

MISSION OF MERCY, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2006 AND 2005

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INDEPENDENT AUDITORS' REPORT

April 18, 2007

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, 2006 and 2005, 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, 2006 and 2005, 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.

MISSION OF MERCY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$228,444	\$380,049
Accounts Receivable	459	390
Unconditional Promises to Give	38,000	97,000
Inventory	21,397	40,834
Prepaid Expenses	<u>22,750</u>	<u>18,089</u>
TOTAL CURRENT ASSETS	<u>311,050</u>	<u>536,362</u>
PROPERTY AND EQUIPMENT		
Dental Equipment	37,453	37,453
Medical Equipment	54,288	53,118
Office Equipment	73,698	60,302
Vehicles	<u>613,070</u>	<u>435,278</u>
	778,509	586,151
Less: Accumulated Depreciation	<u>467,869</u>	<u>422,598</u>
TOTAL PROPERTY AND EQUIPMENT	<u>310,640</u>	<u>163,553</u>
TOTAL ASSETS	<u>\$621,690</u>	<u>\$699,915</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 31,149	\$ 41,331
Accrued Salaries	<u>9,479</u>	<u>31,179</u>
TOTAL CURRENT LIABILITIES	<u>40,628</u>	<u>72,510</u>
TOTAL LIABILITIES	<u>40,628</u>	<u>72,510</u>
NET ASSETS		
Unrestricted		
Undesignated	493,489	399,808
Board Designated	<u>2,573</u>	<u>102,000</u>
Total Unrestricted	496,062	501,808
Temporarily Restricted	<u>85,000</u>	<u>125,597</u>
TOTAL NET ASSETS	<u>581,062</u>	<u>627,405</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$621,690</u>	<u>\$699,915</u>

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
SUPPORT			
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	<u>96,191</u>	<u>-</u>	<u>96,191</u>
TOTAL SUPPORT	<u>2,980,493</u>	<u>122,500</u>	<u>3,102,993</u>
REVENUE			
Special Events	343,624	-	343,624
Miscellaneous Revenues	3,702	-	3,702
Interest Income	<u>3,101</u>	<u>-</u>	<u>3,101</u>
TOTAL REVENUE	<u>350,427</u>	<u>-</u>	<u>350,427</u>
TOTAL SUPPORT AND REVENUE	<u>3,330,920</u>	<u>122,500</u>	<u>3,453,420</u>
 NET ASSETS RELEASED FROM RESTRICTIONS			
Restrictions Satisfied by Payments	<u>163,097</u>	<u>(163,097)</u>	<u>-</u>
 EXPENSES			
Program Expenses	2,726,127	-	2,726,127
Management and General	371,158	-	371,158
Fundraising	313,361	-	313,361
Special Events	<u>89,117</u>	<u>-</u>	<u>89,117</u>
TOTAL EXPENSES	<u>3,499,763</u>	<u>-</u>	<u>3,499,763</u>
 DECREASE IN NET ASSETS	(5,746)	(40,597)	(46,343)
Net Assets at Beginning of Year	<u>501,808</u>	<u>125,597</u>	<u>627,405</u>
NET ASSETS END OF YEAR	<u>\$ 496,062</u>	<u>\$ 85,000</u>	<u>\$ 581,062</u>

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF ACTIVITIES - continued
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2005		
	Unrestricted	Temporarily Restricted	Total
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	<u>219,285</u>	<u>-</u>	<u>219,285</u>
TOTAL SUPPORT	<u>2,899,198</u>	<u>125,597</u>	<u>3,024,795</u>
REVENUE			
Special Events	280,187	-	280,187
Miscellaneous Revenues	2,891	-	2,891
Interest Income	<u>1,982</u>	<u>-</u>	<u>1,982</u>
TOTAL REVENUE	<u>285,060</u>	<u>-</u>	<u>285,060</u>
TOTAL SUPPORT AND REVENUE	<u>3,184,258</u>	<u>125,597</u>	<u>3,309,855</u>
 NET ASSETS RELEASED FROM RESTRICTIONS			
Restrictions Satisfied by Payments	<u>227,167</u>	<u>(227,167)</u>	<u>-</u>
 EXPENSES			
Program Expenses	3,004,359	-	3,004,359
Management and General	260,069	-	260,069
Fundraising	257,059	-	257,059
Special Events	<u>74,069</u>	<u>-</u>	<u>74,069</u>
TOTAL EXPENSES	<u>3,595,556</u>	<u>-</u>	<u>3,595,556</u>
 DECREASE IN NET ASSETS	(184,131)	(101,570)	(285,701)
Net Assets at Beginning of Year	<u>685,939</u>	<u>227,167</u>	<u>913,106</u>
NET ASSETS END OF YEAR	<u>\$ 501,808</u>	<u>\$ 125,597</u>	<u>\$ 627,405</u>

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006				Total Program Services
	Program Services				
	Maryland Medical	Arizona Medical	Texas Medical	MOM's Family	
Salaries	\$ 322,815	\$232,077	\$ -	\$10,254	\$ 565,146
Employee Benefits	46,814	14,585	-	2,782	64,181
Payroll Taxes	26,715	18,844	-	835	46,394
Bank Charges	8	-	-	-	8
Board Meeting/Committee Expense	-	-	-	34	34
Books and Subscriptions	1,085	1,248	-	679	3,012
Clinic Supplies	7,951	5,566	-	-	13,517
Contract Employee	-	17,200	-	-	17,200
Dental Supplies	4,980	-	-	-	4,980
Depreciation	32,554	5,204	-	-	37,758
Donated Services	547,371	277,669	-	-	825,040
Donated Supplies and Equipment	94,469	-	-	-	94,469
Donated Lab and X-Ray Services	519,891	123,219	-	-	643,110
Donated Facilities	19,602	26,363	-	7,925	53,890
Dues and Memberships	-	-	-	-	-
Insurance	68,548	20,493	-	-	89,041
Lab Services	-	37,500	-	-	37,500
License and Registration	2,066	3,006	-	-	5,072
Loss on Disposal of Assets	-	-	-	-	-
Medical Supplies	11,697	10,687	-	-	22,384
Medications	49,243	50,598	-	-	99,841
Miscellaneous	1,765	2,655	414	-	4,834
Office Supplies	-	-	-	-	-
Postage	1,793	12	-	-	1,805
Printing	3,103	518	-	-	3,621
Professional Fees	20,809	15,043	-	-	35,852
Repairs and Maintenance	2,400	2,774	-	-	5,174
Telephone	4,066	3,084	-	945	8,095
Tuition and Education	284	169	-	-	453
Travel and Entertainment	2,950	492	1,218	144	4,804
Utilities	9,940	16,459	-	5,175	31,574
Vehicle Expense	4,749	2,589	-	-	7,338
TOTAL EXPENSES	<u>\$1,807,668</u>	<u>\$888,054</u>	<u>\$1,632</u>	<u>\$28,773</u>	<u>\$2,726,127</u>

See Accompanying Notes

MISSION OF MERCY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES - continued
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006 - continued							Total Fundraising	Total Expenses
	Management and General			Total Management and General	Fundraising				
	Maryland	Arizona	Texas		Maryland	Arizona	Texas		
Salaries	\$106,908	\$31,240	\$ -	\$138,148	\$116,729	\$ 50,614	\$ -	\$167,343	\$ 870,637
Employee Benefits	22,645	2,425	-	25,070	24,997	2,832	-	27,829	117,080
Payroll Taxes	8,945	2,648	-	11,593	8,830	3,960	-	12,790	70,777
Bank Charges	7,129	1,145	-	8,274	-	-	-	-	8,282
Board Meeting/Committee Expense	2,912	3,214	387	6,513	-	-	-	-	6,547
Books and Subscriptions	143	68	-	211	3,808	2,223	-	6,031	9,254
Clinic Supplies	-	-	-	-	-	-	-	-	7,951
Contract Employee	2,708	1,549	-	4,257	8,750	1,938	-	10,688	32,145
Dental Supplies	-	-	-	-	-	-	-	-	4,980
Depreciation	5,223	2,292	-	7,515	-	-	-	-	45,273
Donated Services	-	6,400	-	6,400	3,500	-	-	3,500	834,940
Donated Supplies and Equipment	1,450	-	-	1,450	272	-	-	272	96,191
Donated Lab and X-Ray Services	-	-	-	-	-	-	-	-	643,110
Donated Facilities	2,450	9,600	-	12,050	4,850	-	-	4,850	70,790
Dues and Memberships	1,224	250	-	1,474	280	-	-	280	1,754
Insurance	14,033	1,723	-	15,756	-	-	-	-	104,797
Lab Services	-	-	-	-	-	-	-	-	37,500
License and Registration	885	10	1,231	2,126	-	-	-	-	7,198
Loss on Disposal of Assets	-	-	-	-	-	-	-	-	-
Medical Supplies	-	-	-	-	-	-	-	-	22,384
Medications	-	-	-	-	-	-	-	-	99,841
Miscellaneous	3,525	571	-	4,096	414	-	-	414	9,344
Office Supplies	3,931	4,561	-	8,492	619	61	-	680	14,738
Postage	8,518	3,327	90	11,935	449	418	-	867	14,607
Printing	13,004	6,532	142	19,678	2,965	428	-	3,393	26,692
Professional Fees	34,843	10,457	675	45,975	7,915	47,685	900	56,500	138,327
Repairs and Maintenance	678	290	-	968	-	-	-	-	6,142
Telephone	2,537	2,072	-	4,609	1,305	419	-	1,724	14,428
Tuition and Education	250	-	-	250	-	-	-	-	703
Travel and Entertainment	16,044	2,583	2,477	21,104	5,319	698	-	6,017	31,925
Utilities	8,231	4,983	-	13,214	4,035	6,148	-	10,183	54,971
Vehicle Expense	-	-	-	-	-	-	-	-	7,338
TOTAL EXPENSES	\$268,216	\$97,940	\$5,002	\$371,158	\$195,037	\$117,424	\$900	\$313,361	\$3,410,646

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES - continued
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2005				Total Program Services
	Program Services				
	Maryland Medical	Arizona Medical	Texas Medical	MOM's Family	
Salaries	\$ 273,722	\$232,636	\$ -	\$19,468	\$ 525,826
Employee Benefits	41,206	16,981	-	3,206	61,393
Payroll Taxes	22,184	17,875	-	1,484	41,543
Bank Charges	-	-	-	-	-
Board Meeting/Committee Expense	51	1,040	-	81	1,172
Books and Subscriptions	1,121	1,159	-	748	3,028
Clinic Supplies	6,883	5,170	-	-	12,053
Contract Employee	-	25,980	-	-	25,980
Dental Supplies	5,497	-	-	-	5,497
Depreciation	19,177	-	-	-	19,177
Donated Services	404,826	340,433	-	-	745,259
Donated Supplies and Equipment	254,075	56,714	-	-	310,789
Donated Lab and X-Ray Services	778,863	66,973	-	-	845,836
Donated Facilities	28,889	27,913	-	11,098	67,900
Dues and Memberships	-	-	-	-	-
Insurance	67,554	22,698	-	-	90,252
Lab Services	-	-	-	-	-
License and Registration	3,114	1,833	-	-	4,947
Loss on Disposal of Assets	452	-	-	-	452
Medical Supplies	10,670	43,372	-	-	54,042
Medications	54,810	36,422	-	-	91,232
Miscellaneous	6,325	3,880	-	-	10,205
Office Supplies	-	-	-	497	497
Postage	956	590	-	11	1,557
Printing	1,502	1,317	-	493	3,312
Professional Fees	16,314	15,729	-	1,500	33,543
Repairs and Maintenance	5,028	4,875	-	-	9,903
Telephone	3,208	2,731	-	411	6,350
Tuition and Education	274	225	-	-	499
Travel and Entertainment	3,697	2,166	-	585	6,448
Utilities	5,642	7,864	-	4,138	17,644
Vehicle Expense	4,266	3,757	-	-	8,023
TOTAL EXPENSES	<u>\$2,020,306</u>	<u>\$940,333</u>	<u>\$ -0-</u>	<u>\$43,720</u>	<u>\$3,004,359</u>

See Accompanying Notes

MISSION OF MERCY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES - continued

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2005 - continued								
	Management and General			Total Management and General	Fundraising			Total Fundraising	Total Expenses
	Maryland	Arizona	Texas		Maryland	Arizona	Texas		
Salaries	\$ 43,497	\$32,680	\$ -	\$ 76,177	\$ 47,713	\$ 53,534	\$ -	\$101,247	\$ 703,250
Employee Benefits	14,949	7,901	-	22,850	6,434	2,777	-	9,211	93,454
Payroll Taxes	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	1,805	629	-	2,434	39	-	-	39	3,645
Books and Subscriptions	1,237	362	-	1,599	2,192	1,974	-	4,166	8,793
Clinic Supplies	-	-	-	-	-	-	-	-	12,053
Contract Employee	-	-	-	-	-	-	-	-	-
Dental Supplies	-	-	-	-	-	-	-	-	5,497
Depreciation	5,955	3,250	-	9,205	-	-	-	-	28,382
Donated Services	1,293	400	-	1,693	-	-	-	-	746,952
Donated Supplies and Equipment	-	-	-	-	-	-	-	-	310,789
Donated Lab and X-Ray Services	-	-	-	-	-	-	-	-	845,836
Donated Facilities	-	9,600	-	9,600	2,400	-	-	2,400	79,900
Dues and Memberships	1,017	-	-	1,017	1,709	-	-	1,709	2,726
Insurance	4,314	-	-	4,314	-	-	-	-	94,566
Lab Services	-	-	-	-	-	-	-	-	-
License and Registration	460	-	-	460	-	-	-	-	5,407
Loss on Disposal of Assets	-	-	-	-	-	-	-	-	452
Medical Supplies	-	-	-	-	-	-	-	-	54,042
Medications	-	-	-	-	-	-	-	-	91,232
Miscellaneous	2,463	587	-	3,050	1,047	152	-	1,199	14,454
Office Supplies	8,741	2,807	-	11,548	340	51	-	391	12,436
Postage	13,859	2,669	-	16,528	2,067	270	-	2,337	20,422
Printing	18,389	4,110	-	22,499	2,893	2,764	-	5,657	31,468
Professional Fees	27,794	13,328	-	41,122	47,777	58,974	-	106,751	207,396
Repairs and Maintenance	2,540	-	-	2,540	-	-	-	-	12,443
Telephone	813	2,209	-	3,022	848	-	-	848	10,220
Tuition and Education	-	90	-	90	-	-	-	-	589
Travel and Entertainment	4,548	1,676	-	6,224	2,973	1,922	-	4,895	17,567
Utilities	7,868	5,451	-	13,319	2,753	5,709	-	8,462	39,425
Vehicle Expense	-	-	-	-	-	-	-	-	8,023
TOTAL EXPENSES	<u>\$169,118</u>	<u>\$90,951</u>	<u>\$-0-</u>	<u>\$260,069</u>	<u>\$124,902</u>	<u>\$132,157</u>	<u>\$-0-</u>	<u>\$257,059</u>	<u>\$3,521,487</u>

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows:		
Receipts from Donations	\$ 569,468	\$ 737,117
Receipts from Grants	947,493	371,694
Receipts from Special Events	343,624	285,664
Interest Received	3,101	1,982
Miscellaneous Receipts	<u>3,701</u>	<u>2,891</u>
	<u>1,867,387</u>	<u>1,399,348</u>
Outflows:		
Payments to Employees	892,335	691,690
Payments for Program Services	497,459	473,173
Payments for Management and General	210,325	164,385
Payments for Special Events	89,117	74,069
Payments for Fundraising	<u>137,396</u>	<u>153,412</u>
	<u>1,826,632</u>	<u>1,556,729</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>40,755</u>	<u>(157,381)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Outflows:		
Acquisition of Equipment	<u>192,360</u>	<u>7,483</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(192,360)</u>	<u>(7,483)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(151,605)	(164,864)
Cash and Cash Equivalents - Beginning	<u>380,049</u>	<u>544,913</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 228,444</u>	<u>\$ 380,049</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.

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, 2006 and 2005, the Organization's uninsured cash balances totaled \$21,071 and \$135,282, respectively. In addition, at December 31, 2006 and 2005, the Organization had petty cash of \$490 and \$15,644, respectively.

Note 3. Unconditional Promises to Give

As of December 31, 2006 and 2005, the Organization received promises to give for the following purposes:

	<u>2006</u>	<u>2005</u>
Arizona Clinics	\$38,000	\$40,000
Diabetic Clinic	-	47,000
Refurbish Old Van	-	10,000
	<u>\$38,000</u>	<u>\$97,000</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>2006</u>	<u>2005</u>
Purchased Inventory	\$21,397	\$33,981
Donated Inventory	-	6,853
	<u>\$21,397</u>	<u>\$40,834</u>

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 5. Restricted Net Assets

The board had 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. Withdrawals in the amount of \$99,427 were made from this fund to the Maryland and Arizona medical programs during 2006. The balance as of December 31, 2006 for Program Development Funds is \$2,573.

Temporarily restricted net assets are available for the following purposes:

	<u>2006</u>	<u>2005</u>
Arizona Clinics	\$38,000	\$112,672
Breast Cancer Treatments	37,500	-
Strategic Planning	9,500	-
Refurbish Old Van	-	10,000
New Mobile Van	-	<u>2,925</u>
	<u>\$85,000</u>	<u>\$125,597</u>

Note 6. Operating Lease

The Organization leased office space in Fairfield, PA. The lease terms included monthly rent at \$735. The lease could be canceled with a thirty-day written notice to the lessor. In November 2006, the lease was terminated by the Organization.

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. An option to renew the lease for a term of one to three years is included in the lease terms. The rent increases 2% each year beginning January 1, 2007.

The Organization also leases office space in Phoenix, AZ. The lease terms include monthly rent of \$1,050. The lease is renewable on a monthly basis and can be canceled with a thirty-day written notice to the lessor.

Rent expense is included in utilities. Total rent expense is \$35,945 and \$18,289 for the years ended December 31, 2006 and 2005, respectively.

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 7. Donated Materials and Services

The Organization received donated medications, medical supplies, and other supplies valued at \$96,191 and \$219,285 for the years ended December 31, 2006 and 2005, respectively. In addition, during 2006 and 2005, they received donated facilities valued at \$70,790 and \$79,900, 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 \$643,110 and \$845,836 for the years ended December 31, 2006 and 2005, respectively. These donated items were recorded as revenue and expenses in the financial statements.

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 \$738,606 and \$745,259, which represents 23,926 and 32,125 hours of time, contributed for the years ended December 31, 2006 and 2005, respectively. During 2006 and 2005, accounting professionals donated services valued at \$9,900 and \$2,517, respectively. In 2006, a national cable company donated two public services announcements that were valued at \$86,434.

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 17,371 and 20,251 hours for the years ended December 31, 2006 and 2005, 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 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 9. Reconciliation of Decrease in Net Assets to Net Cash Provided (Used) by Operating Activities

	<u>2006</u>	<u>2005</u>
Decrease in Net Assets	\$(46,343)	\$(285,701)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	45,273	28,870
Donated Assets	-	(6,853)
Loss on Asset Disposal	-	452
(Increase) Decrease In:		
Accounts Receivable	(69)	4,841
Unconditional Promises to Give	59,000	(23,187)
Donated Investment Removal	-	5,477
Inventory	19,437	93,678
Prepaid Expenses	(4,663)	(5,832)
Increase (Decrease) In:		
Accounts Payable	(10,182)	19,314
Accrued Salaries	<u>(21,698)</u>	<u>11,560</u>
Total Adjustments	<u>87,098</u>	<u>128,320</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 40,755</u>	<u>\$(157,381)</u>

The Organization had noncash investing activities for the years ended December 31, 2006 and 2005 through the receipt of donated inventory on hand of \$-0- and \$6,853, respectively. In 2006 and 2005, the Organization also received donated investments of stock worth \$-0- and \$12,468, 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**

March 21, 2007

Board of Directors
Mission of Mercy, Inc.

Our report on our audits of the financial statements of *Mission of Mercy, Inc.* for 2006 and 2005 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 YEARS ENDED DECEMBER 31, 2006 AND 2005

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, 2006 and 2005, respectively. Since Mission of Mercy, Inc. is acting in an agent capacity, the value of the medications distributed through the indigent drug programs is not included in the financial statements.