

JUSTICE AND MERCY INTERNATIONAL, INC.

Financial Statements

September 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

LBMC

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BUSINESS **BETTER**

JUSTICE AND MERCY INTERNATIONAL, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Justice and Mercy International, Inc.:

We have audited the accompanying financial statements of Justice and Mercy International, Inc. (the "Organization") which are comprised of the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities, functional expenses 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.

Auditors' 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 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 auditors' 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, 2015 and 2014, 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.

L B M C, F C

Brentwood, Tennessee
January 19, 2016

JUSTICE AND MERCY INTERNATIONAL, INC.

Statements of Financial Position

September 30, 2015 and 2014

	<u>Assets</u>	
	<u>2015</u>	<u>2014</u>
Current assets:		
Cash	\$ 146,207	\$ 201,977
Contributions receivable	56,492	-
Prepaid expenses and other current assets	<u>40,837</u>	<u>23,771</u>
Total current assets	243,536	225,748
Property and equipment, net	<u>234,651</u>	<u>248,433</u>
	<u>\$ 478,187</u>	<u>\$ 474,181</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 26,645	\$ 12,912
Accrued liabilities	<u>6,681</u>	<u>18,865</u>
Total current liabilities	<u>33,326</u>	<u>31,777</u>
Net assets:		
Unrestricted	387,047	384,743
Unrestricted - designated by board for Amazon school	<u>12,113</u>	<u>23,469</u>
Total unrestricted	399,160	408,212
Temporarily restricted	<u>45,701</u>	<u>34,192</u>
Total net assets	<u>444,861</u>	<u>442,404</u>
	<u>\$ 478,187</u>	<u>\$ 474,181</u>

See accompanying notes to the financial statements.

JUSTICE AND MERCY INTERNATIONAL, INC.

Statements of Activities

Years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Changes in unrestricted net assets:		
Revenue:		
Contributions	\$ 1,022,916	\$ 823,265
Special event income, net of expenses of \$41,796 in 2015 and \$31,675 in 2014	108,501	175,042
Merchandise sales, net of costs of \$14,008 in 2015 and \$20,350 in 2014	8,101	4,671
Net assets released from restrictions	<u>34,192</u>	<u>48,020</u>
Total revenue	<u>1,173,710</u>	<u>1,050,998</u>
Expenses:		
Programs	1,029,692	684,446
General and administrative	88,253	109,885
Fundraising	<u>64,817</u>	<u>58,799</u>
Total expenses	<u>1,182,762</u>	<u>853,130</u>
Change in unrestricted net assets	<u>(9,052)</u>	<u>197,868</u>
Changes in temporarily restricted net assets:		
Temporarily restricted donations	45,701	44,115
Satisfaction of restrictions	<u>(34,192)</u>	<u>(48,020)</u>
Change in temporarily restricted net assets	<u>11,509</u>	<u>(3,905)</u>
Increase in net assets	2,457	193,963
Net assets at beginning of year	<u>442,404</u>	<u>248,441</u>
Net assets at end of year	<u>\$ 444,861</u>	<u>\$ 442,404</u>

See accompanying notes to the financial statements.

JUSTICE AND MERCY INTERNATIONAL, INC.

Statements of Functional Expenses

Year ended September 30, 2015

	<u>Programs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Totals</u>
Office payroll and benefits	\$ 115,789	\$ 32,250	\$ 47,200	\$ 195,239
Travel	24,539	-	-	24,539
Brazil support and mission trips	359,323	-	-	359,323
Moldova support and mission trips	429,575	-	-	429,575
Other missions	87,466	-	-	87,466
Professional fees	-	30,676	-	30,676
Office expenses	-	12,994	-	12,994
Fees and charges	-	11,551	-	11,551
Depreciation	13,000	782	-	13,782
Marketing/development	<u>-</u>	<u>-</u>	<u>17,617</u>	<u>17,617</u>
Totals	<u>\$ 1,029,692</u>	<u>\$ 88,253</u>	<u>\$ 64,817</u>	<u>\$ 1,182,762</u>

See accompanying notes to the financial statements.

JUSTICE AND MERCY INTERNATIONAL, INC.

Statements of Functional Expenses

Year ended September 30, 2014

	<u>Programs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Totals</u>
Office payroll and benefits	\$ 131,990	\$ 39,712	\$ 40,965	\$ 212,667
Travel	17,745	-	-	17,745
Brazil support and mission trips	224,429	-	-	224,429
Moldova support and mission trips	234,414	-	-	234,414
Other missions	62,868	-	-	62,868
Professional fees	-	23,183	-	23,183
Office expenses	-	22,891	-	22,891
Fines and penalties	-	(9,294)	-	(9,294)
Fees and charges	-	10,675	-	10,675
Interest	-	1,936	-	1,936
Depreciation	13,000	782	-	13,782
Expiration of land purchase option	-	20,000	-	20,000
Marketing/development	-	-	17,834	17,834
Totals	\$ <u>684,446</u>	\$ <u>109,885</u>	\$ <u>58,799</u>	\$ <u>853,130</u>

See accompanying notes to the financial statements.

JUSTICE AND MERCY INTERNATIONAL, INC.

Statements of Cash Flows

Years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>2,457</u>	\$ <u>193,963</u>
Adjustments to reconcile change in net assets to cash flows provided (used) by operating activities:		
Depreciation	13,782	13,782
(Increase) decrease in operating assets:		
Contributions receivable	(56,492)	1,057
Prepaid expenses and other current assets	(17,066)	695
Deposits	-	20,500
Increase (decrease) in operating liabilities:		
Accounts payable	13,733	8,271
Accrued liabilities	<u>(12,184)</u>	<u>(31,500)</u>
Total adjustments	<u>(58,227)</u>	<u>12,805</u>
Net cash provided (used) by operating activities	(55,770)	206,768
Cash flows from financing activities -		
Payments on note payable	<u>-</u>	<u>(100,000)</u>
Increase (decrease) in cash	(55,770)	106,768
Cash at beginning of year	<u>201,977</u>	<u>95,209</u>
Cash at end of year	\$ <u><u>146,207</u></u>	\$ <u><u>201,977</u></u>

See accompanying notes to the financial statements.

JUSTICE AND MERCY INTERNATIONAL, INC.

Notes to the Financial Statements

September 30, 2015 and 2014

(1) Nature of activities

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 and assists missionaries abroad in various countries. 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 every action performed, the Organization intends to demonstrate the love of Jesus.

(2) Summary of significant accounting policies

The financial statements of the Organization are presented on the accrual basis. The significant accounting policies followed are described below.

(a) Basis of presentation

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

Unrestricted net assets - Net assets which are not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. There were no permanently restricted net assets as of September 30, 2015 and 2014.

Expirations of temporary restrictions on net assets are reported as net assets released from restriction between the applicable classes of net assets. Restricted donations which have been used in the same period as received are considered unrestricted in nature and reported as such.

JUSTICE AND MERCY INTERNATIONAL, INC.

Notes to the Financial Statements

September 30, 2015 and 2014

(b) Property and equipment, net

Property and equipment, net is stated at cost, net of depreciation. Depreciation is provided over the assets' estimated useful lives using the straight-line method. The Organization's policy is to capitalize property and equipment expenditures over \$2,000.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in the change in unrestricted net assets.

(c) Income taxes

The Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements. The Organization does not believe there are any uncertain tax positions and, accordingly it has not recognized any asset or liability for unrecognized tax benefit.

As of September 30, 2015 and 2014, the Organization has accrued no interest and no penalties related to uncertain tax positions. It is the Organization's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Organization files a U.S. Federal information tax return. The Organization is currently open to audit under the statute of limitations by the Internal Revenue Service for years subsequent to September 30, 2011.

(d) Revenue recognition

Contribution revenue is recognized when received. Revenue from special events is recognized when it is earned, generally when the event occurs.

(e) Advertising and promotion costs

Advertising costs are generally expensed as incurred. However, advertising and other promotional costs related to specific promotional events are not expensed until the event occurs.

(f) Long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

JUSTICE AND MERCY INTERNATIONAL, INC.

Notes to the Financial Statements

September 30, 2015 and 2014

(g) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 those estimates.

(h) Functional allocation of expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

(i) Reclassifications

Certain reclassifications have been made to the 2014 financial statements in order for them to conform to the 2015 presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

(j) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between September 30, 2015 and January 19, 2016 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Property and equipment

Property and equipment at September 30, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Grace House	\$ 260,000	\$ 260,000
Equipment	<u>3,911</u>	<u>3,911</u>
	263,911	263,911
Accumulated depreciation	<u>(29,260)</u>	<u>(15,478)</u>
	<u>\$ 234,651</u>	<u>\$ 248,433</u>

(4) Deposits

In 2013, the Organization paid a \$20,000 deposit for an option to purchase additional land in Moldova related to the Grace house. This option expired and was written off during 2014.

JUSTICE AND MERCY INTERNATIONAL, INC.

Notes to the Financial Statements

September 30, 2015 and 2014

(5) Accrued liabilities

A summary of accrued expenses and liabilities as of September 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Accrued vacation	\$ 6,131	\$ 4,731
Deferred revenue	-	8,101
Payroll taxes payable	-	5,633
Other accrued expenses	<u>550</u>	<u>400</u>
	<u>\$ 6,681</u>	<u>\$ 18,865</u>

(6) Net assets

Temporarily restricted net assets are comprised of the following:

	<u>2015</u>	<u>2014</u>
Mission trip scholarship fund	\$ 10,801	\$ -
Moldova capital campaign	8,420	-
Amazon operations - priority needs	5,000	-
Amazon operations - medical fund	1,000	-
Amazon operations - food bags	1,200	-
Amazon operations - pastors	8,250	-
Moldova mission trips	3,520	10,942
Amazon mission trips	1,310	23,250
Education scholarship fund	<u>6,200</u>	<u>-</u>
	<u>\$ 45,701</u>	<u>\$ 34,192</u>

(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, 2015 and 2014, RHCC donated \$76,077 and \$46,077 to the Organization, respectively.

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 \$202,000 and \$122,000 in support and the Brazilian organization, Justice and Mercy Amazon, received approximately \$214,000 and \$105,000 during the years ended September 30, 2015 and 2014.

(8) Supplemental disclosures of cash flow statement information

	<u>2015</u>	<u>2014</u>
Interest paid	\$ <u>-</u>	\$ <u>3,124</u>