

THE BOX PROJECT, INC.

(a not-for-profit organization)

Audited Financial Statements and Independent Auditors' Report

For the year ended December 31, 2005

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Box Project, Inc.
Ormond Beach, Florida

We have audited the accompanying statement of financial position of The Box Project, Inc. (a not-for-profit organization) as of December 31, 2005, and the related statements of activities, functional expenses and cash flows for the year 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of The Box Project, Inc. as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Weston, Gregory + Duncan PA

March 1, 2006

THE BOX PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2005

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Current Assets:			
Cash and cash equivalents	\$ 60,918	\$ 22,701	\$ 83,619
Certificates of deposit	101,206	-	101,206
Total current assets	<u>162,124</u>	<u>22,701</u>	<u>184,825</u>
Property and equipment - net	7,202	-	7,202
Deposits	<u>600</u>	<u>-</u>	<u>600</u>
Total assets	<u>\$ 169,926</u>	<u>\$ 22,701</u>	<u>\$ 192,627</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Accrued expenses	\$ 8,613	\$ -	\$ 8,613
Total current liabilities	<u>8,613</u>	<u>-</u>	<u>8,613</u>
Net Assets:			
Unrestricted			
Board designated	100,000	-	100,000
Undesignated	61,313	-	61,313
Temporarily restricted	-	22,701	22,701
Total net assets	<u>161,313</u>	<u>22,701</u>	<u>184,014</u>
Total liabilities and net assets	<u>\$ 169,926</u>	<u>\$ 22,701</u>	<u>\$ 192,627</u>

The accompanying Independent Auditors' Report and notes
should be read with these financial statements.

THE BOX PROJECT, INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2005

	Unrestricted	Temporarily Restricted	Total
<u>SUPPORT AND REVENUE</u>			
Support:			
Contributions	\$ 83,510	\$ 12,020	\$ 95,530
Membership dues	70,193	-	70,193
Direct aid fees	2,253	-	2,253
Total Support	155,956	12,020	167,976
Revenue:			
Interest income	494	-	494
Total Revenue	494	-	494
Total Public Support and Revenue before Net Assets Released from Restriction	156,450	12,020	168,470
Net Assets Released From Restrictions:			
Restrictions satisfied by payments	8,790	(8,790)	-
TOTAL SUPPORT AND REVENUE	165,240	3,230	168,470
<u>EXPENSES</u>			
Program Services:			
Family match	130,370	-	130,370
Class match	3,477	-	3,477
Educational awards	3,477	-	3,477
Total program services	137,324	-	137,324
Supporting Services:			
Management and general	31,290	-	31,290
Fundraising	5,212	-	5,212
Total supporting services	36,502	-	36,502
TOTAL EXPENSES	173,826	-	173,826
Change in net assets	(8,586)	3,230	(5,356)
Net assets, beginning of year	169,899	19,471	189,370
Net assets, end of year	\$ 161,313	\$ 22,701	\$ 184,014

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should be read with these financial statements.

THE BOX PROJECT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2005

<u>EXPENSES</u>	Program Services			Total Program Services
	Family Match	Class Match	Educational Awards	
Compensation and benefits:				
Compensation	\$ 64,345	\$ 1,716	\$ 1,716	\$ 67,777
Employee benefits	6,621	177	177	6,975
Payroll taxes	5,469	145	145	5,759
	76,435	2,038	2,038	80,511
Other operating expenses:				
Printing	6,809	182	182	7,173
Occupancy	6,762	180	180	7,122
Program expense	5,600	149	149	5,898
Postage	4,468	119	119	4,706
Telephone	4,364	116	116	4,596
Professional fees	4,343	116	116	4,575
Meetings	3,470	93	93	3,656
Travel	3,112	83	83	3,278
Insurance	2,824	75	75	2,974
Office supplies	2,801	75	75	2,951
Computer expenses	2,520	67	67	2,654
Depreciation	1,970	53	53	2,076
License and permits	1,709	46	46	1,801
Bank charges	1,349	36	36	1,421
Dues and subscriptions	998	27	27	1,052
Advertising	836	22	22	880
TOTAL EXPENSES	\$ 130,370	\$ 3,477	\$ 3,477	\$ 137,324

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Support Services

<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>
\$ 15,443	\$ 2,573	18,016	\$ 85,793
1,589	264	1,853	8,828
1,313	220	1,533	7,292
<u>18,345</u>	<u>3,057</u>	<u>21,402</u>	<u>101,913</u>
1,634	271	1,905	9,078
1,623	271	1,894	9,016
1,344	224	1,568	7,466
1,072	179	1,251	5,957
1,047	176	1,223	5,819
1,042	173	1,215	5,790
833	138	971	4,627
747	124	871	4,149
678	113	791	3,765
672	111	783	3,734
605	101	706	3,360
473	78	551	2,627
410	69	479	2,280
324	54	378	1,799
240	40	280	1,332
201	33	234	1,114
<u>\$ 31,290</u>	<u>\$ 5,212</u>	<u>\$ 36,502</u>	<u>\$ 173,826</u>

THE BOX PROJECT, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2005

Cash flows from operating activities:	
Cash received from contributors and service recipients	\$ 156,976
Interest and other revenue	494
Cash paid to suppliers and employees	<u>(169,814)</u>
Net cash used in operating activities	<u>(12,344)</u>
Cash flows from investing activities:	
Purchase of fixed assets	(2,320)
Purchase of certificates of deposit	<u>(101,206)</u>
Net cash used in investing activities	<u>(103,526)</u>
Net decrease in cash and cash equivalents	(115,870)
Cash and cash equivalents, beginning of year	<u>199,489</u>
Cash and cash equivalents, end of year	<u><u>\$ 83,619</u></u>
Reconciliation of net assets to net cash used in operating activities:	
Change in net assets	\$ (5,356)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	2,627
Increase (decrease) in operating liabilities:	
Accrued expenses	1,385
Deferred revenue	<u>(11,000)</u>
Net cash used in operating activities	<u><u>\$ (12,344)</u></u>

The accompanying Independent Auditors' Report and notes
should be read with these financial statements.

THE BOX PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2005

1. Nature of Activities:

The Box Project, Inc., is a national not-for-profit organization originally incorporated in the State of Connecticut in 1969 and reincorporated in the State of Florida on September 23, 2004. The Organization's mission is to provide charitable and educational assistance to individual families and groups in the United States, especially those living in rural poverty.

The Box Project serves these needs by:

- a. Matching members with a family or group living in poverty in the rural United States, particularly the Mississippi Delta, for the purpose of providing charitable material help and educational assistance.
- b. Providing an opportunity to increase understanding, trust, and cooperation among people of diverse economic and geographic backgrounds, in order to alleviate poverty and inequality.
- c. Promoting changes that will lead to equal opportunity for all people to live in dignity, wherever they choose to make their home.
- d. Assisting families in need to use personal and community resources and programs effectively.

2. Summary of Significant Accounting Policies:

The following is a summary of the Company's significant accounting policies:

Basis of accounting - The financial statements are prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of presentation - The financial statements of the Organization are prepared in conformity with the standards promulgated by the Financial Accounting Standards Board in statement No. 116, "Accounting for Contributions Received and Contributions Made" (SFAS 116), and Statement No. 117, "Financial Statements of Not-for-Profit Organizations: (SFAS 117). SFAS 116 establishes recognition and disclosure requirements for contributions received and made, whether in cash, property, or in kind, for all entities, including not-for-profit organizations. SFAS 117 establishes the basic financial statement presentation for not-for-profit organizations.

The financial statement presentation follows the requirements of Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets—the unrestricted net asset class includes the general and board designated assets and liabilities of the Organization. Revenue and support received by the Organization without explicit donor restrictions that specify how the donated asset must be used or maintained are reported as unrestricted to the Organization. In general, the unrestricted net assets of the Organization may be used at the discretion of the Organization's management and the Board of Directors to support the Organization's purposes and operations. Temporarily restricted net assets are reclassified to unrestricted as the time or purpose restrictions are met. These amounts are then reported in the Statement of Activities as "net assets released from restriction."

THE BOX PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2005

2. Summary of Significant Accounting Policies, continued:

Temporarily Restricted Net Assets—the temporarily restricted net asset class includes expendable assets and related liabilities of the Foundation. These assets relate to gifts with explicit time or purpose restrictions that have not yet been met. When the time or purpose restriction is met these assets are reclassified to unrestricted net assets and reported in the Statement of Activities as “net assets released from restriction.”

Permanently Restricted Net Assets—the permanently restricted net asset class includes assets and related liabilities of the Organization related to contributions for which the donor has restricted the investment of the gift corpus in perpetuity. The income generated from the investment of corpus is available for the Organization’s operations in accordance with the donor restrictions. Appreciation related to the permanently restricted net assets, if not specifically restricted otherwise, follows the donor’s income restriction and is included in the appropriate unrestricted or temporarily restricted net asset class. At December 31, 2005 there were no permanently restricted assets.

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 136 (SFAS 136), in September 1999. SFAS 136 establishes accounting and reporting standards for organizations that collect money from individuals directed to be transferred to other organizations or individuals identified by the donors. These types of monetary exchanges are not considered contributions to the organization but rather liabilities.

The organization has a program identified as ‘Aid to the Needy’. Individuals contribute money to the organization and designate their ‘matched families’ as beneficiaries of this money. The organization transfers the funds to the designated families and deducts a small amount of the donors’ money as a transfer fee located on the Statement of Activity as ‘Direct Aid Fees’.

Cash and cash equivalents – The Organization considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

Land, Buildings and Equipment - Property and equipment having a unit cost of \$500 or more and an estimated useful life of more than three years are capitalized at cost. Donated assets are capitalized at the estimated fair-market value at the time of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 3 to 7 years.

Income Taxes - The Organization is a nonprofit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Contributions to the Organization are deductible under Section 170(b)(1)(A)(iv) of the Code.

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

Concentration of Credit - At December 31, 2005, the Organization had cash accounts and certificates of deposit with local financial institutions. The balances in these accounts did not exceed the Federal Deposit Insurance Corporation’s coverage.

THE BOX PROJECT, INC.
 NOTES TO FINANCIAL STATEMENTS
 For the year ended December 31, 2005

3. Property and Equipment:

Property and equipment for the Organization consists of the following:

Furniture and fixtures	\$ 1,231
Machinery and equipment	<u>21,498</u>
	22,729
Less: Accumulated Depreciation	<u>(15,527)</u>
Net Property and Equipment	<u>\$ 7,202</u>

Depreciation expense was \$2,627 for the year ended December 31, 2005.

4. Restriction of Net Assets:

Temporarily restricted net assets are available for the following purpose:

Scholarship Fund	\$ 19,471
Emergency Fund	1,410
Education Award Fund	<u>1,820</u>
	<u>\$ 22,701</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Satisfaction of purpose restrictions:	
Donor restricted contributions used by	
Emergency Fund	\$ 7,990
Education Award Fund	<u>800</u>
	<u>\$ 8,790</u>

5. Net Assets Designated by Board:

The following net assets are considered Board Designated by the Board of Directors and are not available for current operations:

Education Award Scholarships	\$ 30,000
Educational Programs	<u>70,000</u>
	<u>\$ 100,000</u>

6. Functional Allocation of Expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the services benefited.

THE BOX PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2005

7. Leases:

The Organization leases its office facilities under a lease expiring in 2006. Minimum future rental payments under this lease are:

2006	\$ 3,000
Thereafter	<u>0</u>
	<u>\$ 3,000</u>

Rent expense for fiscal year 2005 was \$7,688.

8. Deferred Compensation Plan:

The Organization has a 403(b) deferred compensation plan with Mutual of America. All employees are eligible to contribute immediately. There is neither a waiting period nor a minimum number of work hours required. The Organization does not make an employer contributory match.