

**MERCY MINISTRIES OF AMERICA, INC.**  
**Financial Statements**  
**And**  
**Independent Auditors' Report**  
**Years Ended December 31, 2012 and 2011**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Mercy Ministries of America, Inc.

We have audited the accompanying financial statements of Mercy Ministries of America, Inc. (a Tennessee not-for-profit corporation, the "Ministry"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets, 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 of 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 Ministry'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 purposes of expressing an opinion on the effectiveness of the Ministry'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 Mercy Ministries of America, Inc. as of December 31, 2012 and 2011, 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.

*Blankenship CPA Group, PLLC*

April 1, 2013

**MERCY MINISTRIES OF AMERICA, INC.**

**Statements of Financial Position**

**December 31, 2012 and 2011**

<b>ASSETS</b>		
	<b>2012</b>	<b>2011</b>
Current assets		
Cash	\$ 566,646	\$ 191,151
Contributions receivable	75,757	130,670
Other receivables	299	232
Inventory	134,516	163,925
Prepaid expenses	46,704	47,954
Other current assets	<u>10,280</u>	<u>22,921</u>
Total current assets	<u>834,202</u>	<u>556,853</u>
Cash - permanently restricted	<u>500,000</u>	<u>-</u>
Property and equipment, net		
Land	1,055,280	1,055,280
Land - undeveloped	1,040,525	1,040,525
Buildings and improvements	6,465,545	6,406,918
Equipment and furniture	2,298,405	2,287,782
Vehicles	392,396	336,898
Website and database	<u>52,900</u>	<u>24,530</u>
	11,305,051	11,151,933
Less accumulated depreciation and amortization	<u>(4,693,119)</u>	<u>(4,295,450)</u>
Property and equipment, net	<u>6,611,932</u>	<u>6,856,483</u>
Land held for sale	<u>2,003,323</u>	<u>2,003,323</u>
Total Assets	<u>\$ 9,949,457</u>	<u>\$ 9,416,659</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 103,458	\$ 83,836
Accrued expenses	211,682	164,540
Current portion of notes payable	107,501	94,116
Current portion of capital lease obligations	<u>2,677</u>	<u>24,228</u>
Total current liabilities	425,318	366,720
Notes payable, net of current portion	1,570,379	1,789,548
Long term portion of capital lease obligations	-	2,677
Net assets		
Unrestricted	7,301,693	7,242,989
Temporarily restricted	152,067	14,725
Permanently restricted	<u>500,000</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 9,949,457</u>	<u>\$ 9,416,659</u>

The accompanying notes are an integral part of these financial statements.

**MERCY MINISTRIES OF AMERICA, INC.**  
**Statements of Activities and**  
**Changes in Net Assets**  
**Years Ended December 31, 2012 and 2011**

	2012			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Support and Revenues				
Contributions	\$ 7,446,197	\$ 650,330	\$ 500,000	\$8,596,527
Special events	767,431	-	-	767,431
Adoption application fees	5,325	-	-	5,325
Resource sales	79,035	-	-	79,035
In-kind donations	404,146	-	-	404,146
Other income	13,729	-	-	13,729
Total Support and Revenues	<u>8,715,863</u>	<u>650,330</u>	<u>500,000</u>	<u>9,866,193</u>
Net assets released from restrictions	<u>512,988</u>	<u>(512,988)</u>	<u>-</u>	<u>-</u>
Total Support, Revenues and Reclassifications	<u>9,228,851</u>	<u>137,342</u>	<u>500,000</u>	<u>9,866,193</u>
Functional Expenses				
Counseling and outreach	7,679,574	-	-	7,679,574
Management and general	870,227	-	-	870,227
Fundraising	620,346	-	-	620,346
Total Functional Expenses	<u>9,170,147</u>	<u>-</u>	<u>-</u>	<u>9,170,147</u>
Increase in net assets	58,704	137,342	500,000	696,046
Net assets - beginning of year	<u>7,242,989</u>	<u>14,725</u>	<u>-</u>	<u>7,257,714</u>
Net assets - end of year	<u>\$ 7,301,693</u>	<u>\$ 152,067</u>	<u>\$ 500,000</u>	<u>\$7,953,760</u>

The accompanying notes are an integral part of these financial statements.

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and Revenues				
Contributions	\$ 7,157,276	\$ 578,717	\$ -	\$ 7,735,993
Special events	893,001	-	-	893,001
Adoption application fees	4,450	-	-	4,450
Resource sales	118,816	-	-	118,816
In-kind donations	158,725	-	-	158,725
Other income	4,384	-	-	4,384
Total Support and Revenues	8,336,652	578,717	-	8,915,369
Net assets released from restrictions	568,385	(568,385)	-	-
Total Support, Revenues and Reclassifications	8,905,037	10,332	-	8,915,369
Functional Expenses				
Counseling and outreach	7,594,261	-	-	7,594,261
Management and general	753,333	-	-	753,333
Fundraising	744,473	-	-	744,473
Total Unrestricted Functional Expenses	9,092,067	-	-	9,092,067
(Decrease) increase in net assets	(187,030)	10,332	-	(176,698)
Net assets - beginning of year	7,430,019	4,393	-	7,434,412
Net assets - end of year	\$ 7,242,989	\$ 14,725	\$ -	\$ 7,257,714

The accompanying notes are an integral part of these financial statements.

**MERCY MINISTRIES OF AMERICA, INC.**  
**Statements of Functional Expenses**  
**Years Ended December 31, 2012 and 2011**

	2012			
	Program Services	Supporting Services		
	Counseling and Outreach	Management and General	Fundraising	Total
Salaries	\$ 3,508,425	\$ 365,925	\$ 246,422	\$ 4,120,772
Benefits	585,028	61,018	41,091	687,137
Contract labor	19,165	8,460	6,232	33,857
Total salaries and related expenses	4,112,618	435,403	293,745	4,841,766
Tithe	725,171	-	-	725,171
Room and board	574,765	-	-	574,765
Marketing and public relations	244,886	-	244,886	489,772
Contributions to Mercy Ministries International, Inc.	418,326	-	-	418,326
Occupancy	347,640	2,733	-	350,373
Professional fees	47,216	189,734	9,778	246,728
Insurance	175,571	18,311	12,332	206,214
Utilities	157,208	16,397	11,042	184,647
Computer and equipment	116,269	12,127	8,166	136,562
Travel, conferences and meetings	84,622	10,578	10,578	105,778
Interest	-	98,361	-	98,361
Repairs and maintenance	81,630	3,459	3,160	88,249
Telephone	57,407	5,987	4,032	67,426
Cost of resources sold	65,364	-	-	65,364
Miscellaneous	34,002	10,334	733	45,069
Automobile	39,016	4,335	-	43,351
Contribution processing charges	-	39,808	-	39,808
Postage	14,727	2,454	7,364	24,545
Office	17,201	1,794	1,208	20,203
Total expenses before depreciation and amortization	7,313,639	851,815	607,024	8,772,478
Depreciation and amortization	365,935	18,412	13,322	397,669
Total expenses	\$ 7,679,574	\$ 870,227	\$ 620,346	\$ 9,170,147

The accompanying notes are an integral part of these financial statements.

2011

	Program Services		Supporting Services		Total
	Counseling and Outreach	Management and General	Fundraising		
Salaries	\$ 3,568,810	\$ 275,635	\$ 281,824	\$ 4,126,269	
Benefits	623,619	48,164	49,246	721,029	
Contract labor	-	7,712	-	7,712	
<b>Total salaries and related expenses</b>	<b>4,192,429</b>	<b>331,511</b>	<b>331,070</b>	<b>4,855,010</b>	
Tithe	833,434	-	-	833,434	
Room and board	566,950	-	-	566,950	
Marketing and public relations	288,196	-	318,200	606,396	
Contributions to Mercy Ministries International, Inc.	399,509	-	-	399,509	
Occupancy	77,903	2,082	-	79,985	
Professional fees	28,224	158,677	16,860	203,761	
Insurance	129,204	9,979	10,203	149,386	
Utilities	158,709	12,257	12,532	183,498	
Computer and equipment	98,777	7,629	7,800	114,206	
Travel, conferences and meetings	117,757	14,720	14,720	147,197	
Interest	-	110,793	-	110,793	
Repairs and maintenance	89,456	5,485	2,136	97,077	
Telephone	59,832	4,621	4,725	69,178	
Cost of resources sold	96,268	-	-	96,268	
Miscellaneous	10,545	22,276	426	33,247	
Automobile	43,584	4,843	-	48,427	
Contribution processing charges	-	48,137	-	48,137	
Postage	15,867	2,644	7,933	26,444	
Office	16,422	1,269	1,298	18,989	
<b>Total expenses before depreciation and amortization</b>	<b>7,223,066</b>	<b>736,923</b>	<b>727,903</b>	<b>8,687,892</b>	
Depreciation and amortization	371,195	16,410	16,570	404,175	
<b>Total expenses</b>	<b>\$ 7,594,261</b>	<b>\$ 753,333</b>	<b>\$ 744,473</b>	<b>\$ 9,092,067</b>	

The accompanying notes are an integral part of these financial statements.

**MERCY MINISTRIES OF AMERICA, INC.**

**Statements of Cash Flows**

**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	<u>\$ 696,046</u>	<u>\$ (176,698)</u>
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	397,669	404,175
In-kind donations of property and equipment	-	(3,000)
Decrease (increase) in		
Contributions receivable	54,913	(243)
Other receivables	(67)	16,726
Inventory	29,409	116,088
Prepaid expenses	1,250	77,701
Other assets	12,641	37,350
Increase in		
Accounts payable	19,622	9,762
Accrued expenses	<u>47,142</u>	<u>32,588</u>
Total adjustments	<u>562,579</u>	<u>691,147</u>
Net cash provided by operating activities	<u>1,258,625</u>	<u>514,449</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	<u>(153,118)</u>	<u>(87,520)</u>
Net cash used by investing activities	<u>(153,118)</u>	<u>(87,520)</u>
<b>Cash flows from financing activities</b>		
Change in line of credit, net	-	(84,955)
Payments on notes payable	(205,784)	(273,930)
Payments on capital leases	<u>(24,228)</u>	<u>(26,089)</u>
Net cash used by financing activities	<u>(230,012)</u>	<u>(384,974)</u>
Net increase in cash	875,495	41,955
Cash - beginning of year	<u>191,151</u>	<u>149,196</u>
Cash - end of year	<u><u>\$ 1,066,646</u></u>	<u><u>\$ 191,151</u></u>

The accompanying notes are an integral part of these financial statements.

**MERCY MINISTRIES OF AMERICA, INC.**  
**Notes to Financial Statements**  
**Years Ended December 31, 2012 and 2011**

**NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES**

Mercy Ministries of America, Inc. (the "Ministry") is a not-for-profit corporation whose mission is to provide opportunities for young women to experience God's unconditional love, forgiveness, and life-transforming power. The Ministry primarily serves this mission through a residential counseling program provided free of charge to young women ages 13 to 28 with life-controlling issues such as eating disorders, self-harm, unplanned pregnancy, sexual abuse, physical abuse, addictions and depression. The program is voluntary, lasts approximately six months, and includes biblically based counseling, nutrition and fitness education and life-skills training. The program takes a Christian approach to treatment by addressing the root cause of problems, helping young women move past their debilitating circumstances as they recognize and accept their self-worth and preparing them to reach their full potential. Mercy Ministries of America, Inc. currently operates homes in California, Tennessee, Louisiana and Missouri.

In addition to its residential program, the Ministry provides outreach to the community through speaking engagements, podcasting, and resources which educate and bring awareness about life-controlling issues and the opportunity to experience freedom. Resources include: the Ministry's website, books, and teaching materials for pastors, parents and the general public.

The Ministry has experienced tremendous increase in the global interest and demand for its services. In order to respond to the increase in demand, during 2007 a separate not-for-profit was organized, Mercy Ministries International, Inc. ("MMI"). MMI is custodian and owner of the Mercy Ministries programs on a global basis. MMI provides the Ministry spiritual support and technical assistance with the ongoing operation of existing homes and the start up and initial operation of new homes. The Ministry transferred all rights to its intellectual properties to MMI upon formation.

The Ministry has a Ministry Collaboration Agreement (MCA) with MMI agreeing to adhere to the standards of operation, governance, structure and commitments as defined per the MCA agreement. As part of this agreement, the Board of Directors, on behalf of the Ministry, may make donations to MMI as the Ministry deems appropriate to support its efforts to spread the ministry throughout the world.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**MERCY MINISTRIES OF AMERICA, INC.**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2012 and 2011**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein and the disclosures of commitments and contingencies. Actual results could differ from those estimates.

Cash

Cash includes funds on deposit with financial institutions.

Contributions Receivable

Contributions receivable represent those contributions received immediately after year end that are dated prior to year end and pledge receivables made at fundraising events.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Inventory

Inventory consists of paperback copies of books written by the founder of the Ministry, compact discs recorded by the founder of the Ministry and various musicians, and apparel. Inventory is stated at the lower of cost, determined on a first-in, first-out (FIFO) basis, or market (net realizable value).

Long-lived Assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

**MERCY MINISTRIES OF AMERICA, INC.**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2012 and 2011**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property and Equipment and Depreciation

It is the Ministry's policy to capitalize all property and equipment over \$2,000. Property and equipment acquisitions are recorded at cost. Donations of property and equipment are recorded as revenues at their estimated fair value. Such donations are reported as unrestricted revenues unless the donor has restricted the donated asset to a specific purpose. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except on trade-in) or loss is included in the statements of activities and changes in net assets for the period. A gain on trade-in is applied to reduce the cost of the new acquisition. Depreciation is provided over the assets' useful lives using the straight-line method. Buildings and improvements are generally depreciated over seven to 40 years. Equipment and furniture are depreciated over three to ten years. Vehicles are depreciated over five years. Website development costs are amortized over a period of three to seven years.

Assets and Liabilities Measured at Fair Value

Accounting principles generally accepted in the United States of America require the Ministry to disclose the basis for considering market participants assumptions in fair value measurements. Fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Ministry does not have any fair value measurements using level 3 inputs as of December 31, 2012 and 2011.

The carrying amount of financial instruments, consisting of cash, contributions and other receivables, other current assets, accounts payable, accrued expenses and the current installments of notes payable and capital lease obligations approximate their fair value due to their relatively short maturities. Long-term portions of notes payable and capital lease obligations are carried at amortized cost, which approximates fair value.

Accrued Absences

Employees of the Ministry are entitled to paid time off including vacation, sick days, and personal days off, depending on job classification, length of service, and other factors. The Ministry's policy is to recognize the costs of compensated absences when earned. Accrued compensated absences are included with accrued expenses on the accompanying statements of financial position and totaled \$111,970 and \$106,926 at December 31, 2012 and 2011, respectively.

**MERCY MINISTRIES OF AMERICA, INC.**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2012 and 2011**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Functional Allocation of Expenses

The costs of providing various program services and supporting activities of the Ministry have been summarized on a functional basis. Accordingly, certain expenses have been allocated among program, fundraising and general and management expenses.

Program expenses consist of the activities that promote the Ministry's vision, including the operation of the residential program, counseling services, Christian education, publication and media that supports the Ministry's mission and other activities that fulfill the purpose for which the Ministry exists.

Fundraising expenses relate to those activities that promote the growth of contributions, gifts, grants, etc., including conducting fundraising campaigns and events, maintaining donor information, distributing fundraising materials and conducting other fundraising activities.

Management and general expenses include oversight, business management and finance activities. These expenses are not identifiable with program or fundraising activities, but are indispensable in conducting those activities and to the Ministry's existence.

The Ministry's policy is to report all joint costs not specifically attributable to particular components of the activities, as allocated among program, fundraising and management and general expenses.

The Ministry donates ten percent of its unrestricted cash contributions as a tithe to other organizations or individuals that are involved in activities aligned with the Ministry's mission and vision.

Income Taxes

The Ministry is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Accounting principles generally accepted in the United States of America require the management to evaluate tax positions taken by the Ministry and recognize a tax liability (or asset) if the Ministry has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The management has analyzed the tax positions taken by the Ministry and has concluded that as of December 31, 2012, no uncertain positions are taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Ministry is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Ministry is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2009.

**MERCY MINISTRIES OF AMERICA, INC.**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2012 and 2011**

**NOTE 3 - PROPERTY AND EQUIPMENT**

A summary of property and equipment, net of accumulated depreciation and amortization, by location as of December 31 is as follows:

	<b>2012</b>	<b>2011</b>
St. Louis, Missouri home	\$ 2,424,169	\$ 2,456,703
Nashville, Tennessee corporate offices	1,560,655	1,619,627
Nashville, Tennessee home	1,033,818	1,061,376
Destin, Florida (undeveloped land)	1,040,525	1,040,525
Lincoln, California home	299,734	385,859
Monroe, Louisiana home	<u>253,031</u>	<u>292,393</u>
	<u>\$ 6,611,932</u>	<u>\$ 6,856,483</u>

The Ministry is leasing the Lincoln, California home from a third party (Note 9).

**NOTE 4 - LAND HELD FOR SALE**

Land held for sale of \$2,003,323 consists of approximately 8 acres of an 11.75 acre plot of undeveloped land in Florida. The remainder of the land is to be used for a future residential facility and is included in property and equipment.

**NOTE 5 - LINE OF CREDIT**

The Ministry had an unused, \$500,000 line of credit with a bank that matured in April 2012 and was not renewed.

**MERCY MINISTRIES OF AMERICA, INC.**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2012 and 2011**

**NOTE 6 - NOTES PAYABLE**

Notes payable consist of the following as of December 31:

	<b>2012</b>	<b>2011</b>
Note payable to a bank, requiring monthly principal and interest payments of \$15,434 at an annual interest rate of 5.50% with all principal due November 2, 2014. The note is secured by the undeveloped and held for sale Florida land.	\$ 1,665,148	\$ 1,872,457
Note payable to a finance company for insurance payable in monthly installments of \$3,240 including annual interest at 8.50%, maturing April 2013.	12,732	-
Note payable to a finance company for insurance payable in monthly installments of \$2,852 including annual interest at 8.50%, maturing April 2012.	<u>-</u>	<u>11,207</u>
Total notes payable	1,677,880	1,883,664
Less current portion	<u>(107,501)</u>	<u>(94,116)</u>
Notes payable, excluding current portion	<u>\$ 1,570,379</u>	<u>\$ 1,789,548</u>

Annual principal maturities of notes payable are as follows:

Year ending December 31,

2013	\$ 107,501
2014	<u>1,570,379</u>
	<u>\$ 1,677,880</u>

**MERCY MINISTRIES OF AMERICA, INC.**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2012 and 2011**

**NOTE 7 - CAPITAL LEASE OBLIGATIONS**

The Ministry has entered into capital lease agreements to finance the acquisition of certain assets. A summary of the Ministry's obligations under these capital leases are as follows as of December 31:

	<b>2012</b>	<b>2011</b>
Minimum lease payments payable	\$ 2,691	\$ 27,502
Less portion representing interest	<u>(14)</u>	<u>(597)</u>
Capital lease obligations	2,677	26,905
Less current portion	<u>2,677</u>	<u>24,228</u>
Long-term portion	<u>\$ -</u>	<u>\$ 2,677</u>

Future minimum lease payments payable under the capital leases are as follows:

Year ending December 31,

2013	\$ <u>2,677</u>
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Property and equipment utilized under capital leases as of December 31, 2012 and 2011 are as follows:

	<b>2012</b>	<b>2011</b>
Equipment	\$ 78,297	\$ 78,297
Less accumulated depreciation	<u>(58,550)</u>	<u>(40,345)</u>
	<u>\$ 19,747</u>	<u>\$ 37,952</u>
Depreciation expense	<u>\$ 18,206</u>	<u>\$ 20,013</u>

**NOTE 8 - CONCENTRATIONS**

The Ministry has cash balances in a bank in excess of amounts federally insured. The uninsured balances totaled approximately \$768,804 at December 31, 2012. The Ministry maintains its cash with a high quality financial institution which the Ministry believes limits these risks.

**MERCY MINISTRIES OF AMERICA, INC.**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2012 and 2011**

**NOTE 9 - LEASE COMMITMENTS**

The Ministry has entered into various operating leases for office equipment. A schedule of future minimum lease payments under these operating leases are as follows for the years ending December 31:

2013	\$ 33,893
2014	5,181
2015	<u>3,157</u>
	<u>\$ 42,231</u>

Additionally, the Ministry leases a residential facility in Lincoln, California under an operating lease that commenced in January 2012 for a one-year term for \$36,000. The lease term automatically renews for two successive one-year terms. This lease payment is considered a below market rental rate. Beginning in 2012, the Ministry has included an in-kind rent contribution and expense of \$288,000 on the statements of activities and changes in net assets for this lease. In 2011, no in-kind donation has been recorded on the statements of activities and changes in net assets for this lease.

Rental expense was \$376,928 and \$90,237 for the years ended December 31, 2012 and 2011, respectively.

**NOTE 10 - CONTINGENT LIABILITIES**

In 2001, a not-for-profit entity contributed land with a value of approximately \$790,000 on which the St. Louis facility was constructed. The deed to this land contains certain restrictions which require the property to revert to the contributing not-for-profit entity if the following restrictions are not met:

- The Ministry shall remain a Christian-based residential facility for troubled girls and unwed mothers.
- The Founder of the Ministry shall be the President of Mercy Ministries International, Inc. ("MMI") and the Ministry shall continue to be affiliated with MMI.

**NOTE 11 - RELATED PARTY TRANSACTIONS**

MMI was created as a separate not-for-profit organization, maintaining a separate board of directors and organizational structure from the Ministry. MMI is not reported on a consolidated basis with the Ministry.

The Ministry maintains a close working relationship with MMI with which it shares equipment, office facilities, supplies and shares some common members on their boards of directors. Contributions made to MMI totaled \$418,326 and \$399,509 in 2012 and 2011, respectively. Included in these contributions are administrative related fees charged to MMI totaling \$97,401 and \$87,821 in 2012 and 2011, respectively.

**MERCY MINISTRIES OF AMERICA, INC.**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2012 and 2011**

**NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets included the following at December 31:

	2012	2011
Nashville home capital project	\$ 100,000	\$ -
Resident database	21,465	-
30 <sup>th</sup> anniversary	20,000	-
Intake portal	7,500	-
Monroe home	2,674	-
Graduates	208	1,012
Bibles	200	828
Development of Houston home	20	20
Transitional care	-	12,475
Equipment	-	390
	<u>\$ 152,067</u>	<u>\$ 14,725</u>

**NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets released from restrictions included the following for the year ended December 31:

	2012	2011
Transitional care	\$ 149,175	\$ 28,369
Lincoln home – operating	135,151	212,269
Christmas funds	93,640	104,452
Monroe home – operating	44,918	6,932
Resident database	18,535	-
St. Louis home – operating	15,731	28,275
Destin home	11,192	-
Intake portal	10,000	-
Graduates	9,792	-
Nashville home – operating	8,500	5,624
Residents	5,078	6,046
30 <sup>th</sup> anniversary	5,000	-
Monroe home – renovations	1,972	6,000
Development of Charlotte home	1,260	12,304
Nashville – equipment	1,250	-
Bibles	1,028	-
Graduate mission trip	-	65,045
Equipment	390	50,390
Other	276	1,074
Sex trafficking victims	100	16,907
Lincoln home – furnishings	-	15,050
Website	-	8,000
St. Louis – furnishings	-	1,648
	<u>\$ 512,988</u>	<u>\$ 568,385</u>

**MERCY MINISTRIES OF AMERICA, INC.**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2012 and 2011**

**NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets represent donations received for the Ministry's working capital fund. The intent of this fund is to allow the Ministry to have a permanent source of short term capital that will eliminate the need for a line of credit. Accordingly, the Ministry will use these funds throughout the year when there are fluctuations in cash flow. The Ministry will then replenish the cash balance when cash flow is available. Given the permanent nature of this arrangement, the ministry maintains this cash balance in a separate bank account and these funds are segregated on the statements of financial position as a noncurrent asset.

**NOTE 15 - EVALUATION OF SUBSEQUENT EVENTS**

The Ministry has evaluated subsequent events through April 1, 2013 which is the date the financial statements were available to be issued.

**NOTE 16 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW STATEMENT INFORMATION**

	2012	2011
Interest paid	<u>\$ 98,361</u>	<u>\$ 110,793</u>