

WALL WATCHERS

*FINANCIAL STATEMENTS FOR THE YEARS
ENDED JUNE 30, 2005 AND 2004 AND
INDEPENDENT AUDITORS' REPORT*

DRAFT



Wall Watchers™

The Independent Source for Ministry Ratings

WALL WATCHERS

Table of Contents

June 30, 2005 and 2004

Page

Independent Auditors' Report	1
Audited Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-8

DRAFT

C. DEWITT FOARD & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS
1001 MOREHEAD SQUARE DRIVE • SUITE 450
CHARLOTTE, NORTH CAROLINA 28203
TELEPHONE : 704-372-1515 • FACSIMILE : 704-372-6066

PHILLIP G. WILSON
TERRY W. LANCASTER

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, 2005 and 2004, 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 audits.

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, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

C. Dewitt Foard & Company, P.A.

July 14, 2005

WALL WATCHERS**Statement of Financial Position****June 30, 2005 and 2004**

	June 30,	
	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current Assets:		
Cash and equivalents	\$ 2,590	\$ 125,710
Marketable securities	1,897	1,973
Prepaid expenses	<u>3,704</u>	<u>6,031</u>
Total Current Assets	<u>8,191</u>	<u>133,714</u>
Noncurrent Assets:		
Property, net of accumulated depreciation of \$44,216 and \$39,680	4,536	6,032
System development costs, net of accumulated amortization of \$119,820	<u>-</u>	<u>-</u>
Total Noncurrent Assets	<u>4,536</u>	<u>6,032</u>
TOTAL ASSETS	<u>\$ 12,727</u>	<u>\$ 139,746</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 1,866	\$ 2,463
Accrued liabilities	<u>2,265</u>	<u>3,589</u>
Total Current Liabilities	<u>4,131</u>	<u>6,052</u>
Net Assets:		
Unrestricted	<u>8,596</u>	<u>133,694</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,727</u>	<u>\$ 139,746</u>

WALL WATCHERS**Statement of Activities****Years Ended June 30, 2005 and 2004**

	Year Ended June 30,	
	<u>2005</u>	<u>2004</u>
<u>SUPPORT AND REVENUE</u>		
Contributions	\$ 182,939	\$ 454,800
Investment income	1	822
Total Support and Revenue	<u>182,940</u>	<u>455,622</u>
<u>EXPENSES</u>		
Program services	283,822	312,396
Management and general	23,968	24,292
Fundraising	248	49,252
Total Expenses	<u>308,038</u>	<u>385,940</u>
CHANGE IN NET ASSETS	(125,098)	69,682
NET ASSETS, BEGINNING	<u>133,694</u>	<u>64,012</u>
NET ASSETS, ENDING	<u>\$ 8,596</u>	<u>\$ 133,694</u>

WALL WATCHERS

Statement of Functional Expenses

Years Ended June 30, 2005 and 2004

	Year Ended June 30, 2005				Year Ended June 30, 2004			
	Program Services	Management and General	Fundraising	TOTAL	Program Services	Management and General	Fundraising	TOTAL
<u>PERSONNEL</u>								
Salaries and wages	\$ 169,607	\$ 10,347	\$ -	\$ 179,954	\$ 172,496	\$ 9,301	\$ 27,695	\$ 209,492
Payroll taxes	13,991	854	-	14,845	14,886	803	2,390	18,079
Benefits	27,261	1,663	-	28,924	36,450	1,853	6,000	44,303
Total Personnel	210,859	12,864	-	223,723	223,832	11,957	36,085	271,874
<u>OTHER EXPENSES</u>								
Research fellowship	13,850	-	-	13,850	21,550	-	-	21,550
Employee training and resources	1,290	79	-	1,369	1,238	67	199	1,504
Promotion and advertising	10,138	-	-	10,138	5,877	-	69	5,946
Technology services	912	55	-	967	2,188	117	351	2,656
Conferences and meetings	-	-	-	-	3,774	-	-	3,774
Travel and meals	991	60	-	1,051	342	19	55	416
Rent and occupancy costs	32,400	3,600	-	36,000	28,995	3,624	3,624	36,243
Utilities	-	-	-	-	2,119	265	265	2,649
Telephone	1,052	47	-	1,099	5,307	587	587	6,481
Insurance	540	2,606	53	3,199	253	2,606	53	2,912
Office and computer supplies	6,080	284	10	6,374	1,291	143	7,026	8,460
Printing and publications	312	19	-	331	1,734	94	279	2,107
Postage and shipping	420	26	-	446	1,080	58	173	1,311
Dues and subscriptions	2,209	135	-	2,344	1,356	73	218	1,647
Professional fees	-	3,000	-	3,000	-	3,000	-	3,000
Depreciation and amortization	2,769	738	185	3,692	11,460	1,071	268	12,799
Miscellaneous	-	455	-	455	-	611	-	611
Total Other Expenses	72,963	11,104	248	84,315	88,564	12,335	13,167	114,066
TOTAL EXPENSES	\$ 283,822	\$ 23,968	\$ 248	\$ 308,038	\$ 312,396	\$ 24,292	\$ 49,252	\$ 385,940

See accompanying notes to financial statements.

Page 4

WALL WATCHERS**Statement of Cash Flows****Years Ended June 30, 2005 and 2004**

	Year Ended June 30,	
	<u>2005</u>	<u>2004</u>
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ (125,098)	\$ 69,682
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	3,692	12,799
Realized and unrealized (gain) loss on investments	76	(802)
(Increase) decrease in operating assets:		
Prepaid expenses	2,327	1,759
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(1,921)	(10,093)
Deferred compensation	-	(1,082)
Net Cash Flows from Operating Activities	<u>(120,924)</u>	<u>72,263</u>
<u>INVESTING ACTIVITIES</u>		
Purchases of marketable securities	-	(3,077)
Contribution of marketable securities	-	(557)
Proceeds from sales of marketable securities	-	5,663
Purchases of property	<u>(2,196)</u>	<u>-</u>
Net Cash Flows from Investing Activities	<u>(2,196)</u>	<u>2,029</u>
CHANGE IN CASH	(123,120)	74,292
CASH AND EQUIVALENTS, BEGINNING	<u>125,710</u>	<u>51,418</u>
CASH AND EQUIVALENTS, ENDING	<u>\$ 2,590</u>	<u>\$ 125,710</u>

WALL WATCHERS

Notes to Financial Statements

June 30, 2005 and 2004

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, 2005, 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, 2005 and 2004, Wall Watchers had no permanently restricted net assets and no remaining temporarily restricted net assets.

WALL WATCHERS

Notes to Financial Statements

June 30, 2005 and 2004

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, including performing the fundraising function. 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, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use 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 - INVESTMENTS

Balance 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, 2005 and 2004 consisted of investments in publicly traded common stocks.

Investment income

Investment activity for the years ended June 30, 2005 and 2004, was as follows:

	<u>2005</u>	<u>2004</u>
Interest and dividend income	\$ 77	\$ 20
Realized and unrealized gains (losses)	<u>(76)</u>	<u>802</u>
TOTAL	<u>\$ 1</u>	<u>\$ 822</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, 2005 and 2004. 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 - CONCENTRATIONS OF RISK

Support

Wall Watchers received 92 percent of its cash support from its five largest donors during the year ended June 30, 2005, which represents a significant concentration of risk.