

MERCY MEDICAL AIRLIFT

**Financial Statements for the Years Ended June 30, 2010 and 2009
and Independent Auditors' Report
Dated October 22, 2010**

**HENDERSHOT, BURKHARDT & REED
CERTIFIED PUBLIC ACCOUNTANTS
7525 Presidential Lane, Manassas, Virginia, 20109
P: 703.361.1592 F: 703.361.0836**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mercy Medical Airlift
Virginia Beach, VA

We have audited the accompanying statements of financial position of Mercy Medical Airlift (the "Organization") as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mercy Medical Airlift as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with United States generally accepted accounting principles.

Hendershot, Burkhardt & Reed, CPAs
Hendershot, Burkhardt & Reed
Certified Public Accountants
October 22, 2010

MERCY MEDICAL AIRLIFT
Statements of Financial Position
As of June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|-------------------------|-------------------------|
| <u>ASSETS</u> | | |
| Current Assets | | |
| Cash | \$ 113,989 | \$ 692,822 |
| Endowment Fund | 183,651 | 168,156 |
| Grants, Pledges, and Accounts Receivable, current | 1,029,630 | 813,116 |
| Donated Airfare Inventory | 22,033 | - |
| Prepaid Expenses | 14,022 | 29,096 |
| Notes Receivable | - | <u>135,000</u> |
| Total Current Assets | <u>1,363,325</u> | <u>1,838,190</u> |
| Property and Equipment | | |
| Furniture and Equipment, net of depreciation | 51,990 | 88,920 |
| Building, net of depreciation | 307,568 | 318,685 |
| Building Improvements, net of amortization | 63,113 | 60,516 |
| Land | <u>391,500</u> | <u>391,500</u> |
| Total Property and Equipment | <u>814,171</u> | <u>859,621</u> |
| Total Assets | <u>\$ 2,177,496</u> | <u>\$ 2,697,811</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Liabilities | | |
| Current Liabilities | | |
| Accounts Payable | \$ 121,569 | \$ 94,155 |
| Payroll Liabilities | 80,688 | 73,098 |
| Deposits | 550 | 550 |
| Notes Payable, current | <u>6,824</u> | <u>6,376</u> |
| Total Current Liabilities | 209,631 | 174,179 |
| Long Term Notes Payable | <u>357,031</u> | <u>363,723</u> |
| Total Liabilities | 566,662 | 537,902 |
| Net Assets | | |
| Unrestricted Net Assets | 588,306 | 617,625 |
| Temporarily Restricted Net Assets | <u>1,022,528</u> | <u>1,542,284</u> |
| Total Net Assets | <u>1,610,834</u> | <u>2,159,909</u> |
| Total Liabilities and Net Assets | <u>\$ 2,177,496</u> | <u>\$ 2,697,811</u> |

See the accompanying Independent Auditors' Report and notes to the financial statements

MERCY MEDICAL AIRLIFT
Statement of Activities
For the Year Ended June 30, 2010

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|---------------------|
| CONTRIBUTIONS AND REVENUE: | | | |
| Contributions: | | | |
| Donations and Grants | \$ 1,060,530 | \$ 1,018,418 | \$ 2,078,948 |
| In Kind Donations - Services | 1,343,267 | - | 1,343,267 |
| Total Contributions | <u>2,403,797</u> | <u>1,018,418</u> | <u>3,422,215</u> |
| Revenues: | | | |
| Unrealized Gain/(Loss) on Investment | 16,576 | - | 16,576 |
| Rental Income | 15,858 | - | 15,858 |
| Reimbursed Expenses | 15,006 | - | 15,006 |
| Interest Income | 2,456 | - | 2,456 |
| Gain/(Loss) on Disposal of Assets | (329) | - | (329) |
| Total Revenue | <u>49,567</u> | <u>-</u> | <u>49,567</u> |
| Net Assets Released from Restrictions: | <u>1,538,174</u> | <u>(1,538,174)</u> | <u>-</u> |
| Total Contributions and Revenues | 3,991,538 | (519,756) | 3,471,782 |
| EXPENSES: | | | |
| Program: | | | |
| Airline Support | 1,205,830 | - | 1,205,830 |
| IADIF/ACV | 1,100,022 | - | 1,100,022 |
| Angel Flights | 637,950 | - | 637,950 |
| Public Education | 364,092 | - | 364,092 |
| Air Compassion America | 179,348 | - | 179,348 |
| Bonanza Aircraft Operation | 131,014 | - | 131,014 |
| NPATH | 128,397 | - | 128,397 |
| NIH | 111,540 | - | 111,540 |
| Homeland Security Program | 44,791 | - | 44,791 |
| Child Lift/Special Lift | 27,417 | - | 27,417 |
| Air Charity Network | 24,141 | - | 24,141 |
| Total Program Services | <u>3,954,542</u> | <u>-</u> | <u>3,954,542</u> |
| Supporting Services: | | | |
| General & Administrative | 42,231 | - | 42,231 |
| Fundraising | 24,084 | - | 24,084 |
| Total Supporting Services | <u>66,315</u> | <u>-</u> | <u>66,315</u> |
| Total Expenses | <u>4,020,857</u> | <u>-</u> | <u>4,020,857</u> |
| Change in Net Assets | (29,319) | (519,756) | (549,075) |
| Net Assets, Beginning of Year | <u>617,625</u> | <u>1,542,284</u> | <u>2,159,909</u> |
| Net Assets, End of Year | <u>\$ 588,306</u> | <u>\$ 1,022,528</u> | <u>\$ 1,610,834</u> |

See the accompanying Independent Auditors' Report and notes to the financial statements

MERCY MEDICAL AIRLIFT
Statement of Activities
For the Year Ended June 30, 2009

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|---------------------|
| CONTRIBUTIONS AND REVENUE | | | |
| Contributions | | | |
| Donations and Grants | \$ 513,441 | \$ 807,855 | \$ 1,321,296 |
| In Kind Donations - Services | 931,177 | - | 931,177 |
| Total Contributions | <u>1,444,618</u> | <u>807,855</u> | <u>2,252,473</u> |
| Revenues | | | |
| Reimbursed Expenses | 47,565 | - | 47,565 |
| Rental Income | 17,158 | - | 17,158 |
| Interest Income | 8,681 | - | 8,681 |
| Unrealized Gain/(Loss) on Investment | <u>(43,354)</u> | <u>-</u> | <u>(43,354)</u> |
| Total Revenue | 30,050 | - | 30,050 |
| | | | - |
| Net Assets Released from Restrictions | <u>1,586,970</u> | <u>(1,586,970)</u> | <u>-</u> |
| | | | |
| Total Contributions and Revenues | 3,061,638 | (779,115) | 2,282,523 |
| EXPENSES | | | |
| Program | | | |
| Airline Support | 1,123,373 | - | 1,123,373 |
| IADIF/ACV | 1,004,286 | - | 1,004,286 |
| Public Education | 304,344 | - | 304,344 |
| Angel Flights | 247,815 | - | 247,815 |
| Air Compassion America | 171,196 | - | 171,196 |
| NIH | 100,309 | - | 100,309 |
| NPATH | 98,234 | - | 98,234 |
| Bonanza Aircraft Operation | 92,163 | - | 92,163 |
| Homeland Security Program | 59,219 | - | 59,219 |
| Child Lift/Special Lift | 36,499 | - | 36,499 |
| Air Charity Network | <u>13,642</u> | <u>-</u> | <u>13,642</u> |
| Total Program Services | 3,251,080 | - | 3,251,080 |
| Supporting Services | | | |
| General & Administrative | 119,586 | - | 119,586 |
| Fundraising | <u>23,287</u> | <u>-</u> | <u>23,287</u> |
| Total Supporting Services | <u>142,873</u> | <u>-</u> | <u>142,873</u> |
| | | | |
| Total Expenses | <u>3,393,953</u> | <u>-</u> | <u>3,393,953</u> |
| | | | |
| Change in Net Assets | (332,315) | (779,115) | (1,111,430) |
| | | | |
| Net Assets, Beginning of Year | <u>949,940</u> | <u>2,321,399</u> | <u>3,271,339</u> |
| Net Assets, End of Year | <u>\$ 617,625</u> | <u>\$ 1,542,284</u> | <u>\$ 2,159,909</u> |

See the accompanying Independent Auditors' Report and notes to the financial statements

MERCY MEDICAL AIRLIFT
Statements of Cash Flows
For the Years Ended June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|--------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ (549,075) | \$ (1,111,430) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 51,220 | 59,907 |
| (Increase)/Decrease in Grants and Pledges Receivable | (81,514) | 765,595 |
| (Increase)/Decrease in Prepaid Expenses and Deposits | 15,074 | (16,266) |
| (Increase)/Decrease in Donated Airfare Inventory | (22,033) | - |
| Increase/(Decrease) in Accounts Payable and Accrued Expenses | 35,004 | 26,137 |
| Net Cash (used by)/provided by Operating Activities | (551,324) | (276,057) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Unrealized (Gain)/Loss on Investment | (16,576) | 43,354 |
| (Purchase)/Sale of Investments, net | 1,080 | (996) |
| (Purchase)/Disposal of Fixed Assets, net | (5,769) | (13,355) |
| Net Cash (used by)/provided by Investing Activities | (21,265) | 29,003 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| (Payments of)/Increase in Notes Payable | (6,244) | 47,488 |
| Net Cash (used by)/provided by Financing Activities | (6,244) | 47,488 |
| NET CHANGE IN CASH | (578,833) | (199,566) |
| CASH, BEGINNING OF YEAR | 692,822 | 892,388 |
| CASH, END OF YEAR | \$ 113,989 | \$ 692,822 |
| | | |
| Interest Paid | \$ 25,211 | \$ 24,844 |

See the accompanying Independent Auditors' Report and notes to the financial statements

MERCY MEDICAL AIRLIFT
Statement of Functional Expenses
For the Year Ended June 30, 2010

| | Airline Support | IADIF/ACVET | Angel Flights | Public Education | Air Compassion America | Bonanza | NPATH | NIH | Homeland Security | Child Lift Special Lift | Air Charity Network | Total Programs | G&A | Fundraising | Support Services | Total |
|---------------------------|---------------------|---------------------|-------------------|-------------------|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------------|---------------------|---------------------|------------------|------------------|------------------|---------------------|
| In-kind Service Expense | \$ 949,967 | \$ 98,066 | \$ 229,723 | \$ - | \$ - | \$ 40,479 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,318,235 | \$ - | \$ - | \$ - | \$ 1,318,235 |
| Salaries | 112,307 | 161,247 | 174,148 | 140,259 | 52,848 | - | 60,951 | 90,206 | 22,485 | 12,195 | 8,452 | 835,098 | 14,662 | 9,873 | 24,535 | 859,633 |
| Patient Travel | 1,606 | 640,724 | - | - | - | - | - | - | - | 11,653 | - | 653,983 | - | - | - | 653,983 |
| Grant Expense | 88,390 | 45,000 | 92,250 | 90,000 | 92,072 | 3,100 | 49,125 | - | 6,050 | - | - | 465,987 | - | - | - | 465,987 |
| Accounting Fees | 2,569 | 3,425 | 40,195 | - | 6,851 | - | 268 | - | 214 | - | - | 53,522 | 16,509 | - | 16,509 | 70,031 |
| Communications | 5,377 | 12,432 | 10,213 | 22,289 | 3,860 | 487 | 2,999 | 4,206 | 3,771 | 724 | 385 | 66,743 | 497 | 1,291 | 1,788 | 68,531 |
| Payroll Taxes | 7,896 | 11,109 | 10,595 | 13,255 | 3,724 | - | 4,392 | 6,461 | 1,652 | 897 | 577 | 60,558 | 2,217 | 622 | 2,839 | 63,397 |
| Depreciation Expense | 4,359 | 6,235 | 6,893 | 5,202 | 2,051 | 15,909 | 2,360 | 3,863 | 2,672 | 472 | 330 | 50,346 | 487 | 387 | 874 | 51,220 |
| Travel | 7 | 19,542 | 3,231 | 16,498 | 777 | - | 1 | 2,134 | 2,779 | - | 1,504 | 46,473 | 59 | - | 59 | 46,532 |
| Repairs and Maintenance | 1,762 | 2,501 | 2,358 | 2,756 | 1,292 | 32,355 | 952 | 366 | 335 | 183 | 123 | 44,983 | 409 | 133 | 542 | 45,525 |
| Event Expense | - | 45,358 | - | - | - | - | - | - | - | - | - | 45,358 | - | - | - | 45,358 |
| Benefits | 13,100 | 6,661 | 8,031 | 7,763 | 3,390 | - | 103 | 1,078 | 38 | 15 | 10 | 40,189 | 153 | 2,615 | 2,768 | 42,957 |
| Technology Project | 3,400 | - | 3,400 | 8,401 | - | - | - | - | - | - | 11,714 | 26,915 | - | - | - | 26,915 |
| Interest Expense | 3,365 | 4,805 | 4,529 | 5,681 | 2,016 | - | 1,866 | 766 | 689 | 380 | 253 | 24,350 | 573 | 288 | 861 | 25,211 |
| Insurance Expense | 1,698 | 2,397 | 5,708 | 2,652 | 1,227 | 6,195 | 922 | 378 | 413 | 183 | 118 | 21,891 | 265 | 139 | 404 | 22,295 |
| License and Fees | 1,008 | 1,471 | 6,698 | 1,230 | 1,398 | 5 | 443 | 181 | 194 | 91 | 71 | 12,790 | 3,644 | 2,811 | 6,455 | 19,245 |
| Fuel-All Aircraft | - | 475 | - | - | - | 18,699 | - | - | - | - | - | 19,174 | - | - | - | 19,174 |
| Consulting | - | 17,576 | - | - | - | - | - | - | - | - | - | 17,576 | - | - | - | 17,576 |
| Legal Fees | 1,913 | 817 | 9,746 | - | 1,633 | - | 64 | - | 51 | - | - | 14,224 | - | 3,169 | 3,169 | 17,393 |
| Supplies - Office | 2,041 | 3,265 | 2,729 | 4,491 | 1,066 | - | 1,127 | 507 | 461 | 231 | 157 | 16,075 | 834 | 167 | 1,001 | 17,076 |
| Conferences and Training | - | 2,901 | 240 | 10,771 | 339 | - | - | - | 525 | - | 189 | 14,965 | 104 | - | 104 | 15,069 |
| Promotional Materials | 732 | 1,992 | 7,040 | 4,117 | 353 | - | 100 | 600 | - | - | - | 14,934 | - | - | - | 14,934 |
| Advertising and Outreach | 227 | 1,302 | 3,548 | 7,474 | 605 | - | 24 | - | 19 | - | - | 13,199 | - | 1,385 | 1,385 | 14,584 |
| Office Utilities | 1,742 | 2,175 | 2,295 | 2,914 | 732 | 822 | 942 | 371 | 322 | 186 | 130 | 12,631 | 1,305 | 140 | 1,445 | 14,076 |
| Postage and Delivery | 1,339 | 2,293 | 2,314 | 2,693 | 1,087 | - | 746 | 334 | 315 | 167 | 103 | 11,391 | 114 | 234 | 348 | 11,739 |
| Volunteer Expense | 11 | 82 | 9,600 | 435 | 28 | - | - | - | 1 | - | - | 10,157 | - | - | - | 10,157 |
| Media | - | 965 | - | 9,022 | - | - | - | - | - | - | - | 9,987 | - | - | - | 9,987 |
| N7709R Lease | - | - | - | - | - | 8,163 | - | - | - | - | - | 8,163 | - | - | - | 8,163 |
| Printing and Reproduction | 22 | 3,926 | 1,310 | 1,167 | 58 | - | 452 | - | - | - | - | 6,935 | 140 | - | 140 | 7,075 |
| Rent Expense | 317 | 426 | 410 | 494 | 148 | 4,800 | 172 | 70 | 55 | 34 | 23 | 6,949 | 90 | 27 | 117 | 7,066 |
| Memberships | 122 | 53 | 29 | 2,805 | 1,330 | - | 275 | - | 1,720 | - | - | 6,334 | - | 300 | 300 | 6,634 |
| Miscellaneous Expense | 553 | 801 | 717 | 1,723 | 463 | - | 113 | 19 | 30 | 6 | 2 | 4,427 | 169 | 503 | 672 | 5,099 |
| Total Expenses | \$ 1,205,830 | \$ 1,100,022 | \$ 637,950 | \$ 364,092 | \$ 179,348 | \$ 131,014 | \$ 128,397 | \$ 111,540 | \$ 44,791 | \$ 27,417 | \$ 24,141 | \$ 3,954,542 | \$ 42,231 | \$ 24,084 | \$ 66,315 | \$ 4,020,857 |

See the accompanying Independent Auditors' Report and notes to the financial statements

MERCY MEDICAL AIRLIFT
Statement of Functional Expenses
For the Year Ended June 30, 2009

| | Airline Support | IADIF/ACVET | Public Education | Angel Flights | Air Compassion America | NIH | NPATH | Bonanza | Homeland Security | Child Lift Special Lift | Air Charity Network | Total Programs | G&A | Fundraising | Support Services | Total |
|-------------------------------|---------------------|---------------------|-------------------|-------------------|------------------------|-------------------|------------------|------------------|-------------------|-------------------------|---------------------|---------------------|-------------------|------------------|-------------------|---------------------|
| In-kind Service Expense | \$ 903,916 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 27,261 | \$ - | \$ - | \$ - | \$ 931,177 | \$ - | \$ - | \$ - | \$ 931,177 |
| Salaries | 86,943 | 147,881 | 154,530 | 127,471 | 69,798 | 86,575 | 62,561 | - | 29,149 | 16,792 | 8,707 | 790,407 | 87,000 | 9,182 | 96,182 | 886,589 |
| Airline Travel-Patients | 2,260 | 785,129 | - | - | - | - | - | - | - | 11,410 | - | 798,799 | - | - | - | 798,799 |
| Contract Services | 45,366 | 13,313 | 44,610 | 20,030 | 7,172 | 416 | 7,618 | - | 3,032 | 1,792 | 211 | 143,560 | 10,292 | 7,979 | 18,271 | 161,831 |
| Grant Expense | 48,970 | - | - | 36,205 | 60,580 | - | 6,275 | - | - | - | - | 152,030 | - | - | - | 152,030 |
| Payroll Taxes | 6,326 | 10,512 | 10,967 | 9,382 | 5,699 | 6,232 | 4,615 | - | 2,283 | 1,257 | 839 | 58,112 | 5,056 | 676 | 5,732 | 63,844 |
| Depreciation Expense | 4,271 | 6,092 | 7,693 | 6,146 | 3,433 | 1,149 | 3,175 | 14,334 | 7,849 | 799 | 427 | 55,368 | 4,088 | 451 | 4,539 | 59,907 |
| Travel | 1,729 | 7,460 | 17,507 | 2,093 | 855 | 393 | 274 | 146 | 3,061 | 835 | 1,405 | 35,758 | - | 704 | 704 | 36,462 |
| Communications | 3,231 | 5,051 | 5,463 | 4,782 | 6,132 | 1,212 | 2,408 | 649 | 4,425 | 617 | 431 | 34,401 | 18 | 321 | 339 | 34,740 |
| Benefits | 4,847 | 5,458 | 10,981 | 3,939 | 3,598 | 1,145 | 473 | - | 556 | 139 | 12 | 31,148 | 745 | 493 | 1,238 | 32,386 |
| Repairs and Maintenance | 342 | 717 | 421 | 454 | 530 | 164 | 252 | 22,069 | 212 | 76 | 32 | 25,269 | - | 85 | 85 | 25,354 |
| Interest Expense | 2,643 | 4,399 | 4,518 | 3,931 | 2,392 | 834 | 1,956 | - | 985 | 550 | 362 | 22,570 | 1,999 | 275 | 2,274 | 24,844 |
| Supplies - Office | 2,408 | 3,519 | 6,091 | 3,392 | 2,025 | 645 | 1,782 | - | 860 | 427 | 272 | 21,421 | 2,457 | 212 | 2,669 | 24,090 |
| Training and Conferences | 136 | 2,649 | 12,253 | 328 | 580 | 8 | 198 | - | 1,181 | 29 | 170 | 17,532 | 179 | 300 | 479 | 18,011 |
| License and Fees | 2,725 | 1,030 | 4,792 | 1,185 | 1,013 | 175 | 2,214 | 18 | 1,176 | 829 | 89 | 15,246 | 1,956 | 286 | 2,242 | 17,488 |
| Office Utilities | 1,569 | 2,569 | 2,798 | 2,242 | 1,575 | 465 | 1,155 | 931 | 564 | 290 | 177 | 14,335 | 1,030 | 185 | 1,215 | 15,550 |
| Insurance Expense | 438 | 778 | 727 | 4,944 | 690 | 160 | 306 | 6,447 | 192 | 78 | 49 | 14,809 | 1 | 65 | 66 | 14,875 |
| Postage and Delivery | 1,642 | 2,258 | 3,774 | 2,068 | 2,067 | 402 | 1,179 | 30 | 586 | 272 | 152 | 14,430 | 108 | 265 | 373 | 14,803 |
| Promotional Materials | - | 666 | 1,683 | 8,000 | 909 | - | 490 | - | - | - | - | 11,748 | - | - | - | 11,748 |
| Media | - | 250 | 8,135 | - | 445 | - | - | - | - | - | - | 8,830 | 1,000 | - | 1,000 | 9,830 |
| Fuel-All Aircraft | - | - | - | - | - | - | - | 8,748 | - | - | - | 8,748 | - | - | - | 8,748 |
| Volunteer Expense | 16 | 65 | 329 | 7,370 | - | - | 13 | 215 | 7 | 4 | - | 8,019 | 12 | - | 12 | 8,031 |
| Miscellaneous Expense | 709 | 431 | 981 | 740 | 196 | 37 | 156 | - | 91 | 49 | 12 | 3,402 | 3,112 | 15 | 3,127 | 6,529 |
| N7709R Lease | - | - | - | - | - | - | - | 6,221 | - | - | - | 6,221 | - | - | - | 6,221 |
| Printing and Reproduction | 818 | 2,558 | 978 | 1,467 | 21 | 3 | 45 | - | 20 | 12 | 1 | 5,923 | 158 | 1 | 159 | 6,082 |
| Memberships | 850 | 50 | 1,549 | 300 | - | - | 275 | - | 1,715 | - | - | 4,739 | 62 | 1,124 | 1,186 | 5,925 |
| Office Rent | - | - | - | - | - | - | - | 4,800 | - | - | - | 4,800 | - | - | - | 4,800 |
| Internet Expense | 345 | 329 | 604 | 322 | 373 | 94 | 285 | - | 298 | 91 | 221 | 2,962 | - | 27 | 27 | 2,989 |
| Operating Supplies | 191 | 357 | 524 | 325 | 380 | 61 | 154 | 5 | 769 | 51 | 30 | 2,847 | 80 | 24 | 104 | 2,951 |
| Storage Rent | 252 | 404 | 434 | 356 | 216 | 74 | 181 | - | 91 | 46 | 29 | 2,083 | 161 | 24 | 185 | 2,268 |
| Computer Expenses | 175 | 247 | 669 | 172 | 204 | 51 | 138 | - | 89 | 40 | 10 | 1,795 | - | 240 | 240 | 2,035 |
| Publications & Subscriptions | 199 | - | 307 | - | 250 | - | - | 289 | - | - | - | 1,045 | 72 | 350 | 422 | 1,467 |
| Pilot Recruitment/Advertising | - | - | 935 | 95 | - | - | - | - | - | - | - | 1,030 | - | - | - | 1,030 |
| Security | 56 | 114 | 91 | 76 | 63 | 14 | 56 | - | 28 | 14 | 4 | 516 | - | 3 | 3 | 519 |
| Total Expenses | \$ 1,123,373 | \$ 1,004,286 | \$ 304,344 | \$ 247,815 | \$ 171,196 | \$ 100,309 | \$ 98,234 | \$ 92,163 | \$ 59,219 | \$ 36,499 | \$ 13,642 | \$ 3,251,080 | \$ 119,586 | \$ 23,287 | \$ 142,873 | \$ 3,393,953 |

See the accompanying Independent Auditors' Report and notes to the financial statements

**MERCY MEDICAL AIRLIFT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009**

A. ORGANIZATION

Mercy Medical Airlift (“the Organization”) is a not-for-profit organization incorporated in 1984 in the Commonwealth of Virginia. The Organization provides medical air transportation to needy individuals and manages several national programs servicing and developing the charitable medical air transport sector in our society. Volunteers provide many of the Organization’s services.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

Property and equipment - Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at their fair market value on the date of the gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from five to twelve years. The building and building improvements are amortized over thirty years.

Revenue recognition - Grants and contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Grants and contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the grants and contributions are recognized. All other donor-restricted grants and contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributed services - The Organization receives significant contributions of transportation services from various airlines and subsidized airline ticket programs from foundations working with the Organization to provide airline tickets to patients and patient escorts. Contributed transportation services are recorded as the difference between what the client had to pay (sometimes zero) and the actual retail airline ticket cost per quotes from the appropriate airline web site. The Organization also receives donated pilot services for the operation of the Bonanza aircraft and professional program management. All services are recorded at going commercial rates.

Income taxes - The Organization is classified as a Section 501(c)(3) organization, as described in Section 501(a) of the Internal Revenue Code, and is exempt from federal and state income taxes, except for taxes on unrelated business income, if any.

Functional allocation of expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**MERCY MEDICAL AIRLIFT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009**

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major programs - The major programs of the Organization are as follows:

Bonanza Aircraft Operations-The Organization operates a federally approved stretcher equipped Beech 36 aircraft (the Bonanza) for purposes of transporting patients who must be lying down en route. MMA operates this aircraft under a Federal Air Carrier certificate and utilizes a cadre of trained volunteer pilots. The service provided is free to patients. This aircraft serves patients on behalf of and in support of Air Charity Network regional member organizations.

Helpline Program-The Organization operates the National Patient Travel HELPLINE program. This serves the general public and medical community nationwide. The Organization keeps abreast of all known charitable and charitably assisted medical air transportation programs in the U.S. Referrals are made to the most appropriate charitable medical air transportation program. For ambulatory outpatients traveling less than 1,000 miles, the referrals are to Air Charity Network member organizations. For patients needing airline assistance, referral is to whichever program can best meet the needs of the patient. This program utilizes a 24/7 Telephone Helpline service and several Internet web sites where referrals are automatically generated and sent to ACN member organizations.

Airline Patient Ticket Programs-The Organization operates several charitable and charitably assisted airline patient ticket programs. The Organization maintains a full knowledge of other special airline ticket programs for patients and will refer patients when MMA operated programs cannot meet the need.

Public Education and Outreach Program-The Organization operates a nationwide public education and medical community outreach and education program for itself and on behalf of Air Charity Network. The purpose of this program is to inform patients and the medical community that charitable medical air transportation programs exist and can meet patient needs.

Air Charity Network Program-The Organization has several program initiatives that it undertakes on behalf of and at no cost to Air Charity Network including nationwide pilot recruitment, contribution of convention exhibit/display costs, government liaison/program development and liaison with national disease organizations and other national charities involved in patient services.

Association Management Program-The Organization serves in the role of an Association Manager and operates programs per the request and formal agreements with other independent non-profit organizations involved in some way with charitable medical air transportation. MMA receives grants and expense reimbursement for services rendered.

**MERCY MEDICAL AIRLIFT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009**

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Homeland Security Program-The Organization, through a grant provided by the Federal Corporation for National and Community Service, developed the Homeland Security Emergency Air Transportation System (HSEATS) to provide service in times of disaster for transportation of small priority cargo and key personnel. Agencies that will be supported will include the American Red Cross, the Salvation Army, the Southern Baptist Disaster Relief Service, FEMA, DHS, DHHS, and other Federal agencies. MMA works with individual Angel Flight regions to implement this program.

NIH Clinical Center Patient Program-The Organization provides one staff person who is housed within the Bethesda, Maryland NIH Clinical Center. This staff person works with NIH staff, patients, and patients' families to identify transportation needs and facilitate arrangement of Angel Flight trips for patients going to or from NIH Bethesda, Maryland.

Air Compassion America Program-The Organization provides one staff person, facility, and administrative support to this cooperating charity that serves as a non-profit, patient advocate air ambulance facilitator. This service fills the national need for a less costly air ambulance option for those patients needing that form of transport.

Special Lift/Child Lift-National Clinical Trial Support Program-The Organization operates the Child-Lift/Special-Lift National Clinical Trial Support Program utilizing the services of ACN member organizations and the charitable/charitably-assisted airline ticket programs.

The following Special-Lift and Child-Lift programs involve the charitable transport of needy children (normally with accompanying adult) and/or adult patients on a nationwide basis. Mercy Medical Airlift (MMA) administers these programs with major financial support assistance from various foundations. MMA uses the charitable services of several airlines and numerous Air Charity Network Volunteer Pilot Organizations (VPOs) that fly for public benefit.

The following is a list of active Child-Lift and Special Lift Programs:

Child-Lift 1. Congenital Lactic Acidosis – Univ of Florida, CRC, Gainesville, FL. Program Started January 1995.

Child-Lift 3. Nerve Reconstructive Microsurgery Program. Dr. Terzis, Microsurgery Specialist. Eastern Virginia Medical School, Norfolk, VA. Program Started December 1996.

Special Lift 45. Denver Children's Hospital. Transport of Children with Pulmonary Hypertension. Started March 2001.

Special-Lift 52. University of Utah Medical Center. Transport Children with Spinal Muscular Atrophy. Started August 2001.

**MERCY MEDICAL AIRLIFT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009**

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special-Lift 56. Duchenne Muscular Dystrophy. Children's National Medical Center, Washington, DC. Transport Children with Muscular Dystrophy. Started May 2002.

Special-Lift 60. Pectus. Children's Hospital of the Kings Daughters. Norfolk, VA. Transport of children with Pectus. Started September 2002.

Special-Lift 93. Cleft/Craniofacial Study. Children's Hospital of the Kings Daughters, Norfolk, VA. Transport of Children with either Cleft Palate or in need of Craniofacial Surgery. Started August 2003.

Special-Lift 97. Noonan Syndrome. Boston Children's Hospital, Boston, MA. Transport Children for Treatment of Noonan Syndrome. Started December 2003.

Special-Lift 98. NIH Study. National Institutes of Health, Bethesda, MD. Transport patients to the National Institutes of Health to all Institutes for Treatment of Various Diseases. Started December 2003.

Special-Lift 102. Spinal Muscular Atrophy. Stanford University. Transport Children with Spinal Muscular Atrophy to Stanford University for a Clinical Trial. Started March 2004.

Special-Lift 103. AAV/AAT Vectors. University of Florida. Gainesville, FL. Transport Patients with a rare condition called AAV/AAT for a clinical Trial. Started March 2004.

Special-Lift 108. XXYY Syndrome. Sacramento, CA. Transport of Patients with XXYY Syndrome for a Clinical Trial. Started June 2004.

Special-Lift 110. Spinal Muscular Atrophy. Ohio State University, Columbus, OH. Transport of Children with Spinal Muscular Atrophy for a Clinical Trial. Started July 2005.

Special-Lift 111. Hypoparathyroidism. Columbia University, New York, NY Transport of Adults with Hypoparathyroidism for a Clinical Trial. Started January 2007

Special Lift 113. Tay Sachs. Children's National Medical Center, Washington, DC. Transport of Children with Tay Sachs Disease for a Clinical Trial. Started November 2005.

Special-Lift 115. Mucopolysaccharidosis. Greenwood, SC. Transport Children with Mucopolysaccharidosis for a Clinical Trial. Started June 2006.

Special-Lift 116. MUSD. Texas Children's Hospital. Transport Children with MUSD for a Clinical Trial. Started June 2006.

**MERCY MEDICAL AIRLIFT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009**

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special-Lift 117. Spinal Muscular Atrophy. Children's Hospital of Michigan, Detroit, MI. Transport children with Spinal Muscular Atrophy for a clinical trial. Started June 2006.

Special Lift 118. Spinal Muscular Atrophy. University of Wisconsin Hospital. Madison, WI. Transport Children with Spinal Muscular Atrophy for a Clinical Trial. Started June 2006.

Special-Lift 119. Idiopathic Osteoporosis. Columbia University, New York, NY. Transport of adults with Idiopathic Osteoporosis for a Clinical Trial. Started October 2006.

Special Lift 121. Marfan Syndrome. Trials occurring in New York City, Houston, San Jose, Charleston and St. Louis. Transport of children and adults for a Clinical Trial. Started August 2007.

Special Lift 122. Optic Nerve Hypoplasia (ONH). Trial occurring in Los Angeles. Transport of children for a Clinical Trial. Started November 2007.

Special Lift 123. Duchenne's Muscular Dystrophy. Trial occurring at University of Florida. Transport of children for a Clinical Trial. Started November 2007.

Special Lift 124. Stem Cell Transplant and Activated T Cells for Stage IV Breast Cancer. Trial occurring at Hope Hematology Oncology Patient Enterprises, P.C., Charlottesville, VA and Detroit, MI. Transport of Stem Cell Transplant and Activated T Cells for Stage IV Breast Cancer for a Clinical Trial. Started January 2009.

Special Lift 125. Tumor Vaccine and Immune Therapy for Breast and Ovarian Cancer. Trial occurring at University of Washington, Division of Oncology, Seattle, WA. Transport of adults with Breast Cancer or Ovarian Cancer. Started April 2009.

Special Lift 126. Osteoporosis. Trial occurring at Osteoporosis Research Center, Omaha, NE. Transport of adults with Osteoporosis for a Clinical Trial. Started June 2009.

Special Lift Child 128. The Thymus Transplantation Program for Patient born with Complete DiGeorge Anomaly. Trial occurring at Duke Children's Hospital & Health Center; Division of Pediatric Allergy & Immunology, Durham, NC. Transport of children. Started March 2010.

Special Lift 129. Mucopolysaccharidosis I-129. Clinical Trial occurring at Los Angeles Biomedical Research Institute at Harbor-UCLA Medical Center, Los Angeles, CA. Transport of adults. Started February 2010.

Special Lift 129(b) Mucopolysaccharidosis II. Clinical Trial occurring at Los Biomedical Research Institute at Harbor – UCLA Medical Center and Mayo Clinic Rochester, MN. Transport of adults. Started June 2010.

**MERCY MEDICAL AIRLIFT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009**

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special Lift Patient. Schwachman-Diamond (Myelodysplastic) Syndrome. Clinical Trial occurring at Seattle Children's Hospital, Seattle, WA. Transport of children and adults. Started January 2010.

Barth Syndrome (Rare Disease Trial). Clinical Trial occurring at the Congenital Heart Center College of Medicine Health Science, Gainesville, FL. Transport of children. Started June 2010.

Cancer Clinical Trial. Myelofibrosis. Trial occurring at the Mayo Clinic Hematology Department, Rochester, MN. Transport of adults with Myelofibrosis (Cancer). Started January 2010.

Cancer Clinical Trial. Ewing's Sarcoma. Clinical Trial occurring at The University of Texas MD Anderson Cancer Center, Houston, TX. Transport of children and adult for the study of Ewing Sarcoma identifying patients at high risk for metastasis for a Clinical Trial. Started April 2010.

Cancer Clinical Trial. BRCA Mutated Cancer. Clinical Trial occurring at the Penn State Hershey Medical Center, Hershey, PA. Transport of adult women with Mutated Cancer, Platinum-Refractory Ovarian, Fallopian Tube, or Primary Peritoneal Cancer; or Basal-Like Breast Cancer for a Clinical Trial. Started January 2010.

Cancer Clinical Trial. Diffuse Intrinsic Pontine Glioma and Brainstem Glioma. Clinical Trial occurring at Children's Hospital Pittsburg (UPMC), Pittsburg, PA. Transport of adults. Started May 2010.

Cancer Clinical Trial. Metastatic Adrenocortical Carcinoma. Clinical Trial occurring at Scottsdale Healthcare, Scottsdale, AZ. Transport of adult cancer patient. Started May 2010.

Cancer Clinical Trial. Brain Cancer Peptide Vaccine Trial. Clinical Trial occurring at Dana-Farber Cancer Institute, Boston, MA. Transport of children and adult with Brain Cancer. Started July 2010.

C. ENDOWMENT FUND

The Organization established a perpetual endowment fund with the Norfolk Foundation in 2003 with an original investment of \$25,000. The Organization invested an additional \$136,100 since that time. The purpose of the fund is to provide support for the Organization. The Organization can receive annual cash distributions from the fund equal to five percent of the average market value of the fund over the previous 12 quarters. If the Organization chooses to withdrawal more than that amount it needs an affirmative vote of three-fourths of its governing body and the approval of the Norfolk Foundation's board of directors. The Endowment Fund is recorded at its fair market value on the statement of financial position.

**MERCY MEDICAL AIRLIFT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009**

D. NOTES RECEIVABLE

On October 18, 2008 the Organization made loans of \$45,000 each to Air Compassion Veterans, Airlift Hope of America, and National Patient Travel Center. The loans carry an interest rate of 4% annually and there is no due date. The purpose of the loans was for these three organizations to make matching grants, through Prince William County United Way, to other organizations. The Organization is one of the recipients of the matching grants. During the year ended June 30, 2010 Air Compassions Veterans repaid the loan in full and the Organization forgave the loans to Airlift Hope of American and National Patient Travel Center.

E. GRANTS AND PLEDGES RECEIVABLE

The organization provides management and program services to various organizations. The following operational grants were pledged from these organizations to help defray Mercy Medical Airlift's cost for these services:

| | <u>2010</u> | <u>2009</u> |
|----------------------------------|-------------------|------------------|
| Angel Flight | \$ 210,358 | \$233,236 |
| Angel Flight for Veterans | 177,926 | 183,820 |
| Angel Flight for Cancer Patients | 114,003 | - |
| Children's Angel Flight | 79,978 | 102,229 |
| Air Compassion Veterans | 65,242 | - |
| Angel Flight Samaritans | 51,131 | 62,224 |
| Air Compassion America | 37,534 | 32,600 |
| Hospice Angel Flight | 31,279 | 56,434 |
| Air Compassion East | 23,910 | 32,600 |
| Others | <u>74,575</u> | <u>52,321</u> |
| Total | <u>\$ 865,936</u> | <u>\$755,464</u> |

Other grants and pledges receivable consist of the following:

| | <u>2010</u> | <u>2009</u> |
|--------------------------|--------------------|------------------|
| CFC/United Way pledges | \$ 44,874 | \$ 53,353 |
| Less: Allowance | <u>(3,984)</u> | <u>(4,827)</u> |
| Total Pledges receivable | 40,890 | 48,526 |
| NIH Subcontract | 33,132 | - |
| Other Grant receivables | 70,850 | - |
| Accounts receivable | <u>\$ 18,822</u> | <u>\$ 9,126</u> |
| Total Receivables | <u>\$1,029,630</u> | <u>\$813,116</u> |

**MERCY MEDICAL AIRLIFT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009**

F. PROPERTY AND EQUIPMENT

The Organization had the following assets and accumulated depreciation as of June 30, 2010 and 2009:

| | | |
|---|-------------------|-------------------|
| <u>Property and Equipment</u> | <u>2010</u> | <u>2009</u> |
| Equipment purchased with Federal grant money \$ | 26,980 | \$ 45,227 |
| Aircraft Equipment | 81,495 | 81,495 |
| Furniture | 41,211 | 41,210 |
| Office Equipment | 74,062 | 118,018 |
| Computer Equipment | <u>32,899</u> | <u>109,490</u> |
| Total Property @ Equipment at cost | 256,645 | 395,440 |
| Less: Accumulated Depreciation | <u>(204,657)</u> | <u>(306,520)</u> |
| Total Property & Equipment Net | 51,990 | 88,920 |
| | | |
| Building Improvements | 79,152 | 74,072 |
| Less: Amortization | <u>(16,039)</u> | <u>(13,556)</u> |
| Total Leasehold Improvements Net | 63,113 | 60,516 |
| | | |
| Building | 333,523 | 333,523 |
| Less: Depreciation | <u>(25,955)</u> | <u>(14,838)</u> |
| Total Building Net | 307,568 | 318,685 |
| | | |
| Land | <u>391,500</u> | <u>391,500</u> |
| | | |
| Total Property and Equipment | <u>\$ 814,171</u> | <u>\$ 859,621</u> |

G. NOTES PAYABLE

In May 2008, the Organization secured a note payable in the amount of \$375,000 through Towne Bank, bearing an interest rate of 6.80%. The note is payable in consecutive monthly payments of \$2,612. Interest paid on this note was \$25,212 and \$24,844 in the years ended June 30, 2010 and 2009, respectively.

Loan maturities for each of the five years following June 30, 2010 are as follows:

| | |
|------------|------------------|
| 2011 | \$ 6,824 |
| 2012 | 7,303 |
| 2013 | 7,815 |
| 2014 | 8,364 |
| 2015 | 8,950 |
| Thereafter | <u>324,598</u> |
| Total | <u>\$363,854</u> |

**MERCY MEDICAL AIRLIFT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009**

H. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of the Organization consisted of the following at June 30, 2010:

- \$865,137 representing grants receivable from the Angel Flight organizations for fiscal year 2010 (time restriction)
- \$15,806 for NIH subcontract (time restriction)
- \$70,572 for ACV technical assistance
- \$25,670 for child health program information dissemination
- \$22,033 in donated airfare inventory
- \$23,310 for building renovations

Temporarily restricted net assets of the Organization consisted of the following at June 30, 2009:

- \$755,464 representing grants receivable from the Angel Flight organizations for fiscal year 2010 (time restriction)
- \$734,429 to provide critical medical air transport service to troops, veterans, and their families affected by military deployment in Operations Iraqi and Enduring Freedom (IADIF/ACV)
- \$36,883 for HSEATS
- \$11,398 for disabled vet transport
- \$4,110 for building renovations

I. DONATED SERVICES

During the years ended June 30, 2010 and 2009 the following types of professionals donated their services:

| | <u>2010</u> | <u>2009</u> |
|---------------------------------------|--------------------|------------------|
| Flights and Donated Airfare Inventory | \$1,070,066 | \$565,709 |
| Pilots | 40,479 | 27,261 |
| Various | <u>232,722</u> | <u>338,207</u> |
| Total Donated Services | <u>\$1,343,267</u> | <u>\$931,177</u> |

J. RETIREMENT PLAN

The Organization adopted a Section 403 (b) salary deferral plan in July 1992, which is available to all employees of the Organization immediately upon employment. No employer contributions are required under this plan and no contributions have been made by the Organization. The Organization discontinued this plan on January 31, 2009.

HENDERSHOT, BURKHARDT & REED
CERTIFIED PUBLIC ACCOUNTANTS
7525 Presidential Lane, Manassas, Virginia, 20109
P: 703.361.1592 F: 703.361.0836

October 22, 2010

The Board of Directors
Mercy Medical Airlift
P.O. Box 1940
Manassas, VA 20108

Members of the Board of Directors:

We have audited the financial statements of Mercy Medical Airlift (“the Organization”) for the years ended June 30, 2010 and 2009, and have issued our report thereon dated October 22, 2010.

Our professional standards require that we communicate with you regarding certain matters that may be of interest to you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Organization is responsible. We have prepared the following comments to assist the Board in fulfilling that obligation.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

Our responsibility is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audits of the financial statements do not relieve you or management of your responsibilities.

We conducted our audits of the financial statements of the Organization in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. When performing an audit in accordance with those standards, we are only required to obtain an understanding of the Organization’s internal control structure sufficient to enable us to properly plan our audit. Therefore, we cannot provide any assurances about the design or operation of the internal control structure.

Based, in part, on our understanding of the control environment, we designed our audits to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements. However, because of the characteristics of irregularities, particularly those involving forgery and collusion, a properly designed and executed audit may not detect such items.

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING FOR SIGNIFICANT TRANSACTIONS

Management has the responsibility for selection and use of appropriate accounting policies. We have agreed to advise management about the appropriateness of accounting policies and their

application. The significant accounting policies used by the Organization are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal years 2010 or 2009. We noted transactions entered into by the Organization during the years under audit that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transactions occurred.

DISAGREEMENTS WITH MANAGEMENT

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audits.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

Management may, in some cases, decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

Our firm did not discuss accounting matters with management prior to retention as the Organization's independent auditors.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audits.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated October 22, 2010.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audits, other than those that are trivial, and communicate them to the appropriate level

of management. The attached adjusting entries correct material misstatements detected as a result of audit procedures and will be recorded by management.

This report is intended solely for the information and use of the Board of Directors, management and others within the Organization.

We are pleased to serve as the independent auditors for Mercy Medical Airlift and would be pleased to answer any questions that you may have.

Sincerely,

Hendershot, Burkhardt & Reed, CPAs
Hendershot, Burkhardt & Reed
Certified Public Accountants

Mercy Medical Airlift
Audit Adjusting Entries

| Num | Account | Class | Debit | Credit |
|---|--|------------|------------------|------------------|
| aje 1 | 1625 · Accum Depre - Furniture | | 179.44 | |
| To correct depreciation | 1655 · Accum. Depre. - Office | | | 83.63 |
| | 1805 · Accum. Depre. - Computer | | 4,437.68 | |
| | 1855 · Accumulated Depreciation H/S | | 1,080.63 | |
| | 1905 · Accum. Amort. Leasehold | | | 37.72 |
| | 5190 · Depreciation Expense | | | 4,419.43 |
| | 5195 · Depreciation - H/S | 7000 | | 1,194.68 |
| | 5197 · Amortization Expense | | 37.71 | |
| | | | <u>5,735.46</u> | <u>5,735.46</u> |
| aje 2 | 4003 · Contr - Undes CFC/UW | | 4,462.82 | |
| To correct gross cfc receivable | 1200 · Pledges Receivable | | | 4,462.82 |
| | | | <u>4,462.82</u> | <u>4,462.82</u> |
| aje 3 | 1202 · Allowance for uncollectible | | 4,827.09 | |
| To correct cfc allowance | 4003 · Contr - Undes CFC/UW | | | 4,827.09 |
| | | | <u>4,827.09</u> | <u>4,827.09</u> |
| aje 4 | 4004 · Contr - Undes Partner Charities | | 1,990.19 | |
| To remove old amounts in beg bal | 1220 · Accounts Receivable | | | 1,990.19 |
| | | | <u>1,990.19</u> | <u>1,990.19</u> |
| aje 5 | 1220 · Accounts Receivable | | 45.11 | |
| To remove old amounts in beg bal of 1220 | 4003 · Contr - Undes CFC/UW | | | 45.11 |
| | | | <u>45.11</u> | <u>45.11</u> |
| aje 6 | 1457 · Prepaid - Other/H&H 09 | | | 757.56 |
| To correct balance of H&H 09 prepaid | 1458 · Prepaid - H&H 10/2010 | | 400.00 | |
| | 1206 · Loan Receivable - PC/PWC 08 | | | 45,000.00 |
| | 5157 · Special Event 10/09 | 6857 | 45,357.56 | |
| | | | <u>45,757.56</u> | <u>45,757.56</u> |
| aje 7 | 5140 · Insurance Bus/Aircraft | -MULTIPLE- | 1,351.96 | |
| To correct prepaid accounts | 5118 · Equipment Repairs/Maint | 5000 | 389.96 | |
| | 1400 · Prepaid - ACFT Insurance | | | 641.92 |
| | 1425 · Prepaid - Other Insurance | | | 710.04 |
| | 1457 · Prepaid - Other/H&H 09 | | | 389.96 |
| | | | <u>1,741.92</u> | <u>1,741.92</u> |
| aje 8 | 3000 · Fund Balance - Unrestricted | | 1,288.32 | |
| To remove negative trna | 3205 · Temp Rest Net Asset-IADIF | | | 1,288.32 |
| | | | <u>1,288.32</u> | <u>1,288.32</u> |
| aje 9 | 5101 · Salaries | -MULTIPLE- | | 6,125.69 |
| To reverse salaries accrued in fiscal year 2009 | 5104 · CEO Salary | -MULTIPLE- | | 787.80 |
| | 5103 · Payroll Taxes | -MULTIPLE- | | 507.55 |
| | 2101 · Accrued Salary Payable | | 7,421.04 | |
| | | | <u>7,421.04</u> | <u>7,421.04</u> |
| aje 10 | 5101 · Salaries | -MULTIPLE- | | 20,998.87 |
| To bring vacation/sick leave to correct year end | 5101 · Salaries | -MULTIPLE- | 26,076.11 | |
| accrual | 2101 · Accrued Salary Payable | | | 5,077.24 |
| | | | <u>26,076.11</u> | <u>26,076.11</u> |
| aje 11 | 1220 · Accounts Receivable | | 218.75 | |
| To record receivables due at year end | 4100 · Reimbursed Expenses | -MULTIPLE- | | 218.75 |
| | | | <u>218.75</u> | <u>218.75</u> |
| aje 12 | Advertising/Promotional | -MULTIPLE- | 6,110.00 | |
| To re-class cfc ads | Advertising/Promotional | 5900 | | 6,110.00 |
| | | | <u>6,110.00</u> | <u>6,110.00</u> |
| aje 13 | 5136 · Communications | 6285 | 2,085.00 | |
| To properly allocate use of American Legion | 5136 · Communications | -MULTIPLE- | | 2,085.00 |
| grant funds | Web Master/Internet | 6285 | 7,689.00 | |
| | Web Master/Internet | 5900 | | 7,689.00 |
| | 5124 · Postage and Delivery | 6285 | 192.33 | |
| | 5124 · Postage and Delivery | 5900 | | 192.33 |
| | 5139 · Promotional Materials | 6285 | 1,662.20 | |
| | 5139 · Promotional Materials | -MULTIPLE- | | 1,662.20 |
| | | | <u>11,628.53</u> | <u>11,628.53</u> |
| aje 14 | 2000 · Accounts Payable | | 2,500.00 | |
| To remove July invoice for July services from a/p | Consulting | 6575 | | 2,500.00 |
| | | | <u>2,500.00</u> | <u>2,500.00</u> |
| aje 15 | 5196 · N7709R Lease | 5600 | 2,965.20 | |
| To record apr-jun bonaza lease as payable | 2000 · Accounts Payable | | | 2,965.20 |
| - ck 11842 | | | <u>2,965.20</u> | <u>2,965.20</u> |
| aje 16 | 5101 · Salaries | -MULTIPLE- | 8,072.04 | |
| To record salary payable at year end. | 5104 · CEO Salary | -MULTIPLE- | 1,181.70 | |
| | 5103 · Payroll Taxes | -MULTIPLE- | 679.80 | |
| | 2101 · Accrued Salary Payable | | | 9,933.54 |
| | | | <u>9,933.54</u> | <u>9,933.54</u> |

Mercy Medical Airlift
Audit Adjusting Entries

| Num | Account | Class | Debit | Credit |
|---|-------------------------------------|------------|------------|------------|
| aje 17 | 4320 · Federal Grants - NIH | 7500 | 23,709.00 | |
| To remove income improperly recorded in FY 10 | 1215 · NIH Grant Receivable | 7500 | | 23,709.00 |
| | | | 23,709.00 | 23,709.00 |
| aje 18 | 1470 · Inventory Donated Airfare | 6531 | 40,000.00 | |
| To correct valuation of SW vouchers donated and used | 4730 · Donated Patient Airfares | 6531 | | 40,000.00 |
| | 5147 · COG Delivered Air Tickets | 6531 | 38,400.00 | |
| | 1470 · Inventory Donated Airfare | 6531 | | 38,400.00 |
| | | | 78,400.00 | 78,400.00 |
| aje 19 | 4730 · Donated Patient Airfares | | 100,000.00 | |
| To remove AA receivable that was incorrect. | 1471 · AA Donated Airfare | | | 100,000.00 |
| | | | 100,000.00 | 100,000.00 |
| aje 20 | 4006 · Contr - Undes Business | | 46,495.25 | |
| To remove amounts for which there is no unconditional promise to give | 1220 · Accounts Receivable | | | 46,495.25 |
| | | | 46,495.25 | 46,495.25 |
| aje 21 | 1655 · Accum. Depre. - Office | | 44,646.56 | |
| To remove disposed assets | 1650 · Equipment - Office | | | 44,975.59 |
| | 4920 · Gain/Loss Sale of Asset | | 329.03 | |
| | 1805 · Accum. Depre. - Computer | | 76,590.96 | |
| | 1800 · Equipment - Computer | | | 76,590.96 |
| | 1855 · Accumulated Depreciation H/S | | 18,247.16 | |
| | 1850 · Equipment - HS | | | 18,247.16 |
| | | | 139,813.71 | 139,813.71 |
| aje 22 | 5101 · Salaries | 5100 | 34,482.26 | |
| To reallocated salaries incorrectly charged to public education | 5101 · Salaries | 5900 | | 34,482.26 |
| | | | 34,482.26 | 34,482.26 |
| aje 23 | 5114 · Grant Expense | 5900 | 45,000.00 | |
| To record forgiveness of loan to NPTC | 1206 · Loan Receivable - PC/PWC 08 | | | 45,000.00 |
| | | | 45,000.00 | 45,000.00 |
| aje 24 | 5114 · Grant Expense | 5900 | 45,000.00 | |
| To record forgiveness of loan to AHA | 1206 · Loan Receivable - PC/PWC 08 | | | 45,000.00 |
| | | | 45,000.00 | 45,000.00 |
| aje 25 | 5105 · CEO Benefits-Life Insur | -MULTIPLE- | 168.08 | |
| To agree pr related expenses to payroll allocations | 5105 · CEO Benefits-Life Insur | | | 168.08 |
| | | | 168.08 | 168.08 |
| aje 26 | AF Technology Project | -MULTIPLE- | 20,115.00 | |
| To record expenses originally recorded as loans | 1270 · Loan to ACN | | | 20,115.00 |
| | | | 20,115.00 | 20,115.00 |
| aje 27 | 5102 · Benefits | | 84.04 | |
| To remove 7/31 entry that created negative unclassified benefits | 5102 · Benefits | -MULTIPLE- | | 84.04 |
| | | | 84.04 | 84.04 |
| aje 28 | 5118 · Equipment Repairs/Maint | | 212.00 | |
| To correct/class un/missclassified expenses | 5120 · Operating Supplies/Exp | | | 212.00 |
| | Bank Fees | 5000 | 137.07 | |
| | Bank Fees | | | 137.07 |
| | 5167 · License & Fee | | 21.95 | |
| | 5167 · License & Fee | 5900 | | 21.95 |
| | 5102 · Benefits | 6300 | 72.90 | |
| | 5102 · Benefits | 6500 | | 72.90 |
| | | | 443.92 | 443.92 |
| aje 29 | 5136 · Communications | -MULTIPLE- | 4,572.84 | |
| To properly allocate communications expense across all relevant classes | 5136 · Communications | -MULTIPLE- | | 4,572.84 |
| | | | 4,572.84 | 4,572.84 |
| aje 30 | 5190 · Depreciation Expense | -MULTIPLE- | 8,378.67 | |
| To properly allocate depreciation expense across all relevant classes | 5190 · Depreciation Expense | -MULTIPLE- | | 8,378.67 |
| | | | 8,378.67 | 8,378.67 |
| aje 31 | 5197 · Amortization Expense | -MULTIPLE- | 356.64 | |
| To properly allocate amortization expense across all relevant classes | 5197 · Amortization Expense | -MULTIPLE- | | 356.64 |
| | | | 356.64 | 356.64 |
| aje 32 | 6547 · In-Kind Service Expense | -MULTIPLE- | 270,201.56 | |
| To record value of donated professional services | 4910 · Contr - In Kind Services | -MULTIPLE- | | 270,201.56 |
| | | | 270,201.56 | 270,201.56 |
| aje 33 | 5102 · Benefits | | 84.04 | |
| To remove 8/31 entry that created negative unclassified benefits | 5102 · Benefits | -MULTIPLE- | | 84.04 |
| | | | 84.04 | 84.04 |
| aje 34 | 5101 · Salaries | -MULTIPLE- | 5,482.22 | |
| To class unclassified salaries | 5101 · Salaries | | | 5,482.22 |
| | 5103 · Payroll Taxes | -MULTIPLE- | 278.45 | |
| | 5103 · Payroll Taxes | | | 278.45 |
| | 5107 · Unemployment Paid | 5000 | 117.38 | |
| | 5107 · Unemployment Paid | | | 117.38 |
| | | | 5,878.05 | 5,878.05 |
| aje 35 | 5167 · License & Fee | 5700 | 322.66 | |
| To correct reclassification of fundraising expense | 5167 · License & Fee | -MULTIPLE- | | 322.66 |
| | | | 322.66 | 322.66 |

Mercy Medical Airlift
Audit Adjusting Entries

| Num | Account | Class | Debit | Credit |
|---|------------------------------------|------------|------------|------------|
| aje 36 | AF Technology Project | | 7,220.00 | |
| To correct reclassification entry | AF Technology Project | -MULTIPLE- | | 7,220.00 |
| | | | 7,220.00 | 7,220.00 |
| aje 37 | 3000 · Fund Balance - Unrestricted | | 165,163.22 | |
| To bring temporarily restricted net assets to correct | 3200 · Temp Restricted Net Assets | | | 174,826.35 |
| year end balance | 3200 · Temp Restricted Net Assets | | 9,663.13 | |
| | | | 174,826.35 | 174,826.35 |
| ajes 38-44 | Payroll Billing fee | -MULTIPLE- | 118.03 | |
| To properly classify association management | Payroll Billing fee | 5100 | | 118.03 |
| expenses | 5101 · Salaries | -MULTIPLE- | 82861.87 | |
| | 5101 · Salaries | 5100 | | 82861.87 |
| | 5102 · Benefits | -MULTIPLE- | 2437.85 | |
| | 5102 · Benefits | 5100 | | 2437.85 |
| | 5103 · Payroll Taxes | -MULTIPLE- | 4075.34 | |
| | 5103 · Payroll Taxes | 5100 | | 4075.34 |
| | 5104 · CEO Salary | -MULTIPLE- | 7160.39 | |
| | 5104 · CEO Salary | 5100 | | 7160.39 |
| | 5105 · CEO Benefits-Life Insur | -MULTIPLE- | 70.16 | |
| | 5105 · CEO Benefits-Life Insur | 5100 | | 70.16 |
| | 5111 · Security | -MULTIPLE- | 39.25 | |
| | 5111 · Security | 5100 | | 39.25 |
| | 5112 · Office Utilities | -MULTIPLE- | 862.92 | |
| | 5112 · Office Utilities | 5100 | | 862.92 |
| | 5116 · Storage Rent | -MULTIPLE- | 152.74 | |
| | 5116 · Storage Rent | 5100 | | 152.74 |
| | 5117 · Office Supplies & Expense | -MULTIPLE- | 1014.66 | |
| | 5117 · Office Supplies & Expense | 5100 | | 1014.66 |
| | 5118 · Equipment Repairs/Maint | -MULTIPLE- | 218.67 | |
| | 5118 · Equipment Repairs/Maint | 5100 | | 218.67 |
| | 5120 · Operating Supplies/Exp | -MULTIPLE- | 1.89 | |
| | 5120 · Operating Supplies/Exp | 5100 | | 1.89 |
| | 5124 · Postage and Delivery | -MULTIPLE- | 1157.66 | |
| | 5124 · Postage and Delivery | 5100 | | 1157.66 |
| | 5126 · Computer Expense | -MULTIPLE- | 407.99 | |
| | 5126 · Computer Expense | 5100 | | 407.99 |
| | 5127 · Internet Expense | -MULTIPLE- | 76.09 | |
| | 5127 · Internet Expense | 5100 | | 76.09 |
| | 5128 · Volunteer Expense | -MULTIPLE- | 222.00 | |
| | 5128 · Volunteer Expense | 5100 | | 222.00 |
| | 5130 · Printing and Reproduction | -MULTIPLE- | 452.50 | |
| | 5130 · Printing and Reproduction | 5100 | | 452.50 |
| | 5134 · Repairs & Maint General | -MULTIPLE- | 39.17 | |
| | 5134 · Repairs & Maint General | 5100 | | 39.17 |
| | 5136 · Communications | -MULTIPLE- | 3331.19 | |
| | 5136 · Communications | 5100 | | 3331.19 |
| | 5140 · Insurance Bus/Aircraft | -MULTIPLE- | 841.91 | |
| | 5140 · Insurance Bus/Aircraft | 5100 | | 841.91 |
| | Lodging | -MULTIPLE- | 125.38 | |
| | Lodging | 5100 | | 125.38 |
| | 5144 · Auto Mileage/Tolls/Parking | -MULTIPLE- | 20.00 | |
| | 5144 · Auto Mileage/Tolls/Parking | 5100 | | 20.00 |
| | 5156 · Membership Expense | -MULTIPLE- | 39.00 | |
| | 5156 · Membership Expense | 5100 | | 39.00 |
| | 5165 · Interest Expense | -MULTIPLE- | 1708.95 | |
| | 5165 · Interest Expense | 5100 | | 1708.95 |
| | Bank Fees | -MULTIPLE- | 20.00 | |
| | Bank Fees | 5100 | | 20.00 |
| | 5167 · License & Fee | -MULTIPLE- | 7380.03 | |
| | 5167 · License & Fee | 5100 | | 7380.03 |
| | Accounting Fees | -MULTIPLE- | 53521.93 | |
| | Accounting Fees | 5100 | | 53521.93 |
| | Advertising/Promotional | -MULTIPLE- | 4725.00 | |
| | Advertising/Promotional | 5100 | | 4725.00 |
| | Building Maint/Repair | -MULTIPLE- | 719.24 | |
| | Building Maint/Repair | 5100 | | 719.24 |
| | Legal Fees | -MULTIPLE- | 12760.95 | |
| | Legal Fees | 5100 | | 12760.95 |
| | Mailing Services | -MULTIPLE- | 196.88 | |
| | Mailing Services | 5100 | | 196.88 |
| | Web Master/Internet | -MULTIPLE- | 1546.85 | |
| | Web Master/Internet | 5100 | | 1546.85 |
| | 5190 · Depreciation Expense | -MULTIPLE- | 3401.83 | |
| | 5190 · Depreciation Expense | 5100 | | 3401.83 |
| | 5197 · Amortization Expense | -MULTIPLE- | 272.26 | |
| | 5197 · Amortization Expense | 5100 | | 272.26 |
| | | | 191,980.58 | 191,980.58 |

Mercy Medical Airlift
Audit Adjusting Entries

| Num | Account | Class | Debit | Credit |
|--|----------------------------|------------|-----------------|-----------------|
| <i>The following entries are for the fiscal year ending June 30, 2011:</i> | | | | |
| aje fy11 a | 4100 · Reimbursed Expenses | | 8,562.50 | |
| To correct coding of ACN repayment of loan | 1270 · Loan to ACN | | | 8,562.50 |
| | | | <u>8,562.50</u> | <u>8,562.50</u> |
| aje fy11b | Fund Development | 5700 | 2,000.00 | |
| To correctly class expense paid by ck 11700 | Fund Development | 5900 | | 2,000.00 |
| | | | <u>2,000.00</u> | <u>2,000.00</u> |
| aje fy11c | Advertising/Promotional | -MULTIPLE- | 4,995.00 | |
| To correctly class cfc ads - ck 11701 | Advertising/Promotional | 5900 | | 4,995.00 |
| | | | <u>4,995.00</u> | <u>4,995.00</u> |

HENDERSHOT, BURKHARDT & REED
CERTIFIED PUBLIC ACCOUNTANTS
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October 22, 2010

Board of Directors
Mercy Medical Airlift
P.O. Box 1940
Manassas, VA 20108

Dear Members of the Board of Directors

In planning and performing our audits of the financial statements of Mercy Medical Airlift (“the Organization”) as of and for the years ended June 30, 2010 and 2009, (on which we have issued our report dated October 22, 2010), in accordance with auditing standards generally accepted in the United States of America, we considered the Organization’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be significant deficiency.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization’s financial statements that is more than inconsequential will not be prevented or detected by the organization’s internal control. We believe the following deficiencies constitute significant deficiencies:

Observation: Misclassification of salaries. Fifty percent of both the administrative supervisor’s and the financial assistant’s salaries were recorded to the public education program. A review of their duties determined that both work exclusively on charity management, administrative, and fundraising. As a result, the public education class was overstated by at least \$34,482 and the charity management program, administrative, and fundraising classes were understated. Because the amount of administrative and

fundraising expenses reported by the managed charities is based on the charity management program class, this misstatement also caused the functional expense of all of the managed charities to be misstated.

Recommendation: Salaries should be recorded in accordance with timesheets kept by the employees and based on their actual duties. Additionally, an explanation of what constitutes program, administrative, and fundraising should be provided to the employees.

Observation: Payments to Air Charity Network (ACN) were treated inconsistently. During our audit, we noted payments of \$20,115 to ACN that appeared to be expenses but were recorded as loans. We were initially told that the payments were in fact loans, but later in the audit we were told they were actually expenses.

Recommendation: There should be a clear, written accounting policy in place. When new arrangements are entered into, written agreements should be established, communicated to relevant staff members, and followed consistently.

Observation: Overhead expenses were not consistently allocated. Employee hours by function were used as the basis for allocation of overhead costs. However, administrative employee hours were not included in the allocation base for most of the overhead expenses causing there to be no allocation to the administrative function.

Recommendation: Overhead expenses should be allocated across all relevant functions.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control. We believe the following deficiencies constitute material weaknesses.

Observation: Income, inventory, and receivables were overstated by \$146,495. Donated airfare inventory and income of \$100,000 was recorded at year end and \$46,495 in receivables and income was recorded for expected reimbursement of flights by American Airlines. There was no documentation supporting these amounts.

Recommendation: Receivables should only be recorded when there is an unconditional promise to give.

Observation: Income and receivables were recorded in the wrong period, causing an overstatement of \$23,709. In August 2010, the NIH subcontract was extended and increased by \$23,709. This amount was backdated to the fiscal year ended June 30, 2010.

Recommendation: Income should be recorded in the period in which it is earned.

This communication is intended solely for the information and use of the Board of Directors, management and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Hendershot, Burkhardt & Reed, CPAs
Hendershot, Burkhardt & Reed
Certified Public Accountants