

THE BOX PROJECT, INC.

(a not-for-profit organization)

DRAFT

Audited Financial Statements and Independent Auditors' Report

For the year ended December 31, 2006

CONTENTS

	<u>Pages</u>
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 - 9

DRAFT

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, 2006, 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, 2006, 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.

DRAFT

March 19, 2007

THE BOX PROJECT, INC.
Statement of Financial Position
December 31, 2006

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Current Assets:			
Cash and cash equivalents	\$ 58,077	\$ 1,535	\$ 59,612
Certificates of deposit	98,671	-	98,671
Prepaid expenses	607	-	607
 Total current assets	 <u>157,355</u>	 <u>1,535</u>	 <u>158,890</u>
Noncurrent Assets:			
Property and equipment - net	4,416	-	4,416
Deposits	600	-	600
 Total noncurrent assets	 <u>5,016</u>	 <u>-</u>	 <u>5,016</u>
 Total assets	 <u>\$ 162,371</u>	 <u>\$ 1,535</u>	 <u>\$ 163,906</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Accrued expenses	\$ 20,042	\$ -	\$ 20,042
Deferred revenue	7,285	-	7,285
 Total current liabilities	 <u>27,327</u>	 <u>-</u>	 <u>27,327</u>
Net Assets:			
Unrestricted			
Board designated	100,000	-	100,000
Undesignated	35,044	-	35,044
Temporarily restricted	-	1,535	1,535
 Total net assets	 <u>135,044</u>	 <u>1,535</u>	 <u>136,579</u>
 Total liabilities and net assets	 <u>\$ 162,371</u>	 <u>\$ 1,535</u>	 <u>\$ 163,906</u>

DRAFT

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, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>SUPPORT AND REVENUE</u>			
Support:			
Contributions	\$ 99,550	\$ 2,715	\$ 102,265
Membership dues	53,623	-	53,623
Direct aid fees	2,165	-	2,165
Total Support	<u>155,338</u>	<u>2,715</u>	<u>158,053</u>
Revenue:			
Interest income	<u>4,728</u>	<u>-</u>	<u>4,728</u>
Total Public Support and Revenue before Net Assets Released from Restriction	<u>160,066</u>	<u>2,715</u>	<u>162,781</u>
Net Assets Released From Restrictions:			
Restrictions satisfied by payments	<u>23,881</u>	<u>(23,881)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>183,947</u>	<u>(21,166)</u>	<u>162,781</u>
<u>EXPENSES</u>			
Program Services:			
Family match	157,662	-	157,662
Class match	4,204	-	4,204
Educational awards	4,204	-	4,204
Total program services	<u>166,070</u>	<u>-</u>	<u>166,070</u>
Supporting Services:			
Management and general	37,839	-	37,839
Fundraising	6,307	-	6,307
Total supporting services	<u>44,146</u>	<u>-</u>	<u>44,146</u>
TOTAL EXPENSES	<u>210,216</u>	<u>-</u>	<u>210,216</u>
Change in net assets	(26,269)	(21,166)	(47,435)
Net assets, beginning of year	<u>161,313</u>	<u>22,701</u>	<u>184,014</u>
Net assets, end of year	<u>\$ 135,044</u>	<u>\$ 1,535</u>	<u>\$ 136,579</u>

DRAFT

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

THE BOX PROJECT, INC.
Statement of Functional Expenses
For the year ended December 31, 2006

<u>EXPENSES</u>	Program Services			Total Program Services
	Family Match	Class Match	Educational Awards	
Compensation and benefits:				
Compensation	\$ 78,167	\$ 2,084	\$ 2,084	\$ 82,335
Employee benefits	6,564	175	175	6,914
Payroll taxes	12,048	321	321	12,690
	96,779	2,580	2,580	101,939
Other operating expenses:				
Occupancy	6,693	179	179	7,051
Printing	3,907	104	104	4,115
Meetings	2,789	74	74	2,937
Telephone	4,481	119	119	4,719
Professional fees	4,311	115	115	4,541
Postage	6,131	164	164	6,459
Office supplies	1,908	51	51	2,010
Travel	2,969	79	79	3,127
Insurance	2,516	67	67	2,650
Program expense	18,987	506	506	19,999
Depreciation	2,089	56	56	2,201
Bank charges	644	17	17	678
Computer expenses	1,030	28	28	1,086
License and permits	1,302	35	35	1,372
Advertising	67	2	2	71
Dues and subscriptions	1,059	28	28	1,115
	\$ 157,662	\$ 4,204	\$ 4,204	\$ 166,070
TOTAL EXPENSES	\$ 157,662	\$ 4,204	\$ 4,204	\$ 166,070

DRAFT

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

Support Services

<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>
\$ 18,760	\$ 3,127	21,887	\$ 104,222
1,575	263	1,838	8,752
2,892	482	3,374	16,064
<u>23,227</u>	<u>3,872</u>	<u>27,099</u>	<u>129,038</u>
1,607	268	1,875	8,926
937	156	1,093	5,208
669	112	781	3,718
1,075	179	1,254	5,973
1,034	172	1,206	5,747
1,472	245	1,717	8,176
458	76	534	2,544
712	119	831	3,958
604	101	705	3,355
4,557	759	5,316	25,315
501	84	585	2,786
155	26	181	859
248	41	289	1,375
313	52	365	1,737
16	3	19	90
<u>254</u>	<u>42</u>	<u>296</u>	<u>1,411</u>
<u>\$ 37,839</u>	<u>\$ 6,307</u>	<u>\$ 44,146</u>	<u>\$ 210,216</u>

DRAFT

THE BOX PROJECT, INC.
Statement of Cash Flows
For the year ended December 31, 2006

Cash flows from operating activities:	
Cash received from contributors and service recipients	\$ 165,338
Interest and other revenue	4,728
Cash paid to suppliers and employees	<u>(196,608)</u>
Net cash used in operating activities	<u>(26,542)</u>
Cash flows from investing activities:	
Maturities of certificates of deposit	<u>2,535</u>
Net cash provided by investing activities	<u>2,535</u>
Net decrease in cash and cash equivalents	(24,007)
Cash and cash equivalents, beginning of year	<u>83,619</u>
Cash and cash equivalents, end of year	<u><u>\$ 59,612</u></u>
Reconciliation of net assets to net cash used in operating activities:	
Change in net assets	\$ (47,435)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	2,786
(Increase) decrease in operating assets:	
Prepaid expenses	(607)
Increase (decrease) in operating liabilities:	
Accrued expenses	11,429
Deferred revenue	<u>7,285</u>
Net cash used in operating activities	<u><u>\$ (26,542)</u></u>

DRAFT

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

THE BOX PROJECT, INC.
Notes to Financial Statements
December 31, 2006

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 encourage and enrich the lives of families and individuals living in poverty in rural America by a) establishing meaningful relationships, b) promoting education, and c) offering material aid.

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 Organization'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.

DRAFT

THE BOX PROJECT, INC.
Notes to Financial Statements
December 31, 2006

2. Summary of Significant Accounting Policies, continued:

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 of the restrictions is met. These amounts are then reported in the Statement of Activities as "net assets released from restriction."

Temporarily Restricted Net Assets—the temporarily restricted net asset class includes expendable assets and related liabilities of the Organization. These assets relate to gifts with explicit time or purpose restrictions that have not yet been met. When the time or purpose of the 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, 2006 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 BOX PROJECT, INC.
Notes to Financial Statements
December 31, 2006

2. Summary of Significant Accounting Policies, continued:

The Organization has a program identified as 'Direct Aid'. 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, 2006, 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.

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>(18,313)</u>
Net Property and Equipment	<u>\$ 4,416</u>

Depreciation expense was \$2,786 for the year ended December 31, 2006.

THE BOX PROJECT, INC.
Notes to Financial Statements
December 31, 2006

4. Restriction of Net Assets:

Temporarily restricted net assets are available for the following purpose:

Education Award Fund	<u>\$ 1,535</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	\$ 1,410
Scholarship Fund	19,471
Other Funds	1,500
Education Award Fund	<u>1,500</u>
	<u>\$ 23,881</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.

7. Leases:

The Organization leases its office facilities under a lease expiring in 2007. Minimum future rental payments under this lease are:

2007	\$ 1,214
Thereafter	<u>0</u>
	<u>\$ 1,214</u>

DRAFT

Rent expense for fiscal year 2006 was \$7,318.