

MISSION OF MERCY, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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

INDEPENDENT AUDITORS' REPORT

October 30, 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, 2014 and 2013, 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, 2014 and 2013, 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.

Other Matter

As discussed in Note 13 to the financial statements, the June 30, 2013 financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

Rager, Lehman & Houck, P.C.

Frederick, Maryland

MISSION OF MERCY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

| | 2014 | 2013 |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 246,628 | \$ 529,895 |
| Unconditional Promises to Give (Less Allowance for Uncollectible Promises of \$28,503 and \$20,304, respectively) | 148,255 | 202,814 |
| Inventory | 72,275 | 200,482 |
| Prepaid Expenses | 2,674 | 13,773 |
| TOTAL CURRENT ASSETS | 469,832 | 946,964 |
| PROPERTY AND EQUIPMENT | | |
| Dental Equipment | 31,402 | 32,610 |
| Medical Equipment | 44,246 | 48,726 |
| Office Equipment | 42,483 | 52,807 |
| Vehicles | 852,603 | 852,603 |
| | 970,734 | 986,746 |
| Less: Accumulated Depreciation | 728,895 | 646,846 |
| TOTAL PROPERTY AND EQUIPMENT | 241,839 | 339,900 |
| OTHER ASSETS | | |
| Security Deposit | 3,517 | - |
| Unconditional Promises to Give (Less Allowance for Uncollectible Promises of \$23,218 and \$28,802, respectively) | 319,649 | 273,039 |
| TOTAL OTHER ASSETS | 323,166 | 273,039 |
| TOTAL ASSETS | \$ 1,034,837 | \$ 1,559,903 |

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

| | 2014 | 2013 |
|---|---------------------|---------------------|
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 52,962 | \$ 62,562 |
| Accrued Payroll Taxes | 254 | 68 |
| Accrued Salaries | 90,402 | 88,973 |
| Line of Credit | 150,000 | 325,000 |
| TOTAL CURRENT LIABILITIES | 293,618 | 476,603 |
| TOTAL LIABILITIES | 293,618 | 476,603 |
| NET ASSETS | | |
| Unrestricted | | |
| Undesignated | (129,418) | 240,206 |
| Board Designated | 4,582 | 4,581 |
| Total Unrestricted | (124,836) | 244,787 |
| Temporarily Restricted | 866,055 | 838,513 |
| TOTAL NET ASSETS | 741,219 | 1,083,300 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 1,034,837 | \$ 1,559,903 |

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-------------------|
| SUPPORT, REVENUE, AND GAINS | | | |
| SUPPORT | | | |
| Contributions | \$ 682,338 | \$ 144,880 | \$ 827,218 |
| Grants | 867,274 | 398,150 | 1,265,424 |
| Donated Facilities | 104,046 | - | 104,046 |
| Donated Lab and X-Ray Services | 1,394,024 | - | 1,394,024 |
| Donated Services | 1,573,236 | - | 1,573,236 |
| Donated Supplies and Equipment | 205,673 | - | 205,673 |
| Indigent Drug Program | 335,319 | - | 335,319 |
| TOTAL SUPPORT | <u>5,161,910</u> | <u>543,030</u> | <u>5,704,940</u> |
| REVENUE AND GAINS | | | |
| Special Events | 180,034 | - | 180,034 |
| Miscellaneous Revenues | 10,296 | - | 10,296 |
| Interest Income | 1,189 | - | 1,189 |
| Rent Income | 10,340 | - | 10,340 |
| TOTAL REVENUE AND GAINS | <u>201,859</u> | <u>-</u> | <u>201,859</u> |
| RESTRICTIONS SATISFIED BY PAYMENTS AND EXPIRATION OF TIME | <u>515,488</u> | <u>(515,488)</u> | <u>-</u> |
| TOTAL SUPPORT, REVENUE, AND GAINS | <u>5,879,257</u> | <u>27,542</u> | <u>5,906,799</u> |
| EXPENSES | | | |
| Program Services | 5,160,997 | - | 5,160,997 |
| Management and General | 441,670 | - | 441,670 |
| Fundraising | 573,887 | - | 573,887 |
| Special Events | 71,780 | - | 71,780 |
| Loss on Asset Disposal | 546 | - | 546 |
| TOTAL EXPENSES | <u>6,248,880</u> | <u>-</u> | <u>6,248,880</u> |
| INCREASE (DECREASE) IN NET ASSETS | (369,623) | 27,542 | (342,081) |
| Net Assets - Beginning of Year | 244,787 | 838,513 | 1,083,300 |
| NET ASSETS - END OF YEAR | <u>\$ (124,836)</u> | <u>\$ 866,055</u> | <u>\$ 741,219</u> |

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013, AS RESTATED

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|---------------------|
| SUPPORT, REVENUE, AND GAINS | | | |
| SUPPORT | | | |
| 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 | 1,412,304 | - | 1,412,304 |
| Donated Supplies and Equipment | 223,596 | - | 223,596 |
| Indigent Drug Program | 514,130 | - | 514,130 |
| TOTAL SUPPORT | <u>5,305,795</u> | <u>575,180</u> | <u>5,880,975</u> |
| REVENUE AND GAINS | | | |
| Special Events | 148,515 | - | 148,515 |
| Miscellaneous Revenues | 2,683 | - | 2,683 |
| Interest Income | 1,305 | - | 1,305 |
| Rent Income | 14,760 | - | 14,760 |
| TOTAL REVENUE AND GAINS | <u>167,263</u> | <u>-</u> | <u>167,263</u> |
| RESTRICTIONS SATISFIED BY PAYMENTS AND EXPIRATION OF TIME | <u>486,875</u> | <u>(486,875)</u> | <u>-</u> |
| TOTAL SUPPORT, REVENUE, AND GAINS | <u>5,959,933</u> | <u>88,305</u> | <u>6,048,238</u> |
| EXPENSES | | | |
| Program Services | 4,794,868 | - | 4,794,868 |
| Management and General | 493,771 | - | 493,771 |
| Fundraising | 583,800 | - | 583,800 |
| Special Events | 68,689 | - | 68,689 |
| Loss on Asset Disposal | 352 | - | 352 |
| TOTAL EXPENSES | <u>5,941,480</u> | <u>-</u> | <u>5,941,480</u> |
| INCREASE IN NET ASSETS | 18,453 | 88,305 | 106,758 |
| Net Assets - Beginning of Year | <u>226,334</u> | <u>750,208</u> | <u>976,542</u> |
| NET ASSETS - END OF YEAR | <u>\$ 244,787</u> | <u>\$ 838,513</u> | <u>\$ 1,083,300</u> |

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

| | Program Services | | | | Management and General | | | | Fundraising | | | | Total Functional Expenses |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|------------------------|-------------------|------------------|-------------------|-------------------|-------------------|------------------|-------------------|---------------------------------|
| | MD/PA | Arizona | Texas | TOTAL | MD/PA | Arizona | Texas | TOTAL | MD/PA | Arizona | Texas | TOTAL | |
| Salaries | \$ 233,957 | \$ 418,263 | \$ 111,936 | \$ 764,156 | \$ 64,034 | \$ 71,232 | \$ 39,361 | \$ 174,627 | \$ 86,918 | \$ 46,746 | \$ 29,181 | \$ 162,845 | \$ 1,101,628 |
| Employee Benefits | 74,901 | 33,181 | 19,166 | 127,248 | 9,844 | 12,016 | 7,614 | 29,474 | 13,225 | 7,926 | 3,702 | 24,853 | 181,575 |
| Payroll Taxes | 17,356 | 31,239 | 8,564 | 57,159 | 4,830 | 5,471 | 2,932 | 13,233 | 6,611 | 3,612 | 2,390 | 12,613 | 83,005 |
| Advertising | - | - | - | - | 114 | - | 25 | 139 | 3,823 | - | - | 3,823 | 3,962 |
| Bank Charges | 2,648 | 2,818 | 2,505 | 7,971 | 5,426 | 5,698 | 3,590 | 14,714 | 1,936 | 1,566 | 1,876 | 5,378 | 28,063 |
| Board and Committee Expense | 966 | 180 | 169 | 1,315 | 1,111 | 278 | 137 | 1,526 | 705 | 240 | 124 | 1,069 | 3,910 |
| Books and Subscriptions | 2,896 | 1,767 | 2,511 | 7,174 | 421 | 396 | 167 | 984 | 3,944 | 2,091 | 1,502 | 7,537 | 15,695 |
| Clinic Supplies | 4,857 | 4,286 | 1,452 | 10,595 | - | - | - | - | - | - | - | - | 10,595 |
| Consultants | 696 | 36,054 | 6,924 | 43,674 | 2,584 | - | 12,480 | 15,064 | 2,495 | 49,450 | - | 51,945 | 110,683 |
| Dental Supplies | 3,058 | - | - | 3,058 | - | - | - | - | - | - | - | - | 3,058 |
| Depreciation | 3,843 | 55,597 | 39,536 | 98,976 | 819 | 2,092 | 235 | 3,146 | 242 | 235 | 235 | 712 | 102,834 |
| Donated Lab and X-Ray Services | 491,313 | 226,008 | 676,703 | 1,394,024 | - | - | - | - | - | - | - | - | 1,394,024 |
| Donated Facilities | 28,326 | 34,205 | 22,924 | 85,455 | 16,184 | 495 | 495 | 17,174 | 510 | 413 | 494 | 1,417 | 104,046 |
| Donated Services | 541,920 | 840,841 | 167,629 | 1,550,390 | 1,066 | 16,900 | 792 | 18,758 | 2,346 | 950 | 792 | 4,088 | 1,573,236 |
| Donated Supplies and Equipment | 242,434 | 37,533 | 4,833 | 284,800 | 1,521 | - | - | 1,521 | 868 | - | - | 868 | 287,189 |
| Donor Development | - | - | - | - | - | - | - | - | 13,799 | 18,134 | 158 | 32,091 | 32,091 |
| Dues and Memberships | 480 | 268 | 1,146 | 1,894 | 1,514 | 178 | 723 | 2,415 | 464 | 149 | 325 | 938 | 5,247 |
| Indigent Drugs | 176,547 | 50,949 | 156,366 | 383,862 | - | - | - | - | - | - | - | - | 383,862 |
| Insurance | 11,943 | 28,840 | 16,226 | 57,009 | 2,085 | 2,011 | 1,050 | 5,146 | 468 | 379 | 455 | 1,302 | 63,457 |
| Interest | - | - | - | - | - | - | 14,504 | 14,504 | - | - | - | - | 14,504 |
| License and Registration | 1,523 | 6,993 | 54 | 8,570 | 808 | 183 | 8 | 999 | 883 | 7 | 7 | 897 | 10,466 |
| Medical Supplies | 6,400 | 12,838 | 2,962 | 22,200 | - | - | - | - | - | - | - | - | 22,200 |
| Medications | 17,528 | 51,841 | 1,256 | 70,625 | - | - | - | - | - | - | - | - | 70,625 |
| Miscellaneous | 2,517 | 19,021 | 650 | 22,188 | 884 | 3,572 | 607 | 5,063 | 573 | 239 | 103 | 915 | 28,166 |
| Office Supplies | 29 | 666 | 28 | 723 | 12,630 | 4,525 | 1,035 | 18,190 | 1,074 | 85 | 102 | 1,261 | 20,174 |
| Postage | 226 | 239 | 225 | 690 | 8,375 | 655 | 359 | 9,389 | 495 | 223 | 43 | 761 | 10,840 |
| Printing | 845 | 642 | 926 | 2,413 | 11,740 | 1,082 | 103 | 12,925 | 591 | 419 | 92 | 1,102 | 16,440 |
| Professional Fees | 17,478 | 15,558 | 4,870 | 37,906 | 19,360 | 12,152 | 3,792 | 35,304 | 82,455 | 77,095 | 23,158 | 182,708 | 255,918 |
| Rent | 9,643 | 13,547 | 3,299 | 26,489 | 6,677 | 6,581 | 2,444 | 15,702 | 7,911 | 7,616 | 1,833 | 17,360 | 59,551 |
| Repairs and Maintenance | 12,176 | 21,330 | 1,627 | 35,133 | 5,194 | 1,863 | 101 | 7,158 | 358 | 402 | 33 | 793 | 43,084 |
| Telephone | 4,243 | 5,270 | 3,291 | 12,804 | 1,992 | 5,032 | 2,545 | 9,569 | 2,393 | 1,663 | 1,622 | 5,678 | 28,051 |
| Travel and Entertainment | 9,865 | 7,962 | 6,440 | 24,267 | 4,115 | 3,185 | 3,177 | 10,477 | 16,259 | 3,204 | 2,292 | 21,755 | 56,499 |
| Tuition and Education | - | - | 495 | 495 | 79 | - | - | 79 | 1,508 | 25,530 | - | 27,038 | 27,612 |
| Utilities | 2,542 | 2,863 | 198 | 5,603 | 589 | 3,648 | 153 | 4,390 | 713 | 1,319 | 108 | 2,140 | 12,133 |
| Vehicle Expense | 4,827 | 6,167 | 1,137 | 12,131 | - | - | - | - | - | - | - | - | 12,131 |
| TOTAL EXPENSES | \$ 1,927,983 | \$ 1,966,966 | \$ 1,266,048 | \$ 5,160,997 | \$ 183,996 | \$ 159,245 | \$ 98,429 | \$ 441,670 | \$ 253,567 | \$ 249,693 | \$ 70,627 | \$ 573,887 | \$ 6,176,554 |

See Accompanying Notes

MISSION OF MERCY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013, AS RESTATED

| | Program Services | | | | Management and General | | | | Fundraising | | | | Total Functional Expenses |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------------------|
| | MD/PA | Arizona | Texas | TOTAL | MD/PA | Arizona | Texas | TOTAL | MD/PA | Arizona | Texas | TOTAL | |
| Salaries | \$ 203,249 | \$ 308,897 | \$ 113,669 | \$ 625,815 | \$ 78,128 | \$ 99,932 | \$ 34,793 | \$ 212,853 | \$ 98,723 | \$ 59,894 | \$ 52,090 | \$ 210,707 | \$ 1,049,375 |
| Employee Benefits | 72,767 | 32,753 | 17,142 | 122,662 | 18,647 | 20,403 | 7,622 | 46,672 | 8,859 | 10,673 | 7,220 | 26,752 | 196,086 |
| Payroll Taxes | 13,864 | 21,184 | 9,063 | 44,111 | 5,541 | 6,924 | 2,557 | 15,022 | 7,578 | 3,608 | 4,215 | 15,401 | 74,534 |
| Advertising | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bank Charges | 1,747 | 1,713 | 1,562 | 5,022 | 5,733 | 5,397 | 5,183 | 16,313 | 1,563 | 1,563 | 1,563 | 4,689 | 26,024 |
| Board and Committee Expense | 484 | 299 | 384 | 1,167 | 795 | 958 | 659 | 2,412 | 414 | 558 | 299 | 1,271 | 4,850 |
| Books and Subscriptions | 2,336 | 2,561 | 1,109 | 6,006 | 90 | 90 | 374 | 554 | 4,440 | 2,529 | 1,909 | 8,878 | 15,438 |
| 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 | 6,490 | 582 | 582 | 582 | 1,746 | 110,388 |
| 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 | 16,907 | 417 | 417 | 417 | 1,251 | 116,301 |
| Donated Services | 535,776 | 695,788 | 171,470 | 1,403,034 | 43 | 6,118 | 43 | 6,204 | 22 | 3,022 | 22 | 3,066 | 1,412,304 |
| Donated Supplies and Equipment | 104,609 | - | 23,385 | 127,994 | - | - | - | - | - | - | - | - | 127,994 |
| Donor Development | - | - | - | - | - | - | - | - | 12,508 | 26,112 | 3,782 | 42,402 | 42,402 |
| Dues and Memberships | 227 | 1,137 | 1,266 | 2,630 | 1,161 | 1,596 | 917 | 3,674 | 48 | 102 | 88 | 238 | 6,542 |
| Indigent Drugs | 264,132 | 36,639 | 190,956 | 491,727 | - | - | - | - | - | - | - | - | 491,727 |
| Insurance | 15,705 | 35,595 | 18,427 | 69,727 | 4,832 | 2,720 | 1,861 | 9,413 | - | - | - | - | 79,140 |
| Interest | - | - | - | - | - | - | 12,402 | 12,402 | - | - | - | - | 12,402 |
| License and Registration | 2,869 | 4,533 | 168 | 7,570 | 265 | 430 | 48 | 743 | 587 | 24 | 24 | 635 | 8,948 |
| Medical Supplies | 6,321 | 18,196 | 3,753 | 28,270 | - | - | - | - | - | - | - | - | 28,270 |
| Medications | 24,143 | 46,954 | 2,430 | 73,527 | - | - | - | - | - | - | - | - | 73,527 |
| Miscellaneous | 1,286 | 7,657 | 3,831 | 12,774 | 893 | 1,019 | 501 | 2,413 | 186 | 48 | 48 | 282 | 15,469 |
| Office Supplies | - | 2,357 | 2,012 | 4,369 | 4,577 | 2,088 | 867 | 7,532 | 55 | 3,933 | (32) | 3,956 | 15,857 |
| Postage | 368 | 795 | 191 | 1,354 | 7,571 | 1,472 | 507 | 9,550 | 977 | 401 | 60 | 1,438 | 12,342 |
| Printing | 890 | 988 | 1,941 | 3,819 | 10,817 | 2,052 | 547 | 13,416 | - | 58 | - | 58 | 17,293 |
| Professional Fees | 12,109 | 29,063 | 4,186 | 45,358 | 16,380 | 28,660 | 7,066 | 52,106 | 46,242 | 75,431 | 33,521 | 155,194 | 252,658 |
| Rent | 6,476 | 11,546 | 3,632 | 21,654 | 7,087 | 8,509 | 2,825 | 18,421 | 5,009 | 11,794 | 3,633 | 20,436 | 60,511 |
| Repairs and Maintenance | 6,738 | 5,724 | 930 | 13,392 | 5,097 | 2,734 | 44 | 7,875 | 112 | 76 | 22 | 210 | 21,477 |
| Telephone | 4,797 | 2,776 | 3,264 | 10,837 | 1,767 | 5,813 | 3,912 | 11,492 | 1,948 | 2,421 | 2,989 | 7,358 | 29,687 |
| Tuition and Education | - | - | - | - | 732 | - | 25 | 757 | 16,504 | 25,298 | - | 41,802 | 42,559 |
| Travel and Entertainment | 4,330 | 6,379 | 4,490 | 15,199 | 5,202 | 3,651 | 4,939 | 13,792 | 7,273 | 3,447 | 1,233 | 11,953 | 40,944 |
| Utilities | 1,703 | 1,395 | 503 | 3,601 | 1,051 | 4,832 | 587 | 6,470 | 1,258 | 2,560 | 259 | 4,077 | 14,148 |
| Vehicle Expense | 5,155 | 4,426 | 1,719 | 11,300 | - | - | - | - | - | - | - | - | 11,300 |
| TOTAL EXPENSES | \$ 1,866,979 | \$ 1,631,367 | \$ 1,296,522 | \$ 4,794,868 | \$ 180,881 | \$ 207,760 | \$ 105,130 | \$ 493,771 | \$ 215,305 | \$ 254,551 | \$ 113,944 | \$ 583,800 | \$ 5,872,439 |

See Accompanying Notes

MISSION OF MERCY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| | 2014 | 2013 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Inflows: | | |
| Receipts from Donations | \$ 835,167 | \$ 802,162 |
| Receipts from Grants | 1,265,424 | 1,434,962 |
| Receipts from Special Events | 180,034 | 148,515 |
| Interest Received | 1,189 | 1,305 |
| Miscellaneous Receipts | 20,636 | 17,443 |
| | 2,302,450 | 2,404,387 |
| Outflows: | | |
| Payments to Employees | 1,100,013 | 1,049,629 |
| Payments for Program Services | 610,786 | 556,656 |
| Payments for Management and General | 218,862 | 230,389 |
| Payments for Special Events | 71,780 | 68,689 |
| Payments for Fundraising | 403,957 | 367,030 |
| | 2,405,398 | 2,272,393 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | (102,948) | 131,994 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Outflows: | | |
| Acquisition of Equipment | 5,319 | 7,690 |
| NET CASH USED BY INVESTING ACTIVITIES | (5,319) | (7,690) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Inflows: | | |
| Net Proceeds from Borrowings on Line of Credit | - | 40,000 |
| Outflows: | | |
| Net Payments on Line of Credit | 175,000 | - |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | (175,000) | 40,000 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (283,267) | 164,304 |
| Cash and Cash Equivalents - Beginning of Year | 529,895 | 365,591 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 246,628 | \$ 529,895 |

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 twenty-two 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. In 2014, the program was piloted in Maryland and Texas. Expenses associated with this program for the years ended June 30, 2014 and 2013 were \$144,019 and \$45,768, respectively.

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, 2014 and 2013 was \$102,834 and \$110,388, 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 \$3,992 and \$2,336 for the years ended June 30, 2014 and 2013, respectively.

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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.

Net Assets

The Organization reports information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted Net Assets

Resources that are currently available for support of the Organization's operations and are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets

Resources that may be utilized only in accordance with the restricted purposes established by the donor. The restriction may require passage of time or the occurrence of a specific event in order to trigger the release of the restriction. The Organization considers all contributions that are designated to a particular program to be transferred to unrestricted net assets when the terms of the restrictions have been met.

Permanently Restricted Net Assets

Net assets subject to donor-imposed restrictions that must be maintained permanently.

The Organization had no permanently restricted net assets as of June 30, 2014 or 2013.

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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, 2014, 2013, 2012, and the six-month period ended June 30, 2011 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.

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 October 30, 2014, the date the financial statements were available to be issued.

Note 2. 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, 2014, collections were expected pertaining to multi-year commitments in each fiscal year ending June 30:

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| | | |
|--|------------|-------------------|
| | 2015 | \$ 176,758 |
| | 2016 | 142,145 |
| | 2017 | 88,977 |
| | 2018 | 62,009 |
| | 2019 | 35,108 |
| | Thereafter | <u>30,140</u> |
| | | 535,137 |
| Less: Discounts to Net Present Value (See Note 9) | | (15,512) |
| Less: Allowance for Uncollectible Promises Receivable (See Note 9) | | <u>(51,721)</u> |
| Net Unconditional Promises to Give | | <u>\$ 467,904</u> |

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

| | <u>2014</u> | <u>2013</u> |
|-----------------------|-------------------|-------------------|
| Maryland/Pennsylvania | \$ 139,320 | \$ 75,263 |
| Arizona | 257,125 | 290,012 |
| Texas | <u>71,459</u> | <u>110,578</u> |
| | <u>\$ 467,904</u> | <u>\$ 475,853</u> |

Note 3. Inventory

Inventory consists of the following as of June 30:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------------|------------------|-------------------|
| Purchased Inventory | \$ 11,873 | \$ 10,021 |
| Donated Inventory | 30,776 | 112,292 |
| Indigent Drug Inventory (See Note 8) | <u>29,626</u> | <u>78,169</u> |
| | <u>\$ 72,275</u> | <u>\$ 200,482</u> |

Note 4. Line of Credit

The Organization has a line of credit of \$400,000 that is secured by inventory and equipment owned by the Organization. \$250,000 of its line of credit was available as of June 30, 2014. As of June 30, 2014, interest of 4.75% is due and payable monthly; the rate charged is equal to the bank's variable prime rate plus 1.50%, subject to a floor of 4.75%.

MISSION OF MERCY, INC.
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Note 5. 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, 2014 and 2013 are \$4,582 and \$4,581, respectively.

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

| | <u>2014</u> | <u>2013</u> |
|-------------------------------------|-------------------|-------------------|
| Arizona Clinics | \$ 333,375 | \$ 527,930 |
| Maryland/Pennsylvania Clinics | 442,071 | 118,835 |
| Specific Illness Treatment Programs | 8,983 | 30,000 |
| Texas Clinics | 78,626 | 154,078 |
| Technology Upgrade | <u>3,000</u> | <u>7,670</u> |
| | <u>\$ 866,055</u> | <u>\$ 838,513</u> |

As of June 30, 2014, 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 \$151,523. As of June 30, 2013, the Organization had sufficient cash on hand to act in accordance with donor restrictions.

Note 6. Operating Lease

The Organization leases office space in Frederick, Maryland; Phoenix, Arizona; and Corpus Christi, Texas. Office rent expense totaled \$59,511 and \$60,511 for the years ended June 30, 2014 and 2013, respectively. These leases expire at various periods from December 2014 to November 2019. Future monthly lease payments range from \$176 to \$3,428.

The Organization has a month to month sublease agreement in their Phoenix, Arizona office. On February 28, 2014, the subleasing company moved out and the Organization is no longer leasing the space. Rental income under this agreement totaled \$10,340 and \$14,760 for the years ended June 30, 2014 and 2013, respectively.

The Organization also leases three copiers. The lease terms include 60 monthly payments of \$194 payable through August 2016, and 60 months payments of \$176 payable through August 2017. Copier lease expense, presented in repairs and maintenance expense, totaled \$4,442 and \$2,137 for the years ended June 30, 2014 and 2013, respectively.

MISSION OF MERCY, INC.
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A summary of total future minimum operating lease payments by fiscal year is as follows:

| | |
|------------|-------------------|
| 2015 | \$ 44,832 |
| 2016 | 45,071 |
| 2017 | 40,546 |
| 2018 | 41,047 |
| 2019 | 42,288 |
| Thereafter | <u>14,234</u> |
| Total | <u>\$ 228,018</u> |

Note 7. Donated Materials, Services, and Facilities

The Organization received donated medications, medical supplies, and other supplies valued at \$205,673 and \$223,596 respectively, for the years ended June 30, 2014 and 2013. 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 \$30,776 and \$112,292 as of June 30, 2014 and 2013, respectively, which was recorded as an asset instead of an expense (see Note 9). The Organization also received equipment donations valued at \$-0- and \$8,226 for the years ended June 30, 2014 and 2013, respectively, that were recorded as assets. In addition, during the years ended June 30, 2014 and 2013, the Organization received donated facilities valued at \$104,046 and \$116,301, respectively, for storage of mobile healthcare units and pharmacy items, clinic space, and office space.

The financial statements also include donations of laboratory services and x-rays provided by hospitals and laboratories in the amount of \$1,394,024 and \$1,391,375 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, 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 \$1,547,058 and \$1,402,969 (as restated), 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 30,602 and 28,468 hours of time contributed for the years ended June 30, 2014, and 2013, respectively. In addition, for the years ended June 30, 2014 and 2013, accountants and other professionals donated services valued at \$26,178 and \$9,335, respectively, to the Organization using the specific charitable write-downs of professional services invoices.

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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 16,311 and 14,022 hours for the years ended June 30, 2014 and 2013, respectively.

Note 8. 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, 2014 and 2013, the Organization recognized revenue from medications received from these programs of \$335,319 and \$514,130, 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, 2014 and 2013 was valued at \$29,626 and \$78,169, respectively (see Note 3).

Note 9. 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, 2014 and 2013 - 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 7 and 8) - Valued at current unadjusted quoted wholesale or discount supplier prices, a Level 1 measurement.

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Unconditional Promises to Give (see Note 2) - 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 2.53% and 2.52% for the years ended June 30, 2014 and 2013, respectively, to determine the net present value of the promises to give.

In addition, pledges to the Organization from the Arizona, Maryland, and Pennsylvania locations are discounted by an additional 6.20% and 9.10% for collectability concerns for each of the years ended June 30, 2014 and 2013, respectively. Pledges to the Organization from the Texas location are discounted by an additional 25.30% and 9.10% for collectability concerns for each of the years ended June 30, 2014 and 2013, respectively. The Texas location was discounted at a higher percentage because of a higher amount of pledges that have aged promises to give of over one year. The new Executive Director in Texas is following up with the donors who are currently delinquent to get collections back on schedule, and expects to see a reduction in collectability discounts in future years. 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.

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

| <u>2014</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
|--------------------------------|-------------------|-------------------|-------------------|
| Donated Inventories | \$ 30,776 | \$ - | \$ 30,776 |
| Indigent Drug Inventories | 29,626 | - | 29,626 |
| Unconditional Promises to Give | <u>-</u> | <u>467,904</u> | <u>467,904</u> |
| Total Assets at Fair Value | <u>\$ 60,402</u> | <u>\$ 467,904</u> | <u>\$ 528,306</u> |
| | | | |
| <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> |

MISSION OF MERCY, INC.
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Note 10. Reconciliation of Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|--------------------|
| Increase (Decrease) in Net Assets | \$ (342,081) | \$ 106,758 |
| Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 102,834 | 110,388 |
| Donated Equipment | - | (8,226) |
| Loss on Asset Disposal | 546 | 352 |
| (Increase) Decrease in: | | |
| Unconditional Promises to Give | 7,949 | 13,855 |
| Inventory | 128,207 | (106,525) |
| Prepaid Expenses | 11,099 | 20,928 |
| Security Deposit | (3,517) | - |
| Increase (Decrease) in: | | |
| Accounts Payable | (9,600) | (5,282) |
| Accrued Payroll Taxes | 186 | (4,976) |
| Accrued Salaries | <u>1,429</u> | <u>4,722</u> |
| Total Adjustments | <u>.....239,133</u> | <u>.....25,236</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (102,948)</u> | <u>\$ 131,994</u> |

Note 11. Concentration of Contributions

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

Note 12. 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, 2014 and 2013. This plan is tax exempt and has been approved by the Internal Revenue Service.

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Note 13. Prior Period Adjustment

During the year ended June 30, 2014, it was determined that donated services income and expense for the year ended June 30, 2013 were understated by \$233,828. The prior period adjustment had no impact on net assets for the year ended June 30, 2013.

| | <u>Previously Stated for the year ended June 30, 2013</u> | <u>Currently Stated for the year ended June 30, 2013</u> |
|--------------------------|---|--|
| Donated Services Income | \$ 1,178,476 | \$ 1,412,304 |
| Donated Services Expense | \$ 1,178,476 | \$ 1,412,304 |

Note 14. Subsequent Event

Subsequent to year end the Organization entered into a commitment to purchase a replacement medical van for the Maryland/Pennsylvania location for \$130,414. The delivery of this vehicle is expected during November 2014. The Organization has received gifts to fund the acquisition of this new vehicle.