

Audited Financial Statements

Family Foundation Fund, Inc.

December 31, 2006

FAMILY FOUNDATION FUND, INC.

Audited Financial Statements

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the Board of Directors
Family Foundation Fund, Inc.

We have audited the accompanying statement of financial position of Family Foundation Fund, Inc. as of December 31, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of 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 Family Foundation Fund, Inc. as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Rayburn, Bates & Fitzgerald, P.C.

May 30, 2007

FAMILY FOUNDATION FUND, INC.

Statement of Financial Position

December 31, 2006

Current assets:	
Cash and cash equivalents	\$ 82,814
Accounts receivable, no allowance necessary	61,153
Inventory	10,520
Investments (note 2)	<u>32,351</u>
Total current assets	186,838
Property and equipment, net of accumulated depreciation (note 3)	<u>206,598</u>
Total assets	\$ <u><u>393,436</u></u>
Current liabilities:	
Accounts payable	\$ <u>21,178</u>
Total current liabilities	<u>21,178</u>
Net assets:	
Unrestricted	324,722
Temporarily restricted (note 4)	<u>47,536</u>
	<u><u>372,258</u></u>
Total liabilities and net assets	\$ <u><u>393,436</u></u>

See accompanying notes to financial statements.

FAMILY FOUNDATION FUND, INC.

Statement of Activities

For the Year Ended December 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue:			
General donations	\$ 175,677	-	175,677
Celebration	55,536	-	55,536
Fundraiser	30,790	-	30,790
Education	59,340	-	59,340
Father's House campaign	-	108,345	108,345
Interest	2,165	-	2,165
Gain on sale of property and equipment	142	-	142
Other	17,945	-	17,945
	<u>341,595</u>	<u>108,345</u>	<u>449,940</u>
Total revenue	341,595	108,345	449,940
Net assets released from restrictions (note 5)	206,122	(206,122)	-
	<u>547,717</u>	<u>(97,777)</u>	<u>449,940</u>
Expenses:			
Education and support	209,212	-	209,212
Management and general	431,400	-	431,400
Fundraising	5,162	-	5,162
	<u>645,774</u>	<u>-</u>	<u>645,774</u>
Total expenses	645,774	-	645,774
Change in net assets	(98,057)	(97,777)	(195,834)
Net assets, January 1, 2006	422,779	145,313	568,092
Net assets, December 31, 2006	\$ <u>324,722</u>	<u>47,536</u>	<u>372,258</u>

See accompanying notes to financial statements.

FAMILY FOUNDATION FUND, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2006

	Program Services	Supporting Services		
	Education and Support	Mangement and General	Fund Raising	Total
Salaries	\$ 80,720	80,720	-	161,440
Contract labor	273	-	-	273
Total salaries and related expenses	80,993	80,720	-	161,713
Automobile	15,210	5,070	-	20,280
Bank service charges	-	1,288	-	1,288
Charitable donations	3,925	-	-	3,925
Communications	2,443	7,334	-	9,777
Professional services	4,014	12,041	-	16,055
Special events and fundraiser	-	-	5,162	5,162
Supplies	4,307	4,307	-	8,614
Travel	900	899	-	1,799
Enrichment	11,720	-	-	11,720
Training	-	150	-	150
Postage and shipping	-	10,985	-	10,985
Educational expenses	57,233	-	-	57,233
Occupancy	-	7,621	-	7,621
Allowance for boys	1,680	-	-	1,680
Dues and subscriptions	-	360	-	360
Gifts and incentives	1,629	-	-	1,629
Insurance	-	4,353	-	4,353
Maintenance and cleaning	-	263	-	263
General program expense	10,758	-	-	10,758
Taxes, licenses, and permits	-	2,483	-	2,483
Father's House	5,884	1,961	-	7,845
Farm	1,423	-	-	1,423
Uncollectible pledges	-	26,414	-	26,414
Unrealized loss on investment	-	5,255	-	5,255
Loss from impairment of long-lived assets	-	259,896	-	259,896
Total expenses before depreciation	202,119	431,400	5,162	638,681
Depreciation	7,093	-	-	7,093
Total expenses	\$ 209,212	431,400	5,162	645,774

See accompanying notes to financial statements.

FAMILY FOUNDATION FUND, INC.

Statement of Cash Flows

For the Year Ended December 31, 2006

Cash flows from operating activities:	
Change in net assets	\$ (195,834)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,093
Loss from impairment of long-lived assets	259,896
Gain on sale of property and equipment	(142)
Decrease in pledges receivable	94,000
Contribution of investments	(19,000)
Unrealized loss on investment	5,255
Increase in accounts receivable	(39,713)
Increase in accounts payable	12,940
Decrease in accrued expense	<u>(25,000)</u>
Net cash provided by operating activities	<u>99,495</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(227,192)</u>
Net cash used by investing activities	<u>(227,192)</u>
Net decrease in cash and cash equivalents	(127,697)
Cash and cash equivalents at beginning of year	<u>210,511</u>
Cash and cash equivalents at end of year	<u>\$ 82,814</u>

See accompanying notes to financial statements.

FAMILY FOUNDATION FUND, INC.

Notes to Financial Statements

December 31, 2006

(1) Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

Family Foundation Fund, Inc. (the Foundation) is a nonprofit organization that is designed to provide mentoring to fatherless and disadvantaged boys, ages ten years and older in the Nashville and Middle Tennessee area. The young boys are provided with Christian surrogate fathers to nurture them into mature, responsible adults. They also are provided with tuition assistance for private Christian education as well as summer mentoring programs.

Summary of Significant Accounting Policies

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. The significant accounting policies followed are described below:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Revenue Recognition

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

All donor-restricted contributions are reported as an increase in temporarily 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.

Pledge Contributions

The Foundation recognizes pledge contributions when an unconditional promise to give is received. Pledge contributions are recorded at net realizable value and certain pledges are discounted to present value, depending on when they are scheduled to be received.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase.

Inventory

Inventory consists of paperback copies of books written by the founder of the Foundation.

Inventory is valued at the lower of cost or market. Cost is determined by the first-in, first-out method (FIFO).

FAMILY FOUNDATION FUND, INC.

Notes to Financial Statements, (Continued)

December 31, 2006

(1) Nature of Organization and Summary of Significant Accounting Policies. (Continued)

Summary of Significant Accounting Policies. (Continued)

Property and Equipment

Property and equipment is stated at cost when purchased and fair value if contributed. It is the Foundation's policy to capitalize major purchases. Lesser amounts are expensed. Equipment, furniture, buildings and automobiles are depreciated over their estimated useful lives which range from three to forty years, using the straight-line method of depreciation.

Functional Allocation of Expenses

The costs of providing the Foundation's various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

Income taxes are not provided for in the financial statements, since the Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Donated Materials and Services

Donated materials, property or equipment, when received, are reflected as contributions in the accompanying statements at their estimated fair market values at the date of receipt. No amounts have been reflected in the financial statements for donated services of volunteers in as much as no objective basis is available to measure the value of such services. However, a number of volunteers have donated their time to the Foundation's program services and fundraising campaigns.

(2) Investments

Investments held by the Foundation consist of equity securities and a debt security. Investments in marketable securities are stated at fair value as determined by the custodian and/or investment manager primarily based on quoted market prices or net asset values.

Basis in equity securities	\$ 37,106
Basis in debt security	500
Unrealized loss	<u>(5,255)</u>
	<u>\$ 32,351</u>

FAMILY FOUNDATION FUND, INC.

Notes to Financial Statements, (Continued)

December 31, 2006

(3) Property and Equipment

A summary of property and equipment at December 31, 2006 as follows:

Land and land improvements	\$ 130,000
Automobiles	28,294
Office equipment	8,331
Furniture and fixtures	17,451
Buildings	<u>30,000</u>
	214,076
Less accumulated depreciation	<u>7,478</u>
	<u><u>\$ 206,598</u></u>

Depreciation expense for the year ended December 31, 2006 totaled \$7,093

During 2006, land and land improvements and buildings were deemed to be impaired due to pending litigation and damage to the buildings and written down to their fair value. Fair value was determined by the Board of Directors of Family Foundation Fund. An impairment loss of \$110,496 for land and land improvements and \$149,400 for buildings has been charged to operations in 2006.

Subsequent to December 31, 2006 and in connection with pending litigation, management of the Foundation determined that the land and land improvements and buildings should be reclassified as held for sale. Management has incurred approximately \$60,000 in additional land improvements in 2007 related to such properties.

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2006:

Father's House building	<u><u>\$ 47,536</u></u>
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(5) Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors during the year.

Purpose restrictions accomplished:

Father's House building	<u><u>\$ 206,122</u></u>
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(6) Pending Litigation

The Foundation is a defendant in a lawsuit filed by a descendant of individuals buried in a family cemetery located on the property to be used for Father's House. The suit asks for the boundaries of the family cemetery be established and access to the cemetery be available. The Plaintiff also asks for costs and attorneys fees be paid by the Foundation.