

MISSION OF MERCY, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2009 AND 2008

TABLE OF CONTENTS

	P a g e
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
• Statements of Financial Position	2 - 3
• Statements of Activities	4
• Statements of Functional Expenses	5 - 6
• Statements of Cash Flows	7
NOTES TO FINANCIAL STATEMENTS	8 - 19



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

INDEPENDENT AUDITORS' REPORT

April 9, 2010

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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 AND 2008

ASSETS

	2009	2008
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 571,601	\$ 649,227
Unconditional Promises to Give (Less Allowance for Uncollectible Promises of \$10,562 and \$13,071, respectively)	200,673	153,075
Inventory	82,200	108,025
Prepaid Expenses	29,338	22,867
TOTAL CURRENT ASSETS	<u>883,812</u>	<u>933,194</u>
 PROPERTY AND EQUIPMENT		
Dental Equipment	44,648	46,130
Medical Equipment	42,150	39,775
Office Equipment	59,963	62,438
Vehicles	678,069	613,070
	<u>824,830</u>	<u>761,413</u>
Less: Accumulated Depreciation	650,414	573,737
TOTAL PROPERTY AND EQUIPMENT	<u>174,416</u>	<u>187,676</u>
 OTHER ASSETS		
Long-Term Prepaid Expenses	4,484	-
Unconditional Promises to Give (Less Allowance for Uncollectible Promises of \$20,327 and \$19,951, respectively)	352,370	233,647
TOTAL OTHER ASSETS	<u>356,854</u>	<u>233,647</u>
 TOTAL ASSETS	 <u><u>\$ 1,415,082</u></u>	 <u><u>\$ 1,354,517</u></u>

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	2009	2008
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 28,982	\$ 44,363
Accrued Payroll Taxes	6,556	8,378
Accrued Salaries	110,464	111,031
TOTAL CURRENT LIABILITIES	<u>146,002</u>	<u>163,772</u>
TOTAL LIABILITIES	<u>146,002</u>	<u>163,772</u>
NET ASSETS		
Unrestricted		
Undesignated	347,577	661,396
Board Designated	14,602	14,544
Total Unrestricted	<u>362,179</u>	<u>675,940</u>
Temporarily Restricted	906,901	514,805
TOTAL NET ASSETS	<u>1,269,080</u>	<u>1,190,745</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,415,082</u>	<u>\$ 1,354,517</u>

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009			2008		
	<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	\$ 777,690	\$ 268,080	\$ 1,045,770	\$ 728,439	\$ 241,169	\$ 969,608
Grants	819,317	270,818	1,090,135	793,719	90,583	884,302
Donated Facilities	77,271	-	77,271	96,643	-	96,643
Donated Lab and X-Ray Services	769,643	-	769,643	923,649	-	923,649
Donated Services	1,051,443	-	1,051,443	1,022,231	-	1,022,231
Donated Supplies and Equipment	392,367	-	392,367	133,927	-	133,927
Indigent Drug Program	339,285	-	339,285	422,322	-	422,322
TOTAL SUPPORT	<u>4,227,016</u>	<u>538,898</u>	<u>4,765,914</u>	<u>4,120,930</u>	<u>331,752</u>	<u>4,452,682</u>
REVENUE						
Special Events	329,297	-	329,297	454,762	-	454,762
Miscellaneous Revenues	2,886	-	2,886	2,718	-	2,718
Interest Income	285	-	285	6,425	-	6,425
TOTAL REVENUE	<u>332,468</u>	<u>-</u>	<u>332,468</u>	<u>463,905</u>	<u>-</u>	<u>463,905</u>
TOTAL SUPPORT AND REVENUE	<u>4,559,484</u>	<u>538,898</u>	<u>5,098,382</u>	<u>4,584,835</u>	<u>331,752</u>	<u>4,916,587</u>
NET ASSETS RELEASED FROM RESTRICTIONS						
Expiration of Time Restrictions	18,719	(18,719)	-	87,825	(87,825)	-
Restrictions Satisfied by Payments	128,083	(128,083)	-	7,843	(7,843)	-
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	<u>146,802</u>	<u>(146,802)</u>	<u>-</u>	<u>95,668</u>	<u>(95,668)</u>	<u>-</u>
EXPENSES AND LOSSES						
Program Expenses	4,019,902	-	4,019,902	4,024,277	-	4,024,277
Management and General	322,347	-	322,347	288,010	-	288,010
Fundraising	538,432	-	538,432	539,093	-	539,093
Special Events	138,422	-	138,422	160,533	-	160,533
Loss on Disposal of Assets	933	-	933	1,686	-	1,686
Loss on Investment	11	-	11	-	-	-
TOTAL EXPENSES AND LOSSES	<u>5,020,047</u>	<u>-</u>	<u>5,020,047</u>	<u>5,013,599</u>	<u>-</u>	<u>5,013,599</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(313,761)</u>	<u>392,096</u>	<u>78,335</u>	<u>(333,096)</u>	<u>236,084</u>	<u>(97,012)</u>
Net Assets - Beginning of Year	675,940	514,805	1,190,745	1,009,036	278,721	1,287,757
NET ASSETS - END OF YEAR	<u>\$ 362,179</u>	<u>\$ 906,901</u>	<u>\$ 1,269,080</u>	<u>\$ 675,940</u>	<u>\$ 514,805</u>	<u>\$ 1,190,745</u>

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Program Services				Management and General				Fundraising				Total	
	Maryland Medical	Arizona Medical	Texas Medical	MOM's Family	TOTAL	Maryland	Arizona	Texas	TOTAL	Maryland	Arizona	Texas	TOTAL	Expenses
Salaries	\$ 343,850	\$ 241,507	\$ 131,908	\$ 24,940	\$ 742,205	\$ 56,319	\$ 78,579	\$ 15,508	\$ 150,406	\$ 125,187	\$ 82,220	\$ 41,606	\$ 249,013	\$ 1,141,624
Employee Benefits	61,319	24,089	36,849	3,468	125,725	11,734	8,285	4,565	24,584	15,225	12,353	6,255	33,833	184,142
Payroll Taxes	26,212	19,725	10,928	1,870	58,735	3,727	4,208	1,460	9,395	9,376	6,145	1,752	17,273	85,403
Bank Charges	2,346	2,276	1,114	-	5,736	3,519	3,377	800	7,696	1,114	1,114	557	2,785	16,217
Board and Committee Expense	251	251	126	-	628	405	561	1,007	1,973	126	126	63	315	2,916
Books and Subscriptions	815	710	969	532	3,026	499	351	71	921	2,799	1,619	-	4,418	8,365
Clinic Supplies	5,907	2,548	-	-	8,455	-	-	-	-	-	-	-	-	8,455
Contract Services	10,950	11,097	2,855	-	24,902	1,580	7,270	-	8,850	310	16,128	-	16,438	50,190
Dental Supplies	4,232	-	-	-	4,232	-	-	-	-	-	-	-	-	4,232
Depreciation	40,069	35,178	5,011	-	80,258	1,520	1,159	57	2,736	115	115	57	287	83,281
Donated Services	506,512	381,611	153,967	-	1,044,090	1,794	3,083	350	5,227	700	1,076	350	2,126	1,051,443
Donated Supplies and Equipment	304,861	10,575	29,428	-	344,864	-	-	-	-	-	-	-	-	344,864
Donated Lab and X-Ray Services	556,493	171,470	41,680	-	769,643	-	-	-	-	-	-	-	-	769,643
Donated Facilities	26,533	23,198	17,837	3,701	71,269	810	810	2,357	3,977	810	810	405	2,025	77,271
Donor Development	-	-	-	-	-	-	-	-	-	4,696	19,745	6,621	31,062	31,062
Dues and Memberships	303	352	170	-	825	939	89	999	2,027	898	258	44	1,200	4,052
Indigent Drugs	339,285	-	-	-	339,285	-	-	-	-	-	-	-	-	339,285
Insurance	45,144	25,782	24,175	-	95,101	1,144	729	2,020	3,893	343	343	172	858	99,852
Lab Services	-	37,500	-	-	37,500	-	-	-	-	-	-	-	-	37,500
License and Registration	2,470	2,114	534	-	5,118	450	850	-	1,300	95	80	-	175	6,593
Medical Supplies	9,338	12,908	9,668	-	31,914	-	-	-	-	-	-	-	-	31,914
Medications	41,438	36,572	11,586	-	89,596	-	-	-	-	-	-	-	-	89,596
Miscellaneous	2,096	1,656	1,349	-	5,101	3,294	1,956	831	6,081	1,758	285	647	2,690	13,872
Office Supplies	-	-	2,762	-	2,762	2,952	4,789	2,578	10,319	1,271	213	84	1,568	14,649
Postage	704	227	269	-	1,200	13,338	1,485	445	15,268	4,201	739	2,638	7,578	24,046
Printing	2,890	913	2,166	-	5,969	6,326	2,223	2,098	10,647	10,654	2,173	350	13,177	29,793
Professional Fees	15,630	16,749	8,021	2,131	42,531	8,577	9,485	4,148	22,210	23,812	23,821	28,152	75,785	140,526
Rent	6,603	8,701	3,263	3,214	21,781	4,837	4,220	2,970	12,027	5,609	9,100	1,611	16,320	50,128
Repairs and Maintenance	5,727	3,636	10,985	-	20,348	6,200	150	6	6,356	-	-	-	-	26,704
Telephone	5,033	2,818	2,865	275	10,991	1,173	1,975	2,608	5,756	2,846	785	2,259	5,890	22,637
Tuition and Education	611	24	-	-	635	12	596	6	614	1,602	23,391	16,496	41,489	42,738
Travel and Entertainment	7,213	4,045	1,931	6	13,195	2,529	3,204	2,676	8,409	5,618	3,859	1,174	10,651	32,255
Uncollectible Commitments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Uniforms	-	-	-	-	-	-	70	-	70	-	-	-	-	70
Utilities	1,691	404	857	209	3,161	699	101	805	1,605	706	303	467	1,476	6,242
Vehicle Expense	4,126	3,353	1,642	-	9,121	-	-	-	-	-	-	-	-	9,121
TOTAL EXPENSES	\$ 2,380,652	\$ 1,081,989	\$ 516,915	\$ 40,346	\$ 4,019,902	\$ 134,377	\$ 139,605	\$ 48,365	\$ 322,347	\$ 219,871	\$ 206,801	\$ 111,760	\$ 538,432	\$ 4,880,681

See Accompanying Notes

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

	Program Services					Management and General				Fundraising				Total
	Maryland	Arizona	Texas	MOM's	TOTAL	Maryland	Arizona	Texas	TOTAL	Maryland	Arizona	Texas	TOTAL	Expenses
	Medical	Medical	Medical	Family		Maryland	Arizona	Texas	TOTAL	Maryland	Arizona	Texas	TOTAL	
Salaries	\$ 323,206	\$ 257,849	\$ 147,366	\$ 27,614	\$ 756,035	\$ 45,777	\$ 55,041	\$ 18,079	\$ 118,897	\$ 160,737	\$ 73,621	\$ 30,021	\$ 264,379	\$ 1,139,311
Employee Benefits	57,741	19,796	28,258	4,308	110,103	11,216	6,545	4,525	22,286	34,103	10,746	7,161	52,010	184,399
Payroll Taxes	22,957	18,244	10,454	1,956	53,611	6,755	5,195	1,426	13,376	11,393	5,205	2,125	18,723	85,710
Bank Charges	3,770	3,739	1,872	-	9,381	2,847	3,565	1,027	7,439	1,870	1,870	935	4,675	21,495
Board and Committee Expense	293	260	130	-	683	876	925	660	2,461	236	151	65	452	3,596
Books and Subscriptions	697	1,191	935	696	3,519	70	354	70	494	3,159	1,674	-	4,833	8,846
Clinic Supplies	8,516	3,496	-	-	12,012	-	-	-	-	-	-	-	-	12,012
Contract Services	13,571	12,835	1,583	-	27,989	-	-	-	-	1,140	-	800	1,940	29,929
Dental Supplies	6,127	-	-	-	6,127	-	-	-	-	-	-	-	-	6,127
Depreciation	37,438	35,241	8,099	-	80,778	2,389	1,282	128	3,799	255	255	128	638	85,215
Donated Services	555,988	333,135	126,833	-	1,015,956	904	2,659	452	4,015	904	904	452	2,260	1,022,231
Donated Supplies and Equipment	155,873	-	14,534	-	170,407	-	-	-	-	-	-	-	-	170,407
Donated Lab and X-Ray Services	723,312	152,471	47,866	-	923,649	-	-	-	-	-	-	-	-	923,649
Donated Facilities	31,447	29,788	14,912	8,388	84,535	125	10,284	62	10,471	1,449	125	63	1,637	96,643
Donor Development	-	-	-	-	-	-	-	-	-	10,455	21,520	400	32,375	32,375
Dues and Memberships	24	24	133	-	181	1,857	102	653	2,612	222	137	5	364	3,157
Indigent Drugs	422,322	-	-	-	422,322	-	-	-	-	-	-	-	-	422,322
Insurance	66,501	24,371	18,347	-	109,219	1,370	334	1,808	3,512	334	334	166	834	113,565
Lab Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
License and Registration	2,337	2,290	263	-	4,890	387	97	43	527	87	112	43	242	5,659
Medical Supplies	11,377	7,681	2,762	-	21,820	-	-	-	-	-	-	-	-	21,820
Medications	33,932	33,252	9,204	-	76,388	-	-	-	-	-	-	-	-	76,388
Miscellaneous	3,765	4,042	957	-	8,764	1,087	1,412	163	2,662	3,038	658	44	3,740	15,166
Office Supplies	-	-	3,061	-	3,061	3,932	4,283	1,688	9,903	1,718	344	61	2,123	15,087
Postage	633	181	333	-	1,147	11,635	1,414	502	13,551	294	1,628	2,171	4,093	18,791
Printing	1,696	700	920	-	3,316	2,757	2,938	1,469	7,164	12,130	1,755	1,785	15,670	26,150
Professional Fees	17,667	14,146	4,635	1,856	38,304	10,263	17,862	2,078	30,203	11,669	31,890	10,620	54,179	122,686
Rent	6,505	7,955	1,991	4,215	20,666	3,088	4,044	1,670	8,802	5,550	8,671	401	14,622	44,090
Repairs and Maintenance	2,824	3,611	6,438	-	12,873	3,735	-	322	4,057	-	-	-	-	16,930
Telephone	5,198	3,270	3,031	513	12,012	908	1,358	2,108	4,374	2,309	1,017	1,758	5,084	21,470
Tuition and Education	24	24	-	-	48	727	3,107	6	3,840	17,133	20,935	6	38,074	41,962
Travel and Entertainment	6,595	3,979	3,652	-	14,226	3,854	5,577	2,790	12,221	8,770	4,802	1,008	14,580	41,027
Uncollectible Commitments	-	5,295	-	-	5,295	-	-	-	-	-	-	-	-	5,295
Uniforms	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities	2,018	610	774	377	3,779	524	232	588	1,344	699	463	404	1,566	6,689
Vehicle Expense	6,340	3,069	1,772	-	11,181	-	-	-	-	-	-	-	-	11,181
TOTAL EXPENSES	\$ 2,530,694	\$ 982,545	\$ 461,115	\$ 49,923	\$ 4,024,277	\$ 117,083	\$ 128,610	\$ 42,317	\$ 288,010	\$ 289,654	\$ 188,817	\$ 60,622	\$ 539,093	\$ 4,851,380

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows:		
Receipts from Donations	\$ 879,449	\$ 816,264
Receipts from Grants	1,090,135	884,302
Receipts from Special Events	329,297	454,762
Interest Received	285	6,425
Miscellaneous Receipts	2,886	2,718
	<u>2,302,052</u>	<u>2,164,471</u>
Outflows:		
Payments to Employees	1,144,013	1,172,845
Payments for Program Services	635,341	566,719
Payments for Management and General	170,956	154,309
Payments for Special Events	138,422	160,533
Payments for Fundraising	284,981	270,182
	<u>2,373,713</u>	<u>2,324,588</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(71,661)</u>	<u>(160,117)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Outflows:		
Acquisition of Equipment	5,965	23,287
NET CASH USED BY INVESTING ACTIVITIES	<u>(5,965)</u>	<u>(23,287)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(77,626)	(183,404)
Cash and Cash Equivalents - Beginning	649,227	832,631
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 571,601</u>	<u>\$ 649,227</u>

See Accompanying Notes

MISSION OF MERCY, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Accounting Policies

Nature of Activities

Mission of Mercy, Inc. is a nonprofit organization which seeks to restore dignity to the sick, poor, and homeless. The primary service program is the provision of basic medical services at no charge via mobile healthcare units and a team of licensed healthcare workers. The Organization operated as many as eighteen clinic sites during the year, and currently operates sixteen clinic sites located in Arizona, Maryland, Pennsylvania, and Texas.

The Organization also operates a secondary program through which a collective group of volunteers and contributors known as MOM's Family serve and support Mission of Mercy, Inc. and its target demographic. The group's three missions are to provide support through prayer, service, and financial means.

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.

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.

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 for donated inventories.

Donated medications and supplies are stated at their average wholesale price.

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 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. also capitalizes all property and equipment purchases over \$500. Property and equipment is depreciated using the straight-line method over the estimated useful life.

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.

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 1. Summary of Accounting Policies - continued

Contributions and Grants - continued

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. For the years ended December 31, 2009 and 2008, the effect of changes in fair value of unconditional promises to give resulted in an increase of \$8,064 and a decrease of \$9,479 in contributions revenues, respectively.

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 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

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 1. Summary of Accounting Policies - continued

Functional Expenses - continued

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.

FASB ASC 740-10 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FASB ASC 740-10 is effective for fiscal years beginning after December 15, 2008, and the Organization adopted FASB ASC 740-10 as of January 1, 2009, as required. As of December 31, 2009, the Organization has determined that the adoption of FASB ASC 740-10 did not have a material impact on the Organization's financial position and results of operations.

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.

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.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

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

Note 1. Summary of Accounting Policies - continued

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 9, 2010, 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. The Organization maintains cash balances at both participating and non-participating financial institutions. At December 31, 2009 and 2008, the Organization's uninsured cash balances totaled \$-0- and \$159,557, respectively. Beginning December 31, 2010, the level of insurance provided by the FDIC will be scaled back, and the Company may be subject to additional cash concentration risks depending on balances held at each institution.

Note 3. Unconditional Promises to Give

The Organization uses a fundraising model in each of its geographic locations that has resulted in receiving commitments over time to benefit the Organization. As of December 31, 2009, collections were expected pertaining to multi-year commitments as follows:

2010	\$211,235
2011	168,855
2012	120,230
2013	85,450
2014	<u>32,000</u>
	617,770
Less: Present Value Discount (see Note 10)	(33,838)
Less: Allowance for Uncollectible Promises (see Note 10)	<u>(30,889)</u>
Net Unconditional Promises to Give	<u>\$553,043</u>

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

Note 4. Inventory

Inventory consists of the following:

	<u>2009</u>	<u>2008</u>
Purchased Inventory	\$16,236	\$ 24,564
Donated Inventory	<u>65,964</u>	<u>83,461</u>
	<u>\$82,200</u>	<u>\$108,025</u>

Note 5. Line of Credit

The Organization has a \$150,000 line of credit available 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 plus 1.0% (5.25% as of December 31, 2009). The interest rate at December 31, 2008 was equal to the prime rate of 3.25%. At December 31, 2009 and 2008, there are no draws outstanding on this line of credit. The line expires in October 2010.

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, 2009 and 2008 are \$14,602 and \$14,544, respectively.

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Arizona Clinics	\$449,920	\$280,847
Arizona Mobile Clinic Purchase	100,000	-
Benevon (Fundraising) Training	22,000	-
Maryland/Pennsylvania Clinics	146,807	172,625
Specific Illness Treatment Programs	89,167	58,333
Texas Clinics	99,007	-
Website Update	-	3,000
	<u>\$906,901</u>	<u>\$514,805</u>

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 7. Operating Lease

The Organization leases office space in Frederick, Maryland, Phoenix, Arizona and Corpus Christi, Texas. These leases expire at various periods from March 31, 2010 to December 31, 2010. Monthly lease payments range from \$362 to \$1,973.

The Organization also leases a copier. The lease terms include 60 monthly payments of \$198 payable through May 2013.

A summary of future minimum operating lease payments is as follows:

2010	\$47,895
2011	2,376
2012	2,376
2013	<u>990</u>
Total	<u>\$53,637</u>

Note 8. Donated Materials, Services, and Facilities

The Organization received donated medications, medical supplies, and other supplies valued at \$327,367 and \$131,527 for the years ended December 31, 2009 and 2008, respectively. 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 \$65,964 and \$83,461 as of December 31, 2009 and 2008, respectively, which was recorded as an asset instead of an expense (see Note 10).

The Organization also received equipment donations valued at \$65,000 and \$2,400 that was recorded as an asset (See Note 10) for the years ended December 31, 2009 and 2008, respectively. In addition, during 2009 and 2008, the Organization received donated facilities valued at \$77,271 and \$96,643, respectively, for storage of mobile healthcare units and pharmacy items, clinic space, and office space.

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 8. Donated Materials, Services, and Facilities - continued

The financial statements also include donations of lab services and x-rays provided by hospitals and laboratories in the amount of \$769,643 and \$923,649 for the years ended December 31, 2009 and 2008, 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 years ended December 31, 2009 and 2008, 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 \$1,040,590 and \$1,011,436. 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 27,030 and 23,780 hours of time contributed for the years ended December 31, 2009 and 2008, respectively.

During 2009 and 2008, accountants and other professionals donated services valued at \$10,853 and \$10,795, respectively by the Organization using the specific 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 FASB ASC 958-605. These services represent 17,705 and 17,997 hours for the years ended December 31, 2009 and 2008, respectively.

Note 9. Indigent Drug Program

The Organization participates in indigent drug programs sponsored by various drug manufacturers. These programs provide medications to low income patients suffering from chronic illness. The Organization helps the patient complete and submit the application to the drug manufacturers. The medications are sent to the Organization 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.

NOTES TO FINANCIAL STATEMENTS - continued

Note 9. Indigent Drug Program - continued

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, 2009 and 2008. The Organization received medications from these programs valued at \$339,285 and \$422,322 for the years ended December 31, 2009 and 2008, respectively, based on published discount supplier prices.

Note 10. Fair Value Measurements

The Organization uses a framework for measuring fair value that prioritizes the inputs to valuation. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology for assets and liabilities that have no active market in the same assets, but do have parallel markets or alternative means to estimate fair value using observable information inputs, such as the value placed on similar assets or liabilities that were recently traded or transferred between external entities (i.e. market participants).

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 10. Fair Value Measurements - continued

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

Donated Inventories - Valued at current unadjusted quoted wholesale or discount supplier prices, a Level 1 measurement.

Donated Fixed Assets - Valued using published information on recent comparable sales between market participants, a Level 2 measurement.

Unconditional Promises to Give - 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 4.40% annually to determine the net present value of the promises to give. In addition, pledges to the Organization are discounted by an additional 5.00% for collectability concerns. 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 - continued

Note 10. Fair Value Measurements - continued

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31:

<u>2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Donated Inventories	\$65,964	\$ -	\$ 65,964
Donated Equipment	-	67,400	67,400
Unconditional Promises to Give	<u>-</u>	<u>553,043</u>	<u>553,043</u>
Total Assets at Fair Value	<u>\$65,964</u>	<u>\$620,443</u>	<u>\$686,407</u>
<u>2008</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Donated Inventories	\$83,461	\$ -	\$ 83,461
Donated Equipment	-	2,400	2,400
Unconditional Promises to Give	<u>-</u>	<u>386,722</u>	<u>386,722</u>
Total Assets at Fair Value	<u>\$83,461</u>	<u>\$389,122</u>	<u>\$472,583</u>

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

	<u>2009</u>	<u>2008</u>
Increase (Decrease) in Net Assets	\$ <u>78,335</u>	\$ <u>(97,012)</u>
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	83,281	85,215
Change in Donated Inventory	17,497	38,880
Loss on Disposition of Assets	933	1,686
Donated Equipment	(65,000)	(2,400)
Loss on Investment	11	-
(Increase) Decrease In:		
Unconditional Promises to Give	(166,321)	(153,344)
Inventory	8,328	(1,553)
Prepaid Expenses	(10,955)	(3,485)
Increase (Decrease) In:		
Accounts Payable	(15,381)	5,430
Accrued Salaries and Payroll Taxes	<u>(2,389)</u>	<u>(33,534)</u>
Total Adjustments	<u>..(149,996)</u>	<u>....(63,105)</u>
Net Cash Used by Operating Activities	<u>\$ (71,661)</u>	<u>\$ (160,117)</u>

MISSION OF MERCY, INC.

NOTES TO FINANCIAL STATEMENTS - continued

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

The Organization had non-cash operating activities for the years ended December 31, 2009 and 2008 through the receipt of donated inventory on hand of \$65,964 and \$83,461, respectively.

The Organization had non-cash contribution income for the years ended December 31, 2009 and 2008 from the effect of changes in fair value of unconditional promises to give of \$8,064 and \$(9,479), respectively.

The Organization had non-cash contributions of donated equipment in the amounts of \$65,000 and \$2,400 for the years ended December 31, 2009 and 2008, respectively.

Note 12. Concentration of Contributions

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

Note 13. Profit Sharing Plan

The Organization operates a 401(k) plan that is funded by participant salary reductions and, if approved by the Board of Directors, discretionary contributions by the employer. The plan covers substantially all employees, although eligibility criteria are maintained. The Organization initiated this plan in 2007 and did not make any contributions for the years ended December 31, 2009 and 2008. This plan is tax exempt and has been approved by the Internal Revenue Service.

Note 14. Subsequent Event - Health Care Legislation

In March 2010, the President of the United States signed into law a comprehensive health care overhaul bill. The effect, if any, of the law on the Organization has not been determined.