

**RECONCILIATION, INC.
NASHVILLE, TENNESSEE**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2012

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT..... | 1-2 |
| FINANCIAL STATEMENTS: | |
| Statement of Financial Position..... | 3 |
| Statement of Activities..... | 4 |
| Schedule of Functional Expenses..... | 5 |
| Statement of Cash Flows..... | 6 |
| NOTES TO THE FINANCIAL STATEMENTS..... | 7-9 |

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Reconciliation, Inc.

I have audited the accompanying financial statements of Reconciliation, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statement of activities, statement of functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my audit opinion.

Jim Durham, CPA PLLC Registered Representative, Securities offered through H.D. Vest Investment ServicesSM, Member: SIPC.
Advisory Services offered through H.D. Vest Advisory ServicesSM

Associate Member of

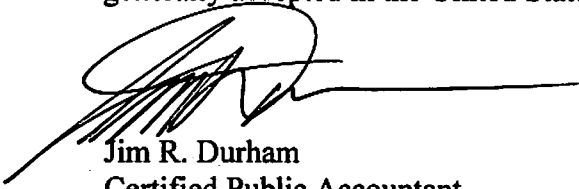


Jim Durham CPA PLLC is not a registered broker/dealer or independent investment advisory firm



Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reconciliation, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "Jim R. Durham", with a long horizontal line extending to the right.

Jim R. Durham
Certified Public Accountant

August 5, 2013

RECONCILIATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012

ASSETS

Current Assets:

| | |
|------------------|------------|
| Cash | \$ 17,944 |
| Prepaid Expenses | <u>408</u> |

Total Current Assets 18,352

Fixed Assets:

| | |
|--|---------------|
| Property and Equipment | <u>28,543</u> |
| (Net of Accumulated Depreciation of \$166,698) | |

Total Assets \$ 46,895

LIABILITIES AND NET ASSETS

Liabilities:

| | |
|------------------|---------------|
| Accounts Payable | \$ 1,489 |
| Mortgage Payable | <u>25,935</u> |

Total Liabilities 27,424

Net Assets:

| | |
|--------------|---------------|
| Unrestricted | <u>19,471</u> |
|--------------|---------------|

Total Net Assets 19,471

Total Liabilities & Net Assets \$ 46,895

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

RECONCILIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

| | <u>2012</u> |
|---------------------------------------|-----------------------------|
| UNRESTRICTED NET ASSETS: | |
| Revenues, Gains, and Other Support | |
| Gifts and Contributions | \$ 97,111 |
| Dividends and Interest | <u>1</u> |
| TOTAL INCOME | 97,112 |
| Expenses | |
| Program Services | 69,369 |
| Management and General | 14,300 |
| Fundraising | <u>5,472</u> |
| TOTAL EXPENSES | 89,141 |
| Increase/(Decrease) in Net Assets | 7,971 |
| Change in Accounting Method | (3,755) |
| NET ASSETS AT JANUARY 1, 2012 | <u>15,255</u> |
| NET ASSETS AT DECEMBER 31, 2012 | <u><u>\$ 19,471</u></u> |
| Interest Paid | 2,465 |
| Interest Expensed | 2,465 |

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

RECONCILIATION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

| | <u>Program Services</u> | <u>Management & General</u> | <u>Fundraising</u> | <u>Total</u> |
|------------------------|-----------------------------|-------------------------------------|---------------------|----------------------|
| Salaries and Wages | \$ 36,637 | \$ 8,793 | \$ 3,420 | \$ 48,850 |
| Insurance | 3,210 | 770 | 300 | 4,280 |
| Payroll Taxes | 3,282 | 788 | 306 | 4,376 |
| Depreciation | 2,894 | 694 | 270 | 3,858 |
| Interest | 1,849 | 444 | 172 | 2,465 |
| Office Supplies | 1,215 | - | - | 1,215 |
| Postage and Shipping | 512 | - | - | 512 |
| Travel and Meals | 3,358 | - | - | 3,358 |
| Guest House Operations | 5,175 | - | - | 5,175 |
| Rainbow House | 4,960 | 1,190 | 463 | 6,613 |
| Accounting | 2,625 | 630 | 245 | 3,500 |
| Bank Fees | 229 | 228 | - | 457 |
| Contract Services | 250 | - | - | 250 |
| Other Costs | <u>3,174</u> | <u>762</u> | <u>296</u> | <u>4,232</u> |
| Total | <u>\$ 69,370</u> | <u>\$ 14,299</u> | <u>\$ 5,472</u> | <u>\$ 89,141</u> |

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

RECONCILIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|----------------|
| Increase/(Decrease) in Net Assets | \$ 7,971 |
| Depreciation | 3,858 |
| Prepaid Expense | (80) |
| Accounts Payable and Accrued Liabilities | <u>(2,265)</u> |

| | |
|---|-------|
| Total Cash Provided by Operating Activities | 9,484 |
|---|-------|

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|------------------------------|----------|
| Purchase of Office Equipment | <u>-</u> |
|------------------------------|----------|

| | |
|---|---|
| Total Cash Provided by Investing Activities | - |
|---|---|

CASH FLOW FROM FINANCING ACTIVITIES:

| | |
|-------------------------------|----------------|
| Payments on Building Mortgage | <u>(4,260)</u> |
|-------------------------------|----------------|

| | |
|---|----------------|
| Total Cash Provided by Financing Activities | <u>(4,260)</u> |
|---|----------------|

| | |
|--|--------------|
| NET INCREASE/(DECREASE) IN CASH | 5,224 |
|--|--------------|

| | |
|--------------------------------------|----------------------|
| CASH BALANCE- JANUARY 1, 2012 | <u>12,720</u> |
|--------------------------------------|----------------------|

| | |
|--|--------------------------------|
| CASH BALANCE- DECEMBER 31, 2012 | <u><u>\$ 17,944</u></u> |
|--|--------------------------------|

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

RECONCILIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

RECONCILIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Reconciliation, Inc. is a not-for-profit organization that was organized in 1984. Its mission is to provide services and programs to reach out to youth and families who are innocent victims of crime by promoting family unification, human rights, and advocacy to strengthen the family unit as a whole and reduce inter-generational incarceration.

Basis of Accounting

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

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(continued)

Contributed Services

Reconciliation, 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

Reconciliation, 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. The tax years that are open are 2010, 2011, and 2012.

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.

Subsequent Events

Subsequent events have been evaluated through August 5, 2013, which is the date the financial statements were issued.

NOTE B – 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, 2012 is as follows:

| | |
|-------------------------------|------------------|
| Land and Buildings | \$ 159,958 |
| Equipment | 16,152 |
| Automobiles | <u>19,131</u> |
| Total | \$ 195,241 |
| Less accumulated depreciation | <u>(166,698)</u> |
| | <u>\$ 28,543</u> |

NOTE C – MORTGAGE NOTE PAYABLE

On April 29, 1996, Reconciliation, 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.

NOTE C – MORTGAGE NOTE PAYABLE-(continued)

The terms of the loan call for an interest rate of 6.65% with 60 monthly payments of \$ 217.70 beginning December 19, 2011. On December 19, 2016 the note will be called with the option to refinance.

Year ending December 31 principal loan balance remaining:

| | |
|------|-----------|
| 2013 | \$ 24,867 |
| 2014 | 23,878 |
| 2015 | 22,822 |
| 2016 | 21,693 |

NOTE D – 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.