

**PROJECT ENTERPRISE**

**FINANCIAL STATEMENTS  
AND  
ADDITIONAL INFORMATION**

**DECEMBER 31, 2007 AND 2006**

# PROJECT ENTERPRISE

## TABLE OF CONTENTS

	<b>Page</b>
Independent Auditor's Report .....	1
Financial Statements	
Statements of Financial Position .....	2
Statements of Activities .....	3
Statements of Cash Flows .....	4
Notes to Financial Statements .....	5-12
Additional Information	
Independent Auditor's Report on Additional Information .....	14
Schedule of Functional Expenses .....	15



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Project Enterprise

We have audited the accompanying statements of financial position of Project Enterprise (a not-for-profit corporation) as of December 31, 2007 and 2006, and the related statements of activities and cash flows 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 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 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 Project Enterprise as of December 31, 2007 and 2006, 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.

*Lutz + Carr, LLP*

New York, New York  
July 16, 2008

**PROJECT ENTERPRISE**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash and cash equivalents (Notes 1b and 10)	\$ 93,100	\$ 28,535
Grants and contributions receivable (Notes 1c and 3)		
Unrestricted	93,788	230,926
Restricted	90,000	21,187
Program loans receivable (net of allowance for uncollectible loans) (Note 4a)	279,423	253,191
Reserve fund - security deposit (Note 4b)	10,000	-
Prepaid expenses and other assets	29,058	20,259
Property and equipment, at cost (net of accumulated depreciation) (Notes 1d and 5)	17,188	6,601
Security deposits	4,850	4,850
	<u>          </u>	<u>          </u>
<b>Total Assets</b>	<u><u>\$617,407</u></u>	<u><u>\$565,549</u></u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 42,710	\$ 55,915
Group fund payable	22,147	16,357
Lines of credit and loans payable (Note 6)	233,822	263,273
Total Liabilities	<u>298,679</u>	<u>335,545</u>
Commitments and Contingencies (Notes 4b, 6, 7 and 8)		
Net Assets		
Unrestricted		
Revolving loan fund (Note 2a)	165,501	61,088
Undesignated	<u>(17,344)</u>	<u>46,658</u>
	148,157	107,746
Temporarily restricted (Note 2b)	<u>170,571</u>	<u>122,258</u>
Total Net Assets	<u>318,728</u>	<u>230,004</u>
	<u>          </u>	<u>          </u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$617,407</u></u>	<u><u>\$565,549</u></u>

See notes to financial statements.

## PROJECT ENTERPRISE

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Changes in Unrestricted Net Assets</b>						
Revenue, Gains and Other Support						
Grants and contributions (Note 1a)	\$ 601,186	\$ 170,571	\$ 771,757	\$ 392,680	\$ 115,619	\$508,299
Donated services and facilities (Note 9)	85,439	-	85,439	40,252	-	40,252
Benefit income	140,695	-	140,695	111,381	-	111,381
Less: Direct expenses	(28,683)	-	(28,683)	(22,080)	-	(22,080)
Program loan interest and fees	35,842	-	35,842	28,284	-	28,284
Interest and other income	6,468	-	6,468	7,612	-	7,612
Net assets released from restriction	122,258	(122,258)	-	166,065	(166,065)	-
<b>Total Revenue, Gains and Other Support</b>	<b>963,205</b>	<b>48,313</b>	<b>1,011,518</b>	<b>724,194</b>	<b>(50,446)</b>	<b>673,748</b>
Expenses						
Program Services	679,285	-	679,285	603,113	-	603,113
Supporting Services						
Management and general	139,845	-	139,845	139,370	-	139,370
Fundraising	103,664	-	103,664	64,478	-	64,478
<b>Total Expenses</b>	<b>922,794</b>	<b>-</b>	<b>922,794</b>	<b>806,961</b>	<b>-</b>	<b>806,961</b>
Increase (decrease) in net assets	40,411	48,313	88,724	(82,767)	(50,446)	(133,213)
Net assets, beginning of year	107,746	122,258	230,004	190,513	172,704	363,217
<b>Net Assets, End of Year</b>	<b>\$ 148,157</b>	<b>\$ 170,571</b>	<b>\$ 318,728</b>	<b>\$ 107,746</b>	<b>\$ 122,258</b>	<b>\$230,004</b>

See notes to financial statements.

**PROJECT ENTERPRISE**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$ 88,724	\$(133,213)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	3,731	3,489
Loss on disposal of equipment	737	-
Donated furniture	(8,615)	-
Write-off of program loans receivable and interest	27,252	23,757
Change in allowance for uncollectible loans	4,000	10,000
Write-off of pledges receivable	5,927	7,055
(Increase) decrease in:		
Grants and contributions receivable	62,398	(71,913)
Issuance of program loans	(210,864)	(269,571)
Principal payments from outstanding program loans	153,380	147,905
Prepaid expenses and other assets	(8,799)	(2,722)
Reserve fund - security deposit	(10,000)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(13,205)	26,230
Group fund payable	5,790	6,980
Net Cash Provided (Used) By Operating Activities	<u>100,456</u>	<u>(252,003)</u>
 <b>Cash Flows From Investing Activities</b>		
Acquisition of property and equipment	<u>(6,440)</u>	<u>-</u>
 <b>Cash Flows From Financing Activities</b>		
Proceeds from loans payable	50,000	186,300
Repayments of loans payable	<u>(79,451)</u>	<u>(14,764)</u>
Net Cash Provided (Used) By Financing Activities	<u>(29,451)</u>	<u>171,536</u>
 Net increase (decrease) in cash and cash equivalents	64,565	(80,467)
Cash and cash equivalents, beginning of year	<u>28,535</u>	<u>109,002</u>
 <b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 93,100</u></u>	<u><u>\$ 28,535</u></u>
 <b>Supplemental Disclosures</b>		
Interest paid	<u><u>\$ 15,387</u></u>	<u><u>\$ 9,014</u></u>

See notes to financial statements.

**PROJECT ENTERPRISE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**Note 1 - Organization and Summary of Significant Accounting Policies**

a - Organization

Project Enterprise (the "Organization") is a non-profit entity incorporated in New York in August 1995. The Organization was established to provide business loans, training and peer support to micro-entrepreneurs in New York City who are at or below the poverty level, in hopes of building financial security. The Organization fosters community development in low income and socially disadvantaged neighborhoods of New York City through its micro-lending programs.

The Organization is supported primarily through donor contributions and grants. During 2006, approximately 49% of total contributions was received from two foundations and two government agencies.

The Organization has received significant conditional grants to fund its program and operating activities during 2007 through 2009 (Note 3b).

b - Cash and Cash Equivalents

The Organization considers all short-term highly liquid investments, purchased with maturities of three months or less, and money market accounts, to be cash equivalents.

c - Grants and Contributions Receivable

Grants and contributions receivable are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions of donated non-cash assets are recorded at their fair values in the period received.

The Organization uses the allowance method to determine uncollectible unconditional contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

d - Property and Equipment

Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment, improvements and betterments are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is recorded using the straight-line method over the estimated useful life of the related asset.

**PROJECT ENTERPRISE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

e - Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted assets, temporarily restricted net assets and permanently restricted net assets.

f - Advertising Costs

Advertising costs are charged to operations when the advertising first takes place. Advertising expense incurred during 2007 and 2006 was \$72,984 and \$40,471, respectively.

g - Use of Estimates

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

h - Tax Status

The Organization is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

**Note 2 - Restricted Net Assets**

a - Included in unrestricted net assets are cumulative funds received by the Organization for the purpose of maintaining its revolving loan fund. At December 31, funds totaling \$165,501 (2007) and \$61,088 (2006), net of bad debt reserves and write-offs and excluding outstanding debt received for this same purpose, are required to be maintained as part of the Organization's revolving loan fund.

b - Temporarily restricted net assets at December 31, 2007 and 2006 consist of contributions received for future programs and periods.

**Note 3 - Grants and Contributions Receivable**

a - Grants and contributions receivable are due within one year. Uncollectible grants and contributions receivable are expected to be insignificant.

**PROJECT ENTERPRISE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**Note 3 - Grants and Contributions Receivable (continued)**

- b - The Organization has entered into a grant agreement with the New York City Economic Development Corporation ("EDC") which will provide a total of \$200,000 to the Organization for its loan program. An equal amount of funds from other sources are required under the grant agreement to fund new loans totaling \$400,000. The source of the EDC funds is United States Department of Commerce Economic Development Administration ("EDA"), which reserves the right to reduce its available funding to the EDC.

During 2006, the Organization made \$235,022 in loans eligible for funding under the EDC grant agreement. Accordingly, \$117,511 of the EDC grant was recorded as a grant receivable at December 31, 2006, and was received in 2007. During 2007, the Organization made \$71,024 in loans eligible for funding under the EDC grant agreement. Accordingly, \$35,512 of the EDC grant has been recorded for the year ended December 31, 2007. Since the remaining \$46,977 of the EDC grant is subject to the funding available from EDA, it has not been recorded in the accompanying financial statements as of December 31, 2007.

The Organization has also been awarded a matching grant in the amount of \$300,000 in support of the expansion and capitalization of the revolving loan fund. The Organization must receive matching funds in the amount of \$150,000 during the period January 1, 2007 through December 31, 2009. During 2007, the Organization received the initial \$50,000 of this grant (not subject to matching requirements), and has recorded an additional \$50,000 based on satisfying requirements. Since the remainder of this grant is subject to these matching conditions, it has accordingly not been reflected in the accompanying financial statements as of December 31, 2007.

**Note 4 - Program Loans Receivable**

- a - During 2007, the Organization provided \$210,864 in loans to qualified businesses. Qualified recipients include businesses owned by low-income individuals, minorities and women, as well as businesses located in certain economically depressed areas. Outstanding program loans receivable at December 31, 2007 and 2006 are \$279,423 and \$253,191, respectively.

These loans, which bear interest at 12% per annum, are payable in bi-weekly installments of principal and interest over periods ranging from six to twenty-four months. In certain instances, the Organization extends the repayment of principal over a longer term.

**PROJECT ENTERPRISE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**Note 4 - Program Loans Receivable (continued)**

a - (continued)

Based upon management's experience on collections, a loan loss reserve has been established representing approximately 10% of program loans receivable as of December 31, 2007. At December 31, 2007 and 2006, this reserve totaled \$32,000 and \$28,000, respectively. In addition, during 2007 and 2006, \$22,667 and \$22,553, respectively, of program loans receivable were written off.

Program loans receivable at December 31, 2007 are expected to be repaid as follows:

<u>Year Ending December 31,</u>	
2008	\$239,704
2009	59,452
2010	7,003
2011	3,925
2012 to 2015	<u>1,339</u>
	311,423
Less: Allowance for uncollectible loans	<u>(32,000)</u>
Total	<u>\$279,423</u>

b - The Organization entered into an agreement with another lending institution and posted a \$10,000 deposit as security for certain loans made by the institution to recipients referred by the Organization. The deposit may be drawn on by the institution in the event of default on these loans.

**Note 5 - Property and Equipment**

Property and equipment consists of the following at December 31:

	<u>Life</u>	<u>2007</u>	<u>2006</u>
Equipment	5 years	\$36,226	\$32,084
Leasehold improvements	5 years	13,048	13,048
Furniture and fixtures	5-7 years	<u>18,176</u>	<u>8,911</u>
		67,450	54,043
Less: Accumulated depreciation		<u>(50,262)</u>	<u>(47,442)</u>
Total		<u>\$17,188</u>	<u>\$ 6,601</u>

Depreciation expense for the years ended December 31, 2007 and 2006 was \$3,731 and \$3,489, respectively.

**PROJECT ENTERPRISE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**Note 6 - Lines of Credit and Loans Payable**

- a - The Organization has secured two \$50,000 lines of credit with HSBC Bank, and one line of credit with Mellon Bank in the amount of \$100,000. Borrowings under the first HSBC line of credit bear interest at 2.47% during 2007. Borrowings under the second HSBC line of credit bear interest at the prime rate plus 2%. Borrowings under the Mellon line of credit bear interest at 6.75% during 2007, and is guaranteed by two board members. Borrowings outstanding under these lines of credit amounted to \$133,822 and \$98,273 at December 31, 2007 and 2006, respectively. The loans are due on demand and may be renewed at the discretion of the banks.
- b - The Organization also had the following loans payable outstanding at December 31:

	<u>2007</u>	<u>2006</u>
The Contact Fund, LLC - promissory note due June 6, 2009, interest at LIBOR rate due quarterly.	\$ 50,000	\$ 50,000
Grameen Foundation USA - interest at 2% due annually until commencement of semi-annual payments of principal and interest, due June 12, 2008 through June 12, 2011.	25,000	25,000
Grameen Foundation USA - interest at 2% due annually until commencement of quarterly payments of principal and interest, due September 30, 2008 through June 30, 2010.	25,000	25,000
Fund for the City of New York - interest of \$1,000 deducted by lender from proceeds, due August 31, 2006, informally extended until Organization's receipt of contribution from New York City Economic Development Corporation (Note 3b).	-	50,000
Officer - non-interest bearing loan due February 15, 2007.	-	15,000
Subtotal - loans payable	<u>100,000</u>	<u>165,000</u>
Lines of credit (Note 6a)	<u>133,822</u>	<u>98,273</u>
Total	<u>\$233,822</u>	<u>\$263,273</u>

**PROJECT ENTERPRISE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**Note 6 - Lines of Credit and Loans Payable (continued)**

b - (continued)

Borrowings totaling \$149,970 have been used towards the Organization's revolving loan fund. The remaining \$83,852 has been used to fund operations and working capital. Proceeds from borrowings from the Grameen Foundation USA and The Contact Fund LLC are restricted to the Organization's lending activities. The Organization is subject to certain covenants under these loans, including maintaining certain ratios and reserves.

Principal repayments on lines of credit (due on demand and considered current) and loans payable are due as follows:

<u>Year Ending December 31,</u>	
2008	\$147,215
2009	69,643
2010	13,393
2011	3,571

Interest expense for years ended December 31, 2007 and 2006 was \$15,387 and \$9,014, respectively.

**Note 7 - Retirement Plan**

The Organization has established a non-contributory 403(b) deferred compensation plan. All employees are eligible to participate in the plan after attaining minimum age and employment requirements.

**Note 8 - Commitments and Contingencies**

a - The Organization occupies office space pursuant to an operating lease which requires the following future minimum annual lease payments:

<u>Year Ending December 31,</u>	
2008	\$33,113
2009	34,769
2010	36,057
Nine months ending September 30, 2011	27,043

**PROJECT ENTERPRISE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**Note 8 - Commitments and Contingencies**

a - The Organization leases another location on a month-to-month basis. Rent expense under its leases was \$38,784 (2007) and \$38,319 (2006).

The Organization also receives donated facilities in connection with its program activities valued at \$25,150 (2007) and \$14,202 (2006).

b - The Organization has not maintained certain ratios and reserves as required under the loan agreement with The Contact Fund, LLC (Note 6). The Organization has notified the respective lender and has outlined the actions it will take to achieve compliance. The lender has not expressed any intention to alter the terms or due date of the note, and the Organization does not expect any negative impact on its financial position as a result of this noncompliance.

**Note 9 - Donated Services and Facilities**

In 2007 and 2006, the Organization received donated services in connection with its programs as follows:

	<u>2007</u>	<u>2006</u>
Facilities	\$25,150	\$14,202
Program educational materials	15,000	15,000
Publicity	30,000	10,000
Special event	3,174	1,050
Furniture	8,615	-
Other	<u>3,500</u>	<u>-</u>
	<u>\$85,439</u>	<u>\$40,252</u>

**Note 10 - Concentration of Credit Risk**

The Organization maintains bank accounts at two financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000 at each institution. Balances at one of these institutions commonly exceed insured amounts.

**PROJECT ENTERPRISE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**Note 11 - Functional Allocation of Expenses**

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

## **ADDITIONAL INFORMATION**



**INDEPENDENT AUDITOR'S REPORT ON  
ADDITIONAL INFORMATION**

To the Board of Directors of  
Project Enterprise

Our report on our audits of the basic financial statements of Project Enterprise for 2007 and 2006 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the year ended December 31, 2007 with comparative totals for 2006 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lutz + Carr, LLP*

New York, New York  
July 16, 2008

## PROJECT ENTERPRISE

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2007 WITH COMPARATIVE TOTALS FOR 2006

	Program Services	Supporting Services		2007	2006 *
		Management and General	Fundraising	Total Expenses	Total Expenses
Salaries, payroll taxes and employee benefits	\$406,846	\$ 77,121	\$ 53,801	\$537,768	\$494,790
Professional fees	24,428	29,193	5,382	59,003	69,274
Loan losses and reserves	27,252	-	-	27,252	29,757
Development stewardship	1,981	138	22,257	24,376	18,025
Travel, lodging and meals	7,716	1,149	1,333	10,198	9,194
Rent and utilities	60,097	4,445	4,846	69,388	58,719
Advertising	72,752	202	30	72,984	40,471
Printing and reproduction	22,778	-	11,604	34,382	23,614
Telephone	8,826	351	120	9,297	9,552
Insurance	3,034	806	-	3,840	5,337
Office and miscellaneous expenses	31,961	11,706	3,831	47,498	26,001
Interest	7,354	8,033	-	15,387	9,014
Dues and subscriptions	1,313	400	50	1,763	2,669
Bad debt - pledges	-	5,927	-	5,927	7,055
Depreciation expense	2,947	374	410	3,731	3,489
Total Expenses, 2007	<u>\$679,285</u>	<u>\$ 139,845</u>	<u>\$ 103,664</u>	<u>\$922,794</u>	
Total Expenses, 2006	<u>\$603,113</u>	<u>\$ 139,370</u>	<u>\$ 64,478</u>		<u>\$806,961</u>

\* Certain amounts have been reclassified for comparative purposes.

See independent auditor's report on additional information.