

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.
NASHVILLE, TENNESSEE

REPORT OF EXAMINATION OF FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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Independent Auditor's Report

To the Board of Directors
Pastoral Counseling Centers of Tennessee, Inc.

We have audited the accompanying combined statements of financial position of Pastoral Counseling Centers of Tennessee, Inc., (a Corporation) as of December 31, 2006 and 2005 and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the corporation management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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. We believe that our audit provides 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 Pastoral Counseling Centers of Tennessee, Inc. as of December 31, 2006 and 2005, the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Erwin Hardison & Co., P.C.
Certified Public Accountants
July 28, 2007

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PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Statements of Financial Position
December 31, 2006 and 2005

ASSETS		2006	2005
Current assets:			
Cash and Equivalents	\$	9,979	\$ 50,445
Accounts receivable (less allowance, 2006: \$6,838 and 2005: \$4,405)		23,131	49,619
Satellite Accounts Receivable		0	2,115
Pledges Receivable		3,872	8,771
Total current assets		<u>36,982</u>	<u>110,950</u>
Assets whose use is restricted:			
by donor—temporarily restricted assets		33,529	154,047
Endowment fund		47,679	47,281
Total assets whose use is restricted		<u>81,208</u>	<u>201,328</u>
Property and equipment:			
Buildings and improvements		14,787	14,787
Furniture and equipment		152,638	152,638
Total property and equipment		<u>167,425</u>	<u>167,425</u>
Accumulated depreciation		<u>(157,080)</u>	<u>(152,491)</u>
Net property and equipment		<u>10,345</u>	<u>14,934</u>
Total assets	\$	<u>128,535</u>	\$ <u>327,212</u>

See accompanying notes to financial statements.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Statements of Financial Position
December 31, 2006 and 2005

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
Current liabilities:		
Duc to endowment fund	\$ 41,000	0
Due to temporarily restricted funds	27,354	0
Accrued expenses	<u>3,341</u>	\$ <u>5,491</u>
Total current liabilities	<u>71,695</u>	<u>5,491</u>
 Net Assets - Unrestricted	(24,368)	120,392
Net Assets - Temporarily restricted	33,529	154,047
Net Assets - Permanently restricted	<u>47,679</u>	<u>47,282</u>
Total Net Assets	<u>56,840</u>	<u>321,721</u>
 Total liabilities and net assets	\$ <u>128,535</u>	\$ <u>327,212</u>

See accompanying notes to financial statements.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Statements of Activities
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Changes in unrestricted net assets:		
Revenue:		
Contributions	\$ 205,536	\$ 230,588
Counseling Services	354,247	305,489
Investment income	1,813	5,779
Net assets released from restrictions	303,633	391,300
Other	<u>129</u>	<u>151</u>
Total revenue	865,358	933,307
Expenses:		
General and administrative	995,724	874,984
Depreciation and amortization	4,589	6,899
Advertising	<u>9,805</u>	<u>9,748</u>
Total expenses	<u>1,010,118</u>	<u>891,631</u>
 Increase(Decrease) in unrestricted net assets	 (144,760)	 41,676
Changes in temporarily restricted net assets:		
Contributions	183,115	267,861
Net assets released from restrictions	<u>(303,633)</u>	<u>(391,300)</u>
Increase(Decrease) in temporarily restricted net assets	(120,518)	(123,439)
Changes in permanently restricted net assets:		
Contributions	0	5,000
Investment Income	547	732
Distributions	<u>(150)</u>	<u>(151)</u>
(Decrease) Increase in permanently restricted net assets	397	5,581
 (Decrease) Increase in net assets	 (264,881)	 (76,182)
Net assets beginning of year	<u>321,721</u>	<u>397,903</u>
 Net assets end of year	 <u>\$ 56,840</u>	 <u>\$ 321,721</u>

See accompanying notes to financial statements.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Statements of Cash Flows (Indirect Method)
Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities and gains and losses:		
Change in unrestricted net assets	\$ (144,760)	\$ 41,675
Adjustments to reconcile revenue and gains in excess of expenses and losses to net cash provided by operating activities and gains and losses:		
Depreciation and amortization	4,589	6,899
Restricted Income (loss)	(120,121)	(117,858)
Change in receivables	33,501	(29,920)
Due to endowment fund	41,000	
Due to temporarily restricted funds	27,354	
Change in accrued expenses	<u>(2,150)</u>	<u>782</u>
Net cash provided by operating activities and gains and losses	(160,587)	(98,422)
Cash flows from investing activities:		
Payments for purchase of equipment & improvements	<u>0</u>	<u>(2,981)</u>
Net cash used by investing activities	0	(2,981)
Net increase(decrease) in cash and cash equivalents	(160,587)	(101,403)
Cash and cash equivalents at beginning of year	50,445	33,990
Less: Permanently Restricted cash and cash equivalents	(397)	(5,581)
Add: Temporarily Restricted cash and cash equivalents	<u>120,518</u>	<u>123,439</u>
Cash and cash equivalents at end of year (unrestricted)	\$ <u>9,979</u>	\$ <u>50,445</u>

See accompanying notes to financial statements.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Notes to Financial Statements
December 31, 2006 and 2005NATURE OF OPERATIONS

Pastoral Counseling Centers of Tennessee, Inc. (PCCT) provides counseling of mental health to the general public through individual, group or family therapy. The corporate office is located in Nashville, with six (6) satellite offices located in the surrounding area.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Charity Care. PCCT provides free counseling and/or a slide scale charge for those counselees who meet certain income criteria. PCCT offsets the cost of counseling with contributions from individuals, churches and corporations.

Support and Expenses. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Investments and investment income. Marketable equity securities are carried at the lower of cost or market at the balance sheet date. Interest and investment income are recognized when earned.

Market Risk. All of PCCT's cash accounts are held in money market funds which limits their exposure to risk.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and equivalents. Cash and cash equivalents include any securities whose maturity is less than three months, excluding amounts whose use is restricted.

2. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Notes to Financial Statements
December 31, 2006 and 20053. TAX STATUS

PCCT is a not-for-profit corporation as described in section 501(c) (3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to section 501(a) of the Internal Revenue Code.

4. ASSETS WHOSE USE IS RESTRICTED

The organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time 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.

Net assets are temporarily restricted as follows:

	2006	2005
Education	\$ 29,340	\$ 46,250
Management Development	0	0
Capital Improvement	0	0
Coffman Fund	285	285
Training	3,904	12,496
Single Fathers Fund	0	0
Computers and Technology	0	0
Clinical Pastoral Education Fund	0	95,016
Total net assets temporarily restricted	\$ 33,529	\$ 154,047

The composition of assets whose use is temporarily restricted at December 31, 2006 and December 31, 2005 is set forth in the following table

	2006	2005
Temporarily restricted fund		
Cash	6,175	154,047
Due from operating funds	27,354	0
Total	33,529	154,047

Net assets released from temporary restrictions were \$303,633 and \$391,300 for the years ended December 31, 2006 and December 31, 2005.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Notes to Financial Statements
December 31, 2006 and 2005

The composition of assets whose use is permanently restricted at December 31, 2006 and 2005 is set forth in the following table. Investments are stated at cost that approximates market value.

Endowment Fund	2006	2005
Cash and equivalents	\$ 6,679	\$ 47,281
Due from operating funds	41,000	0
Total	<u>47,679</u>	<u>47,281</u>

The Clinical Pastoral Education Program will be transferred to Saint Thomas Hospital in August, 2006. The restricted fund balance as of this date, will be transferred to St. Thomas Hospital.

5. PROPERTY AND EQUIPMENT

Classification of Property and Equipment and Accumulated Depreciation was as follows:

	COST	ACCUMULATED DEPRECIATION	BOOK VALUE
2006			
Buildings	\$ 14,787	\$ 6,574	\$ 8,213
Equipment, Furnishings and Fixtures	152,638	150,506	2,132
TOTALS	<u>\$ 167,425</u>	<u>\$ 157,080</u>	<u>\$ 10,345</u>
2005			
Buildings	\$ 14,787	\$ 5,307	\$ 9,480
Equipment, Furnishings and Fixtures	152,638	147,184	5,454
TOTALS	<u>\$ 167,425</u>	<u>\$ 152,491</u>	<u>\$ 14,934</u>

6. PENDING LEGAL PROCEEDINGS

According to Legal counsel, there is no outstanding litigation against PCCT, at December 31, 2006 and 2005.

7. PENSION PLAN

PCCT has a tax deferred retirement plan covering employees who have completed twelve months of service, attained the age of 21, and are employed on a full-time basis. PCCT makes an annual contribution for the participants, based on a percentage of their annual gross salaries. The total contribution was \$20,140 and \$18,476 for 2006 and 2005 respectively. Employees are eligible to make contributions personally through salary reduction.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Notes to Financial Statements
December 31, 2006 and 20058. ADVERTISING COSTS

All advertising costs are expensed when incurred.

9. RELATED PARTY

PCCT is affiliated with the Vine Street Christian Church and due to the nature of services provided by PCCT, office space and utilities are, in most cases, provided at no cost for the counselors.

10. FUND-RAISING

All fund raising expenses have been expensed as incurred. The expenses do not meet the criteria for joint cost allocation. The total expense for 2006 and 2005 is \$92,012 and \$56,830, respectively.

11. GOING CONCERN

During 2006, Pastoral Counseling Centers of TN, Inc. borrowed \$41,000 from the endowment fund and \$27,354 from the temporarily restricted funds and deposited these amounts in the operating cash accounts. These amounts are reflected in the liability section of the balance sheet and will be repaid as soon as possible.

Erwin Hardison & Co., P.C.

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Randy L. Rader, CPA

July 28, 2007

To the Board of Directors
Pastoral Counseling Centers of Tennessee, Inc.
Nashville, TN 37205

Our report on our audit of the basic financial statements of Pastoral Counseling Centers of Tennessee, Inc. (a corporation) for the years ended December 31, 2006 and 2005 appears on page 1. Those audits were conducted to express an opinion that the statement of financial position and statement of activities for the years then ended are in accordance with auditing standards generally accepted in the United States of America.

The information included in the attached schedule of functional expenses for the years ended December 31, 2006 and 2005 is presented for supplementary analysis purposes only. We do not express any opinion or assurance on the supplementary information mentioned above.

Erwin Hardison & Co., P.C.

Erwin Hardison & Co., PC
Certified Public Accountants

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& Co.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Schedule of Functional Expenses
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Program Services	\$ 831,643	\$ 809,282
Management and General	86,613	25,670
Fundraising	<u>92,012</u>	<u>56,830</u>
TOTAL	<u>\$ 1,010,268</u>	<u>\$ 891,782</u>

See accompanying notes to financial statements.