

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

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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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An Independently Owned Member

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	2,899,198	125,597	3,024,795
REVENUE			
Special Events	280,187	-	280,187
Miscellaneous Revenues	2,891	-	2,891
Interest Income	1,982	-	1,982
TOTAL REVENUE	285,060	-	285,060
TOTAL SUPPORT AND REVENUE	3,184,258	125,597	3,309,855
 NET ASSETS RELEASED FROM RESTRICTIONS			
Restrictions Satisfied by Payments	227,167	(227,167)	-
 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	3,595,556	-	3,595,556
 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	\$ 501,808	\$ 125,597	\$ 627,405

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	2,770	2,963	-	5,733	-	-	-	-	-	-	5,733
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	<u>(164,864)</u>	<u>264,982</u>
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.