

Justice and Mercy International, Inc.

Financial Statements
September 30, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors of
Justice and Mercy International, Inc.
Franklin, TN

We have audited the accompanying financial statements of Justice and Mercy International, Inc. (a non-profit organization) which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities and changes in net assets, cash flows and functional expenses 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 of the 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 financial statements referred to above present fairly, in all material respects, the financial position of Justice and Mercy International, Inc. as of September 30, 2017 and 2016, 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.

Correction of Error

As discussed in Note 8 to the financial statements, certain errors resulting in the understatement of amounts previously reported for inventory and net merchandise sales as of September 30, 2016, were discovered by management of the Organization during the current year. Accordingly, amounts reported for inventory have been restated in the 2016 financial statements now presented, and an adjustment has been made to net assets as of September 30, 2016, to correct the error. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink, reading "McKerley & Noonan". The signature is written in a cursive, flowing style.

McKerley & Noonan, P.C.
February 6, 2018

Justice and Mercy International, Inc.
Statements of Financial Position
As of September 30, 2017 and 2016

Assets

Current Assets:	<u>2017</u>	<u>2016</u>
Cash in Bank	\$ 359,020	\$ 365,581
Contributions Receivable	519	3,037
Prepaid Expenses and Other Current Assets	1,041	30,643
Inventory	<u>16,793</u>	<u>14,500</u>
Total Current Assets	377,373	413,761
 Fixed Assets:		
Land & Buildings	405,309	260,000
Furniture & Equipment	3,911	3,911
Less: Accumulated Depreciation	<u>(60,015)</u>	<u>(43,042)</u>
Net Fixed Assets	<u>349,205</u>	<u>220,869</u>
 Total Assets	 <u><u>\$ 726,578</u></u>	 <u><u>\$ 634,630</u></u>

Liabilities and Net Assets

Current Liabilities:		
Accounts Payable	\$ 13,374	\$ 1,891
Deferred Income	2,478	25,600
Accrued Liabilities	<u>8,719</u>	<u>28,891</u>
Total Current Liabilities	24,571	56,382
 Total Liabilities	 <u>24,571</u>	 <u>56,382</u>
 Net Assets:		
Unrestricted	532,967	364,204
Unrestricted - Designated by the Board	<u>72,687</u>	<u>45,055</u>
Total Unrestricted	605,654	409,259
Temporarily Restricted	<u>96,353</u>	<u>168,989</u>
Total Net Assets	<u>702,007</u>	<u>578,248</u>
 Total Liabilities and Net Assets	 <u><u>\$ 726,578</u></u>	 <u><u>\$ 634,630</u></u>

Justice and Mercy International, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Support:			
Contributions	\$ 1,160,066	\$ 109,378	\$ 1,269,444
Special Event Income	211,094	-	211,094
Merchandise Sales - Net	22,076	-	22,076
Interest income	130	-	130
Net Assets Released from Restriction	182,014	(182,014)	-
Total Revenues and Support	<u>1,575,380</u>	<u>(72,636)</u>	<u>1,502,744</u>
Expenses:			
Program Services	1,092,715	-	1,092,715
Fundraising	124,425	-	124,425
General and Administrative	161,845	-	161,845
Total Expenses	<u>1,378,985</u>	<u>-</u>	<u>1,378,985</u>
Change in Net Assets	196,395	(72,636)	123,759
Net Assets, Beginning of the Year	<u>409,259</u>	<u>168,989</u>	<u>578,248</u>
Net Assets - End of the Year	<u><u>\$ 605,654</u></u>	<u><u>\$ 96,353</u></u>	<u><u>\$ 702,007</u></u>

Justice and Mercy International, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Support:			
Contributions	\$ 967,150	\$ 227,000	\$ 1,194,150
Special Event Income	152,996	-	152,996
Merchandise Sales - Net	11,343	-	11,343
Interest income	13	-	13
Net Assets Released from Restriction	103,712	(103,712)	-
Total Revenues and Support	<u>1,235,214</u>	<u>123,288</u>	<u>1,358,502</u>
Expenses:			
Program Services	978,372	-	978,372
Fundraising	119,972	-	119,972
General and Administrative	141,271	-	141,271
Total Expenses	<u>1,239,615</u>	<u>-</u>	<u>1,239,615</u>
Change in Net Assets	(4,401)	123,288	118,887
Net Assets, Beginning of the Year, as originally stated	399,160	45,701	444,861
Prior Period Adjustments (Note 8)	14,500	-	14,500
Net Assets, Beginning of the Year, as adjusted	<u>413,660</u>	<u>45,701</u>	<u>459,361</u>
Net Assets - End of the Year	<u><u>\$ 409,259</u></u>	<u><u>\$ 168,989</u></u>	<u><u>\$ 578,248</u></u>

Justice and Mercy International, Inc.
Statements of Cash Flows
For the Years Ended September 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 123,759	\$ 118,887
Adjustments to Reconcile Change in Net Assets		
to Net Cash Provided by Operating Activities:		
Depreciation	16,973	13,782
(Increase) Decrease in Contributions Receivable	2,518	53,455
(Increase) Decrease in Prepaid Expenses and Inventory	27,309	10,194
Increase (Decrease) in Accounts Payable and Other Liabilities	(31,811)	23,056
Total Adjustments	<u>14,989</u>	<u>100,487</u>
Net Cash Provided by Operating Activities	<u>138,748</u>	<u>219,374</u>
 Cash Flows from Investing Activities		
Purchase of building	(145,309)	-
Net Cash Provided (Used) by Investing Activities	<u>(145,309)</u>	<u>-</u>
 Net Change in Cash	(6,561)	219,374
 Cash, Beginning of the Year	<u>365,581</u>	<u>146,207</u>
 Cash, End of Year	<u><u>\$ 359,020</u></u>	<u><u>\$ 365,581</u></u>

Justice and Mercy International, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2017

	Program				Total	General and		
	Amazon	Moldova	South Africa	Mission Trips	Program	Administrative	Fundraising	Total
Salaries and Benefits	\$ 132,692	\$ 189,556	\$ -	\$ -	\$ 322,248	\$ 58,616	\$ 71,352	\$ 452,216
Travel Expenses	9,296	1,314	-	352,084	362,694	13,740	9,086	385,520
Other Program Expenses	107,046	249,218	11,000	-	367,264	38,233	-	405,497
Office Expenses	4,538	10,399	-	-	14,937	24,363	42	39,342
Professional Fees	3,865	-	-	-	3,865	8,222	-	12,087
Fundraising Expenses	-	-	-	-	-	200	27,844	28,044
Fees and Charges	2,167	2,567	-	-	4,734	18,471	-	23,205
Depreciation Expense	-	16,973	-	-	16,973	-	-	16,973
Marketing and Development	-	-	-	-	-	-	16,101	16,101
Total Functional Expenses	\$ 259,604	\$ 470,027	\$ 11,000	\$ 352,084	\$ 1,092,715	\$ 161,845	\$ 124,425	\$ 1,378,985

Justice and Mercy International, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2016

	Program				Total	General and		
	Amazon	Moldova	South Africa	Mission Trips	Program	Administrative	Fundraising	Total
Salaries and Benefits	\$ 107,531	\$ 153,907	\$ -	\$ -	\$ 261,438	\$ 52,401	\$ 74,284	\$ 388,123
Travel Expenses	7,281	2,124	-	285,686	295,091	16,603	-	311,694
Other Program Expenses	155,402	194,256	12,000	29,493	391,151	3,402	-	394,553
Office Expenses	2,672	6,585	-	-	9,257	24,456	163	33,876
Professional Fees	3,025	3	-	-	3,028	30,931	-	33,959
Fundraising Expenses	-	357	-	-	357	-	33,551	33,908
Fees and Charges	1,388	2,724	-	-	4,112	13,478	-	17,590
Depreciation Expense	-	13,782	-	-	13,782	-	-	13,782
Marketing and Development	156	-	-	-	156	-	11,974	12,130
Total Functional Expenses	<u>\$ 277,455</u>	<u>\$ 373,738</u>	<u>\$ 12,000</u>	<u>\$ 315,179</u>	<u>\$ 978,372</u>	<u>\$ 141,271</u>	<u>\$ 119,972</u>	<u>\$ 1,239,615</u>

Justice and Mercy International, Inc.

Notes to Financial Statements September 30, 2017 and 2016

NOTE 1 - DESCRIPTION AND PURPOSE OF THE ORGANIZATION

Justice and Mercy International, Inc. (the "Organization"), is a not-for-profit organization with offices in Franklin, Tennessee. The Organization was formed and incorporated in 2008 to mobilize the Church to reach the poor, the orphaned, and the forgotten people of the world.

The Organization is involved in ministries in Moldova, Brazil, and South Africa. Regardless of the country being served, the Organization's plan is to offer hope and help to the most vulnerable. Through volunteer based mission trips, children are helped through friendship and advocacy. Through sponsorship programs, the Organization invests in the long-term well-being of a child by providing essential programs and services to rescue them from harm's way. Through building schools and hosting conferences, indigenous leaders are trained and equipped to help their own communities. Through every action performed, the Organization intends to demonstrate the love of Jesus.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization have been prepared on the accrual basis of accounting which means that revenues are recognized when earned and expenses are recorded when incurred. The significant accounting policies of the Organization are described below to enhance the usefulness of the financial statements to the reader.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

For financial statement presentation, the Organization reports its financial information according to three classes of net assets (unrestricted net assets, temporarily restricted net assets and permanently restricted net assets) based on the existence or absence of donor-imposed restrictions.

Unrestricted Net Assets

Unrestricted net assets are donations that are not subject to donor-imposed stipulations. Monies received without restriction or released from restriction are generally used to finance the normal day-to-day operations of the Organization.

Temporarily Restricted Net Assets

Temporarily restricted net assets are donations that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At September 30, 2017 and 2016, there were \$96,353 and \$168,989 of temporarily restricted net assets.

Permanently Restricted Net Assets

Permanently restricted net assets are donations subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. As of September 30, 2017 and 2016, there were no permanently restricted net assets.

Donated Services

Donated services that require specialized skills and would be purchased if not provided by the donor are recognized as support and expenses based on the fair value of the services received.

Inventory

Inventory consists of promotional merchandise for sale and is recorded at cost.

Fixed Assets

Fixed assets are recorded at cost and are depreciated using the straight-line method based on the following estimated useful lives of the assets.

Building	39 years
Vehicle	5 years
Furniture & Equipment	5 – 7 years

Significant additions and betterments are capitalized. The Organization's policy is to capitalize property and equipment expenditures over \$2,000. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred.

Classification of Expenses

Expenses are classified functionally as a measure of service efforts and accomplishments. Direct expenses, incurred for a single function, are allocated entirely to that function. Joint expenses applicable to more than one function are allocated on the basis of objectively summarized information or management estimates.

Income Taxes

The Organization is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and therefore, no provision for federal or state income taxes is applicable.

The Organization follows the guidance in ASC 740 on accounting for uncertainty in income taxes (formerly FIN 48). For all tax positions taken by the Organization, management believes it is clear that the likelihood is greater than 50 percent that the full amount of the tax positions taken will be ultimately realized. The Organization incurred no interest or penalties during the years ended September 30, 2017 and 2016.

Revenue Recognition

Contribution revenue is recognized when received. Revenue from special events is recognized when it is earned, generally when the event occurs. Reimbursement receipts received prior to year-end for travel which will be incurred subsequent to year end has been recorded as deferred revenue.

Deferred Income

Deferred income represents travel reimbursements received prior to year-end for trips that are scheduled for the following fiscal year.

NOTE 3 – CREDIT RISK

The Organization maintains its cash in bank deposit accounts that at times may exceed the federally insured limit of \$250,000.

NOTE 4 – FIXED ASSETS

Fixed assets consist of the following as of September 30, 2017:

	2017	2016
Grace House	\$ 260,000	\$260,000
Equipment	3,911	3,911
Balti House	145,309	-
	<hr/> 405,309	<hr/> 263,911
Less: Accumulated Depreciation	(60,015)	(43,042)
	<hr/> \$ 349,205	<hr/> \$220,869

NOTE 5 – RETIREMENT PLAN

The Organization has adopted a 403(b) retirement plan that allows full time employees who work more than 32 hours per week to participate. The Organization made an employer contribution equal to 5% of employee's salary which totaled \$13,038 and \$10,954 for the fiscal years ended September 30, 2017 and 2016, respectively.

NOTE 6 – NET ASSETS

Temporarily restricted net assets are comprised of the following at September 30, 2017:

	2017	2016
Education Scholarship Fund	\$ 1,814	\$ 7,507
Moldova Grant for TLG	19,600	-
Amazon Build a School	22,113	22,113
Moldova Pastor	5,124	10,124
TL Capital Campaign	47,702	129,245
Total Temporarily Restricted Net Assets	<u>\$ 96,353</u>	<u>\$ 168,989</u>

In addition, the Board has designated \$72,687 and 45,055 of unrestricted net assets to be used towards mission trip scholarships, Amazon priority needs, and Amazon pastors for the years ended September 30, 2017 and 2016, respectively.

NOTE 7– RELATED PARTY TRANSACTIONS

The Organization is affiliated with Rolling Hills Community Church ("RHCC") in Franklin, Tennessee. RHCC provides office space to the Organization at no charge and also donates a portion of its weekly offering to the Organization. During the years ended September 30, 2017 and 2016 RHCC donated \$106,060 and \$104,360, respectively to the Organization.

The Organization supports related ministries in foreign countries. Two of these ministries are located in Moldova and Brazil and are marketed and presented as being partners with the Organization. The Moldovan organization Hope and Charity, received approximately \$470,000 and \$372,000 in support and the Brazilian organization, Justice and Mercy Amazon, received approximately \$260,000 and \$276,000 during the years ended September 30, 2017 and 2016 respectively.

NOTE 8 – PRIOR PERIOD ADJUSTMENT

During the current year management discovered that a material amount of merchandise inventory existed and should have been reflected on the previously issued 2016 financial statements. A prior period adjustment has been recorded to reflect a beginning inventory balance of \$14,500 as of October 1, 2016.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 6, 2018, the date that the financial statements were available to be issued.