

**MISSION OF MERCY, INC.**  
**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

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## INDEPENDENT AUDITORS' REPORT

April 10, 2008

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, 2007 and 2006, 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, 2007 and 2006, 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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## **FINANCIAL STATEMENTS**

**MISSION OF MERCY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2007 AND 2006**

<b>ASSETS</b>	2007	2006
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 832,631	\$ 228,444
Accounts Receivable	-	459
Unconditional Promises to Give	81,820	38,000
Inventory	145,352	115,261
Prepaid Expenses	19,382	22,750
<b>TOTAL CURRENT ASSETS</b>	<b>1,079,185</b>	<b>404,914</b>
<b>PROPERTY AND EQUIPMENT</b>		
Dental Equipment	43,611	37,453
Medical Equipment	36,525	54,288
Office Equipment	68,467	73,697
Vehicles	613,071	613,071
	761,674	778,509
Less: Accumulated Depreciation	512,784	467,869
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>248,890</b>	<b>310,640</b>
<b>OTHER ASSETS</b>		
Unconditional Promises to Give (Less Allowance for Uncollectible Promises of \$24,842)	151,558	-
<b>TOTAL OTHER ASSETS</b>	<b>151,558</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,479,633</b>	<b>\$ 715,554</b>

See Accompanying Notes

**MISSION OF MERCY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2007 AND 2006**

	2007	2006
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 38,932	\$ 31,149
Accrued Payroll Taxes	8,329	-
Accrued Salaries	144,615	9,479
<b>TOTAL CURRENT LIABILITIES</b>	<u>191,876</u>	<u>40,628</u>
<b>TOTAL LIABILITIES</b>	<u>191,876</u>	<u>40,628</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	896,312	587,353
Board Designated	112,724	2,573
Total Unrestricted	<u>1,009,036</u>	<u>589,926</u>
Temporarily Restricted	278,721	85,000
<b>TOTAL NET ASSETS</b>	<u>1,287,757</u>	<u>674,926</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,479,633</u></u>	<u><u>\$ 715,554</u></u>

See Accompanying Notes

**MISSION OF MERCY, INC.**

**STATEMENTS OF ACTIVITIES**

**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
<b>SUPPORT</b>			
Contributions	\$ 986,289	\$ 233,378	\$ 1,219,667
Grants	967,453	89,000	1,056,453
Donated Facilities	123,942	-	123,942
Donated Lab and X-Ray Services	695,755	-	695,755
Donated Services	915,299	-	915,299
Donated Supplies and Equipment	178,864	-	178,864
Indigent Drug Program	864,114	-	864,114
<b>TOTAL SUPPORT</b>	<b>4,731,716</b>	<b>322,378</b>	<b>5,054,094</b>
<b>REVENUE</b>			
Special Events	359,172	-	359,172
Miscellaneous Revenues	2,117	-	2,117
Interest Income	5,647	-	5,647
<b>TOTAL REVENUE</b>	<b>366,936</b>	<b>-</b>	<b>366,936</b>
<b>TOTAL SUPPORT AND REVENUE</b>	<b>5,098,652</b>	<b>322,378</b>	<b>5,421,030</b>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Restrictions Satisfied by Payments	<b>128,657</b>	<b>(128,657)</b>	<b>-</b>
<b>EXPENSES</b>			
Program Expenses	4,028,617	-	4,028,617
Management and General	233,056	-	233,056
Fundraising	419,369	-	419,369
Special Events	127,157	-	127,157
<b>TOTAL EXPENSES</b>	<b>4,808,199</b>	<b>-</b>	<b>4,808,199</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>419,110</b>	<b>193,721</b>	<b>612,831</b>
Net Assets at Beginning of Year (as restated)	589,926	85,000	674,926
<b>NET ASSETS END OF YEAR</b>	<b>\$ 1,009,036</b>	<b>\$ 278,721</b>	<b>\$ 1,287,757</b>

See Accompanying Notes

**MISSION OF MERCY, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2006		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
<b>SUPPORT</b>			
Contributions	\$ 559,969	\$ 9,500	\$ 569,469
Grants	775,493	113,000	888,493
Donated Facilities	70,790	-	70,790
Donated Lab and X-Ray Services	643,110	-	643,110
Donated Services	834,940	-	834,940
Donated Supplies and Equipment	96,191	-	96,191
Indigent Drug Program	-	-	-
<b>TOTAL SUPPORT</b>	<b>2,980,493</b>	<b>122,500</b>	<b>3,102,993</b>
<b>REVENUE</b>			
Special Events	343,624	-	343,624
Miscellaneous Revenues	3,702	-	3,702
Interest Income	3,101	-	3,101
<b>TOTAL REVENUE</b>	<b>350,427</b>	<b>-</b>	<b>350,427</b>
<b>TOTAL SUPPORT AND REVENUE</b>	<b>3,330,920</b>	<b>122,500</b>	<b>3,453,420</b>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Restrictions Satisfied by Payments	<b>163,097</b>	<b>(163,097)</b>	<b>-</b>
<b>EXPENSES</b>			
Program Expenses	2,788,084	-	2,788,084
Management and General	258,002	-	258,002
Fundraising	351,994	-	351,994
Special Events	89,117	-	89,117
<b>TOTAL EXPENSES</b>	<b>3,487,197</b>	<b>-</b>	<b>3,487,197</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>6,820</b>	<b>(40,597)</b>	<b>(33,777)</b>
Net Assets at Beginning of Year (as restated)	583,106	125,597	708,703
<b>NET ASSETS END OF YEAR</b>	<b>\$ 589,926</b>	<b>\$ 85,000</b>	<b>\$ 674,926</b>

See Accompanying Notes

MISSION OF MERCY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

DECEMBER 31, 2007

	Program Services				Total Program	Management and General			Total
	Maryland Medical	Arizona Medical	Texas Medical	MOM's Family	Services	Maryland	Arizona	Texas	Management and General
Salaries	\$ 340,929	\$ 205,213	\$ 51,530	\$ 22,613	\$ 620,285	\$ 32,813	\$ 28,963	\$ 5,980	\$ 67,756
Employee Benefits	48,590	15,973	7,952	2,442	74,957	6,810	5,243	3,626	15,679
Payroll Taxes	25,643	15,435	3,769	1,687	46,534	1,562	1,980	441	3,983
Bank Charges	4,513	4,501	550	-	9,564	2,918	3,224	326	6,468
Board Meeting/Committee Expense	207	207	1,774	-	2,188	404	350	486	1,240
Books and Subscriptions	1,005	1,005	191	670	2,871	87	67	-	154
Clinic Supplies	5,608	3,385	-	-	8,993	-	-	-	-
Contract Employee	690	6,798	-	-	7,488	-	1,082	-	1,082
Dental Supplies	5,511	-	-	-	5,511	-	-	-	-
Depreciation	36,193	36,227	4,220	-	76,640	3,061	775	36	3,872
Donated Services	518,265	318,403	69,200	-	905,868	955	1,305	4,107	6,367
Donated Supplies and Equipment	149,837	-	-	-	149,837	550	-	-	550
Donated Lab and X-Ray Services	605,118	90,637	-	-	695,755	-	-	-	-
Donated Facilities	43,131	43,906	16,306	7,925	111,268	289	9,889	634	10,812
Dues and Memberships	280	118	27	-	425	894	59	13	966
Indigent Drugs	864,114	-	-	-	864,114	-	-	-	-
Insurance	71,842	22,071	11,290	-	105,203	979	36	704	1,719
Lab Services	-	75,000	-	-	75,000	-	-	-	-
License and Registration	2,581	3,282	349	-	6,212	32	32	-	64
Medical Supplies	7,614	9,283	7,813	-	24,710	-	-	-	-
Medications	43,715	25,172	3,825	-	72,712	-	-	-	-
Miscellaneous	2,383	2,692	630	74	5,779	2,622	1,124	433	4,179
Office Supplies	-	-	5,875	-	5,875	4,896	2,656	2,053	9,605
Postage	1,345	144	125	-	1,614	11,226	3,450	338	15,014
Printing	3,727	350	3,860	-	7,937	12,193	4,269	715	17,177
Professional Fees	28,195	26,692	3,896	420	59,203	14,123	8,176	3,143	25,442
Rent	6,096	6,513	142	3,379	16,130	3,579	5,007	70	8,656
Repairs and Maintenance	3,223	1,200	9,127	-	13,550	2,565	302	-	2,867
Telephone	6,955	4,033	1,674	1,240	13,902	2,771	2,458	839	6,068
Tuition and Education	2,056	-	-	-	2,056	-	50	-	50
Travel and Entertainment	5,013	2,418	10,559	124	18,114	4,058	5,680	11,857	21,595
Uniforms	1,051	-	520	-	1,571	-	-	-	-
Utilities	3,838	1,651	33	1,292	6,814	1,229	445	17	1,691
Vehicle Expense	5,808	2,735	1,394	-	9,937	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 2,845,076</b>	<b>\$ 925,044</b>	<b>\$ 216,631</b>	<b>\$ 41,866</b>	<b>\$ 4,028,617</b>	<b>\$ 110,616</b>	<b>\$ 86,622</b>	<b>\$ 35,818</b>	<b>\$ 233,056</b>

See Accompanying Notes

MISSION OF MERCY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

DECEMBER 31, 2007

	Fundraising			Total	Total
	Maryland	Arizona	Texas	Fundraising	Expenses
Salaries	\$ 141,737	\$ 85,642	\$ 9,650	\$ 237,029	\$ 925,070
Employee Benefits	31,028	6,672	2,769	40,469	131,105
Payroll Taxes	10,639	6,405	710	17,754	68,271
Bank Charges	2,250	2,250	277	4,777	20,809
Board Meeting/Committee Expense	422	120	138	680	4,108
Books and Subscriptions	4,161	2,133	-	6,294	9,319
Clinic Supplies	-	-	-	-	8,993
Contract Employee	410	1,412	-	1,822	10,392
Dental Supplies	-	-	-	-	5,511
Depreciation	301	301	36	638	81,150
Donated Services	954	1,869	241	3,064	915,299
Donated Supplies and Equipment	-	-	-	-	150,387
Donated Lab and X-Ray Services	-	-	-	-	695,755
Donated Facilities	1,539	289	34	1,862	123,942
Dues and Memberships	59	59	13	131	1,522
Indigent Drugs	-	-	-	-	864,114
Insurance	3,717	36	4	3,757	110,679
Lab Services	-	-	-	-	75,000
License and Registration	183	32	-	215	6,491
Medical Supplies	-	-	-	-	24,710
Medications	-	-	-	-	72,712
Miscellaneous	1,155	200	46	1,401	11,359
Office Supplies	941	802	529	2,272	17,752
Postage	3,453	98	430	3,981	20,609
Printing	4,941	1,548	282	6,771	31,885
Professional Fees	14,956	32,372	1,580	48,908	133,553
Rent	4,023	5,953	70	10,046	34,832
Repairs and Maintenance	-	-	-	-	16,417
Telephone	2,763	1,140	108	4,011	23,981
Tuition and Education	145	11,000	-	11,145	13,251
Travel and Entertainment	6,818	3,282	219	10,319	50,028
Uniforms	-	-	-	-	1,571
Utilities	1,219	787	17	2,023	10,528
Vehicle Expense	-	-	-	-	9,937
<b>TOTAL EXPENSES</b>	<b>\$ 237,814</b>	<b>\$ 164,402</b>	<b>\$ 17,153</b>	<b>\$ 419,369</b>	<b>\$ 4,681,042</b>

See Accompanying Notes

MISSION OF MERCY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

DECEMBER 31, 2006

	Program Services				Total Program	Management and General			Total
	Maryland Medical	Arizona Medical	Texas Medical	MOM's Family	Services	Marvland	Arizona	Texas	Management and General
Salaries	\$ 339,001	\$ 258,056	\$ -	\$ 10,254	\$ 607,311	\$ 29,400	\$ 44,230	\$ -	\$ 73,630
Employee Benefits	49,633	19,538	-	2,782	71,953	8,393	4,902	-	13,295
Payroll Taxes	28,054	20,889	-	835	49,778	3,144	3,671	-	6,815
Bank Charges	1,389	1,721	-	-	3,110	1,616	2,005	-	3,621
Board Meeting/Committee Expense	105	210	-	34	349	2,333	3,319	387	6,039
Books and Subscriptions	1,085	1,248	-	679	3,012	143	68	-	211
Clinic Supplies	8,045	5,820	-	-	13,865	-	-	-	-
Contract Employee	-	17,200	-	-	17,200	2,708	1,549	-	4,257
Dental Supplies	4,980	-	-	-	4,980	-	-	-	-
Depreciation	32,554	5,204	-	-	37,758	5,223	2,292	-	7,515
Donated Services	547,371	277,669	-	-	825,040	-	6,400	-	6,400
Donated Supplies and Equipment	81,903	-	-	-	81,903	1,450	-	-	1,450
Donated Lab and X-Ray Services	519,891	123,219	-	-	643,110	-	-	-	-
Donated Facilities	20,010	27,180	-	7,925	55,115	204	10,008	-	10,212
Dues and Memberships	56	76	-	-	132	988	288	-	1,276
Insurance	68,548	20,493	-	-	89,041	14,033	1,723	-	15,756
Lab Services	-	37,500	-	-	37,500	-	-	-	-
License and Registration	2,069	3,009	-	-	5,078	875	11	1,231	2,117
Medical Supplies	11,697	10,687	-	-	22,384	-	-	-	-
Medications	49,243	50,598	-	-	99,841	-	-	-	-
Miscellaneous	1,867	2,758	414	-	5,039	3,166	623	-	3,789
Office Supplies	-	-	-	-	-	3,284	4,688	-	7,972
Postage	2,411	765	-	-	3,176	6,086	3,703	91	9,880
Printing	3,103	518	-	-	3,621	13,004	6,532	142	19,678
Professional Fees	22,591	22,923	-	-	45,514	16,806	14,397	675	31,878
Rent	4,227	14,367	-	2,777	21,371	3,264	4,100	-	7,364
Repairs and Maintenance	2,448	2,822	-	-	5,270	510	314	-	824
Telephone	4,154	3,372	-	945	8,471	1,745	2,216	-	3,961
Tuition and Education	346	231	-	-	577	31	31	-	62
Travel and Entertainment	4,249	2,269	1,218	144	7,880	10,541	3,472	2,477	16,490
Uniforms	-	-	-	-	-	-	-	-	-
Utilities	5,573	3,396	-	2,398	11,367	1,975	1,535	-	3,510
Vehicle Expense	4,749	2,589	-	-	7,338	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$1,821,352</b>	<b>\$ 936,327</b>	<b>\$ 1,632</b>	<b>\$ 28,773</b>	<b>\$2,788,084</b>	<b>\$ 130,922</b>	<b>\$ 122,077</b>	<b>\$ 5,003</b>	<b>\$ 258,002</b>

See Accompanying Notes

MISSION OF MERCY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

DECEMBER 31, 2006

	Fundraising			Total Fundraising	Total Expenses
	Maryland	Arizona	Texas		
Salaries	\$ 126,093	\$ 63,603	\$ -	\$ 189,696	\$ 870,637
Employee Benefits	26,524	5,308	-	31,832	117,080
Payroll Taxes	9,201	4,983	-	14,184	70,777
Bank Charges	690	861	-	1,551	8,282
Board Meeting/Committee Expense	54	105	-	159	6,547
Books and Subscriptions	3,808	2,223	-	6,031	9,254
Clinic Supplies	-	-	-	-	13,865
Contract Employee	8,750	1,938	-	10,688	32,145
Dental Supplies	-	-	-	-	4,980
Depreciation	-	-	-	-	45,273
Donated Services	3,500	-	-	3,500	834,940
Donated Supplies and Equipment	272	-	-	272	83,625
Donated Lab and X-Ray Services	-	-	-	-	643,110
Donated Facilities	5,055	408	-	5,463	70,790
Dues and Memberships	308	38	-	346	1,754
Insurance	-	-	-	-	104,797
Lab Services	-	-	-	-	37,500
License and Registration	2	1	-	3	7,198
Medical Supplies	-	-	-	-	22,384
Medications	-	-	-	-	99,841
Miscellaneous	466	50	-	516	9,344
Office Supplies	664	188	-	852	8,824
Postage	757	794	-	1,551	14,607
Printing	2,965	428	-	3,393	26,692
Professional Fees	8,410	51,625	900	60,935	138,327
Rent	2,530	4,680	-	7,210	35,945
Repairs and Maintenance	24	24	-	48	6,142
Telephone	1,433	563	-	1,996	14,428
Tuition and Education	32	32	-	64	703
Travel and Entertainment	5,969	1,586	-	7,555	31,925
Uniforms	-	-	-	-	-
Utilities	2,029	2,120	-	4,149	19,026
Vehicle Expense	-	-	-	-	7,338
<b>TOTAL EXPENSES</b>	<b>\$ 209,536</b>	<b>\$ 141,558</b>	<b>\$ 900</b>	<b>\$ 351,994</b>	<b>\$ 3,398,079</b>

See Accompanying Notes

**MISSION OF MERCY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Inflows:		
Receipts from Donations	\$ 986,289	\$ 569,468
Receipts from Grants	1,094,453	947,493
Receipts from Special Events	359,172	343,624
Interest Received	5,647	3,101
Miscellaneous Receipts	2,117	3,701
	2,447,678	1,867,387
Outflows:		
Payments to Employees	781,607	892,335
Payments for Program Services	598,680	528,592
Payments for Management and General	139,871	163,525
Payments for Special Events	127,157	89,117
Payments for Fundraising	176,776	153,063
	1,824,091	1,826,632
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>623,587</b>	<b>40,755</b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Outflows:		
Acquisition of Equipment	19,400	192,360
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(19,400)</b>	<b>(192,360)</b>
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>604,187</b>	<b>(151,605)</b>
Cash and Cash Equivalents - Beginning	228,444	380,049
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b>\$ 832,631</b>	<b>\$ 228,444</b>

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 seventeen 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 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 are 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, either by satisfaction by payment or by the passage of time, 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.

## MISSION OF MERCY, INC.

### NOTES TO FINANCIAL STATEMENTS - continued

#### Note 1. Summary of Accounting Policies - continued

##### 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.

##### 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 and supplies 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 and Facilities

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.

Donated facilities are recorded at the fair value of the rent.

## MISSION OF MERCY, INC.

### NOTES TO FINANCIAL STATEMENTS - continued

#### Note 2. Cash and Cash Equivalents

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, 2007 and 2006, the Organization's uninsured cash balances totaled \$569,410 and \$135,282, respectively. In addition, at December 31, 2007 and 2006, the Organization had petty cash of \$485 and \$490, respectively.

#### Note 3. Unconditional Promises to Give

As of December 31, 2006, the Organization received promises to give of \$38,000 for Arizona Clinics. All amounts were deposited in January of the following year; therefore, no provision is made for uncollectible amounts, and the promises are considered unconditional.

In 2007, the Organization implemented a new fundraising model that resulted in receiving commitments over time to benefit the Arizona program. At December 31, 2007, collections are expected as follows:

2008	\$ 81,820
2009	77,000
2010	49,950
2011	<u>49,450</u>
	258,220
Less: Allowance for Uncollectible Promises	<u>(24,842)</u>
Net Unconditional Promises to Give	<u>\$233,378</u>

The future cash flows were discounted by 4.57% to determine the net present value of the promise to give. In addition, new contributors to the Organization were discounted by 5%.

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

**Note 4. Inventory**

Inventory consists of the following:

	<u>2007</u>	<u>2006</u>
Purchased Inventory	\$ 23,011	\$ 21,397
Donated Inventory	<u>122,341</u>	<u>93,864</u>
	<u>\$145,352</u>	<u>\$115,261</u>

**Note 5. Line of Credit**

In 2007, the Organization established a \$75,000 line of credit to be used for operational expenses, with interest due and payable monthly and charged at a rate equal to the Bank's variable prime rate. At December 31, 2007, no draws have been made against this line of credit.

**Note 6. Restricted Net Assets**

The board has designated unrestricted funds as Program Development Funds in order to have cash readily available to facilitate growth opportunities as they arise. The Program Development Funds as of December 31, 2007 and 2006 are \$112,724 and \$2,573, respectively.

Temporarily restricted net assets are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Arizona Clinics	\$233,378	\$ 38,000
Breast Cancer Treatments	37,500	37,500
Strategic Planning	-	9,500
Dental Equipment	<u>7,843</u>	<u>-</u>
	<u>\$278,721</u>	<u>\$ 85,000</u>

## MISSION OF MERCY, INC.

### NOTES TO FINANCIAL STATEMENTS - continued

#### **Note 7. Operating Lease**

The Organization began leasing office space in Frederick, MD in September 2006. The lease terms include monthly rent at \$1,312 for October 2006 to December 2007. A new lease was entered in January 2008. The lease terms include monthly rent at \$1,742 for January 2008 to December 2008. An option to renew the lease for a term of one to three years is included in the lease terms.

The Organization also leases office space in Phoenix, AZ. The lease terms include monthly rent of \$1,050 for January 2006 to October 2007. A new lease was entered in November 2007. The lease terms include monthly rent at \$1,400 for November 2007 to December 2008. There is no option to renew the lease without an additional agreement.

#### **Note 8. Donated Materials, Services, and Facilities**

The Organization received donated medications, medical supplies, and other supplies valued at \$178,864 and \$96,191 for the years ended December 31, 2007 and 2006, respectively. In addition, during 2007 and 2006, they received donated facilities valued at \$123,942 and \$70,790, 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 \$695,755 and \$643,110 for the years ended December 31, 2007 and 2006, respectively. These donated items were recorded as revenue and expenses in the financial statements except for the unused donated inventory of \$122,341 and \$93,864 at December 31, 2007 and 2006, respectively, that were recorded as an asset instead of an expense.

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 \$901,569 and \$738,606, which represents 24,229 and 23,926 hours of time, contributed for the years ended December 31, 2007 and 2006, respectively. During 2007 and 2006, accounting and other professionals donated services valued at \$13,730 and \$9,900, respectively. In 2006, a national cable company donated two public service announcements that were valued at \$86,434.

## MISSION OF MERCY, INC.

### NOTES TO FINANCIAL STATEMENTS - continued

#### **Note 8. Donated Materials and Services - continued**

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 11,723 and 17,371 hours for the years ended December 31, 2007 and 2006, respectively.

#### **Note 9. Indigent Drug Program**

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. Since Mission of Mercy, Inc. has set up the medical program to provide ongoing treatment and assessment of the patient and the doctors of Mission of Mercy, Inc. have discretion on what medicines are prescribed, the Organization meets the discretion requirement and records the medications as revenue and a corresponding expense in the financial statements for the year ending December 31, 2007. The Organization received medications from these programs valued at \$864,114 for the year ended December 31, 2007.

#### **Note 10. 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 Chief 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., but does not vote on salary issues, and receives no compensation. The Assistant Nursing Director in Maryland is the sister of the Chief Medical Director and the wife of the Chief Financial Officer. She is not a member of the board.

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

**Note 11. Reconciliation of Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities**

	<u>2007</u>	<u>2006</u>
Increase (Decrease) in Net Assets	\$ <u>612,831</u>	\$ <u>(33,777)</u>
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	81,150	45,273
Donated Inventory	(28,476)	(12,566)
(Increase) Decrease In:		
Accounts Receivable	868	(69)
Unconditional Promises to Give Inventory	(195,378)	59,000
Prepaid Expenses	2,959	(4,663)
Increase (Decrease) In:		
Accounts Payable	7,783	(10,182)
Accrued Salaries and Payroll Taxes	<u>143,463</u>	<u>(21,698)</u>
Total Adjustments	<u>10,756</u>	<u>74,532</u>
Net Cash Provided by Operating Activities	<u>\$ 623,587</u>	<u>\$ 40,755</u>

The Organization had non-cash investing activities for the years ended December 31, 2007 and 2006 through the receipt of donated inventory on hand of \$122,341 and \$93,864, respectively.

**Note 12. Concentration of Contributions**

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

**Note 13. Profit Sharing Plan**

The Organization operates a 401(k) plan that is funded by participant salary reductions and, if approved by the Board of Directors, discretionary contributions by the employer. The plan covers substantially all employees. The Organization initiated this plan in 2007 and contributed \$0 for the year ended December 31, 2007. This plan is tax exempt and has been approved by the Internal Revenue Service.

## MISSION OF MERCY, INC.

### NOTES TO FINANCIAL STATEMENTS - continued

#### Note 14. Financial Statement Presentation

Certain reclassifications were made to the 2006 financial statement presentation in order to conform to the 2007 financial statement presentation. The reclassifications did not affect the Organization's overall performance.

#### Note 15. Prior Period Adjustment

The Organization has restated its previously issued 2006 financial statements to account for an error in expensing donated inventory remaining at year end instead of presenting as an asset on the Statement of Financial Position. The accompanying financial statements for 2006 have been restated to reflect the correction of this error. Also, unrestricted net assets at January 1, 2006, was increased by \$81,298 as a result of adjustments to donated inventory previously expensed.

The effect on the Organization's previously issued 2006 financial statements is summarized as follows:

Statement of Financial Position as of December 31, 2006:

	<u>Previously Reported</u>	<u>Increase (Decrease)</u>	<u>Restated</u>
Inventory	\$ 21,397	\$ 93,864	\$115,261
Unrestricted Net Assets – December 31, 2006	\$496,062	\$ 93,864	\$589,926

Statement of Activities and Functional Expenses for the year ended December 31, 2006:

	<u>Previously Reported</u>	<u>Increase (Decrease)</u>	<u>Restated</u>
Program Expenses – Maryland Medical Donated Supplies and Equipment	\$ 94,469	\$(12,566)	\$ 81,903
Unrestricted Net Assets – December 31, 2005	\$501,808	\$ 81,298	\$583,106
Increase (Decrease) in Net Assets	\$ (5,746)	\$ 12,566	\$ 6,820
Unrestricted Net Assets – December 31, 2006	\$496,062	\$ 93,864	\$589,926

## **SUPPLEMENTARY INFORMATION**

**INDEPENDENT AUDITORS' REPORT ON  
SUPPLEMENTARY INFORMATION**

April 10, 2008

Board of Directors  
Mission of Mercy, Inc.

Our report on our audits of the financial statements of *Mission of Mercy, Inc.* for 2007 and 2006 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.

*Rager, Lehman & Houck, P.C.*

**MISSION OF MERCY, INC.**  
**NOTE ON INDIGENT DRUG PROGRAMS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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 for the year ended December 31, 2006. Since Mission of Mercy, Inc. is acting in an agent capacity for the year ended December 31, 2006, the value of the medications distributed through the indigent drug programs are not included in the financial statements for the year ended December 31, 2006. See Note 9 in the notes to the financial statements for disclosure regarding the recording of indigent drugs in the statement of activities for the year ended December 31, 2007.