

**MISSION OF MERCY, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

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

## INDEPENDENT AUDITORS' REPORT

January 9, 2014

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

We have audited the accompanying financial statements of Mission of Mercy, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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 June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Rager, Lehman & Houck, P.C.*

Frederick, Maryland

## **FINANCIAL STATEMENTS**

**MISSION OF MERCY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2013 AND 2012**

**ASSETS**

	<u>2013</u>	<u>2012</u> (as Restated)
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 529,895	\$ 365,591
Unconditional Promises to Give (Less Allowance for Uncollectible Promises of \$20,304 and \$21,256, respectively)	202,814	212,258
Inventory	200,482	93,957
Prepaid Expenses	13,773	34,701
<b>TOTAL CURRENT ASSETS</b>	<u>946,964</u>	<u>706,507</u>
 <b>PROPERTY AND EQUIPMENT</b>		
Dental Equipment	32,610	42,237
Medical Equipment	48,726	50,278
Office Equipment	52,807	57,140
Vehicles	852,603	851,049
	<u>986,746</u>	<u>1,000,704</u>
Less: Accumulated Depreciation	646,846	565,980
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<u>339,900</u>	<u>434,724</u>
 <b>OTHER ASSETS</b>		
Unconditional Promises to Give (Less Allowance for Uncollectible Promises of \$28,802 and \$29,047, respectively)	273,039	277,450
<b>TOTAL OTHER ASSETS</b>	<u>273,039</u>	<u>277,450</u>
 <b>TOTAL ASSETS</b>	<u><u>\$ 1,559,903</u></u>	<u><u>\$ 1,418,681</u></u>

See Accompanying Notes

**MISSION OF MERCY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2013 AND 2012**

**LIABILITIES AND NET ASSETS**

	<u>2013</u>	<u>2012</u> (as Restated)
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 62,562	\$ 67,844
Accrued Payroll Taxes	68	5,044
Accrued Salaries	88,973	84,251
Line of Credit	325,000	285,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>476,603</u>	<u>442,139</u>
<b>TOTAL LIABILITIES</b>	<u>476,603</u>	<u>442,139</u>
 <b>NET ASSETS</b>		
Unrestricted		
Undesignated	240,206	221,755
Board Designated	4,581	4,579
Total Unrestricted	<u>244,787</u>	<u>226,334</u>
Temporarily Restricted	838,513	750,208
<b>TOTAL NET ASSETS</b>	<u>1,083,300</u>	<u>976,542</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><u>\$ 1,559,903</u></u>	 <u><u>\$ 1,418,681</u></u>

See Accompanying Notes

**MISSION OF MERCY, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2013		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT, REVENUE, AND GAINS</b>			
<b>SUPPORT</b>			
Contributions	\$ 575,786	\$ 212,521	\$ 788,307
Grants	1,072,303	362,659	1,434,962
Donated Facilities	116,301	-	116,301
Donated Lab and X-Ray Services	1,391,375	-	1,391,375
Donated Services	1,178,476	-	1,178,476
Donated Supplies and Equipment	223,596	-	223,596
Indigent Drug Program	514,130	-	514,130
<b>TOTAL SUPPORT</b>	<u>5,071,967</u>	<u>575,180</u>	<u>5,647,147</u>
<b>REVENUE AND GAINS</b>			
Special Events	148,515	-	148,515
Miscellaneous Revenues	2,683	-	2,683
Interest Income	1,305	-	1,305
Rent Income	14,760	-	14,760
<b>TOTAL REVENUE AND GAINS</b>	<u>167,263</u>	<u>-</u>	<u>167,263</u>
<b>EXPIRATION OF TIME RESTRICTIONS</b>	64,000	(64,000)	-
<b>RESTRICTIONS SATISFIED BY PAYMENTS</b>	422,875	(422,875)	-
<b>TOTAL SUPPORT, REVENUE, AND GAINS</b>	<u>5,726,105</u>	<u>88,305</u>	<u>5,814,410</u>
<b>EXPENSES</b>			
Program Services	4,561,040	-	4,561,040
Management and General	493,771	-	493,771
Fundraising	583,800	-	583,800
Special Events	68,689	-	68,689
Loss on Asset Disposal	352	-	352
Loss on Investment	-	-	-
<b>TOTAL EXPENSES</b>	<u>5,707,652</u>	<u>-</u>	<u>5,707,652</u>
<b>INCREASE IN NET ASSETS</b>	18,453	88,305	106,758
Net Assets - Beginning of Year (as Restated)	226,334	750,208	976,542
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 244,787</u>	<u>\$ 838,513</u>	<u>\$ 1,083,300</u>

See Accompanying Notes



**MISSION OF MERCY, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2012 (as Restated)		
	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT, REVENUE, AND GAINS</b>			
<b>SUPPORT</b>			
Contributions	\$ 564,154	\$ 147,082	\$ 711,236
Grants	147,390	846,085	993,475
Donated Facilities	101,066	-	101,066
Donated Lab and X-Ray Services	1,571,192	-	1,571,192
Donated Services	1,028,931	-	1,028,931
Donated Supplies and Equipment	136,251	-	136,251
Indigent Drug Program	641,015	-	641,015
<b>TOTAL SUPPORT</b>	<b>4,189,999</b>	<b>993,167</b>	<b>5,183,166</b>
<b>REVENUE AND GAINS</b>			
Special Events	189,805	-	189,805
Miscellaneous Revenues	2,830	-	2,830
Interest Income	352	-	352
Rent Income	14,745	-	14,745
<b>TOTAL REVENUE AND GAINS</b>	<b>207,732</b>	<b>-</b>	<b>207,732</b>
<b>EXPIRATION OF TIME RESTRICTIONS</b>	<b>428,357</b>	<b>(428,357)</b>	<b>-</b>
<b>RESTRICTIONS SATISFIED BY PAYMENTS</b>	<b>917,901</b>	<b>(917,901)</b>	<b>-</b>
<b>TOTAL SUPPORT, REVENUE, AND GAINS</b>	<b>5,743,989</b>	<b>(353,091)</b>	<b>5,390,898</b>
<b>EXPENSES</b>			
Program Services	4,724,408	-	4,724,408
Management and General	445,456	-	445,456
Fundraising	634,686	-	634,686
Special Events	59,626	-	59,626
Loss on Asset Disposal	12,038	-	12,038
Loss on Investment	61	-	61
<b>TOTAL EXPENSES</b>	<b>5,876,275</b>	<b>-</b>	<b>5,876,275</b>
<b>DECREASE IN NET ASSETS</b>	<b>(132,286)</b>	<b>(353,091)</b>	<b>(485,377)</b>
Net Assets - Beginning of Year	358,620	1,103,299	1,461,919
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 226,334</b>	<b>\$ 750,208</b>	<b>\$ 976,542</b>

See Accompanying Notes

**MISSION OF MERCY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Program Services				Management and General				Fundraising			Total Functional Expenses	
	Arizona		Texas		Arizona		Texas		MD/PA	Arizona	Texas		TOTAL
	MD/PA	TOTAL	MD/PA	TOTAL	MD/PA	TOTAL	MD/PA	TOTAL					
Salaries	\$ 203,249	\$ 308,897	\$ 113,669	\$ 113,669	\$ 78,128	\$ 99,932	\$ 34,793	\$ 34,793	\$ 98,723	\$ 59,894	\$ 52,090	\$ 210,707	\$ 1,049,375
Employee Benefits	72,767	32,753	17,142	17,142	18,647	20,403	7,622	7,622	8,859	10,673	7,220	26,752	196,086
Payroll Taxes	13,864	21,184	9,063	9,063	5,641	6,924	2,557	2,557	7,578	3,608	4,215	15,401	74,534
Bank Charges	1,747	1,713	1,562	1,562	5,733	5,397	5,183	5,183	1,563	1,563	1,563	4,689	26,024
Board and Committee Expense	484	299	384	384	795	958	659	659	414	558	299	1,271	4,850
Books and Subscriptions	2,336	2,561	1,109	1,109	90	90	374	374	4,440	2,529	-	6,969	13,529
Clinic Supplies	4,484	4,231	-	8,715	-	-	-	-	-	-	-	-	8,715
Consultants	1,200	33,313	5,192	39,705	-	-	288	288	-	20,000	-	20,000	59,993
Dental Supplies	1,859	-	-	1,859	-	-	-	-	-	-	-	-	1,859
Depreciation	5,554	56,525	40,073	102,152	3,639	1,529	1,322	1,322	582	582	582	1,746	110,388
Donated Services	446,484	579,827	142,895	1,169,206	43	6,118	43	43	22	3,022	22	3,066	1,178,476
Donated Supplies and Equipment	104,609	-	23,385	127,994	-	-	-	-	-	-	-	-	127,994
Donated Lab and X-Ray Services	513,646	218,754	658,975	1,391,375	-	-	-	-	-	-	-	-	1,391,375
Donated Facilities	48,155	39,189	10,799	98,143	833	833	15,241	15,241	417	417	417	1,251	116,301
Donor Development	-	-	-	-	-	-	-	-	-	-	-	-	42,402
Dues and Memberships	227	1,137	1,266	2,630	1,161	1,596	917	917	48	102	88	238	6,542
Indigent Drugs	264,132	36,639	190,956	491,727	-	-	1,861	1,861	-	-	-	-	491,727
Insurance	15,705	35,595	18,427	69,727	4,832	2,720	12,402	12,402	-	-	-	-	79,140
Interest	-	-	-	-	-	-	-	-	587	24	-	635	8,948
License and Registration	2,869	4,533	168	7,570	265	430	48	48	-	-	-	-	28,270
Medical Supplies	6,921	18,196	3,753	28,270	-	-	-	-	-	-	-	-	73,527
Medications	24,143	46,954	2,430	73,527	-	-	-	-	-	-	-	-	15,469
Miscellaneous	1,286	7,657	3,831	12,774	893	1,019	501	501	186	48	48	282	15,357
Office Supplies	-	2,367	2,012	4,369	4,577	2,088	867	867	55	3,933	(32)	3,966	14,251
Postage	368	795	191	1,354	7,571	1,472	507	507	977	401	1,969	3,347	17,293
Printing	890	988	1,941	3,819	10,817	2,052	547	547	-	58	-	58	252,658
Professional Fees	12,109	29,063	4,186	45,358	16,380	28,660	7,066	7,066	46,242	75,431	33,521	155,194	60,511
Rent	6,476	11,546	3,632	21,654	7,087	8,509	2,825	2,825	5,009	11,794	3,633	20,436	21,477
Repairs and Maintenance	6,738	5,724	930	13,392	5,097	2,734	44	44	112	76	22	210	29,687
Telephone	4,797	2,776	3,264	10,837	1,767	5,813	3,912	3,912	1,948	2,421	2,989	7,358	42,559
Tuition and Education	-	-	-	732	732	25	25	25	16,504	25,298	-	41,802	40,944
Travel and Entertainment	4,530	6,379	4,490	15,199	5,202	3,651	4,939	4,939	7,273	3,447	1,233	11,953	14,148
Utilities	1,703	1,395	503	3,601	1,051	4,832	587	587	1,258	2,560	259	4,077	11,300
Vehicle Expense	5,155	4,426	1,719	11,300	-	-	-	-	-	-	-	-	583,500
<b>TOTAL EXPENSES</b>	<b>\$ 1,777,687</b>	<b>\$ 1,515,406</b>	<b>\$ 1,267,947</b>	<b>\$ 4,561,040</b>	<b>\$ 180,881</b>	<b>\$ 207,760</b>	<b>\$ 105,130</b>	<b>\$ 105,130</b>	<b>\$ 215,305</b>	<b>\$ 254,551</b>	<b>\$ 113,944</b>	<b>\$ 583,500</b>	<b>\$ 5,638,611</b>

See Accompanying Notes

**MISSION OF MERCY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Program Services			Management and General			Fundraising			Total Functional Expenses	
	Arizona		Texas	Arizona		Texas	Arizona		Texas		
	MD/PA	TOTAL	MD/PA	TOTAL	MD/PA	TOTAL	MD/PA	TOTAL			
Salaries	\$ 289,383	\$ 290,211	\$ 97,086	\$ 646,680	\$ 60,327	\$ 21,804	\$ 164,761	\$ 83,584	\$ 54,271	\$ 193,988	\$ 1,005,429
Employee Benefits	65,400	26,565	14,360	106,325	15,261	3,752	36,244	7,752	13,981	31,747	174,316
Payroll Taxes	20,227	22,810	7,557	50,594	4,682	1,696	12,869	6,449	4,224	15,080	78,543
Bank Charges	3,671	3,626	3,575	10,872	4,461	3,675	14,719	1,788	1,787	5,363	30,954
Board and Committee Expense	124	194	124	442	62	1,200	1,505	177	774	230	3,128
Books and Subscriptions	3,100	1,586	2,896	7,582	213	311	986	4,421	3,119	7,540	16,058
Clinic Supplies	6,241	3,176	-	9,417	-	-	-	-	-	-	9,417
Consultants	7,810	11,736	5,535	25,081	5,840	19,551	27,058	-	84,663	84,663	136,802
Dental Supplies	3,670	-	-	3,670	-	-	-	-	-	-	3,670
Depreciation	5,297	67,640	41,197	114,134	713	1,324	2,599	249	250	748	117,481
Donated Services	417,118	447,136	149,549	1,013,803	750	11,813	12,813	315	2,000	2,315	1,028,931
Donated Supplies and Equipment	101,244	-	17,129	118,373	-	-	-	-	-	4,500	122,873
Donated Lab and X-Ray Services	643,823	259,296	668,073	1,571,192	-	-	-	-	-	-	1,571,192
Donated Facilities	31,805	41,072	11,030	83,907	667	417	15,909	417	417	1,250	101,066
Donor Development	-	-	-	-	142	636	1,045	-	142	428	32,042
Dues and Memberships	285	285	285	855	267	-	-	-	-	-	2,328
Indigent Drugs	375,096	33,326	244,945	653,367	-	-	-	-	-	-	653,367
Insurance	14,612	20,144	16,067	50,823	2,917	3,500	9,614	619	619	1,857	62,294
Interest	73	73	73	219	36	9,741	9,813	36	36	108	10,140
License and Registration	1,453	6,375	33	7,861	906	16	938	126	17	159	8,958
Medical Supplies	6,812	12,731	5,782	25,325	-	-	-	-	-	-	25,325
Medications	44,533	40,754	5,074	90,361	-	-	-	-	-	-	90,361
Miscellaneous	2,825	3,607	3,088	9,520	2,255	3,123	6,504	1,333	4,496	6,670	22,694
Office Supplies	-	75	830	905	4,710	4,169	12,553	563	404	1,479	14,937
Postage	676	241	320	1,237	13,096	2,033	15,805	467	659	2,244	20,412
Printing	449	1,150	1,247	2,846	19,439	1,971	22,544	266	1,634	2,005	27,395
Professional Fees	18,809	12,449	7,475	38,733	14,502	5,598	25,119	37,895	70,941	139,906	203,758
Rent	6,350	10,449	3,922	20,721	5,942	8,037	17,160	4,487	2,299	18,633	56,514
Repairs and Maintenance	4,315	3,476	839	8,630	5,248	821	6,069	-	821	821	15,520
Telephone	5,206	4,144	3,922	13,272	2,140	2,950	8,720	2,115	2,637	7,601	29,593
Tuition and Education	835	-	-	835	-	1,365	-	-	43,989	47,462	49,662
Travel and Entertainment	5,376	6,158	4,304	15,838	5,083	4,413	14,400	6,354	8,055	18,387	48,625
Utilities	3,162	2,868	837	6,867	1,104	2,524	4,394	1,422	547	5,383	16,644
Vehicle Expense	6,002	6,015	2,104	14,121	-	-	-	-	-	-	14,121
<b>TOTAL EXPENSES</b>	<b>\$ 2,065,782</b>	<b>\$ 1,339,368</b>	<b>\$ 1,319,258</b>	<b>\$ 4,724,408</b>	<b>\$ 170,621</b>	<b>\$ 170,843</b>	<b>\$ 445,456</b>	<b>\$ 164,945</b>	<b>\$ 138,546</b>	<b>\$ 634,686</b>	<b>\$ 5,804,550</b>

See Accompanying Notes

**MISSION OF MERCY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012 (as Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Inflows:		
Receipts from Donations	\$ 802,162	\$ 861,795
Receipts from Grants	1,434,962	993,475
Receipts from Special Events	148,515	189,805
Interest and Related Earnings Received	1,305	291
Miscellaneous Receipts	17,443	17,575
	2,404,387	2,062,941
Outflows:		
Payments to Employees	1,049,629	1,021,167
Payments for Program Services	556,656	503,631
Payments for Management and General	230,389	282,904
Payments for Special Events	68,689	59,626
Payments for Fundraising	367,030	431,885
	2,272,393	2,299,213
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>131,994</b>	<b>(236,272)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Inflows:		
Proceeds from Sale of Assets	-	18,800
	-	18,800
Outflows:		
Acquisition of Equipment	7,690	1,699
	7,690	1,699
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(7,690)</b>	<b>17,101</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Inflows:		
Net Proceeds from Borrowings on Line of Credit	40,000	185,000
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>40,000</b>	<b>185,000</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>164,304</b>	<b>(34,171)</b>
Cash and Cash Equivalents - Beginning of Year	365,591	399,762
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 529,895</b>	<b>\$ 365,591</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. (the "Organization") is a nonprofit organization which seeks to restore dignity to the sick, poor, and homeless. The primary service program is the provision of basic medical services at no charge via mobile healthcare units and a team of licensed healthcare workers. The Organization currently operates seventeen clinic sites located in Arizona, Maryland, Pennsylvania, and Texas.

In 2013 the Organization launched a new Community Connections program in Arizona that works to connect needy individuals with additional resources from other partner organizations, helping to promote general health literacy, disease management and prevention education, and helping pre-qualify individuals for other public health assistance programs. Arizona program expenses associated with this program for the year ended June 30, 2013 were \$45,768.

*Cash and Cash Equivalents*

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

The Organization invests in fairly liquid, high quality securities that are broker insured, FDIC insured, and/or are U.S. Government securities. If the Organization receives donated stock, it is liquidated at the first opportunity and the proceeds are deposited into investment types that have previously been discussed.

*Inventory*

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

*Property and Equipment*

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**MISSION OF MERCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

Mission of Mercy, Inc. also capitalizes all property and equipment purchases over \$1,000. Property and equipment is depreciated using the straight-line method over the estimated useful life of each asset. Depreciation expense for years ended June 30, 2013 and 2012 was \$110,388 and \$117,481, respectively.

*Contributions and Grants*

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

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases the applicable net asset class. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

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

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

*Unconditional Promises to Give*

Contributions are recognized at their fair value when the donor makes a promise to give to the Organization that is, in substance, unconditional. Gains and losses from changes in fair value are included in the contributions line of the statement of activities. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows, as management believes that this is the most accurate method of reporting the receivables and related revenues. The effect of the change in the market interest rate and historical trends of collection and the corresponding changes in fair value of unconditional promises to give resulted in a decrease in contributions revenue of \$2,336 for the year ended June 30, 2013 and an increase in contributions revenue of \$15,987 for the year ended June 30, 2012 (as restated).

**MISSION OF MERCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*Donated Services and Facilities*

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers also provided administrative and fundraising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Donated facilities are valued based on published reports on current local market rates for Class B space rents.

*Functional Expenses*

Expenses are charged to programs and supporting services on the basis of actual invoices received. A portion of general and administrative expenses may be allocated to programs as deemed necessary. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Mission of Mercy, Inc. These expenses, which include administrative salaries, are allocated to program services and fundraising using an allocation schedule based on hours served by employees in each capacity.

*Income Taxes*

No provision has been made for federal and state income taxes because the Organization is exempt from such taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state regulations. However, income from rental activities not directly related to the Organization's tax-exempt purpose is subject to taxation consideration as unrelated business income.

The Organization's federal exempt organization business income tax returns for the years ended June 30, 2013 and 2012, the six-month period ended June 30, 2011, and the year ended December 31, 2010 remain subject to examination by the Internal Revenue Service or state tax authorities generally for three years after they have been filed. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statement.

*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**

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year statements.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 9, 2014, the date the financial statements were available to be issued.

**Note 2. Cash and Cash Equivalents**

The Organization maintains its cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2013, the Organization's uninsured cash balances totaled of \$25,861.

**Note 3. Unconditional Promises to Give**

The Organization uses a fundraising model in each of its geographic locations that has resulted in receiving commitments of promises to give over time to benefit the Organization. As of June 30, 2013, collections were expected pertaining to multi-year commitments in each fiscal year ending as follows:

June 30, 2014	\$ 223,117
June 30, 2015	139,564
June 30, 2016	96,577
June 30, 2017	62,392
June 30, 2018	<u>17,976</u>
	539,626
Less: Discounts to Net Present Value (See Note 10)	(14,667)
Less: Allowance for Uncollectible Promises Receivable (See Note 10)	<u>(49,106)</u>
Net Unconditional Promises to Give	<u>\$ 475,853</u>

Net unconditional promises to give by location were as follows as of June 30:

	<u>2013</u>	2012 (as Restated)
Maryland/Pennsylvania	\$ 75,263	\$ 29,761
Arizona	290,012	278,122
Texas	<u>110,578</u>	<u>181,825</u>
	<u>\$ 475,853</u>	<u>\$ 489,708</u>



**MISSION OF MERCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 4. Inventory**

Inventory consists of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Purchased Inventory	\$ 10,021	\$ 13,275
Donated Inventory	112,292	24,916
Indigent Drug Inventory (See Note 9)	<u>78,169</u>	<u>55,766</u>
	<u>\$ 200,482</u>	<u>\$ 93,957</u>

**Note 5. Line of Credit**

The Organization has a line of credit of \$400,000 that is secured by inventory and equipment owned by the Organization. \$75,000 of its line of credit was available as of June 30, 2013. As of June 30, 2013, interest of 4.75% is due and payable monthly; the rate charged is equal to the bank's variable prime rate plus 0.5%, subject to a floor of 4.75%.

**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 June 30, 2013 and 2012 are \$4,581 and \$4,579, respectively.

Temporarily restricted net assets are available for the following purposes as of June 30:

	<u>2013</u>	<u>2012</u> (as Restated)
Arizona Clinics	\$ 527,930	\$ 448,622
Maryland/Pennsylvania Clinics	118,835	39,261
Specific Illness Treatment Programs	30,000	33,000
Texas Clinics	154,078	229,325
Technology Upgrade	<u>7,670</u>	<u>-</u>
	<u>\$ 838,513</u>	<u>\$ 750,208</u>

As of June 30, 2013 and 2012, the Organization had sufficient cash on hand to act in accordance with donor restrictions.

**MISSION OF MERCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 7. Operating Lease**

The Organization leases office space in Frederick, Maryland; Phoenix, Arizona; and Corpus Christi, Texas. Office rent expense totaled \$60,511 and \$56,514 for the years ended June 30, 2013 and 2012, respectively. These leases expire at various periods from December 2013 to March 2014. Future monthly lease payments range from \$382 to \$2,080 and total \$4,435 monthly.

The Organization has a month to month sublease agreement in their Phoenix, Arizona office. Rental income under this agreement totaled \$14,760 and \$14,745 for the years ended June 30, 2013 and 2012, respectively.

The Organization also leased a copier through August 2012. The lease terms included 60 monthly payments of \$198 through June 2013. In August 2012, the Organization traded in the existing copier and entered into a new copier lease agreement. The new lease terms include 60 monthly payments of \$176 payable through August 2017. Copier lease expense, presented in repairs and maintenance expense, totaled \$2,137 and \$2,376 for the years ended June 30, 2013 and 2012, respectively.

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

2014	\$ 29,870
2015	2,115
2016	2,115
2017	<u>2,115</u>
Total	<u>\$ 36,215</u>

**Note 8. Donated Materials, Services, and Facilities**

The Organization received donated medications, medical supplies, and other supplies valued at \$215,370 and \$136,251 respectively, for the years ended June 30, 2013 and 2012. These donations were valued by the Organization at wholesale or discount supplier prices and were recorded as revenues and expenses, except for the unused donated inventory of \$112,292 and \$24,916 as of June 30, 2013 and 2012, respectively, which was recorded as an asset instead of an expense (see Note 10). The Organization also received equipment donations valued at \$8,226 and \$-0- for the years ended June 30, 2013 and 2012, respectively, that were recorded as assets. In addition, during the years ended June 30, 2013 and 2012, the Organization received donated facilities valued at \$116,301 and \$101,066, respectively, for storage of mobile healthcare units and pharmacy items, clinic space, and office space.

**MISSION OF MERCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

The financial statements also include donations of laboratory services and x-rays provided by hospitals and laboratories in the amount of \$1,391,375 and \$1,571,192 for the years ended June 30, 2013 and 2012, respectively. The services are valued by the Organization at each specific service provider's current rates.

A large number of volunteers donate significant amounts of their time in Mission of Mercy, Inc.'s activities. For the years ended June 30, 2013 and 2012, 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 \$1,169,141 and \$1,013,803, respectively. The Organization values services provided by these professionals at rates comparable to what the Organization would expect to pay for the services. The services recognized in the financial statements represent an estimated 28,468 hours of time contributed for the year ended June 30, 2013, and 25,841 hours of time contributed for the year ended June 30, 2012. In addition, for the years ended June 30, 2013 and 2012, accountants and other professionals donated services valued at \$9,335 and \$15,128, respectively, to the Organization using the specific charitable write-downs of professional services invoices.

Additional services for administrative, fundraising, and other purposes were not recorded in the financial statements because they did not meet the criteria for recognition under accounting rules. These services represent an estimated 14,022 hours for the year ended June 30, 2013, and 15,894 hours for the year ended June 30, 2012.

**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, the doctors of Mission of Mercy, Inc. have discretion on what medicines are prescribed. The Organization meets this discretion requirement, records the medications as revenue and a corresponding expense in the financial statements, and values them based on quoted wholesale or discount supplier prices. For the years ended June 30, 2013 and 2012, the Organization recognized revenue from medications received from these programs of \$514,130 and \$641,015, respectively. This amount was also recognized as expense except for the change in the medications in inventory at year end. Indigent drug inventory as of June 30, 2013 and 2012 was valued at \$78,169 and \$55,766, respectively (see Note 4).

**MISSION OF MERCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 10. Fair Value Measurements**

The Organization uses a framework for measuring fair value that prioritizes the inputs to valuation techniques used to measure fair value using a fair value hierarchy. The following are the major categories of assets measured at fair value on a recurring basis during the years ended June 30, 2013 and 2012 - those using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

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

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

*Donated and Indigent Drug Inventories* (see Notes 8 and 9) - Valued at current unadjusted quoted wholesale or discount supplier prices, a Level 1 measurement.

*Unconditional Promises to Give* (see Note 3) - The income approach utilizes valuation techniques (the present value method, a Level 2 measurement) to convert future amounts to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. The Organization discounts future cash flows by the risk-free interest rate of 2.52% and 2.31% for the years ended June 30, 2013 and 2012, respectively, to determine the net present value of the promises to give. In addition, pledges to the Organization are discounted by an additional 9.10% for collectability concerns for each of the years ended June 30, 2013 and 2012. The Organization believes this method appropriately values pledges while also recognizing the good faith and historical reliability of its donors.

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

**MISSION OF MERCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30:

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Donated Inventories	\$ 112,292	\$ -	\$ 112,292
Indigent Drug Inventories	78,169	-	78,169
Unconditional Promises to Give	<u>-</u>	<u>475,853</u>	<u>475,853</u>
Total Assets at Fair Value	<u>\$ 190,461</u>	<u>\$ 475,853</u>	<u>\$ 666,314</u>
<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Donated Inventories	\$ 24,916	\$ -	\$ 24,916
Indigent Drug Inventories	55,766	-	55,766
Unconditional Promises to Give (as Restated)	<u>-</u>	<u>489,708</u>	<u>489,708</u>
Total Assets at Fair Value	<u>\$ 80,682</u>	<u>\$ 489,708</u>	<u>\$ 570,390</u>

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

	<u>2013</u>	<u>2012</u> <u>(as Restated)</u>
Increase (Decrease) in Net Assets	<u>\$ 106,758</u>	<u>\$ (485,377)</u>
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	110,388	117,481
Donated Equipment	(8,226)	-
Loss on Disposition of Assets	352	12,038
(Increase) Decrease in:		
Unconditional Promises to Give	13,855	150,559
Inventory	(106,525)	13,117
Prepaid Expenses	20,928	(33,530)
Increase (Decrease) in:		
Accounts Payable	(5,282)	5,178
Accounts Payroll Taxes	(4,976)	(2,426)
Accrued Salaries	<u>4,722</u>	<u>(13,312)</u>
Total Adjustments	<u>25,236</u>	<u>249,105</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 131,994</u>	<u>\$ (236,272)</u>

**MISSION OF MERCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**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. Retirement Plan**

The Organization operates a 401(k) plan that is funded by participant salary reductions and, if approved by the Board of Directors, discretionary contributions by the employer. The plan covers substantially all employees, although eligibility criteria are maintained. The Organization did not make any contributions for the years ended June 30, 2013 and 2012. This plan is tax exempt and has been approved by the Internal Revenue Service.

**Note 14. Prior Period Adjustments**

During the year ended June 30, 2013, it was determined that unconditional promises to give (net of allowance for uncollectible promises) as of June 30, 2012 were understated by \$39,541 for the current portion and by \$60,599 for the long-term portion. Temporarily restricted net assets as of June 30, 2012 have been restated to reflect this correction, which resulted in the following changes:

	<u>Previously Stated on June 30, 2012</u>	<u>Currently Stated on June 30, 2012</u>
Unconditional Promises to Give (Net of Allowance for Uncollectible Promises)		
Current Portion	\$ 172,717	\$ 212,258
Long-Term Portion	\$ 216,851	\$ 277,450
Allowance for Uncollectible Promises		
Current Portion	\$ 17,297	\$ 21,256
Long-Term Portion	\$ 22,722	\$ 29,047
Contributions	\$ 611,096	\$ 711,236
Restrictions Satisfied by Payments	\$(870,959)	\$(770,819)
Temporarily Restricted Net Assets	\$650,068	\$750,208