MERCY SHIPS

INDEPENDENT AUDITORS' REPORT

December 31, 2010 and 2009

MERCY SHIPS

December 31, 2010 and 2009

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BHF&W
Balser Horowitz Frank & Wakeling
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Mercy Ships
Lindale, Texas

We have audited the accompanying combined statements of financial position of Mercy Ships, a nonprofit organization, and affiliates (the Organization) as of December 31, 2010 and 2009, and the related combined statements of activities, and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of certain affiliates under common control as defined by generally accepted accounting principles, (Mercy Ships – U.K. Ltd., Mercy Ships Canada Society, Stichting Mercy Ships Holland, Mercy Ships Deutschland e.V., Foundation Mercy Ships – Norge, Association Mercy Ships (Switzerland) and Mercy Ships Australia Ltd.), which statements reflect total assets of $7,435,185 and $7,583,298 as of December 31, 2010 and 2009, respectively, and total support and revenues of $16,838,087 and $18,333,313 for the years ended December 31, 2010 and 2009, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these certain affiliates, is based solely on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of Mercy Ships and affiliates as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combined schedule of functional expenses for the year ended December 31, 2010 (with summarized financial information for the year ended December 31, 2009) on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balser, Horowitz, Frank & Wakeling

BALSER, HOROWITZ, FRANK & WAKELING
Santa Ana, California
May 10, 2011

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MERCY SHIPS

COMBINED STATEMENTS OF FINANCIAL POSITION

December 31, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	$ 11,158,310	$ 8,898,446
Cash held for others - ship bank	350,088	447,914
Other receivables, net	524,836	396,593
Grants receivable	3,465	140,955
Promises to give, net	87,805	165,536
Inventory	1,112,982	1,141,426
Investments	94,274	91,184
Prepaid expenses and advances	250,949	268,829
Property and equipment	77,104,183	70,143,432
Land and building under capital lease	797,400	722,700
Accumulated depreciation	(23,036,079)	(19,971,328)
Cash surrender value of life insurance	88,713	91,960
Total assets	$ 68,536,926	$ 62,537,647
Liabilities		
Accounts payable and accrued expenses	$ 1,901,659	$ 2,098,564
Ship bank payable	443,393	459,216
Deferred revenues	66,278	24,198
Notes and loans payable	9,545,900	6,618,449
Capitalized lease obligation	1,376,454	1,211,937
Total liabilities	13,333,684	10,412,364
Net assets		
Unrestricted	51,544,623	48,646,848
Temporarily restricted	3,658,619	3,478,435
Total net assets	55,203,242	52,125,283
Total liabilities and net assets	$ 68,536,926	$ 62,537,647

See accompanying notes and independent auditors' report

MERCY SHIPS

COMBINED STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2010

(with summarized financial information for the year ended December 31, 2009)

	Unrestricted	Temporarily Restricted	Total	2009 Total
Support and revenue				
Contributions	$ 17,668,789	$ 6,245,232	$ 23,914,021	$ 23,320,165
Contributions for staff support	3,588,190		3,588,190	3,770,184
Contributed goods	4,790,601		4,790,601	6,535,768
Contributed services	13,908,625		13,908,625	16,613,066
Fee revenue (crew, volunteers, training)	1,453,795		1,453,795	1,758,842
Sales and other revenue	1,193,419		1,193,419	1,033,199
Gain (loss) from foreign currency trans.	300,545		300,545	(194,045)
Gain (loss) on abandonment of assets	(570,800)		(570,800)	27,549
Net assets released from restriction:				
Satisfaction of program restrictions	6,065,048	(6,065,048)	-	-
Total support and revenue	48,398,212	180,184	48,578,396	52,864,728
Expenses				
Program services				
Ship and field operations	36,757,981		36,757,981	42,487,252
Supporting services				
General and administrative	3,950,981		3,950,981	3,623,179
Fund raising	5,168,920		5,168,920	5,615,792
Total supporting services	9,119,901	-	9,119,901	9,238,971
Total expenses	45,877,882	-	45,877,882	51,726,223
Change in net assets	2,520,330	180,184	2,700,514	1,138,505
Net assets at beginning of year before change in cumulative translation adjustments	48,646,848	3,478,435	52,125,283	50,493,068
Change in cumulative translation adjustments	377,445	-	377,445	493,710
Net assets at end of year after change in cumulative translation adjustments	$ 51,544,623	$ 3,658,619	$ 55,203,242	$ 52,125,283

MERCY SHIPS

COMBINED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Change in net assets	$ 2,700,514	$ 1,138,505
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Provision for depreciation	3,209,061	3,229,084
(Gain) loss on sale of assets	-	(27,549)
(Gain) loss on abandonment of assets	570,800	154,560
(Increase) decrease in:		
Other receivables	(128,243)	(82,656)
Grants receivable	137,490	241,497
Promises to give	77,731	292,041
Inventory	28,444	(263,987)
Investments in real estate held for sale	(3,090)	(3,742)
Prepaid expenses and advances	17,880	254,050
Increase (decrease) in:		
Accounts payable and accrued expenses	(196,905)	349,735
Ship bank payable	(15,823)	(45,720)
Deferred revenues	42,080	(28,582)
Cumulative translation adjustments	377,445	493,710
Net cash provided by operating activities	6,817,384	5,700,946
Cash flows from investing activities		
Proceeds from sale of assets	-	30,875
Purchases of property and equipment	(7,493,106)	(1,199,667)
Increase (decrease) in cash surrender value of life insurance	3,247	924
Net cash used by investing activities	(7,489,859)	(1,167,868)
Cash flows from financing activities		
Proceeds from notes and loans payable	4,911,971	-
Increase in capital lease obligations	85,565	83,371
Payments on notes and loans payable and capital lease obligations	(1,984,520)	(1,547,915)
Net cash provided (used) by financing activities	3,013,016	(1,464,544)
Effect of exchange rate changes on cash	(178,503)	(85,795)
Net increase in cash and cash equivalents	2,162,038	2,982,739
Cash and cash equivalents, beginning of year	9,346,360	6,363,621
Cash and cash equivalents, end of year	$ 11,508,398	$ 9,346,360

See accompanying notes and independent auditors' report

Note 1 – Summary of significant accounting policies

The significant accounting policies followed are presented to assist the reader in understanding the combined financial statements of Mercy Ships (the Organization). The financial statements and notes are representations of the Organization's management, which is responsible for their integrity and objectivity. The accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the combined financial statements. The primary sources of revenue are cash contributions, contributed goods and contributed services.

Principles of combination

The accompanying combined financial statements include the accounts of Mercy Ships, a Texas non-profit corporation, Mercy Ships Associates, LLP, a Texas non-profit corporation, Mercy Ships Foundation, a Texas non-profit corporation, Mercy Ships International, a Texas non-profit corporation, Africa Mercy – Malta Ltd., a Maltese maritime corporation, Mercy Ships - U.K. Ltd., a U.K. non-profit limited by Guarantee, Mercy Ships Canada Society, a Canadian non-profit corporation, Association Mercy Ships, a Swiss non-profit corporation, Stichting Mercy Ships Holland, a Netherlands charitable organization, Foundation Mercy Ships – Norge, a Norwegian non-profit corporation, Mercy Ships Deutschland e.V., a German non-profit corporation, and Mercy Ships Australia Ltd., an Australian non-profit limited by Guarantee. All affiliates are under common control as defined by generally accepted accounting principles. The Organization has other affiliates whose total transactions are immaterial to the combined financial statements, and therefore are not included in this presentation.

All material intercompany accounts and transactions have been eliminated in the combined financial statements.

Transactions with non-combined affiliates

The Organization provides funds for and receives funds from other Mercy Ships affiliates not included in these combined financial statements. The related revenues from and expenditures to these affiliates are netted on the statements of financial position.

Nature of activities

Mercy Ships, a global charity, has operated a fleet of hospital ships in developing nations since 1978. Following the example of Jesus, Mercy Ships brings hope and healing to the poor, mobilizing people and resources worldwide. Fully-equipped hospital ships, have worked in conjunction with land bases, to deliver medical/health care and community development services without discrimination or regard for race, gender or religion.

On January 1, 2009, Mercy Ships, a California non-profit corporation merged with Mercy Ships Operations, a Texas non-profit corporation and ceased separate corporate existence. Mercy Ships Operations assumed full responsibility of the merged entity and, also effective January 1, 2009, began operations as Mercy Ships.

Note 1 – Summary of significant accounting policies (continued)

Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Comparative financial information

The accompanying financial statements include certain 2009 comparative information. With respect to the accompanying statement of activities, information for 2009 is presented in the aggregate and not displayed by category. With respect to the statement of functional expenses, information for 2009 is presented in the aggregate and not detailed by function. Accordingly, such information should be read in conjunction with the Organization's fiscal 2009 financial statements from which summarized information was derived.

Financial statement presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of December 31, 2010 and 2009, there were no net assets classified as permanently restricted.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ materially from those estimates. Significant estimates inherent in the preparation of the accompanying consolidated financial statements include, but are not limited to, promises to give, allowances for doubtful accounts, fair value measures, contributed services, functional expense allocations, impairments of long-lived tangible and intangible assets, depreciation expense, and accounting for tax related contingencies.

Income taxes

The US entities of the Organization are exempt from Federal and State income tax under Internal Revenue Code Section 501(c)(3). These entities are subject, however, to Federal income tax on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the years ended December 31, 2010 and 2009, the US entities of the Organization had no activities unrelated to its exempt purpose, and therefore incurred no tax liability due to unrelated business income.

The entities of the Organization that are organized and operating outside of the United States, are tax-exempt based on the various laws of the country in which they operate. These entities are generally not subject to any Federal or State income tax including any tax liabilities due to unrelated business income.

Note 1 – Summary of significant accounting policies (continued)

Income taxes (continued)

On January 1, 2009, the Organization adopted the provisions of Accounting Standards Codification (ASC) 740-10-50, *Accounting for Uncertainty in Income Taxes*. The statement requires that a tax position be recognized or derecognized based on a 'more-likely-than-not' threshold. This applies to positions taken or expected to be taken in a tax return. The implementation of the statement had no impact on the Organization's statement of financial position or statement of activities. The Organization does not believe its financial statements include (or reflect) any uncertain tax positions.

Concentration of credit risk

The Organization held significant balances in various banks as of December 31, as follows:

	2010	2009
Netherlands	$ 3,216,439	$ 378,702
United Kingdom	3,418,189	2,540,954
United States	2,416,697	4,077,602
Switzerland	1,547,944	1,575,338
Other	909,129	773,764
Total cash	$ 11,508,398	$ 9,346,360

The Organization maintains operating cash balances in several financial institutions. Cash at banks within the United States are currently insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Significant deposits in various foreign accounts are insured by governmental and quasi-governmental organizations in amounts ranging from approximately $100,000 to $150,000. The balances in some accounts, at times, have substantially exceeded the maximum amount covered by depository insurance. Management believes that the Organization is not exposed to any significant risk in connection with these excess bank balances.

Cash and cash equivalents

Cash and cash equivalents include all funds in banks and highly liquid investments with maturity dates of three months or less. Total cash balances consisted of the following:

	2010	2009
Unrestricted cash	$ 7,849,779	$ 5,867,925
Temporarily restricted	3,658,619	3,478,435
Total cash and cash equivalents	$ 11,508,398	$ 9,346,360

Note 1 – Summary of significant accounting policies (continued)

Ship bank

The Organization maintains a bank on board its ship for the convenience of its staff members. The funds are shown separately on the statements of financial position. Accordingly, a corresponding liability, ship bank payable, is recorded on the statements of financial position.

Other receivables

Other receivables are presented at their net realizable value and consist of amounts resulting from operations and other transactions and are primarily due to foreign offices.

Grants receivable

Grants receivable consists of amounts due from granting agencies in accordance with expense reimbursement agreements.

Promises to give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Inventory

Inventory consists primarily of medical supplies, food, fuel and lubricating oil. If purchased, these items are stated at the lower of first-in, first-out (FIFO) cost or market. If donated, items are valued at the lower of their estimated fair market values as of the date of receipt or current market value.

Investments

Investments consist predominantly of real property held for sale, which is stated at fair market value at date of acquisition.

Note 1 – Summary of significant accounting policies (continued)

Property and equipment

All acquisitions of property and equipment in excess of $5,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of the assets are capitalized. Property and equipment is carried at cost and depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Ship	25 years
Buildings	15 years
Equipment	5 years
Vehicles	3 years

Depreciation expense for the years ended December 31, 2010 and 2009, was $3,209,061 and $3,229,084, respectively.

Donations of property and equipment are recorded as support at their estimated fair value. 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.

Donated assets

Donated assets and other non-monetary items are reflected as contributions in the accompanying statements at their estimated fair market values as of the date of receipt.

Revenue recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence and/or nature of any donor restrictions.

All donor-restricted net assets are reported as increases in temporarily restricted 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 combined statements of activities as net assets released from restrictions. During the years ended December 31, 2010 and 2009, there were no contributions received that were classified as permanently restricted.

Note 1 – Summary of significant accounting policies (continued)

Contributed services

The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The amount of contributed services recognized as support and expenses consisted of the follows:

	2010	2009
Program services - professional and medical	$ 13,543,044	$ 16,230,645
Fund raising	172,305	184,284
General and administrative support staff	193,276	198,137
Total contributed services	$ 13,908,625	$ 16,613,066

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising costs

The Organization expenses all advertising costs as they are incurred. Advertising costs for the years ended December 31, 2010 and 2009, were $535,412 and $793,964, respectively.

Note 2 – Promises to give

	2010	2009
Receivable in less than one year	$ 70,000	$ 226,233
Receivable in one to five years	50,000	-
Total promises to give	120,000	226,233
Less: discounts to present value	(2,927)	(5,518)
Less: allowance for uncollectable promises	(29,268)	(55,179)
Promises to give, net	$ 87,805	$ 165,536

During the years ended December 31, 2010 and 2009, the Organization received new promises to give totaling $210,000 and $125,000, respectively, from various organizations and individuals.

Note 3 – Property and equipment

Property and equipment consisted of the following:

	2010	2009
Land and buildings	$ 8,911,745	$ 8,624,655
Ship and related improvements	63,938,473	57,758,210
Tools and equipment	2,068,071	1,834,079
Vehicles	759,751	691,171
Medical equipment	2,223,543	1,958,017
Total property and equipment	77,901,583	70,866,132
Less accumulated depreciation	(23,036,079)	(19,971,328)
Property and equipment, net	$ 54,865,504	$ 50,894,804

Note 4 – Notes and loans payable

		2010		2009
Notes and loans payable consisted of the following:				
Demand note, in the amount of $2,000,000, payable in monthly installments of $19,461 to Lindale State Bank with interest equal to the bank's prime rate (3.25% and 3.25% at December 31, 2010 and 2009, respectively) less 0.7%. The loan is collateralized by a deed of trust on real estate located in Smith County, Texas. All unpaid principal and interest is due in full on February 1, 2016.	$	232,564	$	457,021
Unsecured, non-interest bearing note, payable to a member of the Organization's Board of Directors. The funds were advanced to retrofit and renovate the *Africa Mercy* and provide for repairs and upgrades to the *Caribbean Mercy*. The note was paid in full in July 2010.		-		398,200
Note payable in the amount of €10,000,000 dated April 22, 2005, to a Holland bank with payments of principal due at three-month intervals and the final installment due April 1, 2011. Effective April 19, 2011, the loan was refinanced. The new terms call for payments of principal due in twenty-eight (28) installments each in the amount of €125,000. Payments are due at three-month intervals and the final payment is due April 1, 2018. The loan shall bear interest at the rate per annum of Euribor plus 1.5% and is payable quarterly. The loan is collateralized by a mortgage deed and deed of covenant on the vessel M/V Africa Mercy.		4,666,315		5,763,228

Note 4 – Notes and loans payable (continued)

	2010	2009
Note payable in the amount of €3,500,000 dated October 25, 2010, to a Holland bank with payments of principal due in twenty-eight (28) installments each in the amount of €125,000. Payments are due at three-month intervals and the final payment is due April 1, 2018. The loan shall bear interest at the rate per annum of Euribor plus 1.5% and is payable quarterly. The loan is collateralized by a mortgage deed and deed of covenant on the vessel *M/V Africa Mercy.*	4,638,550	-
Various other secured and unsecured notes	8,471	-
Total notes and loans payable	$ 9,545,900	$ 6,618,449

Based on currency exchange rates at December 31, 2010, the aggregate maturities of notes and loans payable, for each of the subsequent years ended December 31, are as follows:

2011	$ 1,232,736
2012	1,327,574
2013	1,325,300
2014	1,325,300
2015	1,325,300

Note 5 – Capital lease obligations

The Organization entered into an eighty (80) year land lease commitment with the City of Lausanne, Switzerland, effective February 9, 1994, and continuing until February 17, 2074. This lease meets the criteria for capitalization and is therefore recorded in the accompanying combined statements of financial position as an asset, and the related obligation is recorded at the present value of future minimum lease payments. Concurrent with the land lease obligation, the City of Lausanne gifted ownership of a building named Maison de Rovereaz to the Organization. The Organization agreed to lease, maintain and renovate the building to current standards. The land lease provides for a cost of living increase every three years based on the Swiss consumer price index.

The present value of the future minimum lease payments was calculated using an implicit borrowing rate of seven percent (7%) per annum. At December 31, 2010 and 2009, the total lease obligation included accrued interest of $614,243 and $521,129, respectively.

Land and building of CHF 750,000 ($797,400 and $722,700 for the years ended December 31, 2010 and 2009, respectively) has been capitalized under the lease agreement and accumulated depreciation for the years ended December 31, 2010 and 2009, was CHF 159,375 ($169,448) and CHF 150,000 ($144,540), respectively.

The future minimum lease payments required under this capital lease at December 31 are:

2011	$ 55,372
2012	61,087
2013	61,087
2014	61,087
2015	67,390
Thereafter	456,188
Total	762,211
Accrued interest to date	614,243
Present value of net minimum lease payments and accrued interest	$ 1,376,454

Note 6 – Temporarily restricted net assets

Temporarily restricted net assets at December 31 consisted of the following:

	2010	2009
M/V Africa Mercy	$ 717,174	$ 119,072
Disaster Response	579,904	14,645
Technical Staff Training Fund	78,453	66,416
Non-Surgical Projects	261,045	457,163
Dental Projects	199,217	9,667
General Surgery Projects	92,405	-
Maxillofacial / Plastic Surgery Projects	847,697	183,409
Orthopedic Projects	114,663	305,574
Mercy Vision Projects	236,590	12,446
Vesicovaginal Fistula Projects	123,849	51,916
Westerman Fund	64,006	58,584
Contributions for Equipment	132,298	60,874
Developing Nation Fund & Crew Assistance	162,740	161,596
Power the Vision Generator Replacement	-	1,868,002
Crew Assistance Fund	17,351	12,590
Other	31,227	96,481
Total temporarily restricted net assets	$ 3,658,619	$ 3,478,435

Note 7 – Transfers from affiliates

The Organization's international affiliates are certified by various charity boards within their countries. To satisfy requirements of these boards, the following information is presented for the purpose of disclosing the amount of funds transferred from each affiliate and disbursed to pay for program and ship operational expenses and long term liabilities of Mercy Ships. These amounts are considered intercompany transactions for the purposes of the combined financial statements and are therefore eliminated upon consolidation. The amount of funds transferred from affiliates was as follows:

	2010	2009
Australia	$ 551,135	$ 453,108
Canada	307,386	447,030
Germany	1,267,411	1,153,851
Holland	2,442,156	2,002,742
Norway	378,722	326,978
Switzerland	1,830,798	1,874,824
United Kingdom	3,658,551	3,642,806
Total transfers	$ 10,436,159	$ 9,901,339

Note 8 – Foreign operations

The Organization's international affiliates are located in various countries. Foreign operations are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on foreign investment and income repatriation, government price or foreign exchange controls, and restrictions on currency exchange. Net assets of foreign operations are less than 10% of the Organization's total net assets.

Most of the Organization's international affiliates use the local currency as the functional currency. The financial statements of the Organization's international affiliates have been translated into U.S. dollars. Statement of financial position accounts have been translated using the exchange rate in effect at the statement of financial position dates. Statements of activities amounts have been translated using the average exchange rate for the year. Adjustments resulting from these translations are presented as a separate component of net assets. The following is an analysis of the cumulative translation adjustments reflected in the combined statements of activities:

	2010	2009
Balance at January 1	$ 534,542	$ 40,832
Translation adjustments	377,445	493,710
Balance at December 31	$ 911,987	$ 534,542

Foreign currency transaction gains and losses resulting from exchange rate fluctuations on transactions denominated in a currency other than the functional currency totaled approximately $300,545 and $(194,045) for the years ended December 31, 2010 and 2009, respectively. The gains and losses are primarily a result of changes in exchange rates for payments made on the Rabobank notes payable.

As of May 10, 2011, there continue to be significant fluctuations in the value of the U.S. dollar relative to several foreign currencies in which the Organization operates. It is not practicable to determine the effects of these rate changes on the Organization's financial statements.

Note 9 – Supplemental disclosures of cash flow information

	2010	2009
Cash paid for:		
Interest	$ 200,422	$ 266,028
Income taxes	$ -	$ -

Note 10 – Subsequent events

Management has evaluated subsequent events through May 10, 2011, the date on which the combined financial statements were available to be issued.

MERCY SHIPS

COMBINED SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2010

(with summarized financial information for the year ended December 31, 2009)

	Program Services	Supporting Services			2010	2009
	Ship and Field Operations	General & Administrative	Fund Raising	Total Supporting	Total Expenses	Total Expenses
Advertising	$ 5,320	$ 1,231	$ 528,861	$ 530,092	$ 535,412	$ 793,964
Audit and accounting	36,000	94,208	-	94,208	130,208	151,628
Auto expense	215,158	25,368	11,299	36,667	251,825	232,547
Bad debt expense	3,354	499	225	724	4,078	8,813
Conference seminars and trade shows	36,362	9,141	11,524	20,665	57,027	37,991
Contract labor and services	963,579	186,462	316,929	503,391	1,466,970	1,518,846
Contributed goods usage and distribution	4,391,206	91,931	1,675	93,606	4,484,812	6,272,789
Contributed services expense	13,543,044	193,276	172,305	365,581	13,908,625	16,613,066
Cost of goods sold	120,997	45,373	3,249	48,622	169,619	197,169
Depreciation expense	3,068,607	88,343	52,111	140,454	3,209,061	3,229,084
Food purchases	490,337	32,306	314	32,620	522,957	1,082,030
Freight and customs expenses	260,269	11,139	10,053	21,192	281,461	296,689
Fuel and lube oil	1,895,972	-	-	-	1,895,972	2,235,380
Gift expense-other ministries	493,223	14,852	23,964	38,816	532,039	331,850
Insurance	444,176	124,192	11,815	136,007	580,183	584,442
Interest expense	154,017	23,384	23,021	46,405	200,422	266,028
Legal fee expense	26,954	14,098	20,017	34,115	61,069	110,867
Meals and entertainment expense	78,326	5,121	12,660	17,781	96,107	112,245
Miscellaneous expense	427,934	99,800	101,847	201,647	629,581	549,895
Shipyard expenses	207,749	367	-	367	208,116	99,097
Postage and printing expense	101,606	37,166	1,586,463	1,623,629	1,725,235	2,108,048
Rents	420,899	82,178	80,154	162,332	583,231	342,422
Repairs and maintenance	462,166	79,007	12,579	91,586	553,752	800,963
Service charges	106,984	49,607	14,552	64,159	171,143	109,009
Staff support and expense	7,056,802	2,263,762	1,939,467	4,203,229	11,260,031	10,769,138
Supplies expense	761,986	122,195	43,399	165,594	927,580	1,472,805
Taxes and fees	57,223	6,537	4,938	11,475	68,698	36,964
Telephone expense	202,585	25,022	20,051	45,073	247,658	230,857
Travel	662,010	84,895	147,784	232,679	894,689	895,148
Utilities	63,136	139,521	17,664	157,185	220,321	236,449
Total expenses	$ 36,757,981	$ 3,950,981	$ 5,168,920	$ 9,119,901	$ 45,877,882	$ 51,726,223