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Independent Auditor's Report

To the Board of Directors
Pastoral Counseling Centers of Tennessee, Inc.

We have audited the accompanying combined statements of financial position of Pastoral Counseling Centers of Tennessee, Inc., (a Corporation) as of December 31, 2004 and 2003, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the corporation 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 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 Pastoral Counseling Centers of Tennessee, Inc. as of December 31, 2004 and 2003, the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Erwin Hardison & Co., P.C.
Certified Public Accountants
June 22, 2005



PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Statements of Financial Position
December 31, 2004 and 2003

	ASSETS	
	2004	2003
Current assets:		
Cash and Equivalents	\$ 33,990	\$ 14,039
Accounts receivable (less allowance, 2004: \$8,847 and 2003: \$9,433)	24,186	22,167
Satellite Accounts Receivable	0	2,691
Pledges Receivable	6,398	12,970
Total current assets	<u>64,574</u>	<u>51,867</u>
Assets whose use is restricted:		
by donor—temporarily restricted assets	277,486	407,262
Endowment fund	41,700	31,583
Total assets whose use is restricted	<u>319,186</u>	<u>438,845</u>
Property and equipment:		
Buildings and improvements	14,787	14,787
Furniture and equipment	149,660	149,660
Total property and equipment	<u>164,447</u>	<u>164,447</u>
Accumulated depreciation	<u>(145,594)</u>	<u>(136,922)</u>
Net property and equipment	<u>18,853</u>	<u>27,525</u>
Total assets	<u>\$ 402,613</u>	<u>\$ 518,237</u>

See accompanying notes to financial statements.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Statements of Financial Position
December 31, 2004 and 2003

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
Current liabilities:		
Accrued expenses	\$ 4,710	\$ 10,928
Total current liabilities	<u>4,710</u>	<u>10,928</u>
Net Assets - Unrestricted	78,717	68,464
Net Assets - Temporarily restricted	277,486	407,262
Net Assets - Permanently restricted	<u>41,700</u>	<u>31,583</u>
Total Net Assets	<u>397,903</u>	<u>507,309</u>
 Total liabilities and net assets	 <u>\$ 402,613</u>	 <u>\$ 518,237</u>

See accompanying notes to financial statements.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Statements of Activities
For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Changes in unrestricted net assets:		
Revenue:		
Contributions	\$ 189,568	\$ 188,935
Counseling Services	304,238	318,870
Investment income	3,002	2,372
Net assets released from restrictions	360,521	304,585
Other	272	157
Total revenue	<u>857,601</u>	<u>814,919</u>
Expenses:		
General and administrative	828,671	869,785
Depreciation and amortization	8,671	11,436
Advertising	10,006	9,173
Total expenses	<u>847,348</u>	<u>890,394</u>
 Increase(Decrease) in unrestricted net assets	 10,253	 (75,475)
Changes in temporarily restricted net assets:		
Contributions	230,744	323,120
Net assets released from restrictions	<u>(360,520)</u>	<u>(304,585)</u>
Increase(Decrease) in temporarily restricted net assets	(129,776)	18,535
Changes in permanently restricted net assets:		
Contributions	10,045	0
Investment Income	222	149
Distributions	<u>(150)</u>	<u>(150)</u>
(Decrease) Increase in permanently restricted net assets	10,117	(1)
 (Decrease) Increase in net assets	 (109,406)	 (56,941)
Net assets beginning of year	<u>507,309</u>	<u>564,250</u>
 Net assets end of year	 <u>\$ 397,903</u>	 <u>\$ 507,309</u>

See accompanying notes to financial statements.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Statements of Cash Flows (Indirect Method)
Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities and gains and losses:		
Change in unrestricted net assets	\$ 10,253	\$ (75,475)
Adjustments to reconcile revenue and gains in excess of expenses and losses to net cash provided by operating activities and gains and losses:		
Depreciation and amortization	8,671	11,436
Restricted Income (loss)	(149,657)	18,533
Change in receivables	7,244	69,562
Change in accounts payable and accrued expenses	<u>(6,219)</u>	<u>(2,383)</u>
Net cash provided by operating activities and gains and losses	(129,708)	21,673
Cash flows from investing activities:		
Net cash used by investing activities	<u>0</u>	<u>0</u>
Net increase(decrease) in cash and cash equivalents	(129,708)	21,673
Cash and cash equivalents at beginning of year	14,039	10,900
Less: Permanently Restricted cash and cash equivalents	(10,117)	(1)
Add: Temporarily Restricted cash and cash equivalents	<u>159,776</u>	<u>(18,533)</u>
Cash and cash equivalents at end of year (unrestricted)	<u>\$ 33,990</u>	<u>\$ 14,039</u>

See accompanying notes to financial statements.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Notes to Financial Statements
December 31, 2004 and 2003

NATURE OF OPERATIONS

Pastoral Counseling Centers of Tennessee, Inc. (PCCT) provides counseling of mental health to the general public through individual, group or family therapy. The corporate office is located in Nashville, with five (5) satellite offices located in the surrounding area.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Charity Care. PCCT provides free counseling and/or a slide scale charge for those counselees who meet certain income criteria. PCCT offsets the cost of counseling with contributions from individuals, churches and corporations.

Support and Expenses. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Investments and investment income. Marketable equity securities are carried at the lower of cost or market at the balance sheet date. Interest and investment income are recognized when earned.

Market Risk. All of PCCT's cash accounts are held in money market funds which limits their exposure to risk. In the previous year PCCT's cash was held in mutual funds in brokerage accounts that exposed them to market risk.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and equivalents. Cash and cash equivalents include any securities whose maturity is less than three months, excluding amounts whose use is restricted.

2. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Notes to Financial Statements
December 31, 2004 and 20033. TAX STATUS

PCCT is a not-for-profit corporation as described in section 501(c) (3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to section 501(a) of the Internal Revenue Code.

4. ASSETS WHOSE USE IS RESTRICTED

The organization 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. When a donor restriction expires, that is, when a stipulated time 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.

Net assets are temporarily restricted as follows:	2004	2003
Education	\$ 61,362	\$ 47,853
Management Development	1,743	37,131
Capital Improvement	4,645	6,895
Coffman Fund	235	
Training	36,990	81,312
Single Fathers Fund	2,500	2,500
Computers and Technology	7,750	7,750
Clinical Pastoral Education Fund	162,261	223,821
Total net assets temporarily restricted	\$ 277,486	\$ 407,262

Net assets released from temporary restrictions were \$360,521 and \$304,585 for the years ended December 31, 2004 and December 31, 2003.

The composition of assets whose use is permanently restricted at December 31, 2004 and 2003 is set forth in the following table. Investments are stated at cost that approximates market value.

Endowment Fund	2004	2003
Cash and equivalents	\$ 41,700	\$ 31,583

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Notes to Financial Statements
December 31, 2004 and 20035. PROPERTY AND EQUIPMENT

Classification of Property and Equipment and Accumulated Depreciation was as follows:

	COST	ACCUMULATED DEPRECIATION	BOOK VALUE
2004			
Buildings	\$ 14,787	\$ 4,039	\$ 10,748
Equipment, Furnishings and Fixtures	149,660	141,554	8,106
TOTALS	<u>\$ 164,447</u>	<u>\$ 145,593</u>	<u>\$ 18,854</u>
2003			
Buildings	\$ 14,787	\$ 2,776	\$ 12,011
Equipment, Furnishings and Fixtures	149,660	134,146	15,514
TOTALS	<u>\$ 164,447</u>	<u>\$ 136,922</u>	<u>\$ 27,525</u>

6. PENDING LEGAL PROCEEDINGS

According to Legal counsel, there is no outstanding litigation against PCCT, at December 31, 2004 and 2003.

7. PENSION PLAN

PCCT has a tax deferred retirement plan covering employees who have completed twelve months of service, attained the age of 21, and are employed on a full-time basis. PCCT makes an annual contribution for the participants, based on a percentage of their annual gross salaries. The total contribution was \$17,015 and \$18,929 for 2004 and 2003 respectively. Employees are eligible to make contributions personally through salary reduction.

8. ADVERTISING COSTS

All advertising costs are expensed when incurred.

9. RELATED PARTY

PCCT is affiliated with the Vine Street Christian Church and due to the nature of services provided by PCCT, office space and utilities are, in most cases, provided at no cost for the counselors.

10. FUND-RAISING

All fund raising expenses have been expensed as incurred. The expenses do not meet the criteria for joint cost allocation. The total expense for 2004 and 2003 is \$53,519 and \$45,684, respectively.

June 22, 2005

To the Board of Directors
Pastoral Counseling Centers of Tennessee, Inc.
Nashville, TN 37205

Our report on our audit of the basic financial statements of Pastoral Counseling Centers of Tennessee, Inc. (a corporation) for the years ended December 31, 2004 and 2003 appears on page 1. Those audits were conducted to express an opinion that the statement of financial position and statement of activities for the years then ended are in accordance with auditing standards generally accepted in the United States of America.

The information included in the attached schedule of functional expenses for the years ended December 31, 2004 and 2003 is presented for supplementary analysis purposes only. We do not express any opinion or assurance on the supplementary information mentioned above.

A handwritten signature in cursive script that reads "Erwin Hardison & Co., PC".

Erwin Hardison & Co., PC
Certified Public Accountants

PASTORAL COUNSELING CENTERS OF TENNESSEE, INC.

Schedule of Functional Expenses
December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Program Services	\$ 747,837	\$ 802,851
Management and General	40,857	36,276
Fundraising	<u>58,804</u>	<u>51,417</u>
TOTAL	\$ <u>847,498</u>	\$ <u>890,544</u>

See accompanying notes to financial statements.