

MISSION OF MERCY, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2008 AND 2007

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INDEPENDENT AUDITORS' REPORT

March 16, 2009

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

We have audited the accompanying statements of financial position of **Mission of Mercy, Inc.** (a nonprofit organization), as of December 31, 2008 and 2007, 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, 2008 and 2007, 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, 2008 AND 2007

ASSETS

	2008	2007
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 649,227	\$ 832,631
Unconditional Promises to Give	153,075	81,820
Inventory	108,025	145,352
Prepaid Expenses	22,867	19,382
TOTAL CURRENT ASSETS	<u>933,194</u>	<u>1,079,185</u>
 PROPERTY AND EQUIPMENT		
Dental Equipment	46,130	43,611
Medical Equipment	39,775	36,525
Office Equipment	62,438	68,467
Vehicles	613,070	613,071
	<u>761,413</u>	<u>761,674</u>
Less: Accumulated Depreciation	573,737	512,784
TOTAL PROPERTY AND EQUIPMENT	<u>187,676</u>	<u>248,890</u>
 OTHER ASSETS		
Unconditional Promises to Give (Less Allowance for Uncollectible Promises of \$51,653 for 2008 and \$24,842 for 2007)	233,647	151,558
TOTAL OTHER ASSETS	<u>233,647</u>	<u>151,558</u>
 TOTAL ASSETS	 <u><u>\$ 1,354,517</u></u>	 <u><u>\$ 1,479,633</u></u>

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008	2007
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 44,363	\$ 38,932
Accrued Payroll Taxes	8,378	8,329
Accrued Salaries	111,031	144,615
TOTAL CURRENT LIABILITIES	<u>163,772</u>	<u>191,876</u>
TOTAL LIABILITIES	<u>163,772</u>	<u>191,876</u>
NET ASSETS		
Unrestricted		
Undesignated	661,396	896,312
Board Designated	14,544	112,724
Total Unrestricted	<u>675,940</u>	<u>1,009,036</u>
Temporarily Restricted	514,805	278,721
TOTAL NET ASSETS	<u>1,190,745</u>	<u>1,287,757</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,354,517</u></u>	<u><u>\$ 1,479,633</u></u>

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008			2007		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE						
SUPPORT						
Contributions	\$ 728,439	\$ 241,169	\$ 969,608	\$ 986,289	\$ 233,378	\$ 1,219,667
Grants	793,719	90,583	884,302	967,453	89,000	1,056,453
Donated Facilities	96,643	-	96,643	123,942	-	123,942
Donated Lab and X-Ray Services	923,649	-	923,649	695,755	-	695,755
Donated Services	1,022,231	-	1,022,231	915,299	-	915,299
Donated Supplies and Equipment	133,927	-	133,927	178,864	-	178,864
Indigent Drug Program	422,322	-	422,322	864,114	-	864,114
TOTAL SUPPORT	4,120,930	331,752	4,452,682	4,731,716	322,378	5,054,094
REVENUE						
Special Events	454,762	-	454,762	359,172	-	359,172
Miscellaneous Revenues	2,718	-	2,718	2,117	-	2,117
Interest Income	6,425	-	6,425	5,647	-	5,647
TOTAL REVENUE	463,905	-	463,905	366,936	-	366,936
TOTAL SUPPORT AND REVENUE	4,584,835	331,752	4,916,587	5,098,652	322,378	5,421,030
NET ASSETS RELEASED FROM RESTRICTIONS						
Expiration of Time Restrictions	87,825	(87,825)	-	-	-	-
Restrictions Satisfied by Payments	7,843	(7,843)	-	128,657	(128,657)	-
TOTAL NET ASSETS RELEASED FROM RESTICTIONS	95,668	(95,668)	-	128,657	(128,657)	-
EXPENSES						
Program Expenses	4,025,965	-	4,025,965	4,028,617	-	4,028,617
Management and General	288,006	-	288,006	233,056	-	233,056
Fundraising	468,736	-	468,736	419,369	-	419,369
Special Events	230,892	-	230,892	127,157	-	127,157
TOTAL EXPENSES	5,013,599	-	5,013,599	4,808,199	-	4,808,199
INCREASE (DECREASE) IN NET ASSETS	(333,096)	236,084	(97,012)	419,110	193,721	612,831
Net Assets at Beginning of Year	1,009,036	278,721	1,287,757	589,926	85,000	674,926
NET ASSETS - END OF YEAR	\$ 675,940	\$ 514,805	\$ 1,190,745	\$ 1,009,036	\$ 278,721	\$ 1,287,757

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Program Services				Total Program Services	Management and General			Total Management and General
	Maryland	Arizona	Texas	MOM's		Maryland	Arizona	Texas	
	Medical	Medical	Medical	Family					
Salaries	\$ 323,206	\$ 257,849	\$ 147,366	\$ 27,614	\$ 756,035	\$ 45,777	\$ 55,041	\$ 18,079	\$ 118,897
Employee Benefits	57,741	19,796	28,258	4,308	110,103	11,216	6,545	4,525	22,286
Payroll Taxes	22,957	18,244	10,454	1,956	53,611	6,755	5,195	1,426	13,376
Bank Charges	3,771	3,740	1,872	-	9,383	2,847	3,565	1,027	7,439
Board Meeting/Committee Expense	293	260	130	-	683	876	925	660	2,461
Books and Subscriptions	697	1,191	935	696	3,519	70	354	70	494
Clinic Supplies	8,516	3,496	3,061	-	15,073	-	-	-	-
Contract Services	13,571	12,835	1,583	-	27,989	-	-	-	-
Dental Supplies	6,127	-	-	-	6,127	-	-	-	-
Depreciation	37,438	35,241	8,099	-	80,778	2,389	1,282	128	3,799
Donated Services	555,988	333,135	126,833	-	1,015,956	904	2,659	452	4,015
Donated Supplies and Equipment	155,873	-	14,534	-	170,407	-	-	-	-
Donated Lab and X-Ray Services	723,312	152,471	47,866	-	923,649	-	-	-	-
Donated Facilities	31,447	29,788	14,912	8,388	84,535	125	10,284	62	10,471
Dues and Memberships	24	24	133	-	181	1,857	102	653	2,612
Indigent Drugs	422,322	-	-	-	422,322	-	-	-	-
Insurance	66,501	24,371	18,347	-	109,219	1,370	334	1,808	3,512
Lab Services	-	-	-	-	-	-	-	-	-
License and Registration	2,337	2,290	263	-	4,890	387	97	43	527
Loss on Disposal of Assets	1,686	-	-	-	1,686	-	-	-	-
Medical Supplies	11,377	7,681	2,762	-	21,820	-	-	-	-
Medications	33,932	33,252	9,204	-	76,388	-	-	-	-
Miscellaneous	3,765	4,042	957	-	8,764	1,085	1,410	163	2,658
Office Supplies	-	-	-	-	-	3,932	4,283	1,688	9,903
Postage	633	181	333	-	1,147	11,635	1,414	502	13,551
Printing	1,696	700	920	-	3,316	2,757	2,938	1,469	7,164
Professional Fees	17,667	14,146	4,635	1,856	38,304	10,263	17,862	2,078	30,203
Rent	6,505	7,955	1,991	4,215	20,666	3,088	4,044	1,670	8,802
Repairs and Maintenance	2,824	3,611	6,438	-	12,873	3,735	-	322	4,057
Telephone	5,198	3,270	3,031	513	12,012	908	1,358	2,108	4,374
Tuition and Education	24	24	-	-	48	727	3,107	6	3,840
Travel and Entertainment	6,595	3,979	3,652	-	14,226	3,854	5,577	2,790	12,221
Uncollectible Commitments	-	5,295	-	-	5,295	-	-	-	-
Uniforms	-	-	-	-	-	-	-	-	-
Utilities	2,018	610	774	377	3,779	524	232	588	1,344
Vehicle Expense	6,340	3,069	1,772	-	11,181	-	-	-	-
TOTAL EXPENSES	\$ 2,532,381	\$ 982,546	\$ 461,115	\$ 49,923	\$ 4,025,965	\$ 117,081	\$ 128,608	\$ 42,317	\$ 288,006

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Fundraising			Total Fundraising	Total Expenses
	Maryland	Arizona	Texas		
Salaries	\$ 160,737	\$ 73,621	\$ 30,021	\$ 264,379	\$ 1,139,311
Employee Benefits	34,103	10,746	7,161	52,010	184,399
Payroll Taxes	11,393	5,205	2,125	18,723	85,710
Bank Charges	1,870	1,870	935	4,675	21,497
Board Meeting/Committee Expense	236	151	65	452	3,596
Books and Subscriptions	3,159	1,674	-	4,833	8,846
Clinic Supplies	-	-	-	-	15,073
Contract Services	1,140	-	800	1,940	29,929
Dental Supplies	-	-	-	-	6,127
Depreciation	255	255	128	638	85,215
Donated Services	904	904	452	2,260	1,022,231
Donated Supplies and Equipment	-	-	-	-	170,407
Donated Lab and X-Ray Services	-	-	-	-	923,649
Donated Facilities	1,449	125	63	1,637	96,643
Dues and Memberships	222	137	6	365	3,158
Indigent Drugs	-	-	-	-	422,322
Insurance	334	334	167	835	113,566
Lab Services	-	-	-	-	0
License and Registration	87	112	43	242	5,659
Loss on Disposal of Assets	-	-	-	-	1,686
Medical Supplies	-	-	-	-	21,820
Medications	-	-	-	-	76,388
Miscellaneous	3,038	658	44	3,740	15,162
Office Supplies	1,718	344	61	2,123	12,026
Postage	294	1,628	2,171	4,093	18,791
Printing	12,130	1,755	1,785	15,670	26,150
Professional Fees	11,669	31,890	10,620	54,179	122,686
Rent	5,550	8,671	401	14,622	44,090
Repairs and Maintenance	-	-	-	-	16,930
Telephone	2,309	1,017	1,758	5,084	21,470
Tuition and Education	72	12	6	90	3,978
Travel and Entertainment	8,770	4,802	1,008	14,580	41,027
Uncollectible Commitments	-	-	-	-	5,295
Uniforms	-	-	-	-	0
Utilities	699	463	404	1,566	6,689
Vehicle Expense	-	-	-	-	11,181
TOTAL EXPENSES	\$ 262,138	\$ 146,374	\$ 60,224	\$ 468,736	\$ 4,782,707

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Program Services				Total Program	Management and General			Total
	Maryland	Arizona	Texas	MOM's	Services				Management
	Medical	Medical	Medical	Family		Maryland	Arizona	Texas	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 Services	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
Loss on Disposal of Assets	-	-	-	-	-	-	-	-	-
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
Uncollectible Commitments	-	-	-	-	-	-	-	-	-
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	-	-	-	-
TOTAL EXPENSES	\$ 2,845,076	\$ 925,044	\$ 216,631	\$ 41,866	\$ 4,028,617	\$ 110,616	\$ 86,622	\$ 35,818	\$ 233,056

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED 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 Services	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
Loss on Disposal of Assets	-	-	-	-	-
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
Uncollectible Commitments	-	-	-	-	-
Uniforms	-	-	-	-	1,571
Utilities	1,219	787	17	2,023	10,528
Vehicle Expense	-	-	-	-	9,937
TOTAL EXPENSES	\$ 237,814	\$ 164,402	\$ 17,153	\$ 419,369	\$ 4,681,042

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows:		
Receipts from Donations	\$ 816,264	\$ 986,289
Receipts from Grants	884,302	1,094,453
Receipts from Special Events	454,762	359,172
Interest Received	6,425	5,647
Miscellaneous Receipts	2,718	2,117
	2,164,471	2,447,678
Outflows:		
Payments to Employees	1,172,845	781,607
Payments for Program Services	566,719	598,680
Payments for Management and General	154,309	139,871
Payments for Special Events	230,892	127,157
Payments for Fundraising	199,823	176,776
	2,324,588	1,824,091
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(160,117)	623,587
CASH FLOWS FROM INVESTING ACTIVITIES		
Outflows:		
Acquisition of Equipment	23,287	19,400
NET CASH USED BY INVESTING ACTIVITIES	(23,287)	(19,400)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(183,404)	604,187
Cash and Cash Equivalents - Beginning	832,631	228,444
CASH AND CASH EQUIVALENTS - ENDING	\$ 649,227	\$ 832,631

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 nineteen clinic sites located in Arizona, Maryland, Pennsylvania, and Texas.

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. 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 1. Summary of Accounting Policies - continued

Economic Conditions

As a result of the current economic conditions occurring within the national economy, the Organization may experience some financial impact due to this crisis. The situation may cause funding cutbacks by funding sources (though none are imminent), as such funding is not guaranteed and may be reduced as a result of the current economic environment.

Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a not-for-profit organization's financial statements in accordance with Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return including positions that the Organization is exempt from income taxes or not subject to income taxes on unrelated business income. FIN 48 also provides guidance on derecognition of tax benefits, classification on the statement of financial position, interest and penalties, accounting in interim periods, disclosure, and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Company has elected this deferral and accordingly will be required to adopt FIN 48 in its 2009 annual financial statements. Prior to adoption of FIN 48, the Company will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, Accounting for Contingencies. SFAS No. 5 requires the Company to accrue for losses it believes are probable and can be reasonably estimated. While management has not yet completed its analysis, it does not anticipate that the adoption of FIN 48 will have a material impact on its financial position or results of operations.

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 2. Cash and Cash Equivalents

The Organization maintains cash balances at several financial institutions. Interest-bearing accounts with each non-participating institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 for year ending December 31, 2008 and \$100,000 for year ending December 31, 2007 except for balances held by investment companies in money market accounts. Non-interest bearing accounts with participating institutions are wholly insured by the Federal Deposit Insurance Corporation. The Organization maintains cash balances at both participating and non-participating financial institutions. At December 31, 2008 and 2007, the Organization's uninsured cash balances totaled \$159,557 and \$569,410, respectively. In addition, at December 31, 2008 and 2007, the Organization had petty cash \$525 and \$485 respectively.

Note 3. Unconditional Promises to Give

In 2008, the Organization implemented a new fundraising model in a new geographic location and continued the fundraising model in Arizona that resulted in receiving commitments over time to benefit the Maryland, Pennsylvania, and Arizona programs. At December 31, 2008, collections are expected pertaining to multi-year commitments made in 2008 as follows:

2009	\$ 76,075
2010	74,050
2011	48,550
2012	45,050
2013	<u>18,250</u>
	261,975
Less: Allowance for Uncollectible Promises	<u>(33,022)</u>
Net Unconditional Promises to Give	<u>\$228,953</u>

The future cash flows were discounted by the federal reserve interest rate of 3.18% to determine the net present value of the promises to give. In addition, new contributors to the Organization were discounted by an additional 5%.

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 3. Unconditional Promises to Give - continued

In 2007, the Organization implemented a new fundraising model that resulted in receiving commitments over time to benefit the Arizona program. At December 31, 2008, collections are expected pertaining to multi-year commitments made in 2007 as follows:

2009	\$ 77,000
2010	49,950
2011	<u>49,450</u>
	176,400
Less: Allowance for Uncollectible Promises	<u>(18,631)</u>
Net Unconditional Promises to Give	<u>\$157,769</u>

The future cash flows were discounted by the federal reserve interest rate of 4.57% to determine the net present value of the promises to give. In addition, new contributors to the Organization were discounted by an additional 5%.

Amortization of the discount on promises to give relating to commitments made in 2007 resulted in \$6,211 of contribution income.

Note 4. Inventory

Inventory consists of the following:

	<u>2008</u>	<u>2007</u>
Purchased Inventory	\$ 24,564	\$ 23,011
Donated Inventory	<u>83,461</u>	<u>122,341</u>
	<u>\$108,025</u>	<u>\$145,352</u>

Note 5. Line of Credit

In 2007, the Organization established a \$75,000 line of credit, which was increased to \$150,000 in 2008, 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, 2008 and 2007, no draws have been made against this line of credit.

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

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, 2008 and 2007 are \$14,544 and \$112,724, respectively.

Temporarily restricted net assets are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Arizona Clinics	\$280,847	\$233,378
Breast Cancer Treatments	37,500	37,500
Carroll County Clinics	1,750	-
Dental Equipment	-	7,843
Diabetic Care	20,833	-
Frederick Clinics	20,000	-
Harrisburg Planning Grant	9,375	-
Maryland/Pennsylvania Program	141,500	-
Website Update	3,000	-
	<u>\$514,805</u>	<u>\$278,721</u>

Note 7. Operating Lease

The Organization leases office space in Frederick, MD. Annually renewed lease terms include monthly rent at \$1,312 for October 2006 to December 2007, \$1,742 for January 2008 to April 2008, and \$1,938 for May 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. This lease was not renewed and is a month-to-month agreement.

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 8. Donated Materials, Services, and Facilities

The Organization received donated medications, medical supplies, and other supplies valued at \$133,927 and \$178,864 for the years ended December 31, 2008 and 2007, respectively. Of those amounts, \$2,400 and \$-0- represent equipment that was recorded as an asset instead of an expense for the years ended December 31, 2008 and 2007, respectively. In addition, during 2008 and 2007, they received donated facilities valued at \$96,643 and \$123,942, 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 \$923,649 and \$695,755 for the years ended December 31, 2008 and 2007, respectively. These donated items were recorded as revenue and expenses in the financial statements except for the unused donated inventory of \$83,461 and \$122,341 at December 31, 2008 and 2007, 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 \$1,011,436 and \$901,569, which represents 23,780 and 24,229 hours of time, contributed for the years ended December 31, 2008 and 2007, respectively. During 2008 and 2007, accountants and other professionals donated services valued at \$10,795 and \$13,730, 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 17,997 and 11,723 hours for the years ended December 31, 2008 and 2007, respectively.

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 9. Indigent Drug Program

The Organization participates in indigent drug programs sponsored by various drug manufacturers. These programs provide medications to low income patients suffering from chronic illness. The Organization helps the patient complete and submit the application to the drug manufacturers. The medications are sent to the Organization which distributes them to the patient. Since Mission of Mercy, Inc. has set up the medical program to provide ongoing treatment and assessment of the patient and the doctors of Mission of Mercy, Inc. have discretion on what medicines are prescribed, the Organization meets the discretion requirement and records the medications as revenue and a corresponding expense in the financial statements for the years ending December 31, 2008 and 2007. The Organization received medications from these programs valued at \$422,322 and \$864,114 for the years ended December 31, 2008 and 2007, respectively.

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 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 (Used) by Operating Activities

	<u>2008</u>	<u>2007</u>
Increase (Decrease) in Net Assets	\$ (97,012)	\$ 612,831
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	85,215	81,150
Change in Donated Inventory	38,880	(28,476)
Loss on Disposition of Assets	1,686	-
Donated Equipment	(2,400)	-
(Increase) Decrease In:		
Accounts Receivable	-	868
Unconditional Promises to Give	(180,155)	(195,378)
Discount on Unconditional Promises to Give	26,811	-
Inventory	(1,553)	(1,613)
Prepaid Expenses	(3,485)	2,959
Increase (Decrease) In:		
Accounts Payable	5,430	7,783
Accrued Salaries and Payroll Taxes	<u>(33,534)</u>	<u>143,463</u>
Total Adjustments	<u>(63,105)</u>	<u>10,756</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (160,117)</u></u>	<u><u>\$ 623,587</u></u>

The Organization had non-cash investing activities for the years ended December 31, 2008 and 2007 through the receipt of donated inventory on hand of \$83,461 and \$122,341, respectively.

The Organization had non-cash contribution income for the year ended December 31, 2008 through the amortization of the discount on unconditional promises to give in the amount of \$6,211.

The Organization had non-cash contributions of donated equipment in the amount of \$2,400 for the year ended December 31, 2008.

Note 12. Concentration of Contributions

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

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

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 years ended December 31, 2008 and 2007. This plan is tax exempt and has been approved by the Internal Revenue Service.