

MERCY MINISTRIES OF AMERICA, INC.
Financial Statements
And
Independent Auditors' Report
Years Ended December 31, 2014 and 2013

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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, 2014 and 2013, 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, 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.

Blankenship CPA Group, PLLC
April 8, 2015

MERCY MINISTRIES OF AMERICA, INC.
Statements of Financial Position
December 31, 2014 and 2013

ASSETS		
	2014	2013
Current assets		
Cash	\$ 867,745	\$ 752,143
Contributions receivable	130,906	121,047
Other receivables	21,461	24,876
Inventory	99,549	114,751
Prepaid expenses	42,113	55,040
Other current assets	<u>1,660</u>	<u>1,350</u>
Total current assets	<u>1,163,434</u>	<u>1,069,207</u>
Cash - permanently restricted	<u>550,000</u>	<u>550,000</u>
Property and equipment, net		
Land	1,001,281	1,001,281
Land - undeveloped	1,040,525	1,040,525
Buildings and improvements	6,564,347	6,549,178
Equipment and furniture	2,411,626	2,352,155
Vehicles	432,468	422,442
Website and database	<u>63,400</u>	<u>52,900</u>
	11,513,647	11,418,481
Less accumulated depreciation and amortization	<u>(5,471,213)</u>	<u>(5,083,788)</u>
Property and equipment, net	<u>6,042,434</u>	<u>6,334,693</u>
Land held for sale	<u>2,003,323</u>	<u>2,003,323</u>
Total Assets	<u>\$ 9,759,191</u>	<u>\$ 9,957,223</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 114,279	\$ 57,128
Accrued expenses	211,415	210,176
Current portion of notes payable	<u>84,496</u>	<u>89,882</u>
Total current liabilities	410,190	357,186
Notes payable, net of current portion	<u>1,345,015</u>	<u>1,446,096</u>
Total liabilities	<u>1,755,205</u>	<u>1,803,282</u>
Net assets		
Unrestricted	7,282,107	7,517,347
Temporarily restricted	171,879	86,594
Permanently restricted	<u>550,000</u>	<u>550,000</u>
Total net assets	<u>8,003,986</u>	<u>8,153,941</u>
	<u>\$ 9,759,191</u>	<u>\$ 9,957,223</u>
Total Liabilities and Net Assets		

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, 2014 and 2013

	2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenues				
Contributions	\$ 7,351,694	\$ 538,541	\$ -	\$7,890,235
Special events	664,117	-	-	664,117
Adoption application fees	4,525	-	-	4,525
Resource sales	40,197	-	-	40,197
In-kind donations	394,408	-	-	394,408
Other income	29,747	-	-	29,747
	<u>8,484,688</u>	<u>538,541</u>	<u>-</u>	<u>9,023,229</u>
Total Support and Revenues	8,484,688	538,541	-	9,023,229
Net assets released from restrictions	<u>453,256</u>	<u>(453,256)</u>	<u>-</u>	<u>-</u>
Total Support, Revenues and Reclassifications	<u>8,937,944</u>	<u>85,285</u>	<u>-</u>	<u>9,023,229</u>
Functional Expenses				
Counseling and outreach	7,843,192	-	-	7,843,192
Management and general	787,957	-	-	787,957
Fundraising	542,035	-	-	542,035
	<u>9,173,184</u>	<u>-</u>	<u>-</u>	<u>9,173,184</u>
Total Unrestricted Functional Expenses	9,173,184	-	-	9,173,184
(Decrease) increase in net assets	(235,240)	85,285	-	(149,955)
Net assets - beginning of year	<u>7,517,347</u>	<u>86,594</u>	<u>550,000</u>	<u>8,153,941</u>
Net assets - end of year	<u><u>\$ 7,282,107</u></u>	<u><u>\$ 171,879</u></u>	<u><u>\$ 550,000</u></u>	<u><u>\$8,003,986</u></u>

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

	2013			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenues				
Contributions	\$ 7,184,313	\$ 560,447	\$ 50,000	\$ 7,794,760
Special events	1,424,300	25,000	-	1,449,300
Adoption application fees	3,375	-	-	3,375
Resource sales	57,510	-	-	57,510
In-kind donations	385,895	-	-	385,895
Other income	34,764	-	-	34,764
Total Support and Revenues	9,090,157	585,447	50,000	9,725,604
Net assets released from restrictions	650,920	(650,920)	-	-
Total Support, Revenues and Reclassifications	9,741,077	(65,473)	50,000	9,725,604
Functional Expenses				
Counseling and outreach	8,094,852	-	-	8,094,852
Management and general	803,538	-	-	803,538
Fundraising	627,033	-	-	627,033
Total Unrestricted Functional Expenses	9,525,423	-	-	9,525,423
Increase (decrease) in net assets	215,654	(65,473)	50,000	200,181
Net assets - beginning of year	7,301,693	152,067	500,000	7,953,760
Net assets - end of year	<u>\$ 7,517,347</u>	<u>\$ 86,594</u>	<u>\$ 550,000</u>	<u>\$ 8,153,941</u>

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

MERCY MINISTRIES OF AMERICA, INC.
Statements of Functional Expenses
Years Ended December 31, 2014 and 2013

	2014			
	Program Services	Supporting Services		
	Counseling and Outreach	Management and General	Fundraising	Total
Salaries	\$ 3,688,419	\$ 317,060	\$ 238,962	\$ 4,244,441
Benefits	599,259	51,704	38,999	689,962
Contract labor	791	34,542	790	36,123
Total salaries and related expenses	4,288,469	403,306	278,751	4,970,526
Tithe	843,308	-	-	843,308
Room and board	533,178	-	-	533,178
Contributions to Mercy Ministries International, Inc.	453,913	-	-	453,913
Occupancy	367,297	1,994	-	369,291
Special events	116,041	-	116,041	232,082
Utilities	165,168	14,198	10,701	190,067
Insurance	164,364	14,129	10,649	189,142
Marketing and public relations	80,136	-	80,136	160,272
Professional fees	53,079	89,298	2,212	144,589
Travel, conferences and meetings	92,491	11,561	11,561	115,613
Repairs and maintenance	102,123	4,758	3,453	110,334
Interest	-	82,257	-	82,257
IT outsourcing	-	77,950	-	77,950
Computer and equipment	55,440	4,766	3,592	63,798
Telephone	50,908	4,376	3,298	58,582
Automobile	40,775	4,530	-	45,305
Contribution processing charges	-	36,497	-	36,497
Miscellaneous	12,793	17,732	152	30,677
Cost of resources sold	29,947	-	-	29,947
Postage	16,052	2,675	8,026	26,753
Office	18,838	1,619	1,221	21,678
Total expenses before depreciation and amortization	7,484,320	771,646	529,793	8,785,759
Depreciation and amortization	358,872	16,311	12,242	387,425
Total expenses	<u>\$ 7,843,192</u>	<u>\$ 787,957</u>	<u>\$ 542,035</u>	<u>\$ 9,173,184</u>

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

	2013			
	Program Services	Supporting Services		
	Counseling and Outreach	Management and General	Fundraising	Total
Salaries	\$ 3,772,494	\$ 328,795	\$ 224,965	\$ 4,326,254
Benefits	632,729	55,371	37,975	726,075
Contract labor	1,355	26,450	-	27,805
Total salaries and related expenses	4,406,578	410,616	262,940	5,080,134
Tithe	854,413	-	-	854,413
Room and board	566,813	-	-	566,813
Contributions to Mercy Ministries International, Inc.	394,798	-	-	394,798
Occupancy	367,128	2,105	-	369,233
Special events	189,509	-	189,509	379,018
Utilities	159,641	13,913	9,520	183,074
Insurance	180,602	15,740	10,770	207,112
Marketing and public relations	110,004	-	110,004	220,008
Professional fees	57,566	89,795	3,810	151,171
Travel, conferences and meetings	67,532	8,441	8,441	84,414
Repairs and maintenance	103,359	4,572	3,029	110,960
Interest	-	88,978	-	88,978
IT outsourcing	-	77,081	-	77,081
Computer and equipment	76,951	6,707	4,589	88,247
Telephone	60,742	5,294	3,622	69,658
Automobile	46,850	5,206	-	52,056
Contribution processing charges	-	39,713	-	39,713
Miscellaneous	13,891	13,700	282	27,873
Cost of resources sold	43,139	-	-	43,139
Postage	16,332	2,721	8,167	27,220
Office	17,127	1,493	1,021	19,641
Total expenses before depreciation and amortization	7,732,975	786,075	615,704	9,134,754
Depreciation and amortization	361,877	17,463	11,329	390,669
Total expenses	\$ 8,094,852	\$ 803,538	\$ 627,033	\$ 9,525,423

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

MERCY MINISTRIES OF AMERICA, INC.**Statements of Cash Flows****Years Ended December 31, 2014 and 2013**

	2014	2013
Cash flows from operating activities		
(Decrease) increase in net assets	<u>\$ (149,955)</u>	<u>\$ 200,181</u>
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Depreciation and amortization	387,425	390,669
Decrease (increase) in		
Contributions receivable	(9,859)	(45,290)
Other receivables	3,415	(24,577)
Inventory	15,202	19,765
Prepaid expenses	12,927	(8,336)
Other current assets	(310)	8,930
Increase (decrease) in		
Accounts payable	57,151	(46,330)
Accrued expenses	<u>1,239</u>	<u>(1,506)</u>
Total adjustments	<u>467,190</u>	<u>293,325</u>
Net cash provided by operating activities	<u>317,235</u>	<u>493,506</u>
Cash flows from investing activities		
Proceeds from the sale of land	-	54,000
Purchases of property and equipment	<u>(95,166)</u>	<u>(167,430)</u>
Net cash used by investing activities	<u>(95,166)</u>	<u>(113,430)</u>
Cash flows from financing activities		
Payments on notes payable	(106,467)	(141,902)
Payments on capital leases	<u>-</u>	<u>(2,677)</u>
Net cash used by financing activities	<u>(106,467)</u>	<u>(144,579)</u>
Net increase in cash	115,602	235,497
Cash - beginning of year	<u>1,302,143</u>	<u>1,066,646</u>
Cash - end of year	<u><u>\$ 1,417,745</u></u>	<u><u>\$ 1,302,143</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, 2014 and 2013

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Mercy Ministries of America, Inc. (the "Ministry") is a Tennessee 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, Louisiana, Missouri and Tennessee.

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, 2014 and 2013

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 postmarked 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, 2014 and 2013

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, 2014 and 2013.

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 approximate their fair value due to their relatively short maturities. Long-term portions of notes payable 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 \$126,302 and \$119,815 at December 31, 2014 and 2013, respectively.

MERCY MINISTRIES OF AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2014 and 2013

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, 2014, 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 2011.

MERCY MINISTRIES OF AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2014 and 2013

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:

	2014	2013
St. Louis, Missouri home	\$ 2,247,600	\$ 2,312,029
Nashville, Tennessee corporate offices	1,424,043	1,487,189
Nashville, Tennessee home	998,591	1,046,812
Destin, Florida (undeveloped land)	1,040,525	1,040,525
Lincoln, California home	168,586	243,009
Monroe, Louisiana home	<u>163,089</u>	<u>205,129</u>
	<u>\$ 6,042,434</u>	<u>\$ 6,334,693</u>

The Ministry is leasing the Lincoln, California home from a third party (Note 7).

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 - NOTES PAYABLE

Notes payable consist of the following as of December 31:

	2014	2013
Note payable to a bank, requiring monthly principal and interest payments of \$12,664 at an annual interest rate of 4.25% with all principal due March 11, 2020. The note is secured by the undeveloped and held for sale Florida land.	\$1,429,511	\$ -
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 was secured by the undeveloped and held for sale Florida land.	-	1,522,906
Note payable to a finance company for insurance payable in monthly installments of \$3,326 including annual interest at 8.50%, maturing April 2014.	<u>-</u>	<u>13,072</u>
Total notes payable	1,429,511	1,535,978
Less current portion	<u>(84,496)</u>	<u>(89,882)</u>
Notes payable, excluding current portion	<u>\$ 1,345,015</u>	<u>\$ 1,446,096</u>

MERCY MINISTRIES OF AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2014 and 2013

NOTE 5 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable are as follows:

Year ending December 31,

2015	\$ 84,496
2016	95,741
2017	100,112
2018	104,513
2019	109,106
Thereafter	<u>935,543</u>
	<u>\$ 1,429,511</u>

NOTE 6 - CONCENTRATIONS

The Ministry has cash balances in a bank in excess of amounts federally insured. The uninsured balances totaled approximately \$1,140,000 at December 31, 2014. The Ministry maintains its cash with a high quality financial institution which the Ministry believes limits these risks.

NOTE 7 - 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:

2015	\$ 10,957
2016	7,800
2017	<u>5,850</u>
	<u>\$ 24,607</u>

Additionally, the Ministry leases a residential facility in Lincoln, California under an operating lease through December 2015 at which time the lease term automatically renews for two successive one-year terms. The lease payment, \$3,000 per month, is considered a below market rental rate.

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 for 2014 and 2013. Rental expense was \$341,350 and \$365,291 for the years ended December 31, 2014 and 2013, respectively.

MERCY MINISTRIES OF AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2014 and 2013

NOTE 8 - 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 9 - 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 \$453,913 and \$394,798 in 2014 and 2013, respectively. Included in these contributions are administrative related fees charged to MMI totaling \$93,816 and \$91,296 in 2014 and 2013, respectively.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets included the following at December 31:

	2014	2013
Development of potential Florida home	\$ 107,195	\$ -
Christmas funds	24,685	43,109
Resident database	16,036	20,816
Nashville home capital project	11,301	-
2015 strategic project	5,000	-
Intake portal	4,281	10,780
Development of potential Los Angeles home	1,849	7,060
Nashville home education	799	-
Monroe home	618	1,730
Baby showers	95	301
Development of potential Houston home	20	20
2014 Board of Directors strategic meeting	-	2,500
St. Louis home furnishings	-	278
	<u>\$ 171,879</u>	<u>\$ 86,594</u>

MERCY MINISTRIES OF AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2014 and 2013

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

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

	2014	2013
Transitional care	\$ 128,816	\$ 149,700
Christmas funds	120,584	78,307
Monroe home – operating	82,274	41,240
Lincoln home – operating	54,426	158,919
St. Louis home – operating	23,420	9,646
Nashville home – operating	11,376	5,977
Destin home	6,650	50,670
Intake portal	6,500	53
Development of Los Angeles home	5,211	-
Resident database	4,779	650
Nashville home capital project	3,699	100,000
2014 Board of Directors strategic meeting	2,500	-
Graduation rings	2,080	1,972
Bibles	600	600
Baby showers	231	524
Monroe home – equipment	110	2,454
30 th anniversary	-	45,000
Nashville – equipment	-	4,500
Adoptions	-	500
Graduates	-	208
	<u>\$ 453,256</u>	<u>\$ 650,920</u>

NOTE 12 - 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 eliminates the need for a line of credit. Accordingly, the Ministry uses these funds throughout the year when there are fluctuations in cash flow. The Ministry replenishes 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.

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NOTE 13 - EVALUATION OF SUBSEQUENT EVENTS

The Ministry has evaluated subsequent events through April 8, 2015 which is the date the financial statements were available to be issued.

NOTE 14 - SUPPLEMENTAL DISCLOSURE OF CASH FLOWS STATEMENTS INFORMATION

	2014	2013
Interest paid	<u>\$ 71,657</u>	<u>\$ 88,978</u>