

MISSION OF MERCY, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
AND THE TWELVE MONTH PERIOD
ENDED JUNE 30, 2011

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

INDEPENDENT AUDITORS' REPORT

November 7, 2012

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 June 30, 2012 and 2011, and the related statement of activities, functional expenses, and cash flows for the year ended June 30, 2012 and for the twelve month period ended June 30, 2011. 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 June 30, 2012 and 2011, and the changes in its net assets and cash flows for the year ended June 30, 2012 and for the twelve month period ended June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

Rager, Lehman & Houck, P.C.

FINANCIAL STATEMENTS

MISSION OF MERCY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 365,591	\$ 399,762
Unconditional Promises to Give (Less Allowance for Uncollectible Promises of \$17,297 and \$40,828, respectively)	172,717	260,610
Inventory	93,957	107,074
Prepaid Expenses	34,701	1,171
TOTAL CURRENT ASSETS	666,966	768,617
 PROPERTY AND EQUIPMENT		
Dental Equipment	42,237	40,536
Medical Equipment	50,278	47,155
Office Equipment	57,140	63,387
Vehicles	851,049	963,493
	1,000,704	1,114,571
Less: Accumulated Depreciation	565,980	533,227
TOTAL PROPERTY AND EQUIPMENT	434,724	581,344
 OTHER ASSETS		
Unconditional Promises to Give (Less Allowance for Uncollectible Promises of \$22,722 and \$33,410, respectively)	216,851	379,657
TOTAL OTHER ASSETS	216,851	379,657
 TOTAL ASSETS	 \$ 1,318,541	 \$ 1,729,618

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

LIABILITIES AND NET ASSETS

	2012	2011
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 67,844	\$ 62,666
Accrued Payroll Taxes	5,044	7,470
Accrued Salaries	84,251	97,563
Line of Credit	285,000	100,000
TOTAL CURRENT LIABILITIES	442,139	267,699
TOTAL LIABILITIES	442,139	267,699
 NET ASSETS		
Unrestricted		
Undesignated	221,755	354,146
Board Designated	4,579	4,474
Total Unrestricted	226,334	358,620
Temporarily Restricted	650,068	1,103,299
TOTAL NET ASSETS	876,402	1,461,919
 TOTAL LIABILITIES AND NET ASSETS	\$ 1,318,541	\$ 1,729,618

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	2012		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT, REVENUE, AND GAINS			
SUPPORT			
Contributions	\$ 611,096	\$ -	\$ 611,096
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
TOTAL SUPPORT	4,236,941	846,085	5,083,026
REVENUE AND GAINS			
Special Events	189,805	-	189,805
Miscellaneous Revenues	2,830	-	2,830
Interest Income	352	-	352
Gain on Asset Disposal	-	-	-
Gain on Investment	-	-	-
TOTAL REVENUE AND GAINS	192,987	-	192,987
EXPIRATION OF TIME RESTRICTIONS	428,357	(428,357)	-
RESTRICTIONS SATISFIED BY PAYMENTS	870,959	(870,959)	-
TOTAL SUPPORT, REVENUE, AND GAINS	5,729,244	(453,231)	5,276,013
EXPENSES			
Program Expenses	4,719,984	-	4,719,984
Management and General	441,032	-	441,032
Fundraising	628,788	-	628,788
Special Events	59,627	-	59,627
Loss on Asset Disposal	12,038	-	12,038
Loss on Investment	61	-	61
TOTAL EXPENSES	5,861,530	-	5,861,530
DECREASE IN NET ASSETS	(132,286)	(453,231)	(585,517)
Net Assets - Beginning of Year	358,620	1,103,299	1,461,919
NET ASSETS - END OF YEAR	\$ 226,334	\$ 650,068	\$ 876,402

See Accompanying Notes

MISSION OF MERCY, INC.

STATEMENT OF ACTIVITIES

FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2011

	2011		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT, REVENUE, AND GAINS			
SUPPORT			
Contributions	\$ 972,537	\$ 113,205	\$ 1,085,742
Grants	481,899	721,386	1,203,285
Donated Facilities	93,195	-	93,195
Donated Lab and X-Ray Services	1,104,625	-	1,104,625
Donated Services	1,081,861	-	1,081,861
Donated Supplies and Equipment	99,301	-	99,301
Indigent Drug Program	339,524	-	339,524
TOTAL SUPPORT	4,172,942	834,591	5,007,533
REVENUE AND GAINS			
Special Events	194,775	-	194,775
Miscellaneous Revenues	2,477	-	2,477
Interest Income	932	-	932
Gain on Asset Disposal	1,790	-	1,790
Gain on Investment	30	-	30
TOTAL REVENUE AND GAINS	200,004	-	200,004
EXPIRATION OF TIME RESTRICTIONS	165,750	(165,750)	-
RESTRICTIONS SATISFIED BY PAYMENTS	822,409	(822,409)	-
TOTAL SUPPORT, REVENUE, AND GAINS	5,361,105	(153,568)	5,207,537
EXPENSES			
Program Expenses	3,967,061	-	3,967,061
Management and General	404,293	-	404,293
Fundraising	617,115	-	617,115
Special Events	89,952	-	89,952
Loss on Asset Disposal	-	-	-
Loss on Investment	-	-	-
TOTAL EXPENSES	5,078,421	-	5,078,421
INCREASE (DECREASE) IN NET ASSETS	282,684	(153,568)	129,116
Net Assets - Beginning of Year	75,936	1,256,867	1,332,803
NET ASSETS - END OF YEAR	\$ 358,620	\$ 1,103,299	\$ 1,461,919

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		
	Marlyland	TOTAL	Marlyland	TOTAL	Marlyland	TOTAL	Marlyland	TOTAL	Marlyland	TOTAL	Marlyland	TOTAL	
Salaries	\$ 259,383	\$ 290,211	\$ 97,086	\$ 646,680	\$ 60,327	\$ 82,630	\$ 21,804	\$ 164,761	\$ 83,584	\$ 56,133	\$ 54,271	\$ 193,988	\$ 1,005,429
Employee Benefits	65,400	26,565	14,360	106,325	15,261	17,608	3,375	36,244	7,752	10,014	13,981	31,747	174,316
Payroll Taxes	20,227	22,810	7,557	50,594	4,682	6,491	1,696	12,869	6,449	4,407	4,224	15,080	78,543
Bank Charges	3,671	3,626	3,575	10,872	4,461	6,583	3,675	14,719	1,788	1,788	1,787	5,363	30,954
Board and Committee Expense	124	194	124	442	62	1,200	243	1,505	177	774	230	1,181	3,128
Books and Subscriptions	3,100	1,586	2,896	7,582	213	412	311	936	4,421	3,119	-	7,540	16,058
Clinic Supplies	6,241	3,176	-	9,417	-	-	-	-	-	-	-	-	9,417
Contract Services	7,810	11,736	5,535	25,081	5,840	1,667	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	562	2,599	249	249	250	748	117,481
Donated Services	417,118	447,136	149,549	1,013,803	750	11,813	250	12,813	315	2,000	-	2,315	1,028,931
Donated Supplies and Equipment	101,244	-	17,129	118,373	-	-	-	-	-	-	4,500	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	14,825	15,909	417	417	416	1,250	101,066
Donor Development	-	-	-	-	267	142	636	1,045	3,968	21,998	6,076	32,042	32,042
Dues and Memberships	285	285	285	855	-	-	-	-	142	142	-	428	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	3,197	9,614	619	619	619	1,857	62,294
License and Registration	1,453	6,375	33	7,861	906	16	16	938	126	16	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	2,898	3,680	3,161	9,739	2,291	3,159	10,867	16,317	1,369	4,532	877	6,778	32,834
Office Supplies	-	75	830	905	4,710	4,169	3,674	12,553	563	404	512	1,479	14,937
Postage	676	241	320	1,237	13,096	2,033	676	15,805	467	659	2,244	3,370	20,412
Printing	449	1,150	1,247	2,846	19,439	1,971	1,134	22,544	266	1,634	105	2,005	27,395
Professional Fees	18,809	12,449	7,475	38,733	14,502	5,598	5,019	25,119	37,895	70,941	31,070	139,906	203,768
Rent	6,350	6,025	3,922	16,297	5,942	3,613	3,181	12,736	4,487	5,949	2,299	12,735	41,768
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	3,630	8,720	2,115	2,637	2,849	7,601	29,593
Tuition and Education	835	-	-	835	-	1,365	-	1,365	-	43,989	3,473	47,462	49,662
Travel and Entertainment	5,376	6,158	4,304	15,838	5,083	4,413	4,904	14,400	6,354	3,978	8,055	18,387	48,625
Utilities	3,162	2,868	837	6,867	1,104	2,524	766	4,394	1,422	3,414	547	5,383	16,644
Vehicle Expense	6,002	6,015	2,104	14,121	-	-	-	-	-	-	-	-	14,121
TOTAL EXPENSES	\$ 2,065,782	\$ 1,334,944	\$ 1,319,258	\$ 4,719,954	\$ 170,621	\$ 166,419	\$ 103,992	\$ 441,032	\$ 164,945	\$ 325,297	\$ 136,546	\$ 628,788	\$ 5,789,804

See Accompanying Notes
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MISSION OF MERCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2011

	Program Services				Management and General				Fundraising			Total Functional Expenses		
	Maryland	Arizona		Texas	TOTAL	Maryland	Arizona		Texas	TOTAL	Maryland		Texas	
		Arizona	Texas				Arizona	Texas					Arizona	Texas
Salaries	\$ 278,510	\$ 274,176	\$ 114,265	\$ 666,951	\$ 63,324	\$ 82,533	\$ 21,427	\$ 167,284	\$ 99,887	\$ 93,751	\$ 53,192	\$ 246,830	\$ 1,081,065	
Employee Benefits	58,751	21,646	20,704	101,101	15,286	19,021	4,716	39,023	13,787	18,144	15,129	47,060	187,184	
Payroll Taxes	22,987	22,540	9,511	55,038	5,110	6,748	1,787	13,645	7,999	7,768	4,339	20,106	88,789	
Bank Charges	3,088	3,047	2,994	9,129	4,107	5,419	4,362	13,888	1,492	1,492	1,489	4,473	27,490	
Board and Committee Expense	164	4,760	164	5,088	288	1,986	82	2,356	82	319	80	481	7,925	
Books and Subscriptions	1,406	1,466	1,562	4,434	139	139	139	417	4,231	2,657	-	6,888	11,739	
Clinic Supplies	3,901	6,984	-	10,885	-	-	-	-	-	-	-	-	10,885	
Contract Services	17,726	4,900	6,578	29,204	6,456	3,336	5,268	15,060	-	35,058	895	35,953	80,217	
Dental Supplies	3,686	-	-	3,686	-	-	-	-	-	-	-	-	3,686	
Depreciation	8,110	57,147	12,659	77,916	848	422	6	1,276	6	6	8	20	79,212	
Donated Services	507,093	405,623	161,310	1,074,026	4,307	457	164	4,928	164	2,582	161	2,907	1,081,861	
Donated Supplies and Equipment	118,794	-	27,653	146,447	-	-	-	-	-	-	-	-	146,447	
Donated Lab and X-Ray Services	783,496	244,720	76,409	1,104,625	-	-	-	-	-	-	-	-	1,104,625	
Donated Facilities	30,253	28,521	27,831	86,605	628	628	3,449	4,705	628	628	629	1,885	93,195	
Donor Development	-	-	-	-	-	-	-	-	-	-	-	-	40,884	
Dues and Memberships	361	261	431	1,053	2,801	130	622	3,553	7,555	24,630	132	392	4,998	
Indigent Drugs	194,251	10,027	54,494	258,772	-	-	-	-	-	-	-	-	258,772	
Insurance	17,604	14,644	21,088	53,336	4,313	4,062	3,821	12,196	253	253	250	756	66,288	
License and Registration	1,284	7,956	173	9,413	200	10	-	210	-	-	-	-	9,623	
Medical Supplies	8,392	19,040	7,730	35,162	-	-	-	-	-	-	-	-	35,162	
Medications	29,930	37,941	8,118	75,989	-	-	-	-	-	-	-	-	75,989	
Miscellaneous	1,723	4,131	2,963	8,817	1,721	1,306	5,221	8,248	714	425	555	1,694	18,759	
Office Supplies	-	-	2,514	2,514	4,358	2,898	1,421	8,677	275	112	431	818	12,009	
Postage	338	447	302	1,087	16,488	1,563	605	18,656	733	808	2,074	3,615	23,358	
Printing	1,531	857	1,812	4,200	21,430	3,148	1,245	25,823	3	165	3	171	30,194	
Professional Fees	17,901	13,765	8,859	40,525	9,730	5,653	5,017	20,400	30,740	61,356	32,306	124,402	185,327	
Rent	6,141	6,150	3,927	16,218	5,701	3,494	3,504	12,699	4,651	5,761	2,147	12,559	41,476	
Repairs and Maintenance	10,045	7,610	15,632	33,287	5,094	-	-	5,094	-	-	221	221	38,602	
Telephone	5,338	4,569	3,913	13,820	2,078	2,425	3,847	8,350	2,227	2,578	3,171	7,976	30,146	
Tuition and Education	4,331	200	200	4,731	100	100	100	300	17,791	100	21,782	39,873	44,704	
Travel and Entertainment	3,535	5,652	3,864	13,051	4,144	3,461	5,284	12,889	7,067	2,263	3,145	12,475	38,415	
Utilities	2,298	2,807	818	5,923	1,112	2,653	851	4,616	1,382	2,985	509	4,876	15,415	
Vehicle Expense	3,662	5,914	4,452	14,028	-	-	-	-	-	-	-	-	14,028	
TOTAL EXPENSES	\$ 2,146,630	\$ 1,217,501	\$ 602,930	\$ 3,967,061	\$ 179,763	\$ 151,592	\$ 72,938	\$ 404,293	\$ 201,697	\$ 264,071	\$ 151,347	\$ 617,115	\$ 4,988,469	

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012 AND
THE TWELVE MONTH PERIOD ENDED JUNE 30, 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows:		
Receipts from Donations	\$ 861,795	\$ 981,249
Receipts from Grants	993,475	1,203,285
Receipts from Special Events	189,805	194,775
Interest Received	352	932
Miscellaneous Receipts	2,830	2,477
	<u>2,048,257</u>	<u>2,382,718</u>
Outflows:		
Payments to Employees	1,021,167	1,092,041
Payments for Program Services	499,207	554,971
Payments for Management and General	278,480	224,090
Payments for Special Events	59,627	89,952
Payments for Fundraising	425,987	365,473
	<u>2,284,468</u>	<u>2,326,527</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(236,211)</u>	<u>56,191</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows:		
Proceeds from Sale of Donated Stock	-	14,267
Proceeds from Sale of Assets	18,800	2,000
	<u>18,800</u>	<u>16,267</u>
Outflows:		
Acquisition of Equipment	1,760	243,943
	<u>1,760</u>	<u>243,943</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>17,040</u>	<u>(227,676)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows:		
Net Proceeds from Borrowings on Line of Credit	185,000	-
	<u>185,000</u>	<u>-</u>
Outflows:		
Net Payments on Line of Credit	-	25,000
	<u>-</u>	<u>25,000</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>185,000</u>	<u>(25,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(34,171)</u>	<u>(196,485)</u>
Cash and Cash Equivalents - Beginning	399,762	596,247
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 365,591</u>	<u>\$ 399,762</u>

See Accompanying Notes

MISSION OF MERCY, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Accounting Policies

Nature of Activities

Mission of Mercy, Inc. (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.

During the twelve months ended June 30, 2011, the Organization changed its fiscal year end from December 31 to June 30. These financial statements reflect the twelve months of activity leading up to June 30, 2011, as well as the fiscal year ended June 30, 2012.

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

Inventories 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 year ended June 30, 2012 and the twelve month period ended June 30, 2011 was \$117,481 and \$79,212, 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 believe that this is the most accurate method of reporting these revenues. The effect of the change in the risk-free rate and the corresponding changes in fair value of unconditional promises to give resulted in an increase in contributions revenue of \$12,713 for the year ended June 30, 2012 and a decrease of \$9,443 in contributions revenue for the twelve month period ended June 30, 2011.

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.

The Organization's federal exempt organization business income tax returns for the six-month period ended June 30, 2011 and the years ended December 31, 2010 and 2009 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.

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NOTES TO FINANCIAL STATEMENTS

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 7, 2012, the date the financial statements were available to be issued.

Note 2. Cash and Cash Equivalents

The Organization maintains cash balances at several financial institutions. Accounts with participating institutions are wholly insured by the Federal Deposit Insurance Corporation. There were no uninsured cash balances as of June 30, 2012 and 2011.

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, 2012, collections were expected pertaining to multi-year commitments in each fiscal year as follows:

2013	\$190,014
2014	116,130
2015	92,680
2016	32,800
2017	3,000
Thereafter	<u>5,000</u>
	439,624
Less: Present Value Discount (See Note 10)	(10,037)
Less: Allowance for Uncollectible Promises (See Note 10)	<u>(40,019)</u>
Net Unconditional Promises to Give	<u>\$389,568</u>

Net Unconditional Promises to Give by Location as of June 30:

	<u>2012</u>	<u>2011</u>
Maryland/Pennsylvania	\$ 27,103	\$ 73,337
Arizona	202,679	406,122
Texas	<u>159,786</u>	<u>160,808</u>
	<u>\$389,568</u>	<u>\$640,267</u>

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Note 4. Inventory

Inventory consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
Purchased Inventory	\$ 13,275	\$ 27,418
Donated Inventory	24,916	11,538
Indigent Drug Inventory (See Note 9)	<u>55,766</u>	<u>68,118</u>
	<u>\$ 93,957</u>	<u>\$107,074</u>

Note 5. Line of Credit

The Organization had \$115,000 and \$250,000 of its lines of credit available as of June 30, 2012 and 2011, respectively, to be used in operations. The line is secured by inventory and equipment owned by the Organization. As of June 30, 2012, 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%. As of June 30, 2011, interest of 6.25% is due and payable monthly; the rate charged is equal to the bank's variable prime rate plus 2.0%.

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, 2012 and 2011 are \$4,579 and \$4,474, respectively.

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

	<u>2012</u>	<u>2011</u>
Arizona Clinics	\$ 373,179	\$ 645,662
Maryland/Pennsylvania Clinics	36,603	120,104
Specific Illness Treatment Programs	33,000	101,750
Texas Clinics	207,286	233,398
Texas Mobile Clinic Purchase	-	<u>2,385</u>
	<u>\$ 650,068</u>	<u>\$1,103,299</u>

As of June 30, 2012, the Organization had sufficient cash on hand to act in accordance with donor restrictions. As of June 30, 2011, the Organization had not maintained the necessary amount of cash to comply with donor restrictions, as the Organization's restrictions exceed cash on the financial statements by \$63,270.

MISSION OF MERCY, INC.
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Note 7. Operating Lease

The Organization leases office space in Frederick, Maryland; Phoenix, Arizona; and Corpus Christi, Texas. Office rent expense totaled \$41,768 and \$41,476 for the year ended June 30, 2012 and the twelve month period ended June 30, 2011, respectively. These leases expire at various periods from December 2012 to December 2013. Future monthly lease payments range from \$1,973 to \$2,039 and total \$4,012 monthly.

The Organization also leases a copier. The lease terms include 60 monthly payments of \$198 payable through June 2013. Copier lease expense totaled \$2,376 for the year ended June 30, 2012.

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

2013	\$ 38,288
2014	<u>11,838</u>
Total	<u>\$ 50,126</u>

Subsequent to year end, the Organization entered into an extension of lease agreement for the office space in Corpus Christi, Texas. The agreement was entered into in August 2012 for the period of March 31, 2012 to March 31, 2014. The new lease terms include payments of \$382 each month. The Organization also entered into a new copier lease in August 2012 to overwrite the previous lease at year end. The lease terms include 60 monthly payments of \$176 payable through August 2017.

A summary of total future minimum operating lease payments by fiscal year (including subsequent events) is as follows:

2013	\$ 42,632
2014	17,391
2015	2,115
2016	2,115
2017	<u>2,115</u>
Total	<u>\$ 66,368</u>

Note 8. Donated Materials, Services, and Facilities

The Organization received donated medications, medical supplies, and other supplies valued at \$136,251 and \$99,301 respectively for the year ended June 30, 2012 and the twelve month period ended June 30, 2011. These donations were valued by the organization at wholesale or discount supplier prices and were recorded as revenue and expenses in the financial statements except for the unused donated inventory of \$24,916 and \$11,538 as of June 30,

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2012 and 2011, respectively, which was recorded as an asset instead of an expense (see Note 10).

The Organization also received equipment donations valued at \$-0- that were recorded as assets for the year ended June 30, 2012, and \$7,280 for the twelve month period ended June 30, 2011. In addition, during the year ended June 30, 2012 and the twelve month period ended June 30, 2011, the Organization received donated facilities valued at \$101,066 and \$93,195, respectively, for storage of mobile healthcare units and pharmacy items, clinic space, and office space.

The financial statements also include donations of lab services and x-rays provided by hospitals and laboratories in the amount of \$1,571,192 and \$1,104,625 for the year ended June 30, 2012 and the twelve month period ended June 30, 2011, 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. activities. For the year ended June 30, 2012 and the twelve month period ended June 30, 2011, 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 \$1,013,803 and \$1,074,026, 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 25,841 hours of time contributed for the year ended June 30, 2012, and 27,113 hours of time contributed for the twelve month period ended June 30, 2011.

During the year ended June 30, 2012 and the twelve month period ended June 30, 2011, accountants and other professionals donated services valued at \$15,128 and \$8,819 by the Organization using the specific charitable write-downs of professional services invoices, 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 accounting rules. These services represent 15,894 hours for the year ended June 30, 2012, and 17,309 hours for the twelve month period ended June 30, 2011.

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

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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 year ended June 30, 2012 and the twelve month period ended June 30, 2011, the Organization recognized revenue from medications received from these programs of \$641,015 and \$339,524. 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, 2012 and 2011 was valued at \$55,766 and \$68,118, respectively (see Note 4).

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 year ended June 30, 2012 and the twelve month period ended June 30, 2011 – 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 2.31% annually 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. The Organization believes this method appropriately values pledges while also recognizing the good faith and historical reliability of its donors.

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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.

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

<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	<u>-</u>	<u>389,568</u>	<u>389,568</u>
Total Assets at Fair Value	<u>\$80,682</u>	<u>\$389,568</u>	<u>\$470,250</u>
<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Donated Inventories	\$11,538	\$ -	\$ 11,538
Indigent Drug Inventories	68,118	-	68,118
Unconditional Promises to Give	<u>-</u>	<u>640,267</u>	<u>640,267</u>
Total Assets at Fair Value	<u>\$79,656</u>	<u>\$640,267</u>	<u>\$719,923</u>

MISSION OF MERCY, INC.
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Note 11. Reconciliation of Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities

	<u>2012</u>	<u>2011</u>
Increase (Decrease) in Net Assets	\$(585,517)	\$129,116
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	117,481	79,212
(Gain) Loss on Disposition of Assets	12,038	(1,790)
Donated Assets	-	(7,280)
(Gain) Loss on Investment	61	(30)
Donated Stock	-	(14,237)
(Increase) Decrease In:		
Unconditional Promises to Give	250,699	(102,890)
Inventory	13,117	(23,361)
Prepaid Expenses	(33,530)	2,010
Increase (Decrease) In:		
Accounts Payable	5,178	6,417
Accrued Salaries and Payroll Taxes	<u>(15,738)</u>	<u>(10,976)</u>
Total Adjustments	<u>349,306</u>	<u>(72,925)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$(236,211)</u>	<u>\$56,191</u>

The Organization had non-cash operating activities for the year ended June 30, 2012 and the twelve month period ended June 30, 2011 through the receipt of donated inventory, indigent drug inventory, and donated services (see Notes 8 and 9) of \$2,787,275 and \$2,411,703, respectively.

The Organization had non-cash contribution effects from the change in fair value of unconditional promises. This effect resulted in a gain of \$12,713 for the year ended June 30, 2012 and a loss of \$9,443 for the twelve month period ended June 30, 2011.

The Organization had two non-cash contributions of donated stock in the twelve month period ended June 30, 2011 with a total value of \$14,237.

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.
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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 year ended June 30, 2012 or the twelve month period ended June 30, 2011. This plan is tax exempt and has been approved by the Internal Revenue Service.

Note 14. Subsequent Events

The Organization entered into two new operating leases in August 2012, as detailed in Note 7.

Also in August 2012, the Board of Directors determined that the Organization will work with Catholic Charities of Southeast Michigan, a nonprofit corporation, to evaluate the viability of establishing a sustainable regional mobile health program of Mission of Mercy in Michigan. The officers and directors have been authorized to begin applying and registering for the ability to conduct affairs and solicit charitable contributions in Michigan.

