PROJECT RETURN, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2013 AND 2012

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BLANKENSHIP CPA GROUP, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Project Return, Inc.

We have audited the accompanying financial statements of Project Return, Inc. (the "Agency"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project Return, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
The financial statements of Project Return, Inc. as June 30, 2012, were audited by other auditors whose report dated October 26, 2012, expressed an unmodified opinion on those statements.

Blankenship CPA Group, PLLC
August 29, 2013

109 WESTPARK DRIVE • SUITE 430 • BRENTWOOD, TN 37027-5032 • 615-373-3771 • FAX 615-377-4915

PROJECT RETURN, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
Cash	$ 175,102	$ 113,335
Federal and state government receivables		
Financial assistance awards	34,298	87,138
Contractual agreements	30,267	53,399
Other receivables	-	6,641
Prepaid expenses	6,648	14,427
Furniture and equipment, net	7,854	17,730
TOTAL ASSETS	$ 254,169	$ 292,670

LIABILITIES AND NET ASSETS

	2013	2012
LIABILITIES		
Accounts payable	$ 13,466	$ 32,593
Accrued expenses	8,349	11,303
Obligations under capital lease	-	4,490
TOTAL LIABILITIES	21,815	48,386
NET ASSETS		
Unrestricted	222,354	244,284
Temporarily restricted	10,000	-
TOTAL NET ASSETS	232,354	244,284
TOTAL LIABILITIES AND NET ASSETS	$ 254,169	$ 292,670

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

PROJECT RETURN, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Changes In Unrestricted Net Assets		
Unrestricted Support and Revenues		
Public support		
Corporate and foundation grants	$ 103,303	$ 88,146
Contributions	5,609	14,054
Donated goods	14,785	11,500
Federal and state government		
Financial assistance awards	153,071	550,898
Contractual agreements	292,492	299,444
State of Tennessee appropriation	182,000	182,000
Net assets released resulting from satisfaction of donor restrictions	586	37,915
Total unrestricted support	751,846	1,183,957
Other revenues		
Miscellaneous	4,721	3,811
Interest income	272	210
Total other revenues	4,993	4,021
Total Unrestricted Support and Revenues	756,839	1,187,978
Unrestricted Functional Expenses		
Program services	690,670	1,008,507
Supporting services		
Management and general	77,240	36,231
Fundraising	10,859	13,213
Total Unrestricted Functional Expenses	778,769	1,057,951
(Decrease) increase in unrestricted net assets	(21,930)	130,027
Changes In Temporarily Restricted Net Assets		
Corporate and foundation grants	10,586	37,915
Net assets released from restrictions	(586)	(37,915)
Increase in temporarily restricted net assets	10,000	-
(DECREASE) INCREASE IN NET ASSETS	(11,930)	130,027
NET ASSETS - BEGINNING OF YEAR	244,284	114,257
NET ASSETS - END OF YEAR	$ 232,354	$ 244,284

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

PROJECT RETURN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013

		Supporting Services		
	Program Services	Management and General	Fund-raising	Total
Compensation and related costs				
Salaries and contract labor	$ 324,282	$ 29,121	$ 3,650	$ 357,053
Employee benefits	57,817	2,432	-	60,249
Payroll taxes	28,188	2,423	279	30,890
	410,287	33,976	3,929	448,192
Advertising	-	-	-	-
Aid to clients	72,787	-	-	72,787
Donated goods for program clients	12,360	-	-	12,360
Dues and memberships	114	867	853	1,834
Equipment rental and maintenance	1,383	137	11	1,531
Insurance	5,360	4,181	-	9,541
Interest	702	82	7	791
Loss on disposal of equipment	-	2,423	-	2,423
Meetings	282	1,249	8	1,539
Miscellaneous	-	633	-	633
Office supplies	7,449	2,029	65	9,543
Postage	1,583	354	14	1,951
Printing	2,566	961	1	3,528
Professional fees	91,565	16,193	4,942	112,700
Program supplies	3,286	-	-	3,286
Rent	47,888	10,612	-	58,500
Staff development	621	1,106	60	1,787
Stipend and living expenses of full-time volunteer	12,800	-	-	12,800
Telecommunications	4,250	785	-	5,035
Travel	9,648	907	-	10,555
Total expenses	684,931	76,495	9,890	771,316
Depreciation	5,739	745	969	7,453
Total functional expenses	$ 690,670	$ 77,240	$ 10,859	$ 778,769

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

PROJECT RETURN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2012

		Supporting Services		
	Program Services	Management and General	Fund-raising	Total
Compensation and related costs				
Salaries and contract labor	$ 449,583	$ 10,628	$ 3,570	$ 463,781
Employee benefits	99,397	3,272	44	102,713
Payroll taxes	39,689	1,151	285	41,125
	588,669	15,051	3,899	607,619
Advertising	-	360	-	360
Aid to clients	91,324	-	-	91,324
Donated goods for program clients	11,500	-	-	11,500
Dues and memberships	284	431	877	1,592
Equipment rental and maintenance	1,406	43	11	1,460
Insurance	8,467	2,170	4	10,641
Interest	1,878	79	20	1,977
Loss on disposal of equipment	-	-	-	-
Meetings	1,247	1,215	-	2,462
Miscellaneous	-	313	-	313
Office supplies	11,769	880	33	12,682
Postage	2,030	77	19	2,126
Printing	5,512	1,009	77	6,598
Professional fees	188,254	5,985	6,190	200,429
Program supplies	820	-	-	820
Rent	51,899	7,119	982	60,000
Staff development	1,051	321	185	1,557
Stipend and living expenses of full-time volunteer	12,500	-	-	12,500
Telecommunications	7,281	196	-	7,477
Travel	17,192	278	-	17,470
Total expenses	1,003,083	35,527	12,297	1,050,907
Depreciation	5,424	704	916	7,044
Total functional expenses	$ 1,008,507	$ 36,231	$ 13,213	$ 1,057,951

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

PROJECT RETURN, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	$ (11,930)	$ 130,027
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Depreciation	7,453	7,044
Loss on disposal of equipment	2,423	-
(Increase) decrease in		
Financial assistance awards receivable	23,132	(19,804)
Contractual agreements receivable	52,840	17,550
Other receivables	6,641	(6,641)
Prepaid expenses	7,779	(7,076)
Increase (decrease) in		
Accounts payable	(19,127)	(8,023)
Accrued expenses	(2,954)	(21,501)
Deferred revenue	-	(17,293)
Net Cash Provided By Operating Activities	66,257	74,283
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for furniture and equipment	-	(2,633)
Net Cash Used By Investing Activities	-	(2,633)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(4,490)	(3,303)
Net Cash Used By Financing Activities	(4,490)	(3,303)
Net Increase in Cash	61,767	68,347
CASH - BEGINNING OF YEAR	113,335	44,988
CASH - END OF YEAR	$ 175,102	$ 113,335
SUPPLEMENTAL DISCLOSURES		
Interest paid during the year	$ 791	$ 1,977

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

PROJECT RETURN, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - AGENCY AND NATURE OF ACTIVITIES

Project Return, Inc. (the "Agency") is a Tennessee not-for-profit corporation which provides counseling and the teaching of job skills to prisoners in conjunction with their release for institutional custody and return to society. The Agency is supported primarily through federal and state government financial assistance awards and contractual agreements, an appropriation from the State of Tennessee, corporate and foundation grants, and private contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 the reported amounts of assets, liabilities and changes therein and the disclosures of commitments and contingencies. Actual results could differ from those estimates.

Cash

Cash includes checking and money market deposits held by financial institutions.

Furniture and Equipment and Depreciation

It is the Agency's policy to capitalize all property and equipment over $500. Furniture and equipment acquisitions are recorded at cost. Donations of property and equipment are recorded as revenues at their estimated fair value. Such donations are reported as unrestricted revenues unless the donor has restricted the donated asset to a specific purpose. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except on trade-in) or loss is included in the statements of activities and changes in net assets and the statements of functional expenses for the period. A gain on trade-in is applied to reduce the cost of the new acquisition. Depreciation is provided over the estimated useful lives of the assets ranging from five to ten years and computed on the straight-line method.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support and Receivables

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Financial assistance awards revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant agreements. Financial assistance awards received prior to expenditure are recorded initially as grantor advances.

Contractual agreements revenue is recognized in the period the services are performed.

The Agency uses the allowance method to determine uncollectible receivables related to contributions and support receivables. The allowance is based on prior years' experience and management's analysis of specific promises made. No allowance was deemed necessary as of June 30, 2013 and 2012. All receivables are classified as current as they are expected to be collected within one year.

Donated Goods and Services

Donated goods are recorded at fair value in the period the gift is received. Donated services are recognized if they create or enhance non-financial assets or the donated service requires specialized skills, was performed by the donor who possesses such skills, and would have been purchased by the Agency if not provided by the donor. Such services are recognized at fair value as support and expense in the period the services are performed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Agency is exempt from federal and state income taxes under Internal Revenue Code Section 501 (c) (3) and the tax laws of the state of Tennessee.

Accounting principles generally accepted in the United States of America require the Agency to evaluate tax positions taken by the Agency and recognize a tax liability (or asset) if the Agency has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The management has analyzed the tax positions taken by the Agency and has concluded that as of June 30, 2013 no uncertain positions are taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Agency is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Agency is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2009.

Functional Allocation of Expenses

The following program and supporting services classifications are included in the accompanying financial statements.

Program services consist of an adult program, which provides direct referrals to employment services, educates the public regarding criminal justice issues, and supports successful transitions back into the community through life skills training.

Management and general includes the functions necessary to ensure an adequate working environment. These costs are not identifiable with a particular program or with fundraising but are indispensable to the conduct of those activities and are essential to the Agency. Specific activities include oversight, business management, budgeting, recordkeeping, financing, and other administrative activities.

Fundraising includes costs of activities directed toward appeals for financial support including special events. Other activities include the cost of solicitation and creation and distribution of fundraising materials.

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or subjective methods determined by management.

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	2013	2012
Furniture and equipment	$ 44,327	$ 56,444
Less accumulated depreciation	(36,473)	(38,714)
	$ 7,854	$ 17,730

Depreciation expense was $7,453 and $7,044 for 2013 and 2012, respectively.

NOTE 4 - REVOLVING LINE OF CREDIT

The Agency has a $65,000 open end revolving line of credit with a bank that is payable on demand. Interest is payable monthly on the outstanding principal balance at the bank's index rate plus 1%. The credit line is secured by substantially all assets of the Agency, and the Agency has granted a security interest in all deposits maintained by the Agency with the bank. There were no outstanding balances as of June 30, 2013 and 2012.

NOTE 5 - RESTRICTED NET ASSETS

The temporary restrictions on net assets at June 30, 2013 are attributable to a technology grant. There were no temporarily restricted net assets at June 30, 2012.

There were no permanently restricted net assets as of June 30, 2013 and 2012.

NOTE 6 - DONATED GOODS AND SERVICES

In-kind contributions of food and supplies totaling $14,785 and $11,500 have been included in unrestricted support and revenues and unrestricted functional expenses in the financial statements for the years ended June 30, 2013 and 2012, respectively.

NOTE 7 - CONCENTRATIONS AND CREDIT RISK

Financial assistance awards, contractual agreements and appropriations comprised 82% and 87% of the Agency's total support and revenues for the year ended June 30, 2013 and 2012, respectively. Three grants comprise 60% of total support and revenues for 2013 while four grants comprise 70% of total support and revenues for 2012. No other support and revenue source represents 10% or more of total support and revenues.

NOTE 7 - CONCENTRATIONS AND CREDIT RISK (CONTINUED)

Financial instruments that potentially subject the Agency to concentrations of credit risk include receivables from financial assistance awards and contractual agreements and support received from these agencies, corporate and foundation grants and contributions. Substantially all receivables for the years ended June 30, 2013 and 2012 were from these sources.

NOTE 8 - LEASING ARRANGEMENTS

The Agency's operating lease for office space expired August 31, 2013. The lease was extended on a month-to-month basis until January 31, 2014 continuing monthly payments of $5,000.

During the year ended June 30, 2013, the Agency disposed of office equipment accounted for as a capital lease recognizing a loss on disposal of $2,423.

The Agency has an operating lease for certain office equipment. A schedule of future minimum lease payments under these operating leases are as follows for the years ending June 30:

2014	$ 6,288
2015	6,288
2016	6,288
2017	5,622
Total	$ 24,486

Rental expense for office equipment and office space was $59,495 and $60,524 for the years ended June 30, 2013 and 2012, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Agency has received various government grants for specific purposes that are subject to review and audit by grantor agencies. Although such audits could result in disallowance of expenditures, management believes that any required reimbursements would not be significant. Accordingly, no provision has been made for any potential reimbursements to grantors.

The Agency was named in a suit filed with the Circuit Court for Davidson County, Tennessee alleging that an employee suffered a compensable injury under the Tennessee Workers Compensation Act. At this time, it is not possible to predict the outcome in the case or a range of possible loss. No provision for liability, if any, relating to this matter has been made in the accompanying financial statements.

NOTE 10 - EVALUATION OF SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through August 29, 2013 which is the date the financial statements were available to be issued.