

THE RAINBOW NETWORK, INC.

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

**FOR THE SEVEN MONTHS ENDED
DECEMBER 31, 2006**

Note:

Here is the most recent audit by our United States independent auditor / certified public accountants, Decker & DeGood of Springfield, Missouri. Our 2007 U.S. audit should be completed by June 2008. In 2006, we elected to move from a fiscal year ending in May to a fiscal year ending with the calendar year. Just as importantly, please note that in June 2007, we contracted to have a detailed financial audit performed by an independent accounting firm in Managua, Nicaragua for all of our financial transactions in Nicaragua. This audit is in final stages of completion and translation and we expect to post it soon.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Rainbow Network, Inc.
Springfield, Missouri

We have audited the accompanying statement of financial position of The Rainbow Network, Inc., (a nonprofit corporation) as of December 31, 2006, and the related statement of activities and cash flows for the seven months then ended. These financial statements are the responsibility of the Organization'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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 6, the Organization changed its accounting estimate of doubtful accounts for housing loans.

The Organization had not completed its internal control procedures over verification of loan balances and therefore normal confirmation of outstanding loan balances or other alternate procedures were not possible. In addition the Organization had purchased material for houses for long term needs and did not inventory materials on hand for future construction. Accordingly, it was not practicable for us to extend our audit of such transactions beyond the amounts as recorded.

In our opinion, except for the effects of such adjustments which cannot be determined had we been able to confirm of loan balances and verified the inventory of building materials on hand December 31, 2006, the financial statements referred to above present fairly, in all material respects, the financial position of The Rainbow Network, Inc. as of December 31, 2006, and the changes in net assets and cash flows for the seven months then ended in conformity with accounting principles generally accepted in the United States of America.

September 6, 2007

Decker & DeGood

Rainbow Network

Statement of Financial Position

December 31, 2006

Assets

Cash and cash equivalents	\$397,753
Investments	73,547
Loans receivable	487,174
Property, equipment, and vehicles, net	119,073
Total Assets	\$1,077,547

Net Assets

Unrestricted net assets	
Undesignated	\$1,077,547
Total Net Assets	\$1,077,547

Rainbow Network - Statement of Account

December 31, 2006

				Totals (Unrestricted)	
Revenue and other support:					
	Contributions			\$1,364,193	
	Interest and dividend income			16,649	
	Gain on sale of stock			10,003	
	Fair market value increase in stock			12,154	
	Clinic fees			18,544	
	Other income			12,343	
Total revenue and other support				1,433,886	
Expenditures by activity:					
	Program	Administrative	Fund Raising		
	Bank charges	\$1,140	\$294	\$-	1,434
	Bad debt provision	2,264	-	-	2,264
	Community developm	9,159	-	-	9,159
	Customs	1,432	-	-	1,432
	Depreciation	28,996	-	-	28,996
	Education expense	111,198	-	-	111,198
	Emergency assistance	11,910	-	-	11,910
	Feeding center	86,394	-	-	86,394
	Heifer project	23,855	-	-	23,855
	Housing materials	171,536	-	-	171,536
	Medicine and supplies	153,367	-	-	153,367
	Miscellaneous	1,441	1,673	-	3,114
	Occupancy	12,687	5,413	8,167	26,267
	Office expense	14,470	14,108	-	28,578
	Pension	-	6,034	-	6,034
	Printing	-	-	46,766	46,766
	Professional fees	6,072	-	21,000	27,072
	Repairs	11,431	-	-	11,431
	Security	356	-	-	356
	Taxes-payroll	-	2,490	-	2,490
	Telephone	4,079	1,336	-	5,415
	Transportation	122,146	12,575	-	134,721
	Travel	7,183	9,676	-	16,859
	Training	16,650	13,760	-	30,410
	Utilities	16,743	833	-	17,576
	Wages	248,444	32,597	44,350	325,391
Total Expenditures	\$1,062,953	\$100,789	\$120,283		1,284,025
Changes in net assets					149,861
Net assets, May 31, 2006 (Restated)					927,686
Net assets, December 31, 2006					\$1,077,547

Rainbow Network

Statement of Cash Flows

FOR THE SEVEN MONTHS ENDED DECEMBER 31, 2006

Cash flows from operating activities		
Cash received from general undesignated contributions		\$1,364,193
Cash received from interest and other income		16,104
Gain on sale of stock and fair market value increase		(22,157)
Cash disbursed for program expenses		(1,033,957)
Cash disbursed for general supporting services		(221,072)
Net cash provided by operating activities		103,111
Cash flows from investing activities		
Purchase of property, equipment, and improvements		(36,466)
Net cash (used) in investing activities		(36,466)
Net increase in cash		66,645
Cash		
May 31, 2006		404,655
December 31, 2006		\$471,300

RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Increase in net assets		\$152,125
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation		28,996
(Increase) in loans receivable		(78,010)
Net Cash Provided by Operating Activities		\$103,111

THE RAINBOW NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ORGANIZATION

The Rainbow Network, Inc. is a private, nonprofit organization specializing in Long-term, partnership-based, community development programs designed to assist some of the world's poorest people in Nicaragua. Rainbow Network has been operating in rural Nicaragua since 1995. "Network" offices have been established in Ciudad Sandino, Nagarote, La Paz Centro, El Crucero, San Ramon and LaDalia. Each "network" is staffed with Nicaraguan professionals who are educated and experienced in their area of expertise. The Rainbow Network, Inc., through its "networks" work in semi-remote locations where neither the Nicaraguan government nor other religious or social agencies are providing the services to the poor. Services provided are in the areas of healthcare, education, economic development and housing.

Effective June 1, 2002, Internal Revenue Service approved The Rainbow Network, Inc. to operate as a public charity as described in Section 509 (a) (1) of the Internal Revenue Code. Upon completion of a sixty month period (December 31, 2007) to the satisfaction of IRS permanent public charity status will become permanent for The Rainbow Network, Inc.

THE SIGNIFICANT ACCOUNTING POLICIES ARE AS FOLLOWS

Method of accounting

The financial statements of the Network have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial statement presentation

The Network adopted Statement of Financial Accounting Standards SFAS No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Network is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Network is required to present a statement of cash flows.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles as applicable in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE RAINBOW NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(continued)

Cash and Cash Equivalents

For financial statement purposes, the Network considers all highly liquid investments with an initial maturity of less than three months, when purchased, to be cash equivalents.

Investments

The Network adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," in 1997. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property, equipment, and improvements

Acquisitions of property and equipment in excess of \$ 500 are capitalized. Property, equipment, and improvements are carried at cost, or if donated, at the approximate fair value at the date of donation. Depreciation is calculated 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 contributions are 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.

Contributed services

The Rainbow Network, Inc. receives a substantial amount of services donated by its members in carrying out the Network's ministry. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under SFAS No. 116, Accounting for Contributions Received and Contributions Made.

THE RAINBOW NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(continued)

Income tax status

The Rainbow Network, Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Unrelated income did exceed \$ 1,000 but expenditures equaled or exceeded the revenue and therefore no taxes were due.

Note 2 - CASH

The total cash held by Organization at December 31, 2006, includes \$ 267,519 in bank accounts in the United States of America and \$ 130,234 in banks in Nicaragua.

Note 3 - INVESTMENTS

Investments as of December 31, 2006, are summarized as follows:

	Cost	Fair Value	Carrying Value
Unrestricted:			
Stocks in US Companies	\$ 46,139	\$ 73,547	\$ 73,547

Note 4 - LOANS RECEIVABLE

Included in loan receivables is an amount for housing loans of \$ 353,367 which is offset by \$ 39,135 for allowance for doubtful accounts and enterprise loans of \$ 178,899 offset by \$ 5,957 as an allowance.

	Balance May 31, 2006	Advances	Repayments	Balance December 31, 2006
Housing Loans	\$ 348,365	\$ 22,368	\$ 17,366	\$ 353,367
Enterprise Loans	110,893	364,332	296,326	178,899
Total	459,258	386,700	313,692	532,266
Less: Allowance	(352,058)			(45,092)
Net	<u>\$ 107,200</u>			<u>\$ 487,174</u>

See Note 6 for the change in accounting estimate of Housing Loans allowance for bad debts.

THE RAINBOW NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 5 - PROPERTY, EQUIPMENT, AND IMPROVEMENT

Property, equipment, and improvements consists of the following:

	Balance			Balance
	May 31,			December 31,
	2006	Additions	Retirements	2006
Land	\$ 9,832	\$ -	\$ -	\$ 9,832
Furniture, fixtures, and equipment	15,853	-	-	15,853
Vehicles	308,423	36,466	-	344,889
	334,108	36,466	-	370,574
Less accumulated depreciation	(222,505)			(251,501)
	<u>\$ 111,603</u>			<u>\$ 119,073</u>

Depreciation expense for the year ended December 31, 2006 was \$ 28,996

Note 6 - CHANGE IN ACCOUNTING ESTIMATE

In the prior period the Organization had estimated the allowance for doubtful accounts as the full value of the housing loans. Starting this year they based the allowance on the percentage of delinquent accounts which for the seven months average 11.075% of the total outstanding balance. The change was reflected as follows:

Net Assets balance per the May 31, 2006 financial report	\$ 623,458	
Change in allowance as of May 31m 2006	304,228	
Net Assets as Restated for May 31, 2006	\$ 927,686	

Note 7 - CHANGE IN FISCAL YEAR END

The Organization elected in 2006 to go from a fiscal year end of May 31 to a calendar year end.

Note 8 – INVENTORY OF COST OF HOUSES

For the current period the Organization had in order to get favorable prices of materials pre purchased items used for the constructions of housing which are in turn sold and reported as “Housing Loans”. The majority of the cost is recovered by the sale of the houses but as of December 31, 2006, they had not taken an inventory of those items and therefore the all cost is reported under the Statement of Activities as an expense.