

PRISON ENTREPRENEURSHIP PROGRAM

FINANCIAL STATEMENTS

December 31, 2005 and 2004

**PRISON ENTREPRENEURSHIP PROGRAM
FINANCIAL STATEMENTS**

TABLE OF CONTENTS

	<u>PAGE (S)</u>
BASIC FINANCIAL STATEMENTS	
Independent Auditor's Report	1
Statements of Financial Position December 31, 2005 and 2004	2
Statement of Activities for the Year Ended December 31, 2005	3
Statement of Activities for the Year Ended December 31, 2004	4
Statements of Cash Flows for the Years Ended December 31, 2005 and 2004	5
Statement of Functional Expenses for the Year Ended December 31, 2005	6
Statement of Functional Expenses for the Year Ended December 31, 2004	7
Notes to the Financial Statements	8-12

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Prison Entrepreneurship Program

We have audited the accompanying statements of financial position of Prison Entrepreneurship Program (a nonprofit organization) as of December 31, 2005 and 2004, and the related statements of activities, cash flows, and functional expenses for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Prison Entrepreneurship Program as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Hall Group, CPAs

Dallas, Texas
May 5, 2006

PRISON ENTREPRENEURSHIP PROGRAM
Statements of Financial Position
December 31, 2005 and 2004

ASSETS

	2005	2004
Current Assets		
Cash and Cash Equivalents	\$ 75,916	\$ 0
Accounts Receivable	2,000	0
Other Receivables	5,017	0
Total Current Assets	82,933	0
Fixed Assets		
Computer Equipment	3,888	1,798
Software Costs	55,239	0
Vehicles	7,073	0
Less: Accumulated Depreciation	(2,603)	(112)
Total Fixed Assets	63,597	1,686
TOTAL ASSETS	146,530	1,686

LIABILITIES AND NET ASSETS

Current Liabilities		
Bank Overdrafts	0	34
Accounts Payable and Accrued Liabilities	10,620	7,500
Total Current Liabilities	10,620	7,534
Long Term Liabilities		
Notes Payable	0	18,897
Total Long Term Liabilities	0	18,897
Net Assets		
(Deficit)--Unrestricted	135,910	(24,745)
Temporarily Restricted	0	0
Total Net Assets (Deficit)	135,910	(24,745)
TOTAL LIABILITIES AND NET ASSETS	\$ 146,530	1,686

The accompanying notes are an integral part of these financial statements.

PRISON ENTREPRENEURSHIP PROGRAM
Statement of Activities
For the Year Ended December 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND PUBLIC SUPPORT				
Contributions				
Individuals	158,090	0	0	158,090
Foundations	130,020	0	0	130,020
Corporations	54,100	0	0	54,100
In-Kind Contributions	<u>70,800</u>	<u>0</u>	<u>0</u>	<u>70,800</u>
Total Revenue and Public Support	413,010	0	0	413,010
EXPENSES				
Program Expenses	190,236	0	0	190,236
Fundraising	7,426			7,426
General & Administrative	<u>54,693</u>	<u>0</u>	<u>0</u>	<u>54,693</u>
Total Expenses	<u>252,355</u>	<u>0</u>	<u>0</u>	<u>252,355</u>
CHANGE IN NET ASSETS	160,655	0	0	160,655
NET ASSETS AT BEGINNING OF YEAR	<u>(24,745)</u>	<u>0</u>	<u>0</u>	<u>(24,745)</u>
NET ASSETS AT END OF YEAR	<u>\$ 135,910</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 135,910</u>

The accompanying notes are an integral part of these financial statements.

PRISON ENTREPRENEURSHIP PROGRAM
Statement of Activities
For the Year Ended December 31, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND PUBLIC SUPPORT				
Contributions	<u>1,400</u>	<u>0</u>	<u>0</u>	<u>1,400</u>
Total Revenue and Public Support	1,400	0	0	1,400
EXPENSES				
Program Expenses	22,283	0	0	22,283
General & Administrative	<u>3,862</u>	<u>0</u>	<u>0</u>	<u>3,862</u>
Total Expenses	<u>26,145</u>	<u>0</u>	<u>0</u>	<u>26,145</u>
CHANGE IN NET ASSETS	(24,745)	0	0	(24,745)
NET ASSETS AT BEGINNING OF YEAR	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET ASSETS AT END OF YEAR	<u>\$ (24,745)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (24,745)</u>

The accompanying notes are an integral part of these financial statements.

PRISON ENTREPRENEURSHIP PROGRAM
Statements of Cash Flows
For the Years Ended December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 160,655	(24,745)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,491	112
(Increase) in Receivables	(7,017)	0
Increase in Accounts Payable and Accrued Liabilities	3,120	7,500
Net Cash Provided (Used) by Operating Activities	159,249	(17,133)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed Asset Purchases	(64,402)	(1,798)
Net Cash (Used) by Investing Activities	(64,402)	(1,798)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Note Payable Proceeds	7,048	18,897
Payments on Loans	(25,945)	0
Net Cash Provided (Used) by Financing Activities	(18,897)	18,897
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	75,950	(34)
 CASH AND CASH EQUIVALENTS (OVERDRAFT) AT BEGINNING OF YEAR	(34)	0
 CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 75,916	(34)
 SUPPLEMENTAL DISCLOSURES		
Cash Paid During the Year for Interest Expense	\$ 0	0
In-Kind Contributions	\$ 70,800	0

The accompanying notes are an integral part of these financial statements.

PRISON ENTREPRENEURSHIP PROGRAM
Statement of Functional Expenses
For the Year Ended December 31, 2005

	<u>Program Services</u>	<u>Fundraising</u>	<u>General & Administrative</u>	<u>Total</u>
Salaries	\$ 75,003	\$ 2,870	\$ 26,503	\$ 104,376
Automobile	8,311	0	0	8,311
Benefits	7,503	0	0	7,503
Bonuses	6,000	500	2,250	8,750
Business Plan Connection	17,360	0	0	17,360
Contractual Services	10,914	0	5,822	16,736
Depreciation	2,491	0	0	2,491
Educational	16,079	0	0	16,079
Office Supplies & Expenses	17,391	0	8,692	26,083
Legal Expense	0	0	5,000	5,000
Other	4,691	3,449	3,583	11,723
Payroll Taxes	7,975	333	2,843	11,151
Program Expense	9,518	0	0	9,518
Program Partner	7,000	0	0	7,000
Travel & Meetings	0	274	0	274
	<u>0</u>	<u>274</u>	<u>0</u>	<u>274</u>
Total Expenses	<u>\$ 190,236</u>	<u>\$ 7,426</u>	<u>\$ 54,693</u>	<u>\$ 252,355</u>

The accompanying notes are an integral part of these financial statements.

PRISON ENTREPRENEURSHIP PROGRAM
Statement of Functional Expenses
For the Year Ended December 31, 2004

	<u>Program Services</u>	<u>Fundraising</u>	<u>General & Administrative</u>	<u>Total</u>
Salaries	\$ 8,330	\$ 0	\$ 3,750	\$ 12,080
Depreciation	0	0	112	112
Educational	66	0	0	66
Event Expense	4,109	0	0	4,109
Meals & Entertainment	946	0	0	946
Marketing	951	0	0	951
Miscellaneous	596	0	0	596
Office Supplies	1,097	0	0	1,097
Payroll Taxes	387	0	0	387
Telephone	214	0	0	214
Program Supplies	1,246	0	0	1,246
Recruiting	98	0	0	98
Travel & Meetings	4,243	0	0	4,243
Total Expenses	<u>\$ 22,283</u>	<u>\$ 0</u>	<u>\$ 3,862</u>	<u>\$ 26,145</u>

The accompanying notes are an integral part of these financial statements.

PRISON ENTREPRENEURSHIP PROGRAM
Notes to the Financial Statements
December 31, 2005 and 2004

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities, History and Organization:

Prison Entrepreneurship Program's mission is to stimulate positive life transformation for executives and inmates, uniting them through entrepreneurial passion, education and mentoring. This enables the inmates to productively re-enter society. This concept of connecting executives and inmates to produce consequential change in society was developed in May 2004.

Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The statement of activities is a statement of the various financial activities and changes in net assets during the current reporting period. It does not purport to represent the results of operations nor of net income or loss for the period since the primary objective of the Organization is not to achieve a profit, but to provide development of entrepreneurial skills in inmates.

Net Asset Accounting:

As a not-for-profit organization, Prison Entrepreneurship Program maintains its records on a fund accounting basis in order to ensure observance of the limitations and restrictions placed on the use of its resources. This is the procedure by which net assets for various purposes are classified for accounting and reporting purposes into self-balancing accounts. Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Prison Entrepreneurship Program and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by the actions of Prison Entrepreneurship Program and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

PRISON ENTREPRENEURSHIP PROGRAM
Notes to the Financial Statements
December 31, 2005 and 2004

NOTE 1 – (CONTINUED)

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by Prison Entrepreneurship Program. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor restrictions exist that specify how the assets are to be used. Gifts of long-lived assets with explicit restrictions and gifts of cash that must be used to acquire long-lived assets are reported as temporarily restricted support. The Organization reports expirations of donor restrictions when the donated assets are placed in service, unless donor restrictions indicate otherwise. Income from permanently restricted net assets is recorded as unrestricted unless otherwise restricted by the donor.

Contributions:

Contributions, including unconditional promises to give, are recorded at their fair value at the date of receipt. All contributions are available for unrestricted use unless specifically restricted by the donor.

Functional Allocation of Expenses:

The costs of providing Prison Entrepreneurship Program's services have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated to the various programs and supporting services.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes:

Prison Entrepreneurship Program is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code and therefore, has made no provision for federal income taxes in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509 (a) of the Internal Revenue Code. There was no unrelated business income for the years ended December 31, 2005 and 2004.

PRISON ENTREPRENEURSHIP PROGRAM
Notes to the Financial Statements
December 31, 2005 and 2004

NOTE 1 – (CONTINUED)

Cash and Cash Equivalents:

The Organization's financial instruments, none of which are held for trading purposes, consist of cash and cash equivalents. Prison Entrepreneurship Program estimates that the fair value of all financial instruments at December 31, 2005 and 2004 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position. The Organization considers all highly liquid investments that are redeemable in 90 days or less to be cash and cash equivalents.

Statement of Cash Flows:

The statement of cash flows is presented using the indirect method. For purposes of this statement, the Organization considers as cash, all cash on hand and all highly liquid investments with maturities of three months or less.

Fixed Assets:

Fixed assets, which are purchased, are recorded at historical cost. Donated fixed assets are recorded at their fair value at the date of contribution. Depreciation is recorded using a straight-line approach over 3 to 5 years. Depreciation expense was \$2,491 and \$112 for the years ended December 31, 2005 and 2004, respectively. Repairs and maintenance are charged to expense as incurred.

NOTE 2 – IN-KIND CONTRIBUTIONS

Prison Entrepreneurship Program received in-kind contributions and services from various donors during the fiscal year 2005 (no in-kind donations were received in the fiscal year 2004). The in-kind contributions are as follows:

	<u>2005</u>	<u>2004</u>
Furniture	\$ 8,000	\$ 0
Computer Equipment	2,800	0
Software	55,000	0
Legal Services	<u>5,000</u>	<u>0</u>
Total In-Kind Contributions	<u>\$ 70,800</u>	<u>\$ 0</u>

PRISON ENTREPRENEURSHIP PROGRAM
Notes to the Financial Statements
December 31, 2005 and 2004

NOTE 3 – TEMPORARILY/PERMANENTLY RESTRICTED NET ASSETS

Prison Entrepreneurship Program had no restricted net assets as of December 31, 2005 and 2004.

NOTE 4 – PUBLIC SUPPORT AND GRANTS

Prison Entrepreneurship Program received financial support from the following sources:

	<u>2005</u>	<u>2004</u>
Individual Donations	\$ 158,090	\$ 1,400
Foundation Donations	130,020	0
Corporate Donations	<u>64,100</u>	<u>0</u>
Total Public Support & Grants	<u>\$ 342,210</u>	<u>\$ 1,400</u>

NOTE 5 – COMMERCIAL LEASE

Prison Entrepreneurship Program is not obligated under any lease agreements for office space. There is a lease commitment for a copier at a rate of \$232 a month for three years with the first payment being made November 2005.

The following is a schedule of minimum lease payments required under the existing lease at December 31, 2005:

<u>Year Ended</u> <u>December 31</u>	<u>Amount</u>
2005	\$ 463
2006	2,780
2007	2,780
2008	2,317
2009 and After	<u>0</u>
Totals	<u>\$ 8,340</u>

PRISON ENTREPRENEURSHIP PROGRAM
Notes to the Financial Statements
December 31, 2005 and 2004

NOTE 6 – NOTES PAYABLE/RELATED PARTY TRANSACTIONS

The Organization was funded primarily with loan proceeds from its Founders. No interest rate was established and the Organization paid the note back prior to the end of 2005.