

WALL WATCHERS

*FINANCIAL STATEMENTS FOR THE YEARS
ENDED JUNE 30, 2002 AND 2001 AND
INDEPENDENT AUDITORS' REPORT*



Wall Watchers™

The Independent Source for Ministry Ratings

WALL WATCHERS

Table of Contents

June 30, 2002 and 2001

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

C. DEWITT FOARD & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS
128 SOUTH TRYON STREET • SUITE 1700 • FIRST CITIZENS BANK PLAZA
CHARLOTTE, NORTH CAROLINA 28202
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, 2002, and the related statements of activities, functional expenses, and cash flows for the year 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. The prior-year summarized comparative information has been derived from the Organization's 2001 financial statements, which were audited by Greer & Walker, LLP, and in their report dated July 25, 2001, they expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 Wall Watchers, as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

C. Dewitt Foard & Company, P.A.

August 20, 2002

WALL WATCHERS*Statement of Financial Position**June 30, 2002 and 2001*

	June 30,	
	<u>2002</u>	<u>2001</u>
<u>ASSETS</u>		
Current Assets:		
Cash and equivalents	\$ 163,824	\$ 51,315
Marketable securities	6,635	47,271
Prepaid expenses	2,883	4,129
Deposits	250	1,100
Total Current Assets	<u>173,592</u>	<u>103,815</u>
Noncurrent Assets:		
Property, net of accumulated depreciation of \$31,768 and \$20,425	13,684	22,113
System development costs, net of accumulated amortization of \$80,207 and \$40,267	39,613	79,553
Total Noncurrent Assets	<u>53,297</u>	<u>101,666</u>
TOTAL ASSETS	<u>\$ 226,889</u>	<u>\$ 205,481</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 2,649	\$ 2,235
Accrued liabilities	13,907	10,004
Total Current Liabilities	<u>16,556</u>	<u>12,239</u>
Noncurrent Liabilities:		
Deferred compensation	<u>3,559</u>	<u>12,414</u>
Net Assets:		
Unrestricted	<u>206,774</u>	<u>180,828</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 226,889</u>	<u>\$ 205,481</u>

WALL WATCHERS*Statement of Activities**Years Ended June 30, 2002 and 2001*

	Year Ended June 30,	
	<u>2002</u>	<u>2001</u>
<u>SUPPORT AND REVENUE</u>		
Contributions	\$ 485,265	\$ 97,665
Investment income (loss)	<u>(2,483)</u>	<u>(22,971)</u>
Total Support and Revenue	<u>482,782</u>	<u>74,694</u>
<u>EXPENSES</u>		
Program services	313,355	324,962
Management and general	130,359	133,215
Fundraising	<u>13,122</u>	<u>45,853</u>
Total Expenses	<u>456,836</u>	<u>504,030</u>
CHANGE IN NET ASSETS	25,946	(429,336)
NET ASSETS, BEGINNING	<u>180,828</u>	<u>610,164</u>
NET ASSETS, ENDING	<u>\$ 206,774</u>	<u>\$ 180,828</u>

WALL WATCHERS

Statement of Functional Expenses

Years Ended June 30, 2002 and 2001

	Year Ended June 30, 2002				Year Ended June 30, 2001			
	Program Services	Management and General	Fundraising	TOTAL	Program Services	Management and General	Fundraising	TOTAL
<u>PERSONNEL</u>								
Salaries and wages	\$ 176,158	\$ 69,114	\$ 10,213	\$ 255,485	\$ 208,352	\$ 43,123	\$ 32,740	\$ 284,215
Payroll taxes	11,356	5,872	790	18,018	15,480	3,681	2,553	21,714
Benefits	17,389	6,954	1,020	25,363	-	23,782	-	23,782
Deferred compensation	(3,979)	(2,538)	(2,338)	(8,855)	-	3,676	-	3,676
Total Personnel	200,924	79,402	9,685	290,011	223,832	74,262	35,293	333,387
<u>OTHER EXPENSES</u>								
Editor	15,000	-	-	15,000	15,500	-	-	15,500
Recruitment	333	255	280	868	637	1,101	-	1,738
Employee training	273	998	-	1,271	-	1,943	-	1,943
Employee resources	283	-	30	313	2,446	-	1,401	3,847
Web site promotion	4,509	-	-	4,509	14,439	-	-	14,439
Technology services	7,526	655	-	8,181	5,109	3,083	-	8,192
Conferences and meetings	-	549	-	549	945	-	400	1,345
Travel and meals	1,335	1,057	236	2,628	2,586	4,467	3,618	10,671
Rent and occupancy costs	25,710	10,748	1,509	37,967	19,350	9,675	3,225	32,250
Utilities	2,711	1,084	159	3,954	2,769	1,385	461	4,615
Telephone	4,793	1,433	210	6,436	3,598	1,798	600	5,996
Insurance	-	3,875	-	3,875	-	2,876	-	2,876
Office and computer supplies	1,397	5,796	23	7,216	-	7,501	-	7,501
Printing and publications	-	1,334	465	1,799	689	1,324	-	2,013
Postage and shipping	38	937	-	975	134	804	-	938
Dues and subscriptions	95	1,438	-	1,533	100	1,511	-	1,611
Professional fees	-	16,020	-	16,020	-	7,725	750	8,475
Depreciation and amortization	47,717	3,110	456	51,283	32,498	11,576	-	44,074
Miscellaneous	711	1,668	69	2,448	330	2,184	105	2,619
Total Other Expenses	112,431	50,957	3,437	166,825	101,130	58,953	10,560	170,643
TOTAL EXPENSES	\$ 313,355	\$ 130,359	\$ 13,122	\$ 456,836	\$ 324,962	\$ 133,215	\$ 45,853	\$ 504,030

See accompanying notes to financial statements.

Page 4

WALL WATCHERS*Statement of Cash Flows**Years Ended June 30, 2002 and 2001*

	Year Ended June 30,	
	2002	2001
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 25,946	\$ (429,336)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	51,283	44,074
Realized and unrealized loss on investments	3,437	32,513
(Increase) decrease in operating assets:		
Prepaid expenses and deposits	2,096	(1,595)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	4,317	2,065
Deferred compensation	(8,855)	3,676
Net Cash Flows from Operating Activities	<u>78,224</u>	<u>(348,603)</u>
<u>INVESTING ACTIVITIES</u>		
Purchases of marketable securities	(25,822)	(4,199,260)
Proceeds from sales of marketable securities	63,021	4,189,484
Purchases of property	(2,914)	(13,029)
Investment in system development costs	-	(42,632)
Net Cash Flows from Investing Activities	<u>34,285</u>	<u>(65,437)</u>
CHANGE IN CASH	112,509	(414,040)
CASH AND EQUIVALENTS, BEGINNING	<u>51,315</u>	<u>465,355</u>
CASH AND EQUIVALENTS, ENDING	<u>\$ 163,824</u>	<u>\$ 51,315</u>

WALL WATCHERS

Notes to Financial Statements

June 30, 2002 and 2001

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, 2002, Wall Watchers continued to carry out this mission by conducting research on more than 400 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, 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

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.

WALL WATCHERS

Notes to Financial Statements

June 30, 2002 and 2001

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

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, 2002 and 2001, Wall Watchers had no permanently restricted net assets and no remaining temporarily restricted net assets.

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 generally 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). Wall Watchers is classified as other than a private foundation as defined by Section 509(a) of the Internal Revenue Code.

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.

WALL WATCHERS

Notes to Financial Statements

June 30, 2002 and 2001

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, 2002 and 2001 consisted primarily of investments in publicly traded common stocks and mutual funds.

Investment income

Investment activity for the years ended June 30, 2002 and 2001, was as follows:

	<u>2002</u>	<u>2001</u>
Interest and dividend income	\$ 954	\$ 9,542
Realized and unrealized gains (losses)	<u>(3,437)</u>	<u>(32,513)</u>
TOTAL	<u>\$ (2,483)</u>	<u>\$ (22,971)</u>

NOTE 4 - DONATED PROPERTY AND FACILITIES

Wall Watchers received free use of its office space during each of the years ended June 30, 2002 and 2001. The use of this space has been valued at \$36,000 and \$32,250 for 2002 and 2001, respectively, and these amounts have been included as support and as rent expense in the accompanying statements of activities

NOTE 5 - DEFERRED COMPENSATION

Wall Watchers has deferred compensation agreements with certain of its employees. Under the terms of these agreements, each of these employees will receive the value of an individual investment account established for their benefit upon the fifth anniversary of the start of their employment. Each of these employees has discretion over the management of their individual investment account prior to the vesting date. The value of these investment accounts is recorded as compensation expense over the vesting period of each employee. Forfeitures reduce compensation expense in the period of the forfeiture. Compensation expense related to these deferred compensation agreements totaled (\$8,855) and \$3,676 for the years ended June 30, 2002 and 2001, respectively.

NOTE 6 - CONCENTRATION OF REVENUE

Wall Watchers received 94 percent of its cash support from two donors during the year ended June 30, 2002, which represents a significant concentration of risk.