

WALL WATCHERS

*FINANCIAL STATEMENTS FOR THE YEARS
ENDED JUNE 30, 2004 AND 2003 AND
INDEPENDENT AUDITORS' REPORT*

DRAFT



Wall Watchers[™]

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WALL WATCHERS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Wall Watchers
Matthews, North Carolina

We have audited the accompanying statements of financial position of Wall Watchers, (a not-for-profit organization) as of June 30, 2004 and 2003, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Wall Watchers. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 Wall Watchers, as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

August 25, 2004

WALL WATCHERS**Statement of Financial Position****June 30, 2004 and 2003**

	June 30,	
	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current Assets:		
Cash and equivalents	\$ 125,710	\$ 51,418
Marketable securities	1,973	3,201
Prepaid expenses	6,031	7,790
Total Current Assets	<u>133,714</u>	<u>62,409</u>
Noncurrent Assets:		
Property, net of accumulated depreciation of \$35,988 and \$30,631	6,032	11,388
System development costs, net of accumulated amortization of \$119,820 and \$112,378	-	7,442
Total Noncurrent Assets	<u>6,032</u>	<u>18,830</u>
TOTAL ASSETS	<u>\$ 139,746</u>	<u>\$ 81,239</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 2,463	\$ 2,775
Accrued liabilities	3,589	13,370
Total Current Liabilities	<u>6,052</u>	<u>16,145</u>
Noncurrent Liabilities:		
Deferred compensation	-	1,082
Net Assets:		
Unrestricted	<u>133,694</u>	<u>64,012</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 139,746</u>	<u>\$ 81,239</u>

WALL WATCHERS***Statement of Activities******Years Ended June 30, 2004 and 2003***

	Year Ended June 30,	
	<u>2004</u>	<u>2003</u>
<u>SUPPORT AND REVENUE</u>		
Contributions	\$ 454,800	\$ 249,601
Investment income (loss)	822	3,511
Gain (loss) on disposal of fixed assets	-	(24)
Total Support and Revenue	<u>455,622</u>	<u>253,088</u>
<u>EXPENSES</u>		
Program services	312,396	316,876
Management and general	24,292	49,819
Fundraising	<u>49,252</u>	<u>29,155</u>
Total Expenses	<u>385,940</u>	<u>395,850</u>
CHANGE IN NET ASSETS	69,682	(142,762)
NET ASSETS, BEGINNING	<u>64,012</u>	<u>206,774</u>
NET ASSETS, ENDING	<u>\$ 133,694</u>	<u>\$ 64,012</u>

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Statement of Functional Expenses

Years Ended June 30, 2004 and 2003

	Year Ended June 30, 2004				Year Ended June 30, 2003			
	Program Services	Management and General	Fundraising	TOTAL	Program Services	Management and General	Fundraising	TOTAL
<u>PERSONNEL</u>								
Salaries and wages	\$ 172,496	\$ 9,301	\$ 27,695	\$ 209,492	\$ 147,412	\$ 27,984	\$ 16,273	\$ 191,669
Payroll taxes	14,886	803	2,390	18,079	12,539	2,380	1,384	16,303
Benefits	36,450	1,853	6,000	44,303	22,953	4,357	2,534	29,844
Total Personnel	<u>223,832</u>	<u>11,957</u>	<u>36,085</u>	<u>271,874</u>	<u>182,904</u>	<u>34,721</u>	<u>20,191</u>	<u>237,816</u>
<u>OTHER EXPENSES</u>								
Editor	-	-	-	-	15,000	-	-	15,000
Research fellowship	21,550	-	-	21,550	22,625	-	-	22,625
Employee training and resources	1,238	67	199	1,504	938	221	104	1,263
Promotion and advertising	5,877	-	69	5,946	7,407	-	1,429	8,836
Technology services	2,188	117	351	2,656	1,184	225	131	1,540
Conferences and meetings	3,774	-	-	3,774	2,434	14	8	2,456
Travel and meals	342	19	55	416	676	129	74	879
Rent and occupancy costs	28,995	3,624	3,624	36,243	30,276	3,785	3,785	37,846
Utilities	2,119	265	265	2,649	3,324	415	415	4,154
Telephone	5,307	587	587	6,481	5,319	586	586	6,491
Insurance	253	2,606	53	2,912	1,194	2,718	149	4,061
Office and computer supplies	1,291	143	7,026	8,460	4,074	469	1,714	6,257
Printing and publications	1,734	94	279	2,107	297	56	33	386
Postage and shipping	1,080	58	173	1,311	710	135	78	923
Dues and subscriptions	1,356	73	218	1,647	803	152	89	1,044
Professional fees	-	3,000	-	3,000	-	3,000	-	3,000
Depreciation and amortization	11,460	1,071	268	12,799	37,711	1,477	369	39,557
Miscellaneous	-	611	-	611	-	1,716	-	1,716
Total Other Expenses	<u>88,564</u>	<u>12,335</u>	<u>13,167</u>	<u>114,066</u>	<u>133,972</u>	<u>15,098</u>	<u>8,964</u>	<u>158,034</u>
TOTAL EXPENSES	<u>\$ 312,396</u>	<u>\$ 24,292</u>	<u>\$ 49,252</u>	<u>\$ 385,940</u>	<u>\$ 316,876</u>	<u>\$ 49,819</u>	<u>\$ 29,155</u>	<u>\$ 395,850</u>

See accompanying notes to financial statements.

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WALL WATCHERS**Statement of Cash Flows****Years Ended June 30, 2004 and 2003**

	Year Ended June 30,	
	<u>2004</u>	<u>2003</u>
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 69,682	\$ (142,762)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	12,799	39,557
Realized and unrealized gain on investments	(802)	(3,104)
(Increase) decrease in operating assets:		
Prepaid expenses	1,759	(4,657)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(10,093)	(411)
Deferred compensation	(1,082)	(2,477)
Net Cash Flows from Operating Activities	<u>72,263</u>	<u>(113,854)</u>
<u>INVESTING ACTIVITIES</u>		
Purchases of marketable securities	(3,077)	-
Contribution of marketable securities	(557)	(211,250)
Proceeds from sales of marketable securities	5,663	217,913
Purchases of property	-	(5,215)
Net Cash Flows from Investing Activities	<u>2,029</u>	<u>1,448</u>
CHANGE IN CASH	74,292	(112,406)
CASH AND EQUIVALENTS, BEGINNING	<u>51,418</u>	<u>163,824</u>
CASH AND EQUIVALENTS, ENDING	<u>\$ 125,710</u>	<u>\$ 51,418</u>

WALL WATCHERS

Notes to Financial Statements

June 30, 2004 and 2003

NOTE 1 - SUMMARY OF OPERATIONS

Operations

Wall Watchers, a North Carolina not-for-profit corporation, is a nonprofit Christian ministry established in July, 1998 to promote the Biblical principles of stewardship and help people apply those principles in their lives. Wall Watchers is an information intermediary; it collects, processes and disseminates information, primarily to help donors make better informed giving decisions, but also to promote Christian stewardship in general. During the fiscal year ended June 30, 2004, Wall Watchers continued to carry out this mission by conducting research on more than 500 Christian ministries, developing the databases and web sites used to capture and convey this research, and promoting Wall Watchers' products and mission to the public.

Wall Watchers currently operates two programs to accomplish its purpose:

MinistryWatch.com – Through a searchable database contained on the web site, www.ministrywatch.com, Wall Watchers provides free informational profiles of Christian ministries. These profiles contain descriptions, organization details, summarized financial information, ratings, transparency grades, qualitative research and analysis, and other tools to help users learn more about individual ministries. The independent evaluations found on MinistryWatch.com are intended primarily as a service to donors. Information is obtained through contact with the ministries and through the research efforts of the Wall Watcher's analysts.

thegoodsteward.com – Through the web site www.thegoodsteward.com, Wall Watchers provides a centralized source of written articles and interactive tools through which the public can be encouraged and educated in the many areas of Biblical stewardship. Wall Watchers publishes or republishes articles written by numerous authors on topics ranging from financial matters to life stewardship.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared on the accrual basis of accounting in conformity with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, Wall Watchers 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. As of June 30, 2004 and 2003, Wall Watchers had no permanently restricted net assets and no remaining temporarily restricted net assets.

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Notes to Financial Statements

June 30, 2004 and 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

Contributions

Wall Watchers accounts for contributions in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. Accordingly, Wall Watchers reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. As permitted under SFAS No. 116, Wall Watchers has adopted a policy that all temporarily restricted contributions utilized by year-end are recorded as unrestricted support.

Cash and equivalents

Cash and equivalents consists of cash on hand, cash in banks, certificates of deposit with an original maturity of 90 days or less, and money market funds.

Property

Property consists of office furniture, equipment, and computers and is recorded at cost if purchased or fair value if donated. Depreciation is computed using the straight-line method with no salvage values over the estimated useful lives of the related assets, which vary from three to eight years.

System development costs

Costs of developing the web sites, databases, and systems to allow Wall Watchers to carry out its intended purpose have been capitalized and are amortized using the straight-line method over a period of three years.

Donated services

A number of volunteers, including members of the Board of Directors, contribute significant amounts of time to Wall Watchers. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected as support in the accompanying financial statements.

Allocation of expenses

Expenses of Wall Watchers are reported on the functional basis in the statements of activities. Accordingly, expenses are allocated to program services, management and general, or fundraising according to the function benefited.

Federal income tax status

Wall Watchers is exempt from Federal income tax on its exempt function income under Internal Revenue Code Section 501(c)(3) and is classified as other than a private foundation as defined by Section 509(a) of the Internal Revenue Code.

WALL WATCHERS
Notes to Financial Statements
June 30, 2004 and 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continuedUse of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Therefore, actual results could be different from those estimates.

NOTE 3 - INVESTMENTSBalance at year-end

Marketable securities are recorded at fair value with realized and unrealized gains and losses included in the statement of activities. Marketable securities as of June 30, 2004 and 2003 consisted primarily of investments in publicly traded common stocks and mutual funds.

Investment income

Investment activity for the years ended June 30, 2004 and 2003, was as follows:

	<u>2004</u>	<u>2003</u>
Interest and dividend income	\$ 20	\$ 407
Realized and unrealized gains (losses)	<u>802</u>	<u>3,104</u>
TOTAL	<u>\$ 822</u>	<u>\$ 3,511</u>

NOTE 4 - DONATED PROPERTY AND FACILITIES

Wall Watchers received free use of its office space from a company that is owned by a board member during each of the years ended June 30, 2004 and 2003. The annual use of this space has been valued at \$36,000 for both years, and has been included as support and as rent expense in the accompanying statements of activities.

NOTE 5 - DEFERRED COMPENSATION

Wall Watchers previously had deferred compensation agreements with certain employees. Compensation expense related to these deferred compensation agreements totaled (\$1,082) and (\$2,477) for the years ended June 30, 2004 and 2003, respectively, and is included in employee benefits in the accompanying financial statements. As of June 30, 2004, there were no remaining deferred compensation agreements.

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Notes to Financial Statements

June 30, 2004 and 2003

NOTE 6 - CONCENTRATIONS OF RISK

Support

Wall Watchers received 86 percent of its cash support from its three largest donors during the year ended June 30, 2004, which represents a significant concentration of risk.

Cash in excess of insured limits

Wall Watchers regularly maintains cash balances at a financial institution in excess of FDIC insured limits. At June 30, 2004, the uninsured balance of cash was \$56,285. However, management believes that the risk related to the accounts is minimal because of the strong credit rating of the financial institution.

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