

MISSION OF MERCY, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2005 AND 2004

TABLE OF CONTENTS

| | Page |
|--|---------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| FINANCIAL STATEMENTS | |
| • Statements of Financial Position | 2 |
| • Statements of Activities | 3 - 4 |
| • Statements of Functional Expenses | 5 - 8 |
| • Statements of Cash Flows | 9 |
| NOTES TO FINANCIAL STATEMENTS | 10 - 16 |
| SUPPLEMENTARY INFORMATION | |
| INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION | 17 |
| • Schedule "1" - Note on Indigent Drug Programs | 18 |



INDEPENDENT AUDITORS' REPORT

February 2, 2006

Board of Directors
Mission of Mercy, Inc.

We have audited the accompanying statements of financial position of *Mission of Mercy, Inc.* (a nonprofit organization), as of December 31, 2005 and 2004, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Mission of Mercy, Inc.* as of December 31, 2005 and 2004, 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.

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MISSION OF MERCY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2005 AND 2004

| | 2005 | 2004 |
|---|-------------------------|-------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$380,049 | \$544,913 |
| Investments | - | 5,477 |
| Accounts Receivable | 390 | 5,231 |
| Unconditional Promises to Give | 97,000 | 73,813 |
| Inventory | 40,834 | 127,659 |
| Prepaid Expenses | <u>18,089</u> | <u>12,257</u> |
| TOTAL CURRENT ASSETS | <u>536,362</u> | <u>769,350</u> |
| PROPERTY AND EQUIPMENT | | |
| Dental Equipment | 37,453 | 37,453 |
| Medical Equipment | 53,118 | 51,316 |
| Office Equipment | 60,302 | 56,884 |
| Vehicles | <u>435,278</u> | <u>435,278</u> |
| | 586,151 | 580,931 |
| Less: Accumulated Depreciation | <u>422,598</u> | <u>395,539</u> |
| TOTAL PROPERTY AND EQUIPMENT | <u>163,553</u> | <u>185,392</u> |
| TOTAL ASSETS | <u>\$699,915</u> | <u>\$954,742</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 41,331 | \$ 22,017 |
| Accrued Salaries | <u>31,179</u> | <u>19,619</u> |
| TOTAL CURRENT LIABILITIES | <u>72,510</u> | <u>41,636</u> |
| TOTAL LIABILITIES | <u>72,510</u> | <u>41,636</u> |
| NET ASSETS | | |
| Unrestricted | | |
| Undesignated | 399,808 | 685,939 |
| Board Designated | <u>102,000</u> | <u>-</u> |
| Total Unrestricted | 501,808 | 685,939 |
| Temporarily Restricted | <u>125,597</u> | <u>227,167</u> |
| TOTAL NET ASSETS | <u>627,405</u> | <u>913,106</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$699,915</u> | <u>\$954,742</u> |

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

| | 2005 | | |
|--|--------------------------|-----------------------------------|--------------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| SUPPORT AND REVENUE | | | |
| SUPPORT | | | |
| Contributions | \$ 731,707 | \$ 28,597 | \$ 760,304 |
| Grants | 274,694 | 97,000 | 371,694 |
| Donated Facilities | 79,900 | - | 79,900 |
| Donated Lab and X-Ray Services | 845,836 | - | 845,836 |
| Donated Services | 747,776 | - | 747,776 |
| Donated Supplies and Equipment | 219,285 | - | 219,285 |
| TOTAL SUPPORT | <u>2,899,198</u> | <u>125,597</u> | <u>3,024,795</u> |
| REVENUE | | | |
| Special Events | 280,187 | - | 280,187 |
| Miscellaneous Revenues | 2,891 | - | 2,891 |
| Interest Income | 1,982 | - | 1,982 |
| TOTAL REVENUE | <u>285,060</u> | <u>-</u> | <u>285,060</u> |
| TOTAL SUPPORT AND REVENUE | <u>3,184,258</u> | <u>125,597</u> | <u>3,309,855</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS | | | |
| Restrictions Satisfied by Payments | <u>227,167</u> | <u>(227,167)</u> | <u>-</u> |
| EXPENSES | | | |
| Program Expenses | 3,004,359 | - | 3,004,359 |
| Management and General | 260,069 | - | 260,069 |
| Fundraising | 257,059 | - | 257,059 |
| Special Events | 74,069 | - | 74,069 |
| TOTAL EXPENSES | <u>3,595,556</u> | <u>-</u> | <u>3,595,556</u> |
| DECREASE IN NET ASSETS | (184,131) | (101,570) | (285,701) |
| Net Assets at Beginning of Year | 685,939 | 227,167 | 913,106 |
| NET ASSETS END OF YEAR | <u>\$ 501,808</u> | <u>\$ 125,597</u> | <u>\$ 627,405</u> |

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF ACTIVITIES - continued
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

| | 2004 | | |
|--|--------------------------|---------------------------|--------------------------|
| | Unrestricted | Temporarily Restricted | Total |
| SUPPORT AND REVENUE | | | |
| SUPPORT | | | |
| Contributions | \$ 498,773 | \$ 66,920 | \$ 565,693 |
| Grants | 559,797 | 275,000 | 834,797 |
| Donated Facilities | 64,018 | - | 64,018 |
| Donated Lab and X-Ray Services | 418,339 | - | 418,339 |
| Donated Services | 676,020 | - | 676,020 |
| Donated Supplies and Equipment | <u>341,121</u> | <u>-</u> | <u>341,121</u> |
| TOTAL SUPPORT | <u>2,558,068</u> | <u>341,920</u> | <u>2,899,988</u> |
| REVENUE | | | |
| Special Events | 176,535 | - | 176,535 |
| Miscellaneous Revenues | 2,426 | - | 2,426 |
| Interest Income | <u>250</u> | <u>-</u> | <u>250</u> |
| TOTAL REVENUE | <u>179,211</u> | <u>-</u> | <u>179,211</u> |
| TOTAL SUPPORT AND REVENUE | <u>2,737,279</u> | <u>341,920</u> | <u>3,079,199</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS | | | |
| Restrictions Satisfied by Payments | <u>124,753</u> | <u>(124,753)</u> | <u>-</u> |
| EXPENSES | | | |
| Program Expenses | 2,046,330 | - | 2,046,330 |
| Management and General | 232,591 | - | 232,591 |
| Fundraising | 214,102 | - | 214,102 |
| Special Events | <u>51,005</u> | <u>-</u> | <u>51,005</u> |
| TOTAL EXPENSES | <u>2,544,028</u> | <u>-</u> | <u>2,544,028</u> |
| INCREASE IN NET ASSETS | 318,004 | 217,167 | 535,171 |
| Net Assets at Beginning of Year | <u>367,935</u> | <u>10,000</u> | <u>377,935</u> |
| NET ASSETS END OF YEAR | <u>\$ 685,939</u> | <u>\$ 227,167</u> | <u>\$ 913,106</u> |

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

2005

| | <u>Program Services</u> | | | <u>Total Program Services</u> | <u>Management & General</u> | | <u>Total Management and General</u> | <u>Fundraising</u> | | | <u>Total Expenses</u> |
|-------------------------------------|-----------------------------|----------------------------|-------------------------|---------------------------------------|---------------------------------|----------------|---|--------------------|----------------|------------------------------|---------------------------|
| | <u>Maryland Medical</u> | <u>Arizona Medical</u> | <u>MOM's Family</u> | | <u>Maryland</u> | <u>Arizona</u> | | <u>Maryland</u> | <u>Arizona</u> | <u>Total Fundraising</u> | |
| Salaries | \$ 273,722 | \$232,636 | \$19,468 | \$ 525,826 | \$ 43,497 | \$32,680 | \$ 76,177 | \$ 47,713 | \$ 53,534 | \$101,247 | \$ 703,250 |
| Employee Benefits | 41,206 | 16,981 | 3,206 | 61,393 | 14,949 | 7,901 | 22,850 | 6,434 | 2,777 | 9,211 | 93,454 |
| Payroll Taxes | 22,184 | 17,875 | 1,484 | 41,543 | 3,292 | 2,445 | 5,737 | 3,717 | 4,030 | 7,747 | 55,027 |
| Bank Charges | - | - | - | - | 4,284 | 757 | 5,041 | - | - | - | 5,041 |
| Board Meeting/ Committee Expense | 51 | 1,040 | 81 | 1,172 | 1,805 | 629 | 2,434 | 39 | - | 39 | 3,645 |
| Books and Subscriptions | 1,121 | 1,159 | 748 | 3,028 | 1,237 | 362 | 1,599 | 2,192 | 1,974 | 4,166 | 8,793 |
| Clinic Supplies | 6,883 | 5,170 | - | 12,053 | - | - | - | - | - | - | 12,053 |
| Dental Supplies | 5,497 | - | - | 5,497 | - | - | - | - | - | - | 5,497 |
| Depreciation | 19,177 | - | - | 19,177 | 5,955 | 3,250 | 9,205 | - | - | - | 28,382 |
| Donated Services | 404,826 | 340,433 | - | 745,259 | 1,293 | 400 | 1,693 | - | - | - | 746,952 |
| Donated Supplies and Equipment | 254,075 | 56,714 | - | 310,789 | - | - | - | - | - | - | 310,789 |
| Donated Lab and X-Ray Services | 778,863 | 24,455 | - | 845,836 | - | - | - | - | - | - | 845,836 |
| Donated Facilities | 28,889 | 27,913 | 11,098 | 67,900 | - | 9,600 | 9,600 | 2,400 | - | 2,400 | 79,900 |
| Dues and Memberships | - | - | - | - | 1,017 | - | 1,017 | 1,709 | - | 1,709 | 2,726 |
| Insurance | 67,554 | 22,698 | - | 90,252 | 4,314 | - | 4,314 | - | - | - | 94,566 |
| License and Registration | 3,114 | 1,833 | - | 4,947 | 460 | - | 460 | - | - | - | 5,407 |
| Loss on Disposal of Assets | 452 | - | - | 452 | - | - | - | - | - | - | 452 |
| Medical Supplies | 10,670 | 43,372 | - | 54,042 | - | - | - | - | - | - | 54,042 |
| Medications | 54,810 | 36,422 | - | 91,232 | - | - | - | - | - | - | 91,232 |
| Miscellaneous | 6,325 | 3,880 | - | 10,205 | 2,463 | 587 | 3,050 | 1,047 | 152 | 1,199 | 14,454 |

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES - continued
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

2005 - continued

| | <u>Program Services</u> | | | <u>Total Program Services</u> | <u>Management & General</u> | | <u>Total Management and General</u> | <u>Fundraising</u> | | <u>Total Fundraising</u> | <u>Total Expenses</u> |
|-----------------------------|-----------------------------|----------------------------|-------------------------|---------------------------------------|---------------------------------|------------------------|---|-------------------------|-------------------------|------------------------------|---------------------------|
| | <u>Maryland Medical</u> | <u>Arizona Medical</u> | <u>MOM's Family</u> | | <u>Maryland</u> | <u>Arizona</u> | | <u>Maryland</u> | <u>Arizona</u> | | |
| Office Supplies | - | - | 497 | 497 | 8,741 | 2,807 | 11,548 | 340 | 51 | 391 | 12,436 |
| Postage | 956 | 590 | 11 | 1,557 | 13,859 | 2,669 | 16,528 | 2,067 | 270 | 2,337 | 20,422 |
| Printing | 1,502 | 1,317 | 493 | 3,312 | 18,389 | 4,110 | 22,499 | 2,893 | 2,764 | 5,657 | 31,468 |
| Professional Fees | 16,314 | 41,709 | 1,500 | 59,523 | 27,794 | 13,328 | 41,122 | 47,777 | 58,974 | 106,751 | 207,396 |
| Repairs and Maintenance | 5,028 | 4,875 | - | 9,903 | 2,540 | - | 2,540 | - | - | - | 12,443 |
| Telephone | 3,208 | 2,731 | 411 | 6,350 | 813 | 2,209 | 3,022 | 848 | - | 848 | 10,220 |
| Tuition and Education | 274 | 225 | - | 499 | - | 90 | 90 | - | - | - | 589 |
| Travel and Entertainment | 3,697 | 2,166 | 585 | 6,448 | 4,548 | 1,676 | 6,224 | 2,973 | 1,922 | 4,895 | 17,567 |
| Utilities | 5,642 | 7,864 | 4,138 | 17,644 | 7,868 | 5,451 | 13,319 | 2,753 | 5,709 | 8,462 | 39,425 |
| Vehicle Expense | 4,266 | 3,757 | - | 8,023 | - | - | - | - | - | - | 8,023 |
| TOTAL EXPENSES | <u>\$2,020,306</u> | <u>\$940,333</u> | <u>\$43,720</u> | <u>\$3,004,359</u> | <u>\$169,118</u> | <u>\$90,951</u> | <u>\$260,069</u> | <u>\$124,902</u> | <u>\$132,157</u> | <u>\$257,059</u> | <u>\$3,521,487</u> |

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES - continued
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

2004

| | <u>Program Services</u> | | | <u>Total Program Services</u> | <u>Management & General</u> | | <u>Total Management and General</u> | <u>Fundraising</u> | | | <u>Total Expenses</u> |
|------------------------------------|-----------------------------|----------------------------|-------------------------|---------------------------------------|---------------------------------|----------------|---|--------------------|----------------|------------------------------|---------------------------|
| | <u>Maryland Medical</u> | <u>Arizona Medical</u> | <u>MOM's Family</u> | | <u>Maryland</u> | <u>Arizona</u> | | <u>Maryland</u> | <u>Arizona</u> | <u>Total Fundraising</u> | |
| Salaries | \$ 209,211 | \$182,519 | \$22,264 | \$413,994 | \$41,371 | \$ 23,786 | \$ 65,157 | \$ 66,016 | \$ 49,809 | \$115,825 | \$ 594,976 |
| Employee Benefits | 25,693 | 15,728 | 3,862 | 45,283 | 8,967 | 5,133 | 14,100 | 7,288 | 6,753 | 14,041 | 73,424 |
| Payroll Taxes | 17,279 | 15,073 | 1,632 | 33,984 | 3,009 | 1,743 | 4,752 | 4,839 | 3,650 | 8,489 | 47,225 |
| Bank Charges | 320 | - | - | 320 | 3,252 | 91 | 3,343 | - | - | - | 3,663 |
| Board Meeting/Committee Expense | 51 | - | - | 51 | 2,106 | 163 | 2,269 | 34 | - | 34 | 2,354 |
| Books and Subscriptions | - | 114 | - | 114 | - | 111 | 111 | 360 | 707 | 1,067 | 1,292 |
| Clinic Supplies | 4,771 | - | - | 4,771 | 19 | 4,316 | 4,335 | - | - | - | 9,106 |
| Dental Supplies | 4,019 | - | - | 4,019 | - | - | - | - | - | - | 4,019 |
| Depreciation | 13,634 | 20,422 | - | 34,056 | 6,200 | 754 | 6,954 | - | - | - | 41,010 |
| Donated Services | 351,196 | 322,224 | - | 673,420 | 2,600 | - | 2,600 | - | - | - | 676,020 |
| Donated Supplies and Equipment | 99,544 | 5,072 | - | 104,616 | 50 | - | 50 | - | - | - | 104,666 |
| Donated Lab and X-Ray Services | 364,639 | 53,700 | - | 418,339 | - | - | - | - | - | - | 418,339 |
| Donated Facilities | 22,086 | 21,413 | 9,342 | 52,841 | - | 8,777 | 8,777 | 2,400 | - | 2,400 | 64,018 |
| Dues and Memberships | - | 590 | - | 590 | 1,503 | - | 1,503 | 1,500 | - | 1,500 | 3,593 |
| Insurance | 55,139 | 22,436 | - | 77,575 | 7,689 | 326 | 8,015 | - | - | - | 85,590 |
| License and Registration | 1,986 | 2,153 | - | 4,139 | 460 | 57 | 517 | 33 | - | 33 | 4,689 |
| Loss on Asset Disposal | 1,394 | - | - | 1,394 | - | - | - | - | - | - | 1,394 |
| Medical Supplies | 10,634 | 16,203 | - | 26,837 | - | - | - | - | - | - | 26,837 |
| Medications | 52,417 | 28,403 | - | 80,820 | - | - | - | - | - | - | 80,820 |
| Miscellaneous | 2,225 | 422 | - | 2,647 | 6,768 | 1,043 | 7,811 | 42 | - | 42 | 10,500 |

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES - continued
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

2004 - continued

| | <u>Program Services</u> | | | <u>Total Program Services</u> | <u>Management & General</u> | | <u>Total Management and General</u> | <u>Fundraising</u> | | <u>Total Fundraising</u> | <u>Total Expenses</u> |
|-----------------------------|-----------------------------|----------------------------|-------------------------|---------------------------------------|---------------------------------|------------------------|---|-------------------------|-------------------------|------------------------------|---------------------------|
| | <u>Maryland Medical</u> | <u>Arizona Medical</u> | <u>MOM's Family</u> | | <u>Maryland</u> | <u>Arizona</u> | | <u>Maryland</u> | <u>Arizona</u> | | |
| Office Supplies | - | - | - | - | 3,066 | - | 3,066 | 484 | 55 | 539 | 3,605 |
| Postage | 448 | 737 | - | 1,185 | 14,093 | 2,550 | 16,643 | 1,153 | 94 | 1,247 | 19,075 |
| Printing | 1,038 | 809 | 191 | 2,038 | 19,971 | 4,238 | 24,209 | 3,550 | 1,903 | 5,453 | 31,700 |
| Professional Fees | 18,219 | 6,519 | 2,972 | 27,710 | 16,023 | 12,812 | 28,835 | 9,574 | 40,277 | 49,851 | 106,396 |
| Repairs and Maintenance | 3,616 | 3,716 | - | 7,332 | 5,751 | - | 5,751 | 387 | - | 387 | 13,470 |
| Telephone | 3,398 | 2,643 | - | 6,041 | 1,349 | 538 | 1,887 | 791 | 523 | 1,314 | 9,242 |
| Tuition and Education | 108 | 560 | - | 668 | 850 | - | 850 | - | - | - | 1,518 |
| Travel and Entertainment | 5,156 | 1,611 | 53 | 6,820 | 8,001 | 3,972 | 11,973 | 4,849 | 857 | 5,706 | 24,499 |
| Utilities | 4,071 | 3,211 | 1,711 | 8,993 | 5,976 | 3,107 | 9,083 | 2,168 | 4,006 | 6,174 | 24,250 |
| Vehicle Expense | <u>2,770</u> | <u>2,963</u> | <u>-</u> | <u>5,733</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,733</u> |
| TOTAL EXPENSES | <u>\$1,275,062</u> | <u>\$729,241</u> | <u>\$42,027</u> | <u>\$2,046,330</u> | <u>\$159,074</u> | <u>\$73,517</u> | <u>\$232,591</u> | <u>\$105,468</u> | <u>\$108,634</u> | <u>\$214,102</u> | <u>\$2,493,023</u> |

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

| | 2005 | 2004 |
|---|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Inflows: | | |
| Receipts from Donations | \$ 737,117 | \$ 512,082 |
| Receipts from Grants | 371,694 | 834,797 |
| Receipts from Special Events | 285,664 | 176,535 |
| Interest Received | 1,982 | 250 |
| Miscellaneous Receipts | <u>2,891</u> | <u>2,426</u> |
| | <u>1,399,348</u> | <u>1,526,090</u> |
| Outflows: | | |
| Payments to Employees | 691,690 | 591,990 |
| Payments for Program Services | 473,173 | 345,736 |
| Payments for Management and General | 164,385 | 152,582 |
| Payments for Special Events | 74,069 | 51,005 |
| Payments for Fundraising | <u>153,412</u> | <u>95,877</u> |
| | <u>1,556,729</u> | <u>1,237,190</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>(157,381)</u> | <u>288,900</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Inflows: | | |
| Sale of Donated Investments | - | <u>1,525</u> |
| Outflows: | | |
| Acquisition of Equipment | <u>7,483</u> | <u>25,443</u> |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(7,483)</u> | <u>(23,918)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (164,864) | 264,982 |
| Cash and Cash Equivalents - Beginning | <u>544,913</u> | <u>279,931</u> |
| CASH AND CASH EQUIVALENTS - ENDING | <u>\$ 380,049</u> | <u>\$ 544,913</u> |

See Accompanying Notes

MISSION OF MERCY, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Accounting Policies

Nature of Activities

Mission of Mercy, Inc. is a nonprofit organization, which seeks to restore dignity to the sick, poor, and homeless. The primary service program is basic medical services at no charge via mobile healthcare units and a team of licensed healthcare workers. The Organization currently operates thirteen clinic sites located in Maryland, Pennsylvania, and Arizona.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Investments

The Organization reports investments in equity securities with readily determinable fair values and all investments in debt securities at fair value with gains and losses included in the Statement of Activities.

Donated marketable securities are recorded as contributions at their estimated fair values at the date of donation.

The Organization invests in fairly liquid, high quality securities that are broker insured, FDIC insured, and/or are U.S. Government securities. If the Organization receives donated stock, it is liquidated at the first opportunity and the proceeds deposited into investment types that have previously been discussed.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions are then reclassified to unrestricted net assets upon expiration of the time and programmatic restriction. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Similarly, all income, gains, and losses from investments of restricted contributions are recognized as unrestricted unless specified as restricted by the donor.

MISSION OF MERCY, INC.
NOTES TO FINANCIAL STATEMENTS - continued

Note 1. Summary of Accounting Policies - continued

Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Mission of Mercy, Inc. also capitalizes all property and equipment purchases over \$500 at cost. Property and equipment is depreciated using the straight-line method over the estimated useful life.

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

MISSION OF MERCY, INC.
NOTES TO FINANCIAL STATEMENTS - continued

Note 1. Summary of Accounting Policies - continued

Inventory

Inventories of medications are maintained by the Organization and are stated at the lower of cost, using the first in, first out method, or market.

Donated medications are stated at their average wholesale price.

Income Taxes

No provision has been made for Federal and State income taxes because the Organization is exempt from such taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state regulations.

Functional Expenses

Expenses are charged to programs and supporting services on the basis of actual invoices received plus a portion of general and administrative expenses. 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 Mission of Mercy, Inc. These expenses, which include administrative salaries, are allocated to program services and fundraising using an allocation schedule based on hours served in each capacity.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers also provided administrative and fundraising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Note 2. Cash and Cash Equivalents

At December 31, 2005 and 2004, \$42,597 and \$177,167, respectively, were included in the operating cash account but were restricted for various expenses as described in Note 5.

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 2. Cash and Cash Equivalents - continued

The Organization maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000 except for balances held by investment companies in money market accounts. At December 31, 2005 and 2004, the Organization's uninsured cash balances totaled \$135,282 and \$404,283, respectively. In addition, at December 31, 2005 and 2004, the Organization had cash on hand of \$15,644 and \$15,462, respectively.

Note 3. Unconditional Promises to Give

As of December 31, 2005 and 2004, the Organization received promises to give for the following purposes:

| | <u>2005</u> | <u>2004</u> |
|---------------------------|-----------------|------------------|
| Arizona Clinics | \$40,000 | \$ 50,000 |
| Diabetic Clinic | 47,000 | - |
| Refurbish Old Van | 10,000 | - |
| Unrestricted Contribution | <u>-</u> | <u>23,813</u> |
| | <u>\$97,000</u> | <u>\$ 73,813</u> |

Since the chances of the Organization not being able to keep the money is remote, the promises are considered unconditional. All amounts were deposited in January of the following year; therefore, no provision is made for uncollectible amounts.

Note 4. Inventory

Inventory consists of the following:

| | <u>2005</u> | <u>2004</u> |
|---------------------|-----------------|------------------|
| Purchased Inventory | \$33,981 | \$ 29,302 |
| Donated Inventory | <u>6,853</u> | <u>98,357</u> |
| | <u>\$40,834</u> | <u>\$127,659</u> |

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 5. Restricted Net Assets

The board has designated \$102,000 of unrestricted funds as Program Development Funds as of December 31, 2005. The funds will be invested in an interest bearing account. Its purpose is to have cash readily available to facilitate growth opportunities as they arise.

Temporarily restricted net assets are available for the following purposes:

| | <u>2005</u> | <u>2004</u> |
|--|------------------|------------------|
| Arizona Clinics | \$112,672 | \$171,891 |
| Arizona Director's Salary and Benefits | - | 39,759 |
| Maryland Clinics | - | 2,350 |
| Refurbish Old Van | 10,000 | - |
| New Mobile Van | <u>2,925</u> | <u>13,167</u> |
| | <u>\$125,597</u> | <u>\$227,167</u> |

Note 6. Operating Lease

The Organization leases office space in Fairfield, PA. The lease terms include monthly rent at \$410 for January to November of 2005, and \$735 per month in December 2005. The lease may be canceled with thirty-day written notice to the Lessor.

The Organization also leases office space in Phoenix, AZ. The lease terms are for one year and include monthly rent at \$1,050. Rent expense is included in utilities. Total rent expense is \$17,845 for the year ended December 31, 2005.

Note 7. Donated Materials and Services

The Organization received donated medical equipment valued at \$0 and \$138,098 during the years ended December 31, 2005 and 2004, respectively. The donated equipment was recorded as an asset and revenue in the financial statements. The Organization also received donated medications, medical supplies, and other supplies valued at \$219,285 and \$280,241 for the years ended December 31, 2005 and 2004, respectively. In addition, during 2005 and 2004, they received donated facilities valued at \$79,900 and \$64,018, respectively, for storage of mobile healthcare units and pharmacy items, clinic space and office space. The financial statements also include an amount for lab services and x-rays provided by hospitals and laboratories in the amount of \$845,836 and \$418,339 for the years ended December 31, 2005 and 2004, respectively. These donated items were recorded as revenue and expenses in the financial statements.

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 7. Donated Materials and Services - continued

A large number of volunteers donate significant amounts of their time in Mission of Mercy, Inc. activities. The value of contributed medical services provided by health care professionals has been recorded in these financial statements as donated services income and expense of \$745,259 and \$673,420, which represents 32,125 and 26,087 hours of time, contributed for the years ended December 31, 2005 and 2004, respectively. During 2005 and 2004, accounting professionals donated services valued at \$2,517 and \$2,600, respectively.

Additional services for administrative, fundraising, and other purposes were not recorded in the financial statements because they did not meet the criteria for recognition under SFAS No. 116. These services represent 20,251 and 14,014 hours for the years ended December 31, 2005 and 2004, respectively.

Note 8. Related Party Transactions

The Chief Financial Officer of Mission of Mercy, Inc. is the brother-in-law of the Foundress of Mission of Mercy, Inc., and the Medical Director is the husband of the Foundress. The Foundress is a permanent voting member of the Board of Directors of Mission of Mercy, Inc., does not vote on salary issues, and receives no compensation. The Assistant Nursing Director in Maryland is the sister of the Medical Director and the wife of the Chief Financial Officer. She is not a member of the board.

Note 9. Reconciliation of Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities

| | <u>2005</u> | <u>2004</u> |
|---|--------------------|---------------------|
| Increase (Decrease) in Net Assets | \$(285,701) | \$ 535,171 |
| Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation | 28,870 | 41,010 |
| Donated Assets | (6,853) | (236,455) |
| Loss on Asset Disposal | 452 | 1,394 |
| (Increase) Decrease In: | | |
| Accounts Receivable | 4,841 | (494) |
| Unconditional Promise to Give | (23,187) | (53,612) |
| Donated Investment Removal | 5,477 | - |
| Inventory | 93,678 | 1,503 |
| Prepaid Expenses | (5,832) | (3,035) |
| Increase (Decrease) In: | | |
| Accounts Payable | 19,314 | 432 |
| Accrued Salaries | <u>11,560</u> | <u>2,986</u> |
| Total Adjustments | <u>...128,320</u> | <u>...(246,271)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$(157,381)</u> | <u>\$ 288,900</u> |

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 9. Reconciliation of Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities - continued

The Organization had noncash investing activities for the years ended December 31, 2005 and 2004 through the receipt of donated equipment, valued at \$-0- and \$138,098, and donated inventory on hand of \$6,853 and \$98,357, respectively. In 2005 and 2004, the Organization also received donated investments of stock worth \$12,468 and \$-0-, respectively.

Note 10. Concentration of Contributions

The Organization relies entirely on public and private donations as well as significant donated services and materials to operate.

SUPPLEMENTARY INFORMATION



**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

February 2, 2006

Board of Directors
Mission of Mercy, Inc.

Our report on our audits of the financial statements of *Mission of Mercy, Inc.* for 2005 and 2004 appears on Page 1. Those audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The information presented in Schedule 1 is supplementary and is presented for the purpose of additional analysis. Such information has been compiled, not subjected to the auditing procedures applied in the audit of the financial statements.

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MISSION OF MERCY, INC.
NOTE ON INDIGENT DRUG PROGRAMS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

The Organization participates in indigent drug programs sponsored by various drug manufacturers. These programs provide medications to low income patients suffering from chronic illness. The Organization helps the patient complete and submit the application to the drug manufacturers. The medications are sent to the Organization who distributes them to the patient. The Organization received medications from these programs valued at \$1,396,895 and \$1,037,929 for the years ended December 31, 2005 and 2004, respectively. Since Mission of Mercy, Inc. is acting in an agent capacity; the value of the donated medications is not included in the financial statements.