

RECONCILIATION MINISTRIES, INC.
NASHVILLE, TENNESSEE

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS:	
Statement of Assets, Liabilities, and Net Assets.....	2
Statement of Revenues, Expenses, and Changes in Net Assets.....	3
Schedule of Functional Expenses.....	4
Statement of Cash Flows	5
NOTES TO THE FINANCIAL STATEMENTS	6-8

JIM R. DURHAM
CERTIFIED PUBLIC ACCOUNTANT

171-B BELLE FOREST CIRCLE
NASHVILLE, TENNESSEE 37221

PHONE 615-662-2808
FAX 615-627-0163
www.myhdvest.com/jimdurham
E-mail: jrd59@bellsouth.net

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Reconciliation Ministries, Inc.

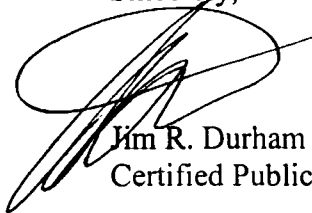
I have audited the accompanying statement of assets, liabilities, and net assets-income tax basis, of Reconciliation Ministries, Inc. (a nonprofit organization), as of December 31, 2006, and the related statements of revenues, expenses, and other changes in net assets-income tax basis, and changes in 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 auditing standards generally accepted in the United States of America. 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, 2006, and its revenues, expenses, and other changes in net assets for the year then ended on the basis of accounting described in Note A.

Sincerely,



Jim R. Durham
Certified Public Accountant

June 20, 2007

RECONCILIATION MINISTRIES, INC.

FINANCIAL STATEMENTS

RECONCILIATION MINISTRIES, INC.
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS
DECEMBER 31, 2006

ASSETS

Cash and Interest-Bearing Deposits	\$ 63,440
Investments	827
Property and Equipment (Net of Accumulated Depreciation of \$ 124,327)	<u>58,582</u>
Total Assets	<u>\$ 122,849</u>

LIABILITIES AND NET ASSETS

Liabilities:

Payroll Tax Payable	\$ 2,066
Credit Cards Payable	3,857
Other Short Term Liabilities	4,533
Mortgage Payable	<u>63,730</u>
Total Liabilities	<u>74,186</u>

Net Assets:

Unrestricted	31,101
Temporarily Restricted	<u>17,562</u>
Total Net Assets	<u>48,663</u>

Total Liabilities & Net Assets	<u>\$ 122,849</u>
---	--------------------------

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, 2006

UNRESTRICTED NET ASSETS:

Revenues and Gains		
Gifts and Contributions	\$ 81,782	
Metro Government Grant	30,600	
Dividends and Interest	35	
Increase in Fair Market Value of Investments	<u>57</u>	
Total Unrestricted Revenue and Gains		<u>\$ 112,474</u>

TEMPORARILY RESTRICTED NET ASSETS:

Temporarily Restricted Income	<u>17,562</u>	
Total Temporarily Restricted Income		<u>17,562</u>

TOTAL INCOME		<u>130,036</u>
--------------	--	----------------

Expenses		
Program Services	107,974	
Management and General	23,429	
Fundraising	<u>8,178</u>	
Total Expenses		<u>139,581</u>
Increase/(Decrease) in Net Assets		(9,545)

Net Assets at January 1, 2006		<u>58,208</u>
-------------------------------	--	---------------

Net Assets at December 31, 2006		<u>\$ 48,663</u>
---------------------------------	--	------------------

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

RECONCILIATION MINISTRIES, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2006

	<u>Program Services</u>	<u>Management & General</u>	<u>Fund- Raising</u>	<u>Total</u>
Salaries & Wages	\$ 47,414	\$ 11,379	\$ 4,425	\$ 63,218
Insurance	4,683	1,124	437	6,244
Payroll Taxes	5,303	1,273	495	7,071
Depreciation	5,396	1,295	503	7,194
Interest	3,711	891	346	4,948
Supplies	3,769	904	352	5,025
Postage & Shipping	2,018	485	188	2,691
Printing/Publications	2,727	654	255	3,636
Guest House Operations	5,937	-	-	5,937
Other Direct	4,643	1,114	433	6,190
Rainbow House	5,795	1,391	540	7,726
Accounting	2,392	2,392	-	4,784
Contract services	11,275	-	-	11,275
Other Costs	<u>2,911</u>	<u>527</u>	<u>204</u>	<u>3,642</u>
Total	<u>\$ 107,974</u>	<u>\$ 23,429</u>	<u>\$ 8,178</u>	<u>\$ 139,581</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, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase/(Decrease) in Net Assets	\$ (9,545)	
Depreciation	7,194	
Accounts Payable and Accrued Liabilities	<u>10,455</u>	
Total Cash Provided by Operating Activities		\$ 8,104

CASH FLOWS FROM INVESTING ACTIVITIES

Decrease of Short Term Investment	43	
Purchase of Equipment	(4,350)	
Purchase of Vehicle	<u>(19,131)</u>	
Total Cash Used by Investing Activities		(23,438)

CASH FLOW FROM FINANCING ACTIVITIES

Payments on Building Mortgage	(3,706)	
Refinance Mortgage	<u>40,808</u>	
Total Cash Provided by Financing Activities		37,102

NET INCREASE/(DECREASE) IN CASH		21,768
CASH BALANCE-JANUARY 1, 2006		<u>41,672</u>
CASH BALANCE-DECEMBER 31, 2006		\$ 63,440

The accompanying notes are an integral part to these financial statements

RECONCILIATION MINISTRIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

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 all 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>
Solomon Smith Barney	\$ 827	\$ 827
TOTAL	<u>\$ 827</u>	<u>\$ 827</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, 2006 is as follows:

Land and Buildings	\$ 152,959
Equipment	10,819
Automobiles	<u>19,131</u>
Total	182,909
Less accumulated depreciation	<u>(124,327)</u>
	<u>\$ 58,582</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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 4,420	\$ 2,158	\$ 6,578
2008	4,734	1,844	6,578
2009	5,070	1,508	6,578
2010	5,430	1,148	6,578
2011	<u>4,324</u>	<u>147</u>	<u>4,471</u>
Total	<u>\$ 23,978</u>	<u>\$ 6,805</u>	<u>\$ 30,783</u>

On October 5, 2006, Reconciliation Ministries, Inc. entered into a mortgage loan of \$40,807.56 for the 702 51st Avenue property.

The terms of the loan call for an interest rate of 8.00% with 59 monthly payments of \$ 382.00 beginning November 5, 2006. On November 5, 2006 the note will be called with the option to refinance.

Year ending December 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,455	\$ 3,129	\$ 4,584
2008	1,576	3,008	4,584
2009	1,707	2,877	4,584
2010	1,848	2,736	4,584
2011	<u>33,166</u>	<u>2,608</u>	<u>35,774</u>
Total	<u>\$ 39,752</u>	<u>\$ 14,358</u>	<u>\$ 54,110</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.