

MISSION OF MERCY, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

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RAGER, LEHMAN & HOUCK, P.C.
Opportunity Innovation Excellence

INDEPENDENT AUDITORS' REPORT

April 26, 2011

Board of Directors
Mission of Mercy, Inc.
Frederick, Maryland

We have audited the accompanying statements of financial position of Mission of Mercy, Inc. (a nonprofit organization), as of December 31, 2010 and 2009, 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, 2010 and 2009, 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.

Rager, Lehman & Houck, P.C.

FINANCIAL STATEMENTS

MISSION OF MERCY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

ASSETS

	2010	2009
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 557,159	\$ 571,601
Unconditional Promises to Give (Less Allowance for Uncollectible Promises of \$41,036 and \$10,562, respectively)	263,923	200,673
Inventory	85,226	82,200
Prepaid Expenses	39,611	29,338
TOTAL CURRENT ASSETS	<u>945,919</u>	<u>883,812</u>
 PROPERTY AND EQUIPMENT		
Dental Equipment	37,186	44,648
Medical Equipment	42,978	42,150
Office Equipment	55,961	59,963
Vehicles	1,177,822	678,069
	<u>1,313,947</u>	<u>824,830</u>
Less: Accumulated Depreciation	710,316	650,414
TOTAL PROPERTY AND EQUIPMENT	<u>603,631</u>	<u>174,416</u>
 OTHER ASSETS		
Long-Term Prepaid Expenses	-	4,484
Unconditional Promises to Give (Less Allowance for Uncollectible Promises of \$33,463 and \$20,327, respectively)	379,659	352,370
TOTAL OTHER ASSETS	<u>379,659</u>	<u>356,854</u>
 TOTAL ASSETS	 <u><u>\$ 1,929,209</u></u>	 <u><u>\$ 1,415,082</u></u>

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

LIABILITIES AND NET ASSETS

	2010	2009
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 56,525	\$ 28,982
Accrued Payroll Taxes	4,109	6,556
Accrued Salaries	106,144	110,464
Note Payable	17,499	-
TOTAL CURRENT LIABILITIES	<u>184,277</u>	<u>146,002</u>
TOTAL LIABILITIES	<u>184,277</u>	<u>146,002</u>
NET ASSETS		
Unrestricted		
Undesignated	627,637	347,577
Board Designated	4,472	14,602
Total Unrestricted	<u>632,109</u>	<u>362,179</u>
Temporarily Restricted	1,112,823	906,901
TOTAL NET ASSETS	<u>1,744,932</u>	<u>1,269,080</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,929,209</u>	<u>\$ 1,415,082</u>

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010		2009		Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
SUPPORT AND REVENUE					
SUPPORT					
Contributions	\$ 953,740	\$ 104,141	\$ 1,057,881	\$ 268,080	\$ 1,045,770
Grants	1,120,361	469,241	1,589,602	270,818	1,090,135
Donated Facilities	77,541	-	77,541	-	77,271
Donated Lab and X-Ray Services	954,928	-	954,928	-	769,643
Donated Services	1,104,276	-	1,104,276	-	1,051,443
Donated Supplies and Equipment	306,551	-	306,551	-	392,367
Indigent Drug Program	257,929	-	257,929	-	339,285
TOTAL SUPPORT	4,775,326	573,382	5,348,708	538,898	4,765,914
REVENUE					
Special Events	308,592	-	308,592	-	329,297
Miscellaneous Revenues	2,361	-	2,361	-	2,886
Interest Income	1,076	-	1,076	-	285
Gain on Investment	30	-	30	-	-
TOTAL REVENUE	312,059	-	312,059	-	332,468
EXPIRATION OF TIME RESTRICTIONS	13,602	(13,602)	-	(18,719)	-
RESTRICTIONS SATISFIED BY PAYMENTS	353,858	(353,858)	-	(128,083)	-
TOTAL SUPPORT AND REVENUE	5,454,845	205,922	5,660,767	392,096	5,098,382
EXPENSES AND LOSSES					
Program Expenses	4,025,251	-	4,025,251	-	4,019,902
Management and General	393,229	-	393,229	-	322,347
Fundraising	654,498	-	654,498	-	538,432
Special Events	111,937	-	111,937	-	138,422
Loss on Disposal of Assets	-	-	-	-	933
Loss on Investment	-	-	-	-	11
TOTAL EXPENSES AND LOSSES	5,184,915	-	5,184,915	5,020,047	5,020,047
INCREASE (DECREASE) IN NET ASSETS	269,930	205,922	475,852	392,096	78,335
Net Assets - Beginning of Year	362,179	906,901	1,269,080	514,805	1,190,745
NET ASSETS - END OF YEAR	\$ 632,109	\$ 1,112,823	\$ 1,744,932	\$ 906,901	\$ 1,269,080

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Program Services			MOM's			Management and General				Fundraising			Total Expenses
	Maryland Medical	Arizona Medical	Texas Medical	Family	TOTAL	Maryland	Arizona	Texas	TOTAL	Maryland	Arizona	Texas	TOTAL	
Salaries	\$ 285,085	\$ 258,278	\$ 139,779	\$ -	\$ 683,142	\$ 57,624	\$ 79,543	\$ 23,030	\$ 160,197	\$ 100,689	\$ 116,561	\$ 50,742	\$ 268,012	\$ 1,111,351
Employee Benefits	60,407	22,419	30,284	-	113,110	9,315	13,330	4,443	27,088	15,377	25,486	12,501	53,364	193,562
Payroll Taxes	21,560	19,550	10,584	-	51,694	4,295	6,021	1,735	12,051	7,407	3,830	3,886	20,073	83,818
Bank Charges	3,234	3,147	3,120	-	9,501	4,072	4,992	4,066	13,130	1,554	1,554	1,554	4,662	27,293
Board and Committee Expense	102	103	103	-	308	113	252	556	921	51	51	51	153	1,382
Books and Subscriptions	1,222	1,341	1,232	-	3,795	199	205	139	543	4,176	2,653	-	6,829	11,167
Clinic Supplies	4,737	4,801	-	-	9,538	-	-	-	-	-	-	-	-	9,538
Contract Services	16,278	6,140	7,159	-	29,577	3,399	3,252	3,690	10,341	-	32,555	2,804	35,359	75,277
Dental Supplies	3,690	-	-	-	3,690	-	-	-	-	-	-	-	-	3,690
Depreciation	34,367	34,593	3,110	-	72,070	1,118	665	72	1,855	72	72	72	216	74,141
Donated Services	524,775	395,667	174,026	-	1,094,468	4,855	1,286	917	7,058	917	917	916	2,750	1,104,276
Donated Supplies and Equipment	222,744	-	48,125	-	270,869	-	-	-	-	-	-	-	-	270,869
Donated Lab and X-Ray Services	721,893	176,336	58,699	-	954,928	-	-	-	-	-	-	-	-	954,928
Donated Facilities	26,492	18,680	26,416	-	71,588	628	628	2,812	4,068	628	628	629	1,885	77,541
Donor Development	-	-	-	-	-	7	7	-	7	7,912	25,489	8,563	41,964	41,971
Dues and Memberships	19	179	202	-	400	1,365	9	317	1,691	109	109	9	227	2,318
Indigent Drugs	257,929	-	-	-	257,929	4,461	3,890	4,790	13,141	1,041	1,041	1,041	3,123	257,929
Insurance	53,691	17,686	21,724	-	93,101	-	-	-	-	-	-	-	-	55,198
Lab Services	-	55,198	-	-	55,198	-	-	-	460	-	25	-	25	7,428
License and Registration	1,905	4,697	341	-	6,943	450	10	-	-	-	-	-	-	31,684
Medical Supplies	7,380	14,007	10,297	-	31,684	-	-	-	-	-	-	-	-	70,521
Medications	29,459	30,835	10,227	-	70,521	-	-	-	-	-	-	-	-	109,365
Miscellaneous	2,145	4,156	1,317	-	7,618	1,299	2,741	5,013	9,053	638	713	508	1,859	18,530
Office Supplies	-	-	2,388	-	2,388	4,113	4,008	1,776	9,897	246	270	419	935	13,220
Postage	433	136	290	-	859	15,663	1,685	552	17,900	542	1,203	1,845	3,590	22,349
Printing	1,398	527	1,002	-	2,927	22,082	3,069	1,180	26,331	42	204	42	288	29,546
Professional Fees	15,737	14,408	9,719	-	42,864	21,614	5,804	5,093	32,511	31,503	59,818	30,974	122,295	197,670
Rent	6,218	7,275	3,899	-	17,392	5,958	4,261	3,410	13,629	5,237	7,143	2,077	14,457	45,478
Repairs and Maintenance	4,660	4,762	11,170	-	20,592	5,599	-	-	5,599	-	-	221	221	26,412
Telephone	5,184	4,636	4,043	-	13,863	1,788	2,250	3,761	7,799	2,487	1,646	3,079	7,212	28,874
Tuition and Education	4,913	5,492	4,119	-	14,524	-	1,631	-	1,631	17,301	4,686	23,995	45,982	48,182
Travel and Entertainment	28	-	186	-	214	3,820	2,927	4,854	11,601	8,845	3,766	1,753	14,364	40,489
Uniforms	1,337	3,236	783	-	5,356	-	-	-	-	-	-	-	-	214
Utilities	3,595	3,844	4,592	-	12,031	891	3,014	822	4,727	978	3,160	515	4,653	14,736
Vehicle Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	\$2,326,617	\$1,112,129	\$637,505	\$ -	\$4,025,251	\$174,721	\$145,460	\$73,028	\$393,229	\$207,752	\$298,600	\$148,146	\$654,498	\$5,972,978

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Program Services			Management and General				Fundraising			Total Expenses		
	Maryland Medical	Arizona Medical	Texas Medical	MOM's Family	TOTAL	Maryland	Arizona	Texas	TOTAL	Maryland		Arizona	Texas
Salaries	\$ 343,850	\$ 241,507	\$ 131,908	\$ 24,940	\$ 742,205	\$ 56,319	\$ 78,579	\$ 15,508	\$ 150,406	\$ 125,187	\$ 82,220	\$ 41,606	\$ 249,013
Employee Benefits	61,319	24,089	36,849	3,468	125,725	11,734	8,285	4,565	24,584	15,225	12,353	6,255	33,833
Payroll Taxes	26,212	19,725	10,928	1,870	58,735	3,727	4,208	1,460	9,395	9,376	6,145	1,752	17,273
Bank Charges	2,346	2,276	1,114	-	5,736	3,519	3,377	800	7,696	1,114	1,114	557	2,785
Board and Committee Expense	251	251	126	-	628	405	561	1,007	1,973	126	126	63	315
Books and Subscriptions	815	710	969	532	3,026	499	351	71	921	2,799	1,619	-	4,418
Clinic Supplies	5,907	2,648	-	-	8,455	-	-	-	-	-	-	-	-
Contract Services	10,950	11,097	2,855	-	24,902	1,580	7,270	-	8,850	310	16,128	-	16,438
Dental Supplies	4,232	-	-	-	4,232	-	-	-	-	-	-	-	-
Depreciation	40,069	35,176	5,011	-	80,258	1,520	1,159	57	2,736	115	115	57	287
Donated Services	506,512	381,611	155,967	-	1,044,090	1,794	3,083	360	5,227	700	1,076	350	2,126
Donated Supplies and Equipment	304,861	10,575	29,428	-	344,864	-	-	-	-	-	-	-	-
Donated Lab and X-Ray Services	556,493	171,470	41,680	-	769,643	-	-	-	-	-	-	-	-
Donated Facilities	26,533	23,198	17,837	3,701	71,269	810	810	2,357	3,977	810	810	405	2,025
Donor Development	-	-	-	-	-	-	-	-	-	4,696	19,745	6,821	31,062
Dues and Memberships	303	352	170	-	825	939	89	999	2,027	898	258	44	1,200
Indigent Drugs	339,285	-	-	-	339,285	-	-	-	-	-	-	-	-
Insurance	45,144	25,782	24,175	-	95,101	1,144	729	2,020	3,893	343	343	172	858
Lab Services	-	37,500	-	-	37,500	-	-	-	-	-	-	-	-
License and Registration	2,470	2,114	534	-	5,118	450	850	-	1,300	95	80	-	175
Medical Supplies	9,338	12,908	9,668	-	31,914	-	-	-	-	-	-	-	-
Medications	41,438	36,572	11,586	-	89,596	-	-	-	-	-	-	-	-
Miscellaneous	2,096	1,656	1,349	-	5,101	3,294	1,966	831	6,081	1,758	285	647	2,690
Office Supplies	-	-	2,762	-	2,762	2,952	4,789	2,578	10,319	1,271	213	84	1,568
Postage	704	227	269	-	1,200	13,338	1,485	445	15,268	4,201	739	2,638	7,578
Printing	2,890	913	2,166	-	5,969	6,326	2,223	2,098	10,647	4,201	2,173	360	7,578
Professional Fees	15,630	16,749	8,021	2,131	42,531	8,577	9,485	4,148	22,210	23,812	23,821	28,152	75,785
Rent	6,603	8,701	3,263	3,214	21,781	4,837	4,220	2,970	12,027	5,609	9,100	1,611	16,320
Repairs and Maintenance	5,727	3,636	10,985	-	20,348	6,200	150	6	6,356	-	-	-	-
Telephone	5,033	2,818	2,865	275	10,991	1,173	1,975	2,608	5,756	2,846	785	2,259	5,890
Tuition and Education	611	24	-	-	635	12	596	6	614	1,602	23,391	16,496	41,489
Travel and Entertainment	7,213	4,045	1,931	6	13,195	2,529	3,204	2,676	8,409	5,618	3,859	1,174	10,651
Uniforms	-	-	-	-	-	-	70	-	70	-	-	-	-
Utilities	1,691	404	857	209	3,161	699	101	805	1,605	706	303	467	1,476
Vehicle Expense	4,126	3,353	1,642	-	9,121	-	-	-	-	-	-	-	-
TOTAL EXPENSES	\$2,380,652	\$1,081,989	\$616,915	\$40,346	\$4,019,902	\$134,377	\$189,606	\$48,365	\$322,347	\$219,871	\$206,801	\$111,760	\$538,432
													\$4,850,681

MISSION OF MERCY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows:		
Receipts from Donations	\$ 967,342	\$ 879,449
Receipts from Grants	1,589,602	1,090,135
Receipts from Special Events	308,592	329,297
Interest Received	1,076	285
Miscellaneous Receipts	2,361	2,886
	<u>2,868,973</u>	<u>2,302,052</u>
Outflows:		
Payments to Employees	1,118,118	1,144,013
Payments for Program Services	581,074	635,341
Payments for Management and General	221,465	170,956
Payments for Special Events	111,937	138,422
Payments for Fundraising	377,260	284,981
	<u>2,409,854</u>	<u>2,373,713</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>459,119</u>	<u>(71,661)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Outflows:		
Acquisition of Equipment	473,561	5,965
NET CASH USED BY INVESTING ACTIVITIES	<u>(473,561)</u>	<u>(5,965)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,442)	(77,626)
Cash and Cash Equivalents - Beginning	571,601	649,227
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 557,159</u></u>	<u><u>\$ 571,601</u></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 the provision of 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 Arizona, Maryland, Pennsylvania, and Texas.

The Organization previously operated a secondary program through which a collective group of volunteers and contributors known as MOM's Family served and supported both Mission of Mercy, Inc. and its target demographic. The group's three missions were to provide support through prayer, service, and financial means. MOM's Family stopped its activities as of December 31, 2009.

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.

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.

Inventory

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

Donated medications and supplies are stated at their average wholesale price.

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 at the date of donation. 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. Property and equipment is depreciated using the straight-line method over the estimated useful life of each asset. Depreciation expense for the years ended December 31, 2010 and 2009 was \$74,141 and \$83,281, respectively.

Note Payable

Mission of Mercy, Inc. has a short-term note payable to an insurance premium financing specialist who paid the Organization's annual insurance premiums on behalf of the Organization. The Organization is making payments to the financier over the terms of the policies.

Contributions and Grants

Support and revenue are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Revenues are recorded as services are provided.

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 the applicable net asset class. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted.

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 1. Summary of Accounting Policies - continued

Contributions and Grants - continued

All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

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

Unconditional Promises to Give

Contributions are recognized at their fair value when the donor makes a promise to give to the Organization that is, in substance, unconditional. Gains and losses from changes in fair value are included in the contributions line of the statement of activities. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows, as management believe that this is the most accurate method of reporting these revenues. For the years ended December 31, 2010 and 2009, the effect of changes in fair value of unconditional promises to give resulted in a decrease of \$28,846 and an increase of \$8,064 in contributions revenues, respectively.

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 valued based on published reports on current market rates for Class B space rents.

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

Note 1. Summary of Accounting Policies - continued

Functional Expenses

Expenses are charged to programs and supporting services on the basis of actual invoices received. A portion of general and administrative expenses may be allocated to programs as deemed necessary. 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 by employees in each capacity.

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.

FASB ASC 740-10 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FASB ASC 740-10 is effective for fiscal years beginning after December 15, 2008, and the Organization adopted FASB ASC 740-10 as of January 1, 2009, as required. As of December 31, 2010, the Organization has determined that the adoption of FASB ASC 740-10 did not have a material impact on the Organization's financial position and results of operations.

The Organization's federal exempt organization business income tax returns for the years ended December 31, 2009, 2008, and 2007 remain subject to examination by the Internal Revenue Service. Through the date of this report, the Organization has received no notification from the Internal Revenue Service of any intention to review those open years.

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

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 26, 2011, the date the financial statements were available to be issued.

Note 2. Cash and Cash Equivalents

The Organization maintains cash balances at several financial institutions. Accounts with participating institutions are wholly insured by the Federal Deposit Insurance Corporation. The Organization maintains cash balances at both participating and non-participating financial institutions. There were no uninsured cash balances at December 31, 2010 and 2009.

Note 3. Unconditional Promises to Give

The Organization uses a fundraising model in each of its geographic locations that has resulted in receiving commitments over time to benefit the Organization. As of December 31, 2010, collections were expected pertaining to multi-year commitments as follows:

	2011	\$304,958
	2012	200,410
	2013	140,180
	2014	94,580
	2015	6,000
	Thereafter	<u>5,000</u>
		751,128
	Less: Present Value Discount (see Note 10)	(33,047)
	Less: Allowance for Uncollectible Promises (See Note 10)	<u>(74,499)</u>
	Net Unconditional Promises to Give	<u>\$643,582</u>
Net Unconditional Promises to Give		
by Location as of December 31	<u>2010</u>	<u>2009</u>
Maryland/Pennsylvania	\$ 73,554	\$ 87,156
Arizona	407,845	366,880
Texas	<u>162,183</u>	<u>99,007</u>
	<u>\$643,582</u>	<u>\$553,043</u>

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

Note 4. Inventory

Inventory consists of the following:

	<u>2010</u>	<u>2009</u>
Purchased Inventory	\$13,345	\$ 16,236
Donated Inventory	<u>71,881</u>	<u>65,964</u>
	<u>\$85,226</u>	<u>\$ 82,200</u>

Note 5. Line of Credit

The Organization had \$250,000 and \$150,000 lines of credit available as of December 31, 2010 and 2009, respectively, to be used for operational expenses. The line is secured by inventory and equipment owned by the Organization. Interest at a rate equal to the bank's variable prime rate plus 1.0% (6.25% and 5.25% as of December 31, 2010 and 2009, respectively) is due and payable monthly. As of December 31, 2010 and 2009, there were no draws outstanding on 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, 2010 and 2009 are \$4,472 and \$14,602, respectively.

Temporarily restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Arizona Clinics	\$ 529,103	\$449,920
Arizona Mobile Clinic Purchase	19,877	100,000
Benevon (Fundraising) Training	-	22,000
Maryland/Pennsylvania Clinics	233,573	146,807
Specific Illness Treatment Programs	76,667	89,167
Texas Clinics	248,603	99,007
Strategic Planning	<u>5,000</u>	<u>-</u>
	<u>\$1,112,823</u>	<u>\$906,901</u>

Note 7. Operating Lease

The Organization leases office space in Frederick, Maryland, Phoenix, Arizona and Corpus Christi, Texas. Office rent expense totaled \$45,478 and \$50,128 for the years ended December 31, 2010 and 2009, respectively.

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

Note 7. Operating Lease - continued

These leases expire at various periods from December 31, 2011 to December 31, 2013. Future monthly lease payments range from \$382 to \$1,973 and total \$4,136 monthly.

The Organization also leases a copier. The lease terms include 60 monthly payments of \$198 payable through May 2013. Copier lease expense totaled \$2,376 for each of the years ended December 31, 2010 and 2009.

A summary of total future minimum operating lease payments is as follows:

2011	\$ 52,010
2012	27,199
2013	<u>24,666</u>
Total	<u>\$103,875</u>

Note 8. Donated Materials, Services, and Facilities

The Organization received donated medications, medical supplies, and other supplies valued at \$276,786 and \$327,367 for the years ended December 31, 2010 and 2009, respectively. These donations were valued by the organization at wholesale or discount supplier prices and were recorded as revenue and expenses in the financial statements except for the unused donated inventory of \$71,881 and \$65,964 as of December 31, 2010 and 2009, respectively, which was recorded as an asset instead of an expense (see Note 10).

The Organization also received equipment donations valued at \$29,765 and \$65,000 that were recorded as assets for the years ended December 31, 2010 and 2009, respectively. In addition, during 2010 and 2009, the Organization received donated facilities valued at \$77,541 and \$77,271, respectively, for storage of mobile healthcare units and pharmacy items, clinic space, and office space.

The financial statements also include donations of lab services and x-rays provided by hospitals and laboratories in the amount of \$954,928 and \$769,643 for the years ended December 31, 2010 and 2009, respectively. The services are valued by the Organization at each specific service provider's current rates.

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

Note 8. Donated Materials, Services, and Facilities - continued

A large number of volunteers donate significant amounts of their time in Mission of Mercy, Inc. activities. For the years ended December 31, 2010 and 2009, 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 \$1,088,969 and \$1,040,590. The Organization values services provided by these professionals at rates comparable to what the Organization would expect to pay for the services. The services recognized in the financial statements represent 27,339 and 27,030 hours of time contributed for the years ended December 31, 2010 and 2009, respectively.

During 2010 and 2009, accountants and other professionals donated services valued at \$15,307 and \$10,853, respectively by the Organization using the specific write-downs of professional services invoices.

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 FASB ASC 958-605. These services represent 17,960 and 17,705 hours for the years ended December 31, 2010 and 2009, 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 which 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 years ending December 31, 2010 and 2009. The Organization received medications from these programs valued at \$257,929 and \$339,285 for the years ended December 31, 2010 and 2009, respectively, based on published discount supplier prices.

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

Note 10. Fair Value Measurements

The Corporation uses a framework for measuring fair value that prioritizes the inputs to valuation techniques used to measure fair value using a fair value hierarchy. The following are the major categories of assets measured at fair value on a recurring basis during the year ended December 31, 2010, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Donated Inventories - Valued at current unadjusted quoted wholesale or discount supplier prices, a Level 1 measurement.

Unconditional Promises to Give - The income approach utilizes valuation techniques (the present value method, a Level 2 measurement) to convert future amounts to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. The Organization discounts future cash flows by the risk-free interest rate of 4.17% annually to determine the net present value of the promises to give. In addition, pledges to the Organization are discounted by an additional 7.50% for collectability concerns. The Organization believes this method appropriately values pledges while also recognizing the good faith and historical reliability of its donors.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

Note 10. Fair Value Measurements - continued

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31:

<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Donated Inventories	\$71,881	\$ -	\$ 71,881
Unconditional Promises to Give	<u>-</u>	<u>643,582</u>	<u>\$643,582</u>
Total Assets at Fair Value	<u>\$71,881</u>	<u>\$643,582</u>	<u>\$715,463</u>
<u>2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Donated Inventories	\$65,964	\$ -	\$ 65,964
Unconditional Promises to Give	<u>-</u>	<u>553,043</u>	<u>553,043</u>
Total Assets at Fair Value	<u>\$65,964</u>	<u>\$553,043</u>	<u>\$619,007</u>

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

	<u>2010</u>	<u>2009</u>
Increase in Net Assets	\$475,852	\$ 78,335
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	74,141	83,281
Loss on Disposition of Assets	-	933
Donated Assets	(29,765)	(65,000)
Gain (Loss) on Investment	(30)	11
(Increase) Decrease In:		
Unconditional Promises to Give	(90,539)	(166,321)
Inventory	(3,026)	25,825
Prepaid Expenses	(5,789)	(10,955)
Increase (Decrease) In:		
Accounts Payable	27,543	(15,381)
Accrued Salaries and Payroll Taxes	(6,767)	(2,389)
Note Payable	<u>17,499</u>	<u>-</u>
Total Adjustments	<u>...(16,733)</u>	<u>...(149,996)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$459,119</u>	<u>\$ (71,661)</u>

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 11. Reconciliation of Increase in Net Assets to Net Cash Provided (Used) by Operating Activities - continued

The Organization had non-cash operating activities for the years ended December 31, 2010 and 2009 through the receipt of donated inventory on hand of \$71,881 and \$65,964, respectively.

The Organization had non-cash contribution income (loss) for the years ended December 31, 2010 and 2009 from the effect of changes in fair value of unconditional promises to give of \$(28,846) and \$8,064, respectively.

The Organization had non-cash contributions of donated equipment in the amounts of \$29,765 and \$65,000 for the years ended December 31, 2010 and 2009, respectively.

The Organization had two non-cash contributions of donated stock in 2010 with a total value of \$14,237. The Organization had no donated stock transactions in 2009.

The Organization incurred a short-term note payable of \$53,799 during the year ended December 31, 2010 to an insurance premium financing specialist, who paid the Organization's annual insurance premiums on their behalf. The Organization did not have this type of insurance financing arrangement in 2009.

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, although eligibility criteria are maintained. The Organization initiated this plan in 2007 and did not make any contributions for the years ended December 31, 2010 and 2009. This plan is tax exempt and has been approved by the Internal Revenue Service.