

MOUNT ARARAT BAPTIST CHURCH

**Financial Statements for the Years Ended December 31, 2006 and 2005
And Independent Accountants' Audit Report
June 1, 2007**

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Independent Accountants' Audit Report

Members of Mount Ararat Baptist Church
Mount Ararat Baptist Church
65 Toluca Rd
Stafford, VA 22556

We have audited the accompanying statements of financial position of Mount Ararat Baptist Church (the Church) as of December 31, 2006 and 2005, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Church's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 audits provide 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 Mount Ararat Baptist Church at December 31, 2006 and 2005, 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.

As discussed in Note 3 to the financial statements, an adjustment in the Church's audited 2005 financial statements was brought to the auditors' attention by Church management subsequent to the issuance of our audit report June 1, 2007. Accordingly, the accompanying 2005 financial statements have been restated.

Hendershot, Burkhardt & Reed CPA's
June 1, 2007

Mt. Ararat Baptist Church
Statements of Financial Position
As of December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$2,184,047	\$1,123,275
Receivables	3,188	478
Prepaid Expenses	29,922	22,726
Investments	-	200,000
Inventory	<u>37,017</u>	<u>35,770</u>
Total Current Assets	2,254,174	1,382,249
<u>Plant, Property and Equipment</u>		
Land and Land Improvements	736,032	728,507
Depreciable Assets, Net of Depreciation	1,948,127	2,092,394
Construction in Progress	<u>326,723</u>	<u>93,683</u>
Total Plant, Property and Equipment	<u>3,010,882</u>	<u>2,914,584</u>
TOTAL ASSETS	<u>\$5,265,056</u>	<u>\$4,296,833</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 60,096	\$ 50,411
Accrued Payroll	24,700	16,013
Accrued Vacation	18,778	16,293
Accrued Expenses	33,586	2,569
Accrued Interest	4,773	6,103
Security Deposit	-	1,900
Leases Payable - Current Portion	11,640	4,915
Notes Payable - Current Portion	<u>223,109</u>	<u>209,408</u>
Total Current Liabilities	376,682	307,612
<u>Long-term Liabilities</u>		
Leases Payable, less current portion	30,416	17,067
Notes Payable, less current portion	<u>574,096</u>	<u>817,772</u>
Total Long-Term Liabilities	<u>604,512</u>	<u>834,839</u>
Total Liabilities	981,194	1,142,451
<u>Net Assets</u>		
<u>Unrestricted</u>		
Undesignated	2,666,523	2,350,574
Designated	<u>123,323</u>	<u>103,973</u>
Total Unrestricted	2,789,846	2,454,547
Temporarily Restricted	1,494,016	699,835
Permanently Restricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>4,283,862</u>	<u>3,154,382</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$5,265,056</u>	<u>\$4,296,833</u>

See the Independent Accountants' Audit Report and Notes to the Financial Statements

Mt. Ararat Baptist Church
Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>			<u>2005</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues						
Tithes and Offerings	\$ 2,393,443	\$ 1,062,723	\$ 3,456,166	\$ 2,367,274	\$ 617,954	\$ 2,985,228
Food Certificates	258,402	-	258,402	170,425	-	170,425
Weekday Preschool	179,994	-	179,994	162,693	-	162,693
Interest Income	67,616	-	67,616	4,655	-	4,655
Investment and Property Donations	15,610	19,390	35,000	3,311	235,602	238,913
Service Projects	17,236	-	17,236	-	-	-
Rental Revenue	11,400	-	11,400	17,093	-	17,093
Gain on Sale of Investments	-	5,520	5,520	-	-	-
Other Revenues	3,673	-	3,673	3,728	-	3,728
Released From Restrictions	293,452	(293,452)	-	376,401	(376,401)	-
Noah's Landing	-	-	-	11,623	-	11,623
Loss on Sale of Stock	-	-	-	-	(299)	(299)
Loss on Disposal of Fixed Assets	(47,674)	-	(47,674)	-	-	-
Total Revenues	3,193,152	794,181	3,987,333	3,117,203	476,856	3,594,059
Less: Cost of Goods Sold						
Inventory	247,811	-	247,811	166,156	-	166,156
Salaries and Benefits	139,371	-	139,371	132,460	-	132,460
Supplies and Other Related Expenses	15,440	-	15,440	21,756	-	21,756
Payroll Taxes	10,749	-	10,749	10,149	-	10,149
Training	1,330	-	1,330	980	-	980
Total Cost of Goods Sold	414,701	-	414,701	331,501	-	331,501
Available For Expenses	2,778,451	794,181	3,572,632	2,785,702	476,856	3,262,558
Ministry Expenses						
Creative Ministry	238,689	-	238,689	223,245	-	223,245
Student Ministry	231,577	-	231,577	168,626	-	168,626
Children/Preschool Ministry	160,140	-	160,140	165,600	-	165,600
Senior Pastor Ministry	160,401	-	160,401	138,170	-	138,170
Adult Ministry	128,124	-	128,124	126,066	-	126,066
Care Ministry	121,660	-	121,660	47,959	-	47,959
Mission Ministry	88,511	-	88,511	46,830	-	46,830
Service Projects	19,255	-	19,255	-	-	-
Total Ministry Expenses	1,148,357	-	1,148,357	916,496	-	916,496
Administration	1,249,784	-	1,249,784	1,346,424	-	1,346,424
Rental Expenses	45,011	-	45,011	46,303	-	46,303
Total Expenses	2,443,152	-	2,443,152	2,309,223	-	2,309,223
Increase in Net Assets	335,299	794,181	1,129,480	476,479	476,856	953,335
Net Assets, Beginning of Year	2,454,547	699,835	3,154,382	1,978,068	222,979	2,201,047
Net Assets, End of Year	\$ 2,789,846	\$ 1,494,016	\$ 4,283,862	\$ 2,454,547	\$ 699,835	\$ 3,154,382

See the Independent Accountants' Audit Report and Notes to the Financial Statements

Mt. Ararat Baptist Church
Statements of Cash Flows
For the Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 1,129,480	\$ 953,335
Adjustments to Reconcile Increase in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation	198,455	183,241
Gain on Sale of Investments	(5,520)	-
Loss on Disposal of Fixed Assets	47,674	-
(Increase) Decrease in Accounts Receivable	(2,710)	3,222
(Increase) Decrease in Prepaid Expenses	(7,196)	(2,312)
(Increase) Decrease in Investments	-	(200,000)
(Increase) Decrease in Inventories	(1,247)	(11,849)
Increase (Decrease) in Accounts Payable	9,685	29,149
Increase (Decrease) in Accrued Payroll	8,687	2,553
Increase (Decrease) in Accrued Vacation	2,485	(3,783)
Increase (Decrease) in Accrued Expenses	31,017	(26,435)
Increase (Decrease) in Accrued Interest	(1,330)	4,572
Increase (Decrease) in Security Deposits	(1,900)	1,900
	1,407,580	933,593
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	205,520	-
Acquisition of Fixed Assets	(342,427)	(188,027)
	(136,907)	(188,027)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in Leases Payable	20,074	(4,105)
Increase (Decrease) in Notes Payable	(229,975)	(187,256)
	(209,901)	(191,361)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		
Increase in Cash and Cash Equivalents	1,060,772	554,205
Cash and Cash Equivalents, Beginning of Year	1,123,275	569,070
	\$ 2,184,047	\$ 1,123,275
CASH AND CASH EQUIVALENTS, END OF YEAR		
Cash Paid for:		
Interest Expense	\$ 65,130	\$ 76,740

See the Independent Accountants' Audit Report and Notes to the Financial Statements

NOTE 1: CHURCH

The Mount Ararat Baptist Church (the Church) was organized in 1907 and is located in Stafford, Virginia. The Church's primary focus is *"Connecting People to God, To One Another and To Serving the World"*

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the June 1, 2007 of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. There were no significant estimates in the financials in 2006 or 2005.

Cash and Cash Equivalents - Cash and cash equivalents include all monies in banks and highly liquid investments with maturity June 1, 2007 of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial investments. There were no cash equivalents at December 31, 2006 or 2005.

Inventory Valuation - Inventories are stated at the lower of cost or market, determined by the first-in, first-out method.

Contributions - The Church reports gifts of cash and other assets as restricted support if they are received with donor or time stipulations that limit the use of the donated assets. When the donor or time 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.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Promises to Give - Contributions are recognized when the donor makes a promise to give to the Church that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. There were no promises to give nor permanently restricted net assets for the year ended December 31, 2006 or 2005.

The Church uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. No such provision was made for the year ended December 31, 2006 or 2005.

Fixed Assets - Acquisitions of plant, property and equipment (other than office equipment) with an acquisition cost of \$1,000 or more are capitalized. Office equipment is capitalized if the historical cost is \$500 or more. Plant, property and equipment are carried at cost or, if donated, at the approximate fair value at the June 1, 2007 of donation. The vehicle is carried at the acquisition cost. Depreciation is computed using the straight-line method. Land improvements are depreciated over 20 years, buildings over 30 years, mobile homes over 15 years, furniture and vehicles over 5 years, and equipment and computer software are depreciated over 3 years.

The Church reports gifts of fixed assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of fixed assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire fixed assets are reported as restricted support. Absent explicit donor stipulations about how long the fixed assets must be maintained, the Church reports expirations of donor restrictions when the donated or acquired fixed assets are placed in service.

Depreciation expense amounted to \$198,455 for the year ended December 31, 2006 and \$183,241 for the year ended December 31, 2005.

Income Taxes - The Church is exempt from federal income tax as described in Section 501 (c)(3) of the Internal Revenue Code. Accordingly, contributions are deductible for federal income, estate, and gift tax purposes. Churches are classified as public charities and not private foundations.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments - During 2005, the Church was gifted stock as a portion of its Building Fund contributions. The stock was sold at a loss of \$299. During 2006, the Church received proceeds from the sale of stock amounting to \$26,395 as a portion of its Building Fund contributions and \$7,005 as a portion of its designated contributions.

NOTE 3: REVISIONS TO THE 2005 AUDIT REPORT

Subsequent to the June 1, 2007 of the Church's 2005 audit report, June 1, 2007, management of the Church informed the auditors that a condominium, having a fair market value of \$200,000, had been donated to the Church's building fund as an investment in December of 2005. Accordingly, the accompanying 2005 financial statements have been restated.

The Church sold the condominium during 2006 for \$205,520.

NOTE 4: CASH AND CASH EQUIVALENTS

The Church typically maintains cash balances with financial institutions that are in excess of insurance available for such accounts and, therefore, subjects the Church to a concentration of risk. However, the Church has not experienced any losses on these balances to June 1, 2007 and management does not anticipate any losses.

NOTE 5: PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment are summarized by major functional classifications as follows as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Land	\$ 728,974	\$ 604,369
Land Improvements	131,663	124,138
Buildings	3,075,638	3,185,182
Furniture and Fixtures	62,070	19,409
Equipment	441,904	330,560
Vehicles	13,300	13,300
Construction in Progress	<u>210,774</u>	<u>93,683</u>
Total Assets at Cost	4,664,323	4,370,641
Less: Accumulated Depreciation	<u>1,644,785</u>	<u>1,456,057</u>
Net Plant, Property, and Equipment	<u>\$ 3,019,538</u>	<u>\$ 2,914,584</u>

NOTE 6: LEASES PAYABLE

One of the Church's leases payable is related to the Riso duplicator equipment, and bears an approximate interest rate of 15.5%. Payments are due monthly, and the lease expires in July 2009. Annual lease obligations exist as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 5,837
2008	6,829
2009	<u>4,346</u>
Total	<u>\$17,012</u>

A second lease payable is related to the Church's Pitney Bowes mailing machine, and bears an approximate interest rate of 16%. Payments are due quarterly beginning in January 2006, with the lease expiring in the second quarter of 2010. Annual lease obligations exist as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 5,804
2008	6,798
2009	7,963
2010	<u>4,479</u>
Total	<u>\$25,044</u>

NOTE 7: NOTES PAYABLE

The note payable related to the Church building has a balance of \$438,235 and bears an interest rate of 6.75% per annum and is collateralized by certain real property. Payments are due monthly, beginning in 1995 and the note matures in August 2009.

The note payable related to the 117 Toluca Road property has a balance of \$358,970 and bears an interest rate ranging from 4% to 8% per annum and is collateralized by certain real property. Interest-only payments are due monthly, beginning in 2004 and the note matures in June 2034.

NOTE 8: DESIGNATED NET ASSETS

The following designated net assets are available for use:

<u>Name of Fund:</u>	<u>2006</u>	<u>2005</u>
Weekday Preschool	\$ 96,852	\$ 83,215
Building Fund	12,918	-
Gift Certificate Proceeds	6,999	5,507
Women's Ministry	6,133	9,532
Other	421	279
Youth Basketball	-	<u>5,440</u>
	<u>\$123,323</u>	<u>\$103,973</u>

NOTE 9: TEMPORARILY RESTRICTED NET ASSETS

The following temporarily restricted assets are available for the following purposes:

<u>Program Activities:</u>	<u>2006</u>	<u>2005</u>
Building Fund	\$ 1,471,961	\$ 680,000
Cemetery	12,097	9,429
Missions	5,762	-
Other Specific Program Support	<u>4,351</u>	<u>10,406</u>
Total Temporarily Restricted Assets	<u>\$ 1,494,171</u>	<u>\$ 699,835</u>

Net assets released in accordance with donor restrictions totaled \$293,452 and \$376,401 as of December 31, 2006 and 2005, respectively.

NOTE 10: RENTAL INCOME

Rental Income is related to the rental of a house owned by the Church and located adjacent to the Church building.