

Annual Review

Mercy Ships
2010



Acts of Mercy

Since 1978 Mercy Ships has performed services valued at more than \$834 million and impacting over 2.9 million people with over 563 port visits in 53 developing nations and 17 developed nations.

Letter from the Chairman



Dear Friends,

Mercy Ships offered “hope and healing” to 480,000 people in 2010 with a major field service in the Togolese Republic for six months of the year. Thanks to your support, our Mercy Ships crew of over 400 volunteers from more than 35 nations offered medical services as well as health care education and training.

What’s more, volunteer medical teams performed over 77,000 medical procedures this past year.

In 2010, the *Africa Mercy* also provided a wonderful platform for a number of medical professionals to receive free training. The newly acquired knowledge of eight eye surgeons, four fistula-repair surgeons, thirteen orthopedic medical professionals, nurses and

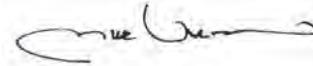
community health care workers will benefit countless others for many years to come.

Shortly before the *Africa Mercy* left the port of Lomé, the Togolese Minister of Health, Komlan Mally, visited the ship. Referring to the lack of official protocol for the visit, he said, “This is not a formal event as much as a meeting of friends to say, thank you for everything done on behalf of the Togolese.”

Additionally, your support helped underwrite new generators on the ship – which will result in significant annual fuel savings as well as extend the useful life of the *Africa Mercy*. The major shipyard work to install the new equipment was done in South Africa during the last five months of the year.

On behalf of our International Board of Directors of Mercy Ships, I want to convey that same spirit of friendship and gratitude to you. Thank you for your faithful support.

Sincerely,



Myron E. (Mike) Ullman III
Board Chairman
Mercy Ships



Letter from the President/Founder



Dear Friends,

As I reflect on our time in Togo and South Africa this past year, I am reminded of the great privilege we have in Mercy Ships to continue helping the 'next person in line.' For more than 30 years, Mercy Ships has been and continues to be about one thing – following the 2000-year-old model of Jesus.

Mercy Ships exists to bring hope and healing to the world's forgotten poor as is evidenced in this annual report. We have set out to do that which needs to be done with strategic purpose, with deliberate thought and action, with love and compassion rooted in the showing of mercy to others. With a focus on West Africa, we work to help alleviate the chronic shortfalls that define health care delivery systems in developing countries. These shortfalls adversely affect hundreds of

thousands of people and are amplified in societies where upwards of 70% of communities live on less than \$1 per day.

The *Africa Mercy* is a state-of-the-art hospital ship providing a unique platform for both first class health care and the training and development of national health care professionals. A model of a fully functioning medical facility and an opportunity for the poorest of the poor to have free life-transforming medical treatments, the *Africa Mercy* continues to be the 'big white ship' that brings hope to the nations we serve. But even with such a wonderful ship, it comes down to our community of donors and crew who choose to share their blessings with the world's neediest.

As I have shared before, Mercy Ships is like a finely woven cloth. Each person – whether patient, donor, crew member,

or volunteer – contributes a vital thread to the whole fabric, the whole mission, the whole vision, the whole purpose for our very existence.

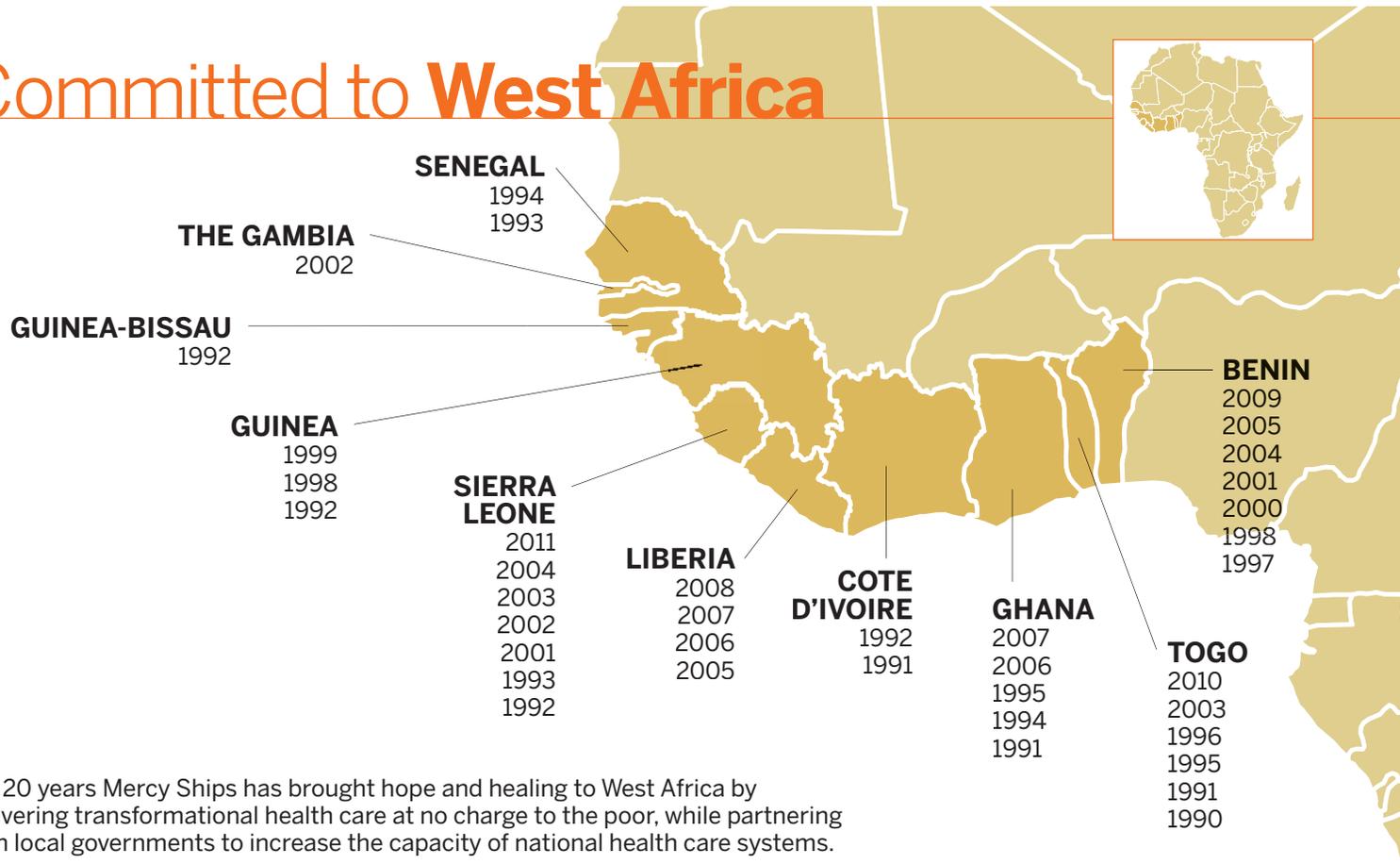
Your support in 2010 enabled us to serve the poor of Togo and South Africa leaving footprints of mercy all along the way – high standards of care for person after person while training local doctors and physicians to carry on in their own countries after we sail. Please know that with your continued support, we will press on and continue the mission that was begun over 30 years ago – tomorrow and for generations to come!

Mercy's on Its Way,

A handwritten signature in black ink that reads "Don Stephens". The signature is written in a cursive, slightly slanted style.

Don Stephens
President/Founder

Committed to West Africa



For 20 years Mercy Ships has brought hope and healing to West Africa by delivering transformational health care at no charge to the poor, while partnering with local governments to increase the capacity of national health care systems.

Since 1990, Mercy Ships has conducted 38 field services in 10 African nations. Most of the countries visited are ranked by the United Nations Development Index as the least developed countries in the world.

A Huge Need

| | USA | Togo | South Africa |
|---|-------------|-----------|--------------|
| Population | 314,659,000 | 6,619,000 | 50,110,000 |
| Gross National Income per capita (PPP \$) | 45,640 | 850 | 10,050 |
| Life expectancy at birth (years) | | | |
| Male | 76 | 57 | 54 |
| Female | 81 | 61 | 55 |
| Infant mortality rate (per 1000 live births) ¹ | 7 | 64 | 43 |
| Under-5 mortality rate (per 1000 live births) ² | 8 | 98 | 62 |
| Number of physicians (2000–2007) | 793,648 | 349 | 34,829 |
| Density (per 10,000 population) | 26.7 | 0.5 | 7.7 |
| Number of dentistry personnel (2000-2007) | 463,663 | 19 | 5,995 |
| Density (per 10,000 population) | 16.3 | <0.05 | 1.3 |
| Access to improved drinking water sources (%) | | | |
| Urban (2006) | 100 | 87 | 99 |
| Rural (2006) | 94 | 41 | 78 |
| Access to improved sanitation (%) | | | |
| Urban (2006) | 100 | 24 | 84 |
| Rural (2006) | 99 | 3 | 65 |

¹ Infant mortality rate : probability of dying between birth and age 1 per 1000 births

² Under-5 mortality rate : probability of dying by age 5 per 1000 live births

Source: World Health Statistics 2011, published by the World Health Organization (WHO). http://www.who.int/whosis/whostat/EN_WHS2011_Full.pdf

People Bringing Solutions



Onboard the world's largest non-governmental hospital ship, more than 400 crew members at any particular time, from all around the world, are working together to make a difference in Africa.

Currently those dedicated people traveling to the *Africa Mercy* and living what is a tremendously unique and "life-transforming" experience represent over 35 different nations. As with all the other volunteers, they pay for their travel and

for their own room and board allowing the majority of the funds received to go directly to Africa to make a difference in the lives of the poor.

"What was the best moment of my stay onboard the Africa Mercy? For me, the contact with the patients was the most precious. It is impossible to describe how grateful they are and it is awesome to see how the life of so many patients is radically changed!"

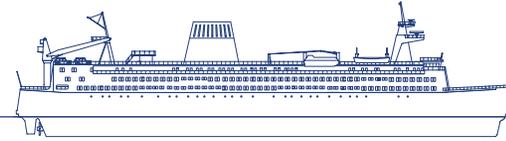
Marina Schmid,
medical assistant



World Crew Map



Our Hospital Ship



M/V Africa Mercy

Specifications

| | |
|-----------------------|------------------------|
| Length | 152m |
| Breadth | 23.7m |
| Gross Tonnage | 16,572 |
| Built | 1980 Elsinore, Denmark |
| Registered | Malta |
| Crew Capacity | 474 |
| Cargo Capacity | 1,724 m ³ |
| Main Engines | 4 B&W (3120 kW each) |
| Draft | 6.0m |
| Surveyed By | Bureau Veritas |

History

Acquired in 1999 through a donation from the Balcraig Foundation, the former Danish rail ferry *Droning Ingrid* was re-named the *Africa Mercy* in April 2000.

The hospital covers most of the original rail deck – approximately 1,200 square meters. It is divided into quadrants containing supplies/services, six operating theaters, intensive care and recovery wards with a total of 78 patient beds and accommodations for 450 multinational crew and personnel.

The hospital contains a CT Scanner, an X-ray, laboratory services and a Nikon Coolscope, which allows for remote

diagnosis almost instantaneously. Whenever required, diagnoses are transmitted via an onboard satellite communication system for evaluation to doctors in developed countries.

Since her deployment in 2007, the *Africa Mercy* has participated in six Field Services in West Africa (Liberia, Benin, Togo, South Africa and Sierra Leone). In that same time frame, our crew have provided more than 16,000 life-changing operations (including cataract removal, tumor removal, cleft lip and palate reconstruction, orthopedics and obstetric fistula repair), more than 100,000 eye consultations and over 58,000 dental interventions.

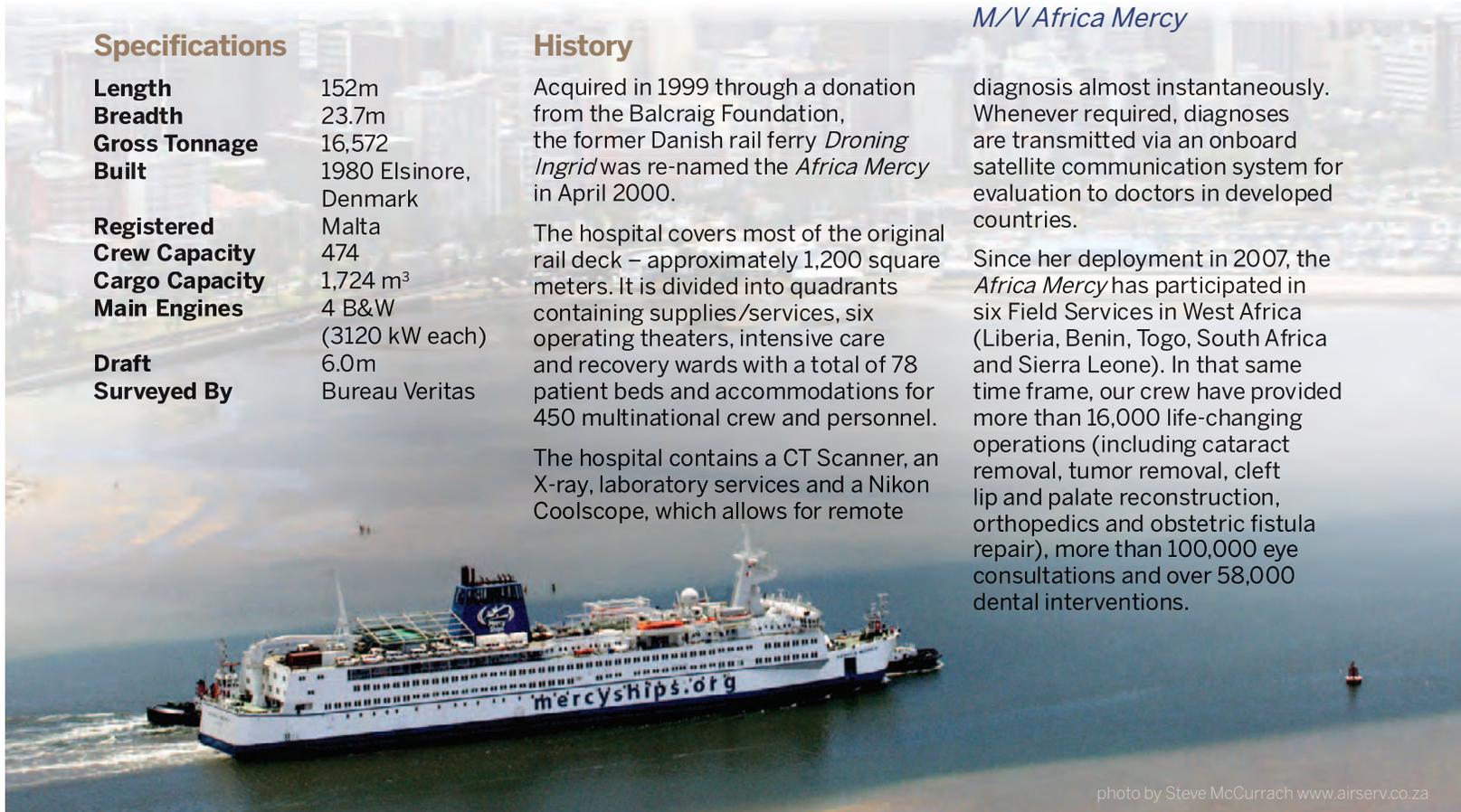


photo by Steve McCurrach www.airserv.co.za

Mission, Vision & Values

Mission

Mercy Ships follows the 2000-year-old model of Jesus, bringing hope and healing to the world's forgotten poor.

Vision

Mercy Ships seeks to become the face of love in action, bringing hope and healing to the poor.

Values

Following the model of Jesus, we seek to:

- Love God.
- Love and serve others.
- Be people of integrity.
- Be people of excellence in all we say and do.



Mercy Vision

Togo and South Africa

Goal

To reduce the prevalence of blindness and poor vision due to cataracts and to build the capacity of the local eye care system.



Eye Care Program:

The *Mercy Vision* project addressed surgical and medical eye needs of the people in Togo and South Africa. The primary emphasis of surgical intervention was on reduction of blindness as a result of cataracts.

Nonsurgical eye care focused on allergy, infection, injury and pain. The project distributed sunglasses to protect sensitive eyes after operations and supplied reading glasses to visually impaired patients.

The *Mercy Vision* project focused not only on providing surgeries and improving sight, but also on providing many opportunities for hands-on training sessions for local surgeons as well as training in ophthalmic care for local health workers.

Project results

Togo:

- 1,911 eye surgeries performed.
- Over 8,000 pairs of UV blocking sunglasses and reading glasses distributed.
- 25 health care professional and surgeons trained.

South Africa:

- 601 eye surgeries performed.
- Training for 90 health care professionals.

A Story of Hope...

In addition to the thousands of lives impacted directly by the *Mercy Vision* program, the training component successfully trained three Togolese eye surgeons. These three surgeons are strategically positioned in Lomé, Kara and northern Togo to reach the needs of the whole nation with new techniques learned onboard the *Africa*



Mercy. **Dr. Wodome**, a Togolese surgeon, was trained to be a trainer. The quality of his work was recognized at the completion of his training by Red Cross

representatives who will continue to provide support for him. Dr. Wodome will continue to train other surgeons throughout Togo.



Outlook of Hope

Togo

Goal

To reduce the effects of neglected trauma, disease and congenital conditions through specialized surgical treatment and building local capacity.



Specialized Surgical Solutions:

Mercy Ships worked in partnership with the Togolese Ministry of Health, local physicians and other NGOs to provide life-enhancing and, in many cases, life-saving specialized surgeries. In onboard operating theaters, highly skilled volunteer surgeons performed hundreds of free maxillofacial / reconstructive operations, plastic surgeries and other specialized surgeries.

A Story of Hope...

Lawson was admitted to our floating hospital in 2010 for treatment. *"I came here so I could get help!"* were his words. A large growth stretched his mouth and cheeks horribly, causing his teeth to stick out in all directions. The tumor had been growing for four years, inhibiting his breathing, eating, speech

and eventually, his ability to work. It had destroyed his life, separating him from everyone and everything he loved. The people in his village would not sell him food because they said he was a devil. His wife left him, leaving behind their three children. Without work or food, he could not provide for his family. Lawson was literally at the brink of death as the tumor slowly suffocated him. He was immediately admitted to the hospital ship, with surgery the next day. It took three doctors eight hours to remove the benign growth and repair his nose, upper lip and cheek. He was overjoyed when he touched the bandages on his cheek – the tumor was gone! There will be more operations within the next year to complete the reconstruction of his face, but the immediate result has saved and restored his life.

Project results

- 541 maxillofacial surgical procedures provided for patients with tumors, cleft lip and/or palate repairs, complications of injury or infections.
- 190 plastic surgeries provided for patients affected by plastic reconstructive conditions, including burn scar contractures, chronic ulcers, benign and malignant tumors.
- 84 specialized surgeries provided for patients affected by general medical conditions, such as hernias and goiters.



Hope Reborn

Togo

Goal

To reduce the prevalence of obstetric fistulas among women by providing specialized surgical treatment, training and awareness.



Childbirth Injury Program:

Obstetric fistulas are caused by unrelieved, obstructed labor in which the child usually is stillborn. As a result of this childbirth injury, the woman becomes incontinent. Mercy Ships provided reconstructive surgeries restoring the lives of women who are often ostracized by their families and communities. African surgeons were also trained to increase regional resources for this condition.

Project results

- 120 girls and women received corrective fistula surgery, along with counseling and practical support.
- All women who went through the screening process received counseling. Special care and attention were given to the women who were not able to receive surgery.
- 4 West African surgeons were trained.



A Story of Hope...

After giving birth to her 7th child, **Abla** began leaking urine. Her clothes carried a pungent odor, and she became one of the outcasts in her village. She suffered from a condition called vesicovaginal fistula, or VVF. For

15 years, Abla lived with the shame of this condition until one day she heard a radio announcement about a Mercy Ships screening for VVF women in her village. At the screening, Abla was given the golden ticket... a card with her date for a free operation on the

Africa Mercy. VVF surgeon, Dr. Steve Arrowsmith, performed surgery on Abla and successfully repaired the fistula. After her catheter was removed and it was officially determined that she was dry, Abla's emotions overwhelmed her.

The Orthopedic Project

Togo

Goal

To reduce the effects of neglected trauma and congenital conditions by providing specialized orthopedic care and physical therapy.



Orthopedic Surgery Program:

One of the six operating rooms onboard the floating hospital ship the *Africa Mercy* was utilized to provide free, first-world orthopedic care. The team's focus was primarily on club feet (through surgery or casting) and tendon releases, along with tendon transfers.

Mercy Ships also trained local surgeons in Ponseti casting, the "universal standard" in non-invasive clubfoot correction and provided free surgical intervention for musculoskeletal conditions, neglected orthopedic trauma and joint diseases. Mercy Ships also provided physical therapy onboard and trained local partners how to manufacture braces.

Project results

- 335 surgical procedures were performed.
- Ponseti casting provided for 36 patients.
- Ponseti training provided for 13 West African medical personnel.

A Story of Hope...

Espoir is a bright and very active little boy living in Togo, West Africa. His mother says he “jumps everywhere all the time.” He arrived on the *Africa Mercy* like a bolt of electricity, energizing the entire ward. Espoir was born with bowed legs, making him the target of teasing from the children in his first-grade class. They said his legs looked like the letter “O”. Espoir always responded, “I’m just like you!” He never



let them see how their words hurt him. Espoir was never discouraged. He even played a forward position on his soccer team. When Espoir’s mother heard



a television announcement about a hospital ship that had come to Togo to provide free surgeries, she brought Espoir to a screening. Soon he was onboard the *Africa Mercy* for the

life-transforming surgery that would straighten his legs, and put an end to the cruel ridicule.

Togo & South Africa Smiles

Togo and South Africa

Goal

To reduce the incidence of dental disease by providing dental education and treatments such as restorations, extractions and cleaning and to build local capacity.



Dental Care Program:

The project in Togo addressed dental needs and provided preventative and restorative treatment for men, women and children who would otherwise not receive dental care. The dental team taught their clients at the dental clinic, as well as students in primary schools, basic dental hygiene.

In South Africa, Mercy Ships worked with local health officials and providers to develop programs designed to complement and support health systems in the area. Unlike previous field services, the Mercy Ships dental team did not set up a temporary clinic. Instead, the team provided free dental treatments in four different clinics. This helped to reduce costs and as well provided mentoring opportunities at the facilities.

Project results

Togo:

- 12,922 procedures were performed on 6,241 patients.
- 5,349 patients received dental hygiene teaching in the clinic waiting room.
- 23 Togolese dental volunteers and teachers were trained.

South Africa:

- 1,674 dental procedures were performed on 1,232 patients.
- Up to 5,000 students received basic oral health education.
- 6 local medical/dental professionals were trained.

A Story of Hope...

Alimata first came to the Dental Clinic in March 2010. Three weeks prior, her father had hit her in the face with a rock. It had broken her jaw and she had an active draining infection. After reviewing her x-ray it was clear to Mercy Ships dentists that she would need extensive surgery. Mercy Ships surgeons performed an open reduction fracture fixation operation using two plates and seven screws and extracting two of her front teeth. Alimata returned to Mercy Ships off and on for the next several months for follow-ups, additional operations and another extraction. Alimata visited the clinic one final time in July 2010 to show us her new denture and improved smile.



Food for Life

Togo

Goal

To increase food security and agricultural production by educating and training locals in organic, reproducible farming methods.

Agricultural Training Program:

The Mercy Ships *Food for Life* program partnered with the Beninese non-government organization Bethesda. Mercy Ships facilitated the training of staff members from three different Togolese NGOs at Bethesda's training center in Hevié, Benin. Each of these trainees improved their capacity to serve as agriculture trainers for their organizations and communities in Togo. Additionally, several members of the community around the center

participated in the training, further increasing both their own and the region's food security and production.

Nine staff members were trained for four months. Once they returned to their respective organizations in Togo, Mercy Ships personnel assisted each organization in establishing demonstration gardens and implementing training sessions for their local communities. By helping well-established, in-country partners, the project has continued long after the *Africa Mercy* sailed.

Project results

- 9 staff members from three different Togolese NGOs and 11 individuals from local communities around the center trained in holistic agriculture concepts and organic farming methods and trained to oversee the work of local trainees.

A Story of Hope...

Gueba Yao, one of the *Food for Life* trainees, went home during the Easter weekend to visit his family and friends. He worked with his friends to clear a few hectares of land showing them how to plant the way Mercy Ships had trained him. Even by working very hard, they did not plant all of the land. As they ran out of time that Saturday, it was agreed upon that he would leave the remainder of the planting to his friends. His friends decided that Yao was crazy and they were just



going to plant the “traditional way”. This made for a remarkable “in-field” demonstration plot.

“There was nearly nothing but weeds and a few small yellow corn stalks in the traditional planting. We sat down later and had fresh roasting ears from their Food for Life demonstration planting crop. I was amazed. Now my friends are coming back to me and asking if I can work with them and be trained the way I was.”

Gueba Yao



Disaster Response

Haiti

Goal

To partner with NGOs in Haiti to provide practical support and deliver needed supplies for the relief efforts after the January 12th, 2010 earthquake.

Mercy Ships Haiti Project:

The Haiti earthquake completely destroyed the infrastructure of the country, leaving tens of thousands dead, hundreds of thousands injured and countless numbers homeless. Mercy Ships began working with partner organizations, Convoy of Hope and Mission of Hope, providing critical medical provisions, emergency supplies and teams to positively impact efforts throughout the country.

Mission of Hope, one of Mercy Ships key partners, continues to operate a variety of facilities including clinics, orphanages and schools. Mercy Ships has sent a



variety of medical teams and clinic support teams to the country over the past year filling gaps in critical positions.

Priorities focused primarily on supporting and staffing partner facilities through the utilization of the Mercy Ships extensive database of skilled professional volunteers and through the provision of vital supplies such as providing 400 water filtration systems which were distributed to orphanages, schools, food centers and other service providing locations. Mercy Ships is committed to serving the country of Haiti for many years to come and will work closely with partners to ensure that efforts impact those most in need.

Palliative Care - Togo

Goal

To reduce the fear and loneliness of approaching death through care and support, and to build local capacity.

Palliative Care Program:

Many who seek medical help from Mercy Ships are not eligible candidates for surgery because of inoperable and often terminal conditions. These people are often rejected by their communities because local cultures view these conditions as a curse.

The Palliative Care Team reached out to patients and their families, providing in-home visits to encourage them, share coping strategies and prepare the families for the death of their loved



one. The team also taught basic health care to patients and family members and appropriate training to all those requiring wound care.

Additionally, church and community members were addressed by the team and encouraged to provide palliative and compassionate care.

Africa Mercy Generators

Africa Mercy 2010

Goal

To maximize the life and impact of the *Africa Mercy*, the world's largest, private floating hospital, by replacing original ship generators and support systems.

Africa Mercy Generator Project:

In 2009, Mercy Ships began planning for renovations in order to provide



reliable power supplies and increase the service life of the *Africa Mercy*. These renovations were performed in Durban, South Africa, in the fall of 2010.

The end result was everything hoped for. The new generators are more reliable and efficient, decreasing fuel consumption, reducing emissions (estimated 20% less) and utilizing intermediate fuel oil (IFO-180) which is 50% cheaper per metric ton compared to the marine diesel fuel required by the previous generators. During this project, fuel tanks were converted to ensure sufficient capacity for the new fuel grade. At current fuel prices, the more efficient generators will result in more than \$800,000 in savings per year in fuel expenditures alone.



Africa Mercy Land Rovers

Africa Mercy 2010

Goal

To provide the Africa Mercy with safe, reliable and durable vehicles for staff and patient transportation.

Africa Mercy Land Rovers Project:
Mercy Ships needed to replace five of the 20 four-wheel drive vehicles in the fleet; each one was more than ten years old and had driven over 217,000 km.



Because these vehicles are operated in coastal areas, the metal is constantly subjected to corrosion by the salty air.

Due to the terrain, infrastructure and geography of countries where Mercy Ships works, four-wheel drive vehicles are essential for transportation of staff and patients. For example, in Togo Mercy Ships constructed an off-ship hospitality center to house both pre- and post-operative patients who needed to be near the ship but did not need to stay in the onboard ward. These four-wheel drive vehicles provided transportation to and from this site for patients either awaiting surgery or requiring outpatient care.



IMCI

Goal

To improve the capacity of Togo's health care system by aiding the implementation of World Health Organization diagnostic tools at public and private health facilities.

IMCI (Integrated Management of Childhood Illnesses) is a World Health Organization program that seeks to reduce childhood mortality and morbidity by improving family and community practices for the management of illness and by improving case management skills of health workers. It also emphasizes education on the importance of immunization, micronutrient supplementation and improved nutrition. The IMCI Team provided over 48 hours of training for 76 health care professionals from public and private health care facilities.

Hospitality Center

Goal

To optimize the capacity of surgical outputs by improving the movement of patients in and out of the hospital ward.

A building in Lomé was renovated to provide safe and secure accommodations with 40 beds for patients and 40 beds for caregivers. This Hospitality Center provided a comfortable place for patients needing treatment to build strength before surgery and for discharged patients requiring post-operative care. They were given three healthy meals each day, clean drinking water and a comfortable bed – complete with a mosquito net. This allowed beds in the ship's hospital wards to be available for more surgeries and for more people to be helped. At the end of the Mercy Ships Field Service, the improved facility transferred back to the Ministry of Health for use as a medical/ maternity clinic for the community.

Church Leaders Conference

Goal

To empower a Christian population to better understand a biblical worldview and seek to apply Kingdom principles to the development of their communities.

Mercy Ships partnered with the West African agency Samaritan Strategy and the Global CHE Network (Community) to hold a three-day conference for 268 church leaders. The theme was "Partnership in Holistic Ministry." Leaders were encouraged to develop partnerships across denominational lines for the development of their communities, to see themselves and their congregations as part of the solution to local problems and to meet the holistic needs of their communities more effectively.

Microfinance

Goal

To assist Togolese citizens in gaining a sense of self-worth and contribute to the development of their communities.

Mercy Ships partnered with MEDIC (Mercy Economic Development International Corporation) in Togo to train 72 participants in micro-business management. The group included 11 former Mercy Ships patients, who were previously excluded from their communities because of their medical conditions. The program provides small business loans to people who cannot qualify for a loan from a bank. Each participant received a six-month loan (average of \$250). More patient-centered groups are planned.

Restoring Hope

Goal

To increase access to mental health care for Togolese citizens by increasing the availability of mental health resources.

In much of Africa, there is a lack of understanding of mental health and illness, and few resources are allocated for treatment. In Togo, Mercy Ships recruited highly trained personnel to train 326 professionals — including health care professionals, church and community leaders, teachers, social workers, corrections officers and military leaders — on issues of mental illness and trauma. Also, 31 children and 10 trainees attended the Children's Camp. In South Africa, similar training was provided to 120 church leaders at five sites.

Additional Training

Goal

To empower African professionals and community members by improving skills needed for employment and improved public health.

Mercy Ships provided training in several additional areas: 5 participants received 120 hours of Basic Electronics training; 20 participants received 20 hours of training in English and Literacy; 50 participants from two local churches received community health training; and eight participants received additional training as community health workers.

2010 Financials - Auditor's Report



Balsler 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.

Balsler, Horowitz, Frank & Wakeling

BALSER, HOROWITZ, FRANK & WAKELING
SANTA ANA, CALIFORNIA
MAY 10, 2011

1333 N. Tustin Avenue, Suite 1000 | Santa Ana, CA 92705
Phone: (714) 944-1111 | Fax: (714) 944-1367
www.bhfsw.com

Combined Statements of **Activities** - For the Years Ended December 31, 2010 and 2009

| | Unrestricted | Temporarily Restricted | 2010 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 transactions | 300,545 | | 300,545 | (194,045) |
| Gain (loss) on sale of assets | (570,800) | | (570,800) | 27,549 |
| Net assets released from restrictions: | | | | |
| 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 |

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 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 |

Combined Statements of Financial Position - For the Years Ended 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 |

Our commitment to stewardship

80¢ of each dollar Mercy Ships receives goes straight to our Ship and Field Operations – providing surgeries and world-class medical care to those who have no other hope. As little as 20¢ is set aside for the general costs and overhead expenses.



A higher standard.
A higher purpose.

Mercy Ships is a member of the Evangelical Council for Financial Accountability (ECFA) which provides accreditation to Christian nonprofit organizations that faithfully demonstrate compliance with established standards for financial accountability, fund-raising, and board governance.

The financial statements shown here are an incomplete presentation. Our complete financial statements and audit report are available upon request.

National Offices

Mercy Ships Australia

P.O. Box 1080
Caloundra, Queensland 4551
Australia
www.mercyships.org.au

Mercy Ships Belgium

Keltenlaan, 19, Avenue des Celtes
B-1040 Brussels,
Belgium
www.mercyships.be

Mercy Ships Canada

Unit 5 - 3318 Oak St.
Victoria, BC V8X 1R1
Canada
www.mercyships.ca

Mercy Ships Denmark

Løvvaenget 13
DK 2960 Rungsted Kyst
Denmark
www.mercyships.dk

Mercy Ships France

225 Allée des Pins
F-07430 Saint Claire
France
www.mercyships.fr

Mercy Ships Germany

Hüttenstrasse 22
D - 87600 Kaufbeuren
Germany
www.mercyships.de

Mercy Ships Holland

Strevelsweg 700/317
NL - 3083 AS Rotterdam
The Netherlands
www.mercyships.nl

Mercy Ships Korea

305 Clasic Tower
Dapshimni 5-dong 493-5
Dongdaemun-gu
Seoul 130-805
Korea
www.mercyships.org.kr

Mercy Ships New Zealand

P.O. Box 90-297
Victoria Street West
Auckland 1142
New Zealand
www.mercyships.org.nz

Mercy Ships Norway

Markensgate 48
4612 Kristiansand S
Norway
www.mercyships.no

Mercy Ships Southern Africa

P.O. Box 290
Plumstead, 7801
South Africa
www.mercyships.org.za

Mercy Ships Spain

Naves de Esperanza
Apartado 15001
08080 Barcelona,
Spain
www.nde.es

Mercy Ships Sweden

Mailbox 5248
200 72 Malmö
Sweden
www.mercyships.se

Mercy Ships Switzerland

Maison de Rovereaz
Ch de la Fauvette 98
CH 1012 Lausanne
Switzerland
www.mercyships.ch

Mercy Ships United Kingdom

The Lighthouse
12 Meadway Court
Stevenage, Herts, SG1 2EF
United Kingdom
www.mercyships.uk

International Operations Center

P.O. Box 2020
Garden Valley, TX 75771-2020
USA
www.mercyships.org

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Investments
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Clifford Chance
Washington, DC, USA

Mark R. Laret*

CEO - UCSF Medical Center
San Francisco, CA, USA

Azarias Ruberwa Manywa*

Former Vice President of DR Congo
Kinshasa, DR Congo

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Chairman, Mercy Ships Norway
Kristiansand, Norway

Debbie Noble

Chairperson, Mercy Ships Canada
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David Overton*

Vice President
Customer and Strategic Insights
JC Penney Company
Plano, TX, USA

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Director Golf de Payerne SA
Payerne, Switzerland

David W. Rolston*

Chief Executive Officer
SiPort
Santa Clara, CA, USA

Daniel O. Shelley*

Texas State Senator (Retired)
Attorney at Law
Austin, TX, USA

Deyon Stephens

VP Mission Development
Mercy Ships
Garden Valley, TX, USA

Todd L. Sutherland*

President
University National Bank
Lawrence, KS, USA

Dr. Keith Thomson*

Consultant Anaesthetist
The North Hampshire Hospital
North Hampshire, England, UK

R. Brian Watson

Founder and President
Northstar Commercial Partners
Denver, CO, USA

* Executive Committee Member



Mercy Ships
P.O. Box 2020
Garden Valley, TX 75771-2020
USA

T: +1 903-939-7000
www.mercyships.org

Design: International Creative Team

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