

**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<br>Allowance for Uncollectible Promises<br>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<br/>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<br/>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<br>Medical | Arizona<br>Medical | Texas<br>Medical  | MOM's<br>Family  | Services            | Maryland               | Arizona          | Texas            | Management<br>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<br>Medical | Arizona<br>Medical | Texas<br>Medical | MOM's<br>Family  | Services           | Marvland               | Arizona           | Texas           | Management<br>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<br>Fundraising | Total<br>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>     |
| <br><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>  |
| <br><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<br/>Reported</u> | <u>Increase<br/>(Decrease)</u> | <u>Restated</u> |
|--|--------------------------------|--------------------------------|-----------------|
| Inventory                                      | \$ 21,397                      | \$ 93,864                      | \$115,261       |
| Unrestricted Net Assets –<br>December 31, 2006 | \$496,062                      | \$ 93,864                      | \$589,926       |

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

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