

**RECONCILIATION OUTREACH
MINISTRIES, INC.**
Dallas, Texas

Financial Statements

December 31, 2010 and 2009

RECONCILIATION OUTREACH MINISTRIES, INC

Financial Statements

December 31, 2010 and 2009

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Ratloff & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
RECONCILIATION OUTREACH MINISTRIES, INC:

We have audited the accompanying statement of financial position of RECONCILIATION OUTREACH MINISTRIES, INC (a Texas nonprofit organization) as of December 31, 2010 and 2009 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Ministry's 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 RECONCILIATION OUTREACH MINISTRIES, INC as of December 31, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Ratloff & Associates, P.C.

June 8, 2011

RECONCILIATION OUTREACH MINISTRIES, INC.

Statements of Financial Position
December 31, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets		
Cash and cash equivalents	\$ 460,372	\$ 140,954
Accounts receivable	-	1,602
Prepaid expenses	<u>288</u>	<u>288</u>
Total current assets	<u>460,660</u>	<u>142,844</u>
Property and Equipment		
Land	611,078	611,078
Building	3,440,146	3,124,018
Furniture, fixtures and equipment	71,956	59,528
Vehicles	84,131	43,932
Less: accumulated depreciation	<u>(607,461)</u>	<u>(505,088)</u>
Net property and equipment	<u>3,599,850</u>	<u>3,333,468</u>
Other assets		
Restricted cash	<u>124,594</u>	<u>-</u>
Total Assets	<u>\$ 4,185,104</u>	<u>\$ 3,476,312</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Current maturities of long-term debt	\$ 12,103	\$ 7,223
Note payable to a bank	310,000	260,000
Accounts payable and accrued expenses	<u>56,731</u>	<u>76,408</u>
Total current liabilities	<u>378,834</u>	<u>343,631</u>
Long-term Debt		
Notes payable, net of current maturities	<u>310,000</u>	<u>322,103</u>
Total liabilities	<u>688,834</u>	<u>665,734</u>
Net Assets		
Unrestricted	3,371,676	2,690,578
Temporarily restricted	<u>124,594</u>	<u>120,000</u>
Total net assets	<u>3,496,270</u>	<u>2,810,578</u>
Total Liabilities and Net Assets	<u>\$ 4,185,104</u>	<u>\$ 3,476,312</u>

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

RECONCILIATION OUTREACH MINISTRIES, INC.

Statements of Activities

For the Years Ended December 31, 2010 and 2009

Change in Unrestricted Net Assets:

	<u>2010</u>	<u>2009</u>
Unrestricted Revenues:		
Contributions and grants	\$ 1,133,899	\$ 349,141
Non-cash contributions	186,400	242,326
Rental income	365,784	267,478
Other revenues	69,229	37,288
Interest	443	-
Net assets released from restriction	<u>10,406</u>	<u>993</u>
Total unrestricted revenues	<u>1,766,161</u>	<u>897,226</u>
Expenses:		
Program Services:		
Urban outreach	888,623	787,168
Support Services:		
Fund raising	18,449	18,086
General and administrative	<u>177,991</u>	<u>152,364</u>
Total expenses	<u>1,085,063</u>	<u>957,618</u>
Increase (Decrease) in Unrestricted Net Assets	<u>681,098</u>	<u>(60,392)</u>
Change in Temporarily Restricted Net Assets		
Contributions for capital projects	15,000	120,000
Net assets released from restriction	<u>(10,406)</u>	<u>(993)</u>
Increase in Temporarily Restricted Net Assets	<u>4,594</u>	<u>119,007</u>
Increase in Net Assets	685,692	58,615
Net Assets at Beginning of Year	<u>2,810,578</u>	<u>2,751,963</u>
Net Assets at End of Year	<u>\$ 3,496,270</u>	<u>\$ 2,810,578</u>

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

RECONCILIATION OUTREACH MINISTRIES, INC.

Statements of Cash Flows

For the Years Ended December 31, 2010 and 2009

Cash Flows from Operating Activities	<u>2010</u>	<u>2009</u>
Contributions received	\$ 1,134,342	\$ 349,141
Cash received from rental and other income	435,013	304,766
Cash paid for operations and programs	(771,991)	(571,847)
Interest paid	<u>(42,374)</u>	<u>(32,814)</u>
Net cash provided by operating activities	<u>754,990</u>	<u>49,246</u>
Cash Flows from Investing Activities		
Investment in land and buildings	(316,128)	(134,312)
Purchase of furniture and equipment	<u>(52,627)</u>	<u>(4,963)</u>
Net cash utilized by investing activities	<u>(368,755)</u>	<u>(139,275)</u>
Cash Flows from Financing Activities		
Contributions for capital expenditures	15,000	120,000
Proceeds from notes payable	60,000	85,000
Payments on note payable	<u>(17,223)</u>	<u>(6,702)</u>
Net cash provided by financing activities	<u>57,777</u>	<u>198,298</u>
Net increase in cash and cash equivalents	444,012	108,269
Cash and cash equivalents at beginning of year	<u>140,954</u>	<u>32,685</u>
Cash and cash equivalents at end of year	<u>\$ 584,966</u>	<u>\$ 140,954</u>
Reconciliation of Increase in Net Assets to Net Cash provided by Operating Activities		
Increase in Net Assets	<u>\$ 685,692</u>	<u>\$ 58,615</u>
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	102,373	75,387
Contributions restricted for capital expenditures	(15,000)	(120,000)
Decrease (increase) in accounts receivable	1,602	(1,602)
Decrease in prepaid expenses	-	464
Increase (decrease) in accounts payable	<u>(19,677)</u>	<u>36,382</u>
Total adjustments	<u>69,298</u>	<u>(9,369)</u>
Net Cash Provided by Operating Activities	<u>\$ 754,990</u>	<u>\$ 49,246</u>
Reconciliation to Statement of Financial Position		
Cash and cash equivalents	\$ 460,372	\$ 140,954
Restricted cash	<u>124,594</u>	<u>-</u>
Cash and cash equivalents at end of period	<u>\$ 584,966</u>	<u>\$ 140,954</u>

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

RECONCILIATION OUTREACH MINISTRIES, INC

Notes to Financial Statements

December 31, 2010 and 2009

1 - Description of Organization

RECONCILIATION OUTREACH MINISTRIES, INC, (the "Ministry") is a nondenominational ministry for East Dallas. The mission of the Ministry is to provide a safe, loving environment for healing lives, and restoring families and individuals to productive lifestyles. The Ministry has established housing for mothers with children, single men and women and families. The Ministry offers employment opportunities and job training; operates daycare programs for the working mothers; maintains after school programs, tutoring, summer programs and camping experiences for inner city children and teens.

The Ministry's primary source of revenue is free-will donations from supporters and the general public. The Ministry was incorporated under the laws of the State of Texas and is approved as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Ministry is located in Dallas, Texas.

The Ministry is affiliated with Reconciliation Church (the "Church"), a church incorporated under the laws of the State of Texas and approved as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Church provides substantial managerial control over the operations of the Ministry.

The Ministry is also affiliated with Reconciliation Child Development Center (RCDC) through common board members. The accounts of RCDC are combined with the accounts of the Ministry in the accompanying financial statements.

2 - Summary of Significant Accounting Policies

Basis of Accounting - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned and expenses are recorded when incurred on the accrual basis of accounting.

Programs - The Ministry pursues its objectives through the execution of these major programs:

Urban outreach - This program provides a home for men, women and children while providing rehabilitative faith-based services to assist them in breaking the cycle of poverty and dependence.

Fund raising - This program exists to facilitate giving from supporters and donors of the Ministry.

General and administrative - This program supports the general operations of the Ministry.

Net Asset Accounting - The accounts of the Ministry are maintained in accordance with the principles of net asset accounting. Under net asset accounting, resources are classified into categories of unrestricted, temporarily restricted, or permanently restricted net assets, according to funding source restrictions as to timing and purpose of resources.

Restricted Contributions - The Ministry reports gifts of cash and other assets as restricted support if they are received with donor restrictions that limit the use of the donated assets. Restricted gifts of cash and other assets whose restrictions are met in the same reporting period are reported as unrestricted support. When a donor 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 unrestricted revenues.

RECONCILIATION OUTREACH MINISTRIES, INC

Notes to Financial Statements

December 31, 2010 and 2009

2 - Summary of Significant Accounting Policies (continued)

Donated Assets and Services - Donated property is recorded at fair market value on the date of receipt in the appropriate investment, expense or equipment account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue. Contributed services are recognized as unrestricted revenues if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution.

Estimates - Management utilizes estimates in order to record certain transactions in accordance with accounting principles generally accepted in the United States of America.

Cash Equivalents - The Ministry defines cash and cash equivalents to be all highly liquid investments with an original maturity of three months or less.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs and supporting services benefited.

Inventory - The Ministry maintains inventory for its retail thrift store. Although the items carried in the store for resale have some monetary value, a specific dollar amount cannot be determined. Management believes that any such amount would not be material to the overall financial statements and such amount would be consistent from year to year. Therefore, no value has been included in the Statement of Financial Position.

Property and Equipment - Property and equipment are recorded at acquisition cost. The Ministry capitalizes assets with a cost greater than \$500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed on a straight-line method over the following estimated useful lives:

Buildings	40 years
Furniture and equipment	5-7 years
Vehicles	5 years

Impairment of Long-Lived Assets - Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Income Tax Status - The Ministry is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation.

3 - Affiliate and Related Party Transactions

Reconciliation Church pays the salary of the executive directors of Reconciliation Outreach without charge to the Ministry. The estimated cost of staff compensation incurred by Reconciliation Church for the benefit of the Ministry amounted to \$120,000 during 2010 and \$120,000 during 2009 and is reported as a non-cash contribution in the Statement of Activities. The Church occupies facilities owned by the Ministry for Sunday worship and utilizes furniture and equipment owned by the Ministry at no cost to the Church. The Church paid \$4,139 and \$4,980 of expenses related to the Ministry during 2010 and 2009, respectively.

RECONCILIATION OUTREACH MINISTRIES, INC

Notes to Financial Statements
December 31, 2010 and 2009

4 - Notes Payable to a Bank

In May, 2008, the Ministry opened a line of credit with a bank for a maximum of \$425,000, with monthly payments of interest only at prime floating rate (4% at December 31, 2010), due in 2011, and secured by real estate. At December 31, 2010, the balance owed amounted to \$310,000. The line of credit balance was refinanced in May 2011 with other long-term debt balances. See Note 5.

5 - Long-Term Debt

Long-term debt includes a note payable to an individual in the original amount of \$400,000 with interest at 7.5%, secured by lien on real property, payable in monthly installments of \$2,640 and maturing in March 2010. The unpaid balance at December 31, 2010 and 2009 was \$322,103 and \$329,326, respectively. Principal payments totaling \$1,257 were paid in 2011 prior to refinancing this note in May 2011.

In May 2011, the Organization entered into a loan agreement with a bank to refinance both the note payable to an individual described above, and the line of credit with a bank described in Note 4. The note payable includes additional borrowings for a total principal amount of \$926,700. The loan matures in May 2016 and carries a fixed interest rate of 5.31%. Future obligations under these new terms are as follows:

2011	\$ 10,846
2012	19,391
2013	20,446
2014	21,558
2015	22,731
Thereafter	<u>831,728</u>
Total	<u>\$ 926,700</u>

6 - Net Assets

	<u>2010</u>	<u>2009</u>
Unrestricted net assets:		
Balance, beginning of year	\$ 2,690,578	\$ 2,750,970
Increase (decrease) in unrestricted net assets	<u>681,098</u>	<u>(60,392)</u>
Balance, end of year	<u>\$ 3,371,676</u>	<u>\$ 2,690,578</u>
Temporarily restricted net assets:		
Balance, beginning of year	\$ 120,000	\$ 993
Increase in temporarily restricted net assets	<u>4,594</u>	<u>119,007</u>
Balance, end of year	<u>\$ 124,594</u>	<u>\$ 120,000</u>

Temporarily restricted net assets are available for expenditure for capital assets.

RECONCILIATION OUTREACH MINISTRIES, INC

Notes to Financial Statements

December 31, 2010 and 2009

7 - Lease Commitments

The Ministry leases office equipment under leases that are noncancelable. Rental expense for the equipment was \$24,583 and \$15,679 for the years ended December 31, 2010 and 2009, respectively. In 2009, the Ministry entered into a noncancelable lease for parking space that expires in 2012. Rental expense was \$3,000 for the parking space for the year ended December 31, 2010. Lease payments remaining under these leases for each of the next four years are as follows:

2011	30,163
2012	24,443
2013	13,385
2014	<u>3,346</u>
Minimum payments required	<u>\$ 71,337</u>

8 - Accounting for Uncertain Tax Positions

The Organization is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. Generally accepted accounting principles (GAAP) provide detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. GAAP requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. Management believes there are no such positions as of December 31, 2010 and, accordingly, no liability has been accrued. The tax years ending in 2008, 2009 and 2010 are open to both federal and state examination.

9 - Subsequent Events

The Organization has evaluated subsequent events through the report date. No subsequent events occurred, which require adjustment or disclosure to the financial statements at December 31, 2010.