salary into the plan. Company expense for 2017 plan year was \$10,327.

NOTE K - FAIR VALUES OF FINANCIAL INSTRUMENTS:

Fair value is defined as the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. The Company's financial instruments are measured and recorded at fair value. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value is:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities;
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace;
- Level 3 – Unobservable pricing inputs which are supported by little or no market activity.

The following methods and assumptions were used by Project Mercy, Inc. in estimating its fair value disclosures for financial instruments:

- Cash, cash equivalents and pledges receivable: The carrying amounts reported in the statement of financial position approximate fair values because of the relatively short maturities of these instruments.
- Accounts payable and other payables: The carrying amounts reported in the statement of financial position approximate fair values because of the relatively short maturities of these instruments also.
- Investments are level 1 assets valued at prices quoted from active markets.