

PROJECT INDEPENDENCE

**Financial Statements
For the Years Ended
June 30, 2009 and 2008
and
Independent Auditors' Report**

PROJECT INDEPENDENCE

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Independent Auditors' Report

To the Board of Directors of
Project Independence

We have audited the financial statements of Project Independence (a non-profit organization) as of June 30, 2009 and 2008 and for the years then ended, as listed in the foregoing table of contents. These financial statements are the responsibility of Project Independence'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 Project Independence as of June 30, 2009 and 2008 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

HBLA Certified Public Accountants, Inc.

October 23, 2009

PROJECT INDEPENDENCE

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,029,629	\$ 1,586,360
Investments	-	40,000
Accounts receivable	746,159	810,066
Prepaid expenses	<u>42,978</u>	<u>83,602</u>
 TOTAL CURRENT ASSETS	 <u>2,818,766</u>	 <u>2,520,028</u>
 RESTRICTED CASH		
Cash - restricted use	<u>96,178</u>	<u>96,112</u>
 PROPERTY AND EQUIPMENT		
Land	475,000	475,000
Building and building improvements	1,463,208	1,442,750
Leasehold improvements	2,538	-
Furniture and equipment	169,844	182,158
Computer equipment	112,498	100,921
Software	71,587	65,671
Transportation equipment	<u>290,339</u>	<u>333,987</u>
 TOTAL PROPERTY AND EQUIPMENT	 2,585,014	 2,600,487
Less accumulated depreciation and amortization	<u>(638,948)</u>	<u>(607,773)</u>
 TOTAL PROPERTY AND EQUIPMENT, NET	 <u>1,946,066</u>	 <u>1,992,714</u>
 OTHER ASSETS		
Loan fees	13,125	15,000
Deposits	<u>8,335</u>	<u>31,542</u>
 TOTAL OTHER ASSETS	 <u>21,460</u>	 <u>46,542</u>
 TOTAL ASSETS	 <u>\$ 4,882,470</u>	 <u>\$ 4,655,396</u>

See accompanying notes to financial statements.

PROJECT INDEPENDENCE

STATEMENTS OF FINANCIAL POSITION (Continued)

JUNE 30, 2009 AND 2008

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Accounts payable	\$ 104,336	\$ 90,220
Accrued liabilities	460,650	471,907
Note payable, current portion	<u>30,412</u>	<u>40,154</u>
TOTAL CURRENT LIABILITIES	<u>595,398</u>	<u>602,281</u>
LONG TERM LIABILITIES		
Funds held in trust	82,350	82,350
Accounts payable - long term	-	117,750
Note payable, net of current portion	<u>1,434,908</u>	<u>1,253,396</u>
TOTAL LONG TERM LIABILITIES	<u>1,517,258</u>	<u>1,453,496</u>
TOTAL LIABILITIES	<u>2,112,656</u>	<u>2,055,777</u>
NET ASSETS		
Unrestricted net assets	2,737,364	2,575,639
Temporarily restricted net assets	17,856	9,386
Permanently restricted net assets	<u>14,594</u>	<u>14,594</u>
TOTAL NET ASSETS	<u>2,769,814</u>	<u>2,599,619</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,882,470</u>	<u>\$ 4,655,396</u>

See accompanying notes to financial statements

PROJECT INDEPENDENCE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

UNRESTRICTED NET ASSETS SUPPORT AND REVENUE	TEMPORARILY		TOTAL
	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	
Program Services Revenue			
Behavior 1:1	\$ 1,004,582	\$ -	\$ 1,004,582
Behavior 2:1	61,037	-	61,037
Behavior 3:1	1,130,253	-	1,130,253
Adult development	1,884,559	-	1,884,559
Independent living	1,499,991	-	1,499,991
Supported living	425,260	-	425,260
Supported employment	736,309	-	736,309
Work Incentive and Planning Assistance	75,623	-	75,623
Contributions	32,536	10,901	43,437
Investment income	7,291	-	7,291
Loss on sale of property and equipment	(2,775)	-	(2,775)
Other income	5,632	-	5,632
Net assets released from restrictions:			-
Berryman Fund	1,783	(1,783)	-
Newport Landing Fund	399	(399)	-
Jill Goodsell Fund	249	(249)	-
	<u>6,862,729</u>	<u>8,470</u>	<u>6,871,199</u>
TOTAL SUPPORT AND REVENUE			
EXPENSES			
Program Service Expenses			
Behavior 1:1	827,347	-	827,347
Behavior 2:1	89,881	-	89,881
Behavior 3:1	1,131,072	-	1,131,072
Adult development	1,550,444	-	1,550,444
Independent living	1,274,112	-	1,274,112
Supported living	309,387	-	309,387
Supported employment	657,840	-	657,840
Work Incentive and Planning Assistance	8,985	-	8,985
	<u>5,849,068</u>	<u>-</u>	<u>5,849,068</u>
Total Program Service Expenses			

See accompanying notes to financial statements.

PROJECT INDEPENDENCE

STATEMENT OF ACTIVITIES (Continued)

FOR THE YEAR ENDED JUNE 30, 2009

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
Support Services	<u>851,936</u>	<u>-</u>	<u>851,936</u>
TOTAL EXPENSES	<u>6,701,004</u>	<u>-</u>	<u>6,701,004</u>
INCREASE IN NET ASSETS	161,725	8,470	170,195
NET ASSETS AT BEGINNING OF YEAR	<u>2,575,639</u>	<u>9,386</u>	<u>2,585,025</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,737,364</u>	<u>\$ 17,856</u>	<u>\$ 2,755,220</u>

See accompanying notes to financial statements.

PROJECT INDEPENDENCE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

UNRESTRICTED NET ASSETS SUPPORT AND REVENUE	TEMPORARILY		TOTAL
	UNRESTRICTED	RESTRICTED	
Program Services Revenue			
Behavior 1:1	\$ 838,658	\$ -	\$ 838,658
Behavior 2:1	68,778	-	68,778
Behavior 3:1	1,155,300	-	1,155,300
Adult development	2,021,785	-	2,021,785
Independent living	1,620,905	-	1,620,905
Supported living	277,072	-	277,072
Supported employment	963,877	-	963,877
Work Incentive and Planning Assistance	62,678	-	62,678
Contributions	36,267	1,985	38,252
Investment income	32,438	-	32,438
Special events	13,551	-	13,551
Gain on sale of property and equipment	2,488	-	2,488
Other income	21,879	-	21,879
Net assets released from restrictions:			-
Berryman Fund	850	(850)	-
Newport Landing Fund	1,453	(1,453)	-
Weingart Foundation Grant	120,000	(120,000)	-
TOTAL SUPPORT AND REVENUE	7,237,979	(120,318)	7,117,661
EXPENSES			
Program Service Expenses			
Behavior 1:1	777,460	-	777,460
Behavior 2:1	93,840	-	93,840
Behavior 3:1	1,100,131	-	1,100,131
Adult development	1,733,630	-	1,733,630
Independent living	1,289,572	-	1,289,572
Supported living	229,247	-	229,247
Supported employment	870,149	-	870,149
Work Incentive and Planning Assistance	4,714	-	4,714
Total Program Service Expenses	6,098,743	-	6,098,743

See accompanying notes to financial statements

PROJECT INDEPENDENCE

STATEMENT OF ACTIVITIES (Continued)

FOR THE YEAR ENDED JUNE 30, 2008

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
Support Services	<u>1,201,732</u>	<u>-</u>	<u>1,201,732</u>
TOTAL EXPENSES	<u>7,300,475</u>	<u>-</u>	<u>7,300,475</u>
DECREASE IN NET ASSETS	(62,496)	(120,318)	(182,814)
NET ASSETS AT BEGINNING OF YEAR	<u>2,638,135</u>	<u>129,704</u>	<u>2,767,839</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,575,639</u>	<u>\$ 9,386</u>	<u>\$ 2,585,025</u>

See accompanying notes to financial statements

PROJECT INDEPENDENCE

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2009

	Program					
	Behavior 1:1	Behavior 2:1	Behavior 3:1	Adult Development	Independent Living	Supported Living
Salaries	\$ 650,500	\$ 68,073	\$ 851,459	\$1,015,085	\$ 991,669	\$ 196,457
Payroll taxes	51,479	5,248	66,123	78,460	82,091	17,759
Employee benefits	66,022	7,122	81,533	100,263	88,152	16,875
Professional services	-	-	2,138	-	-	-
Program activities	4,938	774	16,614	34,700	(345)	67,932
Conferences	147	4	209	240	132	27
Equipment expenses	307	26	460	588	106	7
Insurance	7,090	439	7,871	12,632	10,842	3,054
Postage	-	-	6	50	458	6
Printing	-	-	-	-	3,856	-
Facility expenses	10,448	1,302	24,308	41,532	-	-
Supplies	22	2	23	33	264	2
Staff development	122	13	269	206	161	92
Telephone	4,299	359	5,217	7,908	6,423	508
Transportation	31,732	6,515	59,952	70,693	71,881	6,018
Vehicle expenses	-	-	14,847	172,909	15,763	558
Other expenses	241	4	43	1,277	59	-
Interest expense	-	-	-	-	-	-
Loan fee amortization	-	-	-	-	-	-
Depreciation	-	-	-	13,868	2,600	92
Total	<u>\$ 827,347</u>	<u>\$ 89,881</u>	<u>\$ 1,131,072</u>	<u>\$1,550,444</u>	<u>\$1,274,112</u>	<u>\$ 309,387</u>

See accompanying notes to financial statements

Supported Employment	Work Incentive and Planning Assistance	Total Program	Support Services	Total	
\$ 507,703	\$ 6,429	\$4,287,375	\$ 396,248	\$4,683,623	Salaries
43,232	483	344,875	31,082	375,957	Payroll taxes
35,572	385	395,924	33,904	429,828	Employee benefits
12,478	-	14,616	57,577	72,193	Professional services
(352)	-	124,261	(143)	124,118	Program activities
68	107	934	4,809	5,743	Conferences
161	-	1,655	38,221	39,876	Equipment expenses
4,960	-	46,888	6,862	53,750	Insurance
-	554	1,074	3,332	4,406	Postage
884	70	4,810	9,156	13,966	Printing
-	375	77,965	52,010	129,975	Facility expenses
3	148	497	14,885	15,382	Supplies
178	51	1,092	8,458	9,550	Staff development
2,830	117	27,661	16,756	44,417	Telephone
44,106	266	291,163	5,181	296,344	Transportation
5,186	-	209,263	180	209,443	Vehicle expenses
56	-	1,680	32,213	33,893	Other expenses
-	-	-	72,724	72,724	Interest expense
-	-	-	1,875	1,875	Loan fee amortization
775	-	17,335	66,606	83,941	Depreciation
\$ 657,840	\$ 8,985	\$5,849,068	\$ 851,936	\$6,701,004	Total

PROJECT INDEPENDENCE

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2008

	Program					
	Behavior 1:1	Behavior 2:1	Behavior 3:1	Adult Development	Independent Living	Supported Living
Salaries	\$ 604,528	\$ 70,970	\$ 811,354	\$1,100,999	\$ 982,040	\$ 162,798
Payroll taxes	48,121	5,543	64,592	89,266	85,055	13,009
Employee benefits	72,673	8,841	96,289	141,899	103,051	26,647
Professional services	-	-	-	-	1,250	-
Program activities	3,788	821	13,456	35,520	11,665	20,569
Conferences	587	12	229	345	277	48
Equipment expenses	413	25	968	2,876	280	53
Insurance	3,072	266	4,232	7,217	5,946	1,034
Postage	-	-	-	-	88	-
Printing	-	-	59	-	1,105	-
Facility expenses	8,127	1,470	25,993	54,577	-	-
Supplies	2	-	3	348	115	9
Staff development	1,071	126	2,865	5,861	182	2
Telephone	2,597	434	6,217	14,881	5,298	390
Transportation	32,455	5,330	55,132	74,488	75,247	3,470
Vehicle expenses	-	-	18,410	184,507	12,230	829
Other expenses	26	2	332	439	68	5
Interest expense	-	-	-	175	57	4
Depreciation	-	-	-	20,232	5,618	380
Loss contingency	-	-	-	-	-	-
Total	<u>\$ 777,460</u>	<u>\$ 93,840</u>	<u>\$ 1,100,131</u>	<u>\$1,733,630</u>	<u>\$1,289,572</u>	<u>\$ 229,247</u>

See accompanying notes to financial statements

Supported Employment	Work Incentive and Planning Assistance	Total Program	Support Services	Total	
\$ 663,238	\$ 4,224	\$4,400,151	\$ 545,222	\$4,945,373	Salaries
59,028	336	364,950	46,725	411,675	Payroll taxes
73,357	145	522,902	63,498	586,400	Employee benefits
13,590	-	14,840	78,875	93,715	Professional services
1,811	(1)	87,629	2,387	90,016	Program activities
263	9	1,770	10,958	12,728	Conferences
146	-	4,761	24,925	29,686	Equipment expenses
3,291	-	25,058	3,854	28,912	Insurance
-	-	88	4,702	4,790	Postage
-	-	1,164	12,148	13,312	Printing
-	-	90,167	206,213	296,380	Facility expenses
41	-	518	19,326	19,844	Supplies
362	-	10,469	18,284	28,753	Staff development
2,491	-	32,308	19,585	51,893	Telephone
46,074	1	292,197	5,588	297,785	Transportation
4,413	-	220,389	-	220,389	Vehicle expenses
24	-	896	18,825	19,721	Other expenses
20	-	256	6,260	6,516	Interest expense
2,000	-	28,230	31,357	59,587	Depreciation
-	-	-	83,000	83,000	Loss contingency
<u>\$ 870,149</u>	<u>\$ 4,714</u>	<u>\$6,098,743</u>	<u>\$1,201,732</u>	<u>\$7,300,475</u>	Total

See accompanying notes to financial statements.

PROJECT INDEPENDENCE

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in unrestricted net assets	\$ 161,725	\$ (62,496)
Increase (decrease) in temporarily restricted net assets	8,470	(120,318)
Total increase (decrease) in net assets	<u>170,195</u>	<u>(182,814)</u>
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	85,816	59,587
(Gain) loss on sale of property and equipment	2,775	(2,488)
Donated property and equipment	-	(5,000)
Decrease in current assets:		
Accounts receivable	63,907	171,986
Prepaid expenses	40,624	18,563
Increase (decrease) in current liabilities:		
Accounts payable	14,116	(7,843)
Accrued liabilities	(11,257)	83,270
Total adjustments	<u>195,981</u>	<u>318,075</u>
NET CASH PROVIDED BY OPERATIONS	<u>366,176</u>	<u>135,261</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	(80,000)
Proceeds from sales of investments	40,000	291,784
Increase in restricted cash	(66)	(182)
Purchase of property and equipment	(40,068)	(524,465)
Loan fees incurred	-	(15,000)
Decrease in deposits	23,207	483
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>23,073</u>	<u>(327,380)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on note payable	82,250	-
Principal payments on note payable	(28,230)	(8,346)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>54,020</u>	<u>(8,346)</u>

See accompanying notes to financial statements.

PROJECT INDEPENDENCE

STATEMENTS OF CASH FLOWS (Continued)

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	443,269	(200,465)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>1,586,360</u>	<u>1,786,825</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 2,029,629</u>	<u>\$ 1,586,360</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year:

Interest \$ 72,724 \$ 6,516

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING
ACTIVITIES:

During the year ended June 30, 2008, PI financed a building acquisition and building improvements totaling \$1,417,750 with a bank loan (Notes G and H).

See accompanying notes to financial statements.

PROJECT INDEPENDENCE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE A - ORGANIZATION

Project Independence (PI) is a California nonprofit public benefit corporation formed in 1976 that provides independent and supported living skills training, supported employment, and community based day care for people with developmental disabilities. PI conducts most of its program services in Orange County, California.

Project Independence merged with Vantage Foundation effective July 1, 2007. The primary purpose of the merger was to combine the resources of two organizations with the similar mission of providing community integration, training, and employment options to people with significant developmental disabilities. In accordance with Accounting Principles Board Opinion (APB) 16, *Business Combinations*, the merger was treated as a pooling of interests. Accordingly, effective July 1, 2007, the assets, liabilities, and net asset balances of the two organizations were carried forward to the combined entity at their recorded amounts. The merged organization continued under the name Project Independence and Vantage Foundation ceased to exist. The merged organization assumed the various notes, lease obligations, contracts, and grants of Project Independence and Vantage Foundation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, market rate savings, and short-term, highly liquid investments readily convertible into cash within ninety (90) days of purchase.

Investments

The investments are reported at cost, which approximates fair value, and consist of short-term treasury bills.

Accounts Receivable

Accounts receivable represents amounts billed for program services that have not yet been collected. Management determines allowances for doubtful accounts receivable based on historical write-off experience, current economic trends, and the ability to pay outstanding balances. Account balances are charged against the allowance after all collection efforts have been exhausted and the potential for recovery is considered remote. No allowance for doubtful accounts was provided for at June 30, 2009 or 2008, as management considers all amounts fully collectible.

PROJECT INDEPENDENCE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Fixed assets are stated at cost or, if donated, at the approximate fair value on the date of donation. PI capitalizes all expenditures for property and equipment in excess of \$600. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	39 years
Furniture and equipment	5 years
Computer equipment	5 years
Software	5 years
Transportation equipment	5 years

Impairment of Long-Lived Assets

PI's long-lived assets include property and equipment. PI follows the provisions of Statement of Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*. In accordance with SFAS 144, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the fair value of the related asset. As of June 30, 2009 and 2008, PI did not identify any material impairment of its long-lived assets.

Loan Fees

Loan fees are amortized over the life of the related loan using the straight-line method.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short-term nature of these financial instruments. The carrying amount reported for the note payable approximates fair value because the underlying instrument has an interest rate that approximates the current rates.

Support and Revenue

PI receives program service revenue through subcontracts with the Regional Center of Orange County, Inc. (RCOC), which act as a prime contractor to the State of California Department of Developmental Services, to provide community integration training and supported employment options to qualifying persons. The contract amounts are based upon contractually specified per diem rates for each person qualified for services.

PROJECT INDEPENDENCE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PI also receives service revenue through vendor arrangements with the State of California, Department of Rehabilitation and the RCOC to provide supported employment services. Supported employment services are billed monthly based upon approved hours of service provided to authorized persons at a predetermined rate.

PI receives grant funding from the Social Security Administration for the Work Incentive and Planning Assistance program (WIPA). The WIPA grant terminates on March 31, 2010. The program is designed for benefits planning, assistance, and outreach.

Net Asset Classification

PI reports information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions (Notes D, E, and F).

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary 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.

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. Functional expenses have been allocated among the programs and supporting services based, in part, on direct costing (such as time spent, supplies used, etc.) and in part on an analysis of personnel time and facilities utilized for the related activities.

Management 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 the reported amounts of assets and liabilities and disclosure of contingent 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.

PROJECT INDEPENDENCE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

PI is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and from state income taxes under the applicable California Revenue and Taxation Code section. In addition, PI 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 during the years ended June 30, 2009 and 2008.

New Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. FIN 48 became effective January 1, 2007. However, during February 2008, the FASB deferred the implementation date of FIN 48 until the annual financial statements for fiscal years beginning after December 15, 2007. During December 2008, the FASB further deferred the implementation date of FIN 48 until the annual financial statements for fiscal years beginning after December 15, 2008. PI will implement FIN 48 during 2010 unless the implementation is further deferred by the FASB. Management does not believe that the adoption of FIN 48 will have a material effect on the financial statements.

NOTE C – CASH - RESTRICTED USE

PI entered into an addendum to its agreement with RCOC (Note B) wherein PI acts as disbursing/collection agent for Housing Empowerment Loan Program (HELP) funds in the amount of \$82,350. Such funds are for the sole use of persons deemed eligible for supported living start-up funds by RCOC. The dates of service specified in the addendum began June 30, 1998 and ended June 30, 1999, however, the term of the addendum has been extended indefinitely by mutual consent. The contract amount, net of loan balances, is reported as cash – restricted use and included with current liabilities as funds held in trust in recognition of PI's obligation under the contract.

NOTE D – UNRESTRICTED NET ASSETS

As of June 30, 2009 and 2008, management designated \$30,765 of the unrestricted net assets to a capital campaign for the building fund.

PROJECT INDEPENDENCE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

PI receives donations restricted for several specific purposes. Temporarily restricted funds were as follows as of June 30:

	<u>2009</u>	<u>2008</u>
Jill Goodsell Fund	\$ 3,241	\$ 3,439
Berryman Fund	656	1,589
Employee Fund	3,099	3,099
OCIS Fund	860	860
Newport Landing Fund	-	399
Capital Campaign Fund	<u>10,000</u>	<u>-</u>
Total	<u>\$ 17,856</u>	<u>\$ 9,386</u>

NOTE F - PERMANENTLY RESTRICTED NET ASSETS

PI received funds from Orange County Housing Authority and the City of Buena Park for aiding clients in obtaining housing. The cash remaining at June 30, 2009 and 2008 of \$14,594 is permanently restricted for this use and requires separate bank accounts. These funds are loaned to clients for rent deposits and expenses. The funds are reported as restricted cash and permanently restricted net assets in the accompanying financial statements.

NOTE G – ACCOUNTS PAYABLE – LONG-TERM

Building improvements liabilities totaling \$117,750 were accrued at June 30, 2008, but were classified as long-term because PI converted this obligation into long-term debt on September 5, 2008 (Note H).

NOTE H – NOTE PAYABLE

PI financed the acquisition of a building with a \$1,300,000 promissory note (agreement) from Union Bank of California (the Bank) dated April 15, 2008. The note is payable in 120 monthly installments of \$9,151, including interest at 5.47%, with a final payment due May 1, 2018. The note is secured by a deed of trust covering the building and building improvements. The agreement includes various covenants and conditions. Management believes PI was in compliance with the covenants and conditions as of June 30, 2009.

The agreement provided for PI to borrow an additional \$200,000 for building improvements, subject to PI providing evidence satisfactory to the Bank. PI borrowed the additional \$200,000 on September 5, 2008 (Note G).

PROJECT INDEPENDENCE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE H – NOTE PAYABLE (Continued)

Annual principal payments required on the above note are as follows for the years ending June 30:

2010	\$ 30,412
2011	32,118
2012	33,919
2013	35,822
2014	37,831
Thereafter	<u>1,295,218</u>
Total	\$ <u>1,465,320</u>

NOTE I - OPERATING LEASE COMMITMENTS

PI leased its primary office facility in Costa Mesa under a full service lease agreement originally dated August 13, 1992, and amended and extended on May 1, 2003 to April 30, 2008. Effective April 15, 2008, PI purchased a building for use as its primary office facility (Note H).

PI leases additional office space in Laguna Hills under a lease agreement originally dated March 12, 1995 and amended and extended on November 7, 2007 to March 31, 2011. PI paid rent of \$11,514 and \$10,033 under this lease during the years ended June 30, 2009 and 2008, respectively.

PI leases additional office space in Anaheim under a lease agreement originally dated March 13, 2000 and amended and extended in 2005 to April 30, 2010. PI paid rent of \$66,804 and \$64,790 under this lease during the years ended June 30, 2009 and 2008, respectively.

PI leases additional office space in San Diego on a month-to-month basis under a lease agreement dated June 25, 2009. PI paid rent of \$375 under this lease during the year ended June 30, 2009.

PI leases 9 vehicles for 48-50 month periods, terminating between October 31, 2009 and November 30, 2011. Vehicle lease expense was \$57,207 and \$53,207 for the years ended June 30, 2009 and 2008, respectively.

PI leases three copiers with five-year terms, terminating between March 25, 2010 and November 17, 2013. Equipment lease expense was \$24,892 and \$18,291 for the years ended June 30, 2009 and 2008, respectively.

PROJECT INDEPENDENCE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE I - OPERATING LEASE COMMITMENTS (Continued)

Future minimum rental obligations under the leases are as follows for the years ending June 30:

2010	\$ 129,390
2011	44,305
2012	15,645
2013	7,503
2014	4,408
Thereafter	<u>1,837</u>
Total	\$ <u>203,088</u>

NOTE J - RELATED PARTIES

Several members of the Board of Directors of Project Independence have relatives who are participants in the programs.

NOTE K - RETIREMENT PLAN

PI maintains a 401(k) plan for the benefit of all eligible employees. The plan provides for voluntary employee contributions as a deduction from wages. PI matched employee contributions up to 3% of compensation through March 31, 2009. As of April 1, 2009, PI stopped matching employee contributions. The total retirement plan expenses charged to operations were \$44,085 and \$65,379 for the years ended June 30, 2009 and 2008, respectively.

NOTE L - MAJOR SOURCE OF REVENUE

The RCOC, which sponsors participants in the program, constituted 90% and 80% of accounts receivable and 88% and 92% of total support and revenue as of and for the years ended June 30, 2009 and 2008, respectively. The discontinuance of the RCOC programs, which are mandated by State of California law, would lead to the inability of PI to continue to operate. However, management is not presently aware of any future material funding changes.

NOTE M - LOSS CONTINGENCY

During the year ended June 30, 2008, PI management discovered allegations of theft from a number of PI's clients and that a PI employee may have been involved. Management fully cooperated in the investigation of these allegations. Management is voluntarily reimbursing the clients for their estimated uninsured losses of \$83,000 and obtained an assignment of rights to restitution from those clients. In accordance with Statement of Financial Accounting Standard 5, Accounting for Contingencies, management recorded the entire \$83,000 as a loss for the year ended June 30, 2008. Management is working with the affected clients to pursue any and all available restitution and recovery for the losses. Since recovery is uncertain, any future restitution will be recorded as income when received. The trial date is set for November 2009.

PROJECT INDEPENDENCE

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE N – SUBSEQUENT EVENT

Effective July 1, 2009, PI entered into an agreement for National Core Indicators Project services with the RCOC to assess developmentally disabled individuals' life quality and satisfaction with the RCOC services and support. Payment for services is not to exceed \$91,500 and the agreement terminates on June 30, 2010.