

RECONCILIATION MINISTRIES, INC.
NASHVILLE, TENNESSEE

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2004

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Reconciliation Ministries, Inc.

I have audited the accompanying statement of assets, liabilities, and net assets-income tax basis of Reconciliation Ministries, Inc. (a nonprofit organization), as of December 31, 2004, and the related statements of revenues, expenses, and other changes in net assets-income tax basis and changes in cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on the financial statements based on my audit.

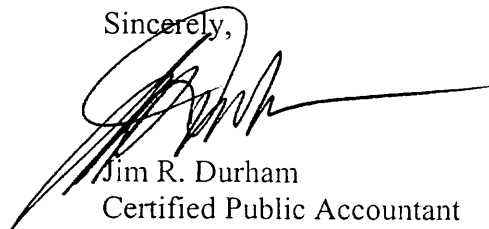
I conducted my audit in accordance with generally accepted accounting standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting 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. I believe that my audit provides a reasonable basis for my opinion.

As described in Note A, these financial statements were prepared on the basis of accounting Reconciliation Ministries, Inc. uses for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my opinion, the financial statements referred to above presents fairly, in all material respects the assets, liabilities, and net assets of Reconciliation Ministries, Inc. as of December 31, 2004, and its revenues, expenses, and other changes in net assets for the year then ended on the basis of accounting described in Note A.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in note F to the financial statements, the Organization has suffered recurring significant reductions in grant revenues and investments that raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Sincerely,



Jim R. Durham
Certified Public Accountant

June 15, 2005

RECONCILIATION MINISTRIES, INC.

FINANCIAL STATEMENTS

RECONCILIATION MINISTRIES, INC.
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS
DECEMBER 31, 2004

ASSETS

Cash and Interest-Bearing Deposits	\$ 13,500.34
Investments	944.64

Property and Equipment (Net of Accumulated Depreciation of \$ 108,980.18)	<u>49,931.55</u>
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Total Assets	<u>\$ 64,376.53</u> <i>OK</i>
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LIABILITIES AND NET ASSETS

Liabilities:

Mortgage Payable	<u>\$ 30,298.59</u> <i>OK</i>
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Total Liabilities

Net Assets:

Unrestricted	<u>34,077.94</u>
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Total Liabilities & Net Assets	<u>\$ 64,376.53</u> <i>OK</i>
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The accompanying notes are an integral part of these financial statements.

RECONCILIATION MINISTRIES, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004

UNRESTRICTED NET ASSETS:

Revenues and Gains		
Gifts and Contributions	\$ 86,491.61	
Metro Government Grant	26,666.68	
Dividends and Interest	26.11	
Increase in Fair Market Value of Investments	<u>8.50</u>	
Total Unrestricted Revenue and Gains		<u>\$ 113,192.90</u>
Expenses		
Program Services	91,324.56	
Management and General	21,815.37	
Fundraising	<u>7,600.61</u>	
Total Expenses		<u>120,740.54</u>
Increase/(Decrease) in Net Assets		(7,547.64)
Net Assets at January 1, 2004		<u>41,625.58</u>
Net Assets at December 31, 2004		<u>\$ 34,077.94</u>

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

RECONCILIATION MINISTRIES, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2004

	<u>Program Services</u>	<u>Management & General</u>	<u>Fund- Raising</u>	<u>Total</u>
Salaries & Wages	\$ 43,730.00	\$ 10,495.20	\$ 4,081.47	\$ 58,306.67
Insurance	2,512.32	602.96	234.48	3,349.76
Payroll Taxes	4,777.49	1,146.60	445.90	6,369.99
Depreciation	7,153.58	1,716.86	667.67	9,538.11
Interest	1,135.83	272.60	106.01	1,514.44
Supplies	2,737.10	656.90	255.46	3,649.46
Telephones	924.80	221.95	86.31	1,233.06
Postage & Shipping	1,355.61	325.35	126.52	1,807.48
Printing/Publications	2,574.27	617.82	240.27	3,432.36
Guest House Operations	5,618.50	0.00	0.00	5,618.50
Guest House Maintenance	125.00	0.00	0.00	125.00
Other Direct Programs Costs	4,974.89	1,193.97	464.32	6,633.18
Rainbow House	6,956.48	1,669.56	649.27	9,275.31
Accounting	2,270.96	2,270.95	0.00	4,541.91
Contract services	1,875.00	0.00	0.00	1,875.00
Other Costs	<u>2,602.73</u>	<u>624.65</u>	<u>242.93</u>	<u>3,470.31</u>
Totals	<u>\$ 91,324.56</u>	<u>\$ 21,815.37</u>	<u>\$ 7,600.61</u>	<u>\$120,740.54</u>

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

RECONCILIATION MINISTRIES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase/(Decrease) in Net Assets	\$ (7,547.64)	
Depreciation	<u>9,538.11</u>	
Total Cash Provided by Operating Activities		\$ 1,990.47

CASH FLOWS FROM INVESTING ACTIVITIES

Reduction of Short Term Investment	<u>30.18</u>	
Total Cash Used by Investing Activities		30.18

CASH FLOW FROM FINANCING ACTIVITIES

Payments on Building Mortgage	<u>(3,722.64)</u>	
Total Cash Used by Financing Activities		<u>(3,722.64)</u>

NET INCREASE/(DECREASE) IN CASH (1,701.99)

CASH BALANCE-JANUARY 1, 2004 15,202.33

CASH BALANCE-DECEMBER 31, 2004 \$ 13,500.34

The accompanying notes are an integral part to these financial statements

RECONCILIATION MINISTRIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Reconciliation Ministries, Inc. is a not-for-profit organization that was organized in 1984. Its mission is to provide assistance to the families of incarcerated individuals by offering free room and board at a guesthouse and by holding weekly support groups for spouses and children.

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting-Income Tax basis. That basis differs from generally accepted accounting principles primarily because Reconciliation Ministries, Inc. has not recognized possible receivables or accounts payable to vendors, and their related effects on the change in net assets.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: Unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Property and Equipment

Property and equipment are carried at cost, or if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method.

Revenue Recognition

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

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with 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.

Contributed Services

Reconciliation Ministries, Inc. receives a small amount of services donated by people carrying out charitable missions. No amounts have been reflected in the financial statements for those services.

Income Tax Basis

Reconciliation Ministries, Inc. qualifies as a tax-exempt organization under section 501(c) (3) of the Internal Revenue Code and therefore has no provision for federal income taxes.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value of the short maturities of those financial instruments.

NOTE B- INVESTMENTS

Investments are in registered mutual fund accounts and are carried at Fair Market Value at year-end. The mutual fund account consists of the following:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Soomon Smith Barney	<u>\$ 944.64</u>	<u>\$ 944.64</u>
TOTAL	<u>\$ 944.64</u>	<u>\$ 944.64</u>

NOTE C – PLANT ASSETS AND DEPRECIATION

Depreciation of plant assets is calculated on the straight-line basis over the estimated useful lives of the assets. The cost of such assets at December 31, 2004 is as follows:

Land and Buildings	\$ 152,959.05
Equipment	<u>5,952.68</u>
	158,911.73
Less accumulated depreciation	<u>108,980.18</u>
	<u>\$ 49,931.55</u>

NOTE D – MORTGAGE NOTE PAYABLE

On April 29, 1996, Reconciliation Ministries, Inc. entered into a new mortgage loan of \$53,280.00. A portion of the loan was used to pay off an existing note payable of \$17,729.08 with the remaining balance used as part of the purchase of their new office at 708 51st Avenue North.

The terms of the loan call for an interest rate of 8.09% with 60 monthly payments of \$548.17 beginning June 1, 2002.

The future scheduled maturities of the mortgage are as follows:

Year ending December 31:

2005	4,242.76
2006	4,255.36
2007	4,608.57
2008	4,991.06
2009	5,405.32
Thereafter	<u>6,795.52</u>
	<u>\$ 30,298.59</u>

NOTE E – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and 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.

NOTE F- GOING CONCERN

Over the past few years Reconciliation Ministries has depleted its investments to run its operations. Therefore, there is substantial doubt about its ability to continue as a going concern.