

PROJECT RETURN, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2006 AND 2005

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Project Return, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of Project Return, Inc. (the "Agency") as of June 30, 2006 and 2005, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Agency'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 Return, Inc. as of June 30, 2006 and 2005, 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.

KraftCPAs PLLC

Nashville, Tennessee
August 24, 2006

PROJECT RETURN, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 6,732	\$ 26,381
Federal and state grants receivable - Note 3	53,585	44,550
Contributions receivable - Note 2	105,755	151,893
Prepaid expenses	8,574	2,545
Furniture and equipment, net - Note 4	<u>20,357</u>	<u>14,034</u>
TOTAL ASSETS	<u>\$ 195,003</u>	<u>\$ 239,403</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 3,438	\$ 4,585
Accrued expenses	31,313	28,127
Obligation under line of credit - Note 5	40,000	47,585
Obligation under capital lease - Note 7	<u>8,622</u>	<u>-</u>
TOTAL LIABILITIES	<u>83,373</u>	<u>80,297</u>
COMMITMENTS AND CONTINGENCIES - Notes 7 and 8		
<u>NET ASSETS</u>		
Unrestricted (deficit)	(31,103)	(22,978)
Temporarily restricted - Note 6	<u>142,733</u>	<u>182,084</u>
TOTAL NET ASSETS	<u>111,630</u>	<u>159,106</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 195,003</u>	<u>\$ 239,403</u>

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

PROJECT RETURN, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>			<u>2005</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT						
Public support:						
Corporate and foundation grants	\$ 300	\$ 44,811	\$ 45,111	\$ 6,933	\$ 187,143	\$ 194,076
Contributions	12,079	-	12,079	12,973	-	12,973
State of Tennessee appropriation	182,000	-	182,000	182,000	-	182,000
State of Tennessee grants	139,508	-	139,508	362,581	-	362,581
Federal grants	43,223	3,871	47,094	-	-	-
Net assets released from restrictions:						
Satisfaction of time and purpose restrictions	88,033	(88,033)	-	22,265	(22,265)	-
Total Public Support	465,143	(39,351)	425,792	586,752	164,878	751,630
Other revenues						
Interest income	1,102	-	1,102	502	-	502
Miscellaneous	227	-	227	1,282	-	1,282
Total Other Revenues	1,329	-	1,329	1,784	-	1,784
TOTAL REVENUES AND SUPPORT	466,472	(39,351)	427,121	588,536	164,878	753,414
EXPENSES						
Program services:						
Adult program	305,182	-	305,182	481,015	-	481,015
Youth program	65,238	-	65,238	25,471	-	25,471
Supporting services:						
Management and general	52,403	-	52,403	62,664	-	62,664
Fundraising	51,775	-	51,775	60,197	-	60,197
TOTAL EXPENSES	474,597	-	474,597	629,347	-	629,347
CHANGE IN NET ASSETS	(8,125)	(39,351)	(47,476)	(40,811)	164,878	124,067
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	(22,978)	182,084	159,106	17,833	17,206	35,039
NET ASSETS (DEFICIT) - END OF YEAR	\$ (31,103)	\$ 142,733	\$ 111,630	\$ (22,978)	\$ 182,084	\$ 159,106

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

PROJECT RETURN, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Change in net assets	<u>\$ (47,476)</u>	<u>\$ 124,067</u>
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,915	3,232
(Increase) decrease in:		
Federal and state grants receivable	(9,035)	12,083
Contributions receivable	46,138	(151,893)
Prepaid expenses	(6,029)	(1,026)
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>2,039</u>	<u>(18,205)</u>
TOTAL ADJUSTMENTS	<u>39,028</u>	<u>(155,809)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(8,448)</u>	<u>(31,742)</u>
NET CASH USED IN INVESTING ACTIVITIES		
Additions to property and equipment	<u>(2,338)</u>	<u>(2,200)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Principal payments on capital lease	(1,278)	-
Proceeds from line of credit borrowings	45,000	47,585
Principal payments on line of credit	<u>(52,585)</u>	<u>-</u>
TOTAL CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(8,863)</u>	<u>47,585</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,649)	13,643
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>26,381</u>	<u>12,738</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,732</u>	<u>\$ 26,381</u>
OTHER CASH FLOW INFORMATION		
Interest expense paid	<u>\$ 2,853</u>	<u>\$ 409</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired under capital lease	<u>\$ 9,900</u>	<u>\$ -</u>

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

PROJECT RETURN, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006						2005					
	PROGRAM SERVICES			SUPPORTING SERVICES			PROGRAM SERVICES			SUPPORTING SERVICES		
	ADULT PROGRAM	YOUTH PROGRAM		MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL	ADULT PROGRAM	YOUTH PROGRAM		MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and contract labor	\$ 163,218	\$ 27,914	\$	27,962	\$ 30,190	\$ 249,284	\$ 267,921	\$ 8,262	\$	31,803	\$ 38,352	\$ 346,338
Employee benefits	20,731	3,545		3,552	3,835	31,663	48,089	1,483		5,708	6,884	62,164
Payroll taxes	13,354	2,284		2,288	2,470	20,396	23,929	738		2,840	3,425	30,933
TOTAL PAYROLL AND RELATED EXPENSES	\$ 197,303	\$ 33,743	\$	33,802	\$ 36,495	\$ 301,343	339,939	10,483	\$	40,352	48,661	439,435
Advertising	-	-		887	-	887	403	-		-	169	572
Aid to clients	33,198	4,236		-	-	37,434	57,762	127		-	-	57,889
Dues/memberships	-	-		255	769	1,024	-	-		280	908	1,188
Equipment and maintenance	2,349	1,064		443	576	4,432	3,733	855		570	1,168	6,326
Fundraising expense	-	-		-	314	314	-	-		-	469	469
Insurance	6,976	3,159		4,282	1,711	16,128	4,266	2,102		5,094	1,273	12,735
Interest	-	-		2,853	-	2,853	-	-		409	-	409
Living expenses of full-time volunteer	12,014	-		-	-	12,014	11,644	-		-	-	11,644
Meetings	84	852		634	26	1,596	-	-		359	-	359
Miscellaneous	-	-		487	-	487	-	-		121	-	121
Office supplies	1,908	864		360	468	3,600	3,485	777		518	518	5,298
Postage	852	386		160	209	1,607	293	66		44	194	597
Printing	452	141		26	791	1,410	313	19		129	33	494
Professional fees	14,809	6,706		2,794	3,632	27,941	10,020	3,375		9,466	-	22,861
Rent - Note 7	22,236	10,234		3,740	4,590	40,800	25,740	5,940		3,960	3,960	39,600
Staff development	175	-		-	-	175	15	-		-	-	15
Subscriptions	-	-		-	768	768	-	-		-	82	82
Taxes and licenses	-	-		320	-	320	-	-		340	-	340
Telecommunications	2,855	1,293		539	701	5,388	3,957	722		482	777	5,938
Travel	6,126	1,673		229	133	8,161	17,345	519		217	1,662	19,743
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	301,337	64,351		51,811	51,183	468,682	478,915	24,985		62,341	59,874	626,115
Depreciation of furniture and equipment	3,845	887		592	592	5,915	2,100	486		323	323	3,232
TOTAL FUNCTIONAL EXPENSES	\$ 305,182	\$ 65,238	\$	52,403	\$ 51,775	\$ 474,597	\$ 481,015	\$ 25,471	\$	62,664	\$ 60,197	\$ 629,347

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

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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 from institutional custody and return to society. The Agency is supported primarily through an appropriation from the State of Tennessee, federal, state and local government grants, corporate and foundation grants, and private contributions.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking and savings account balances with financial institutions.

Contributions and Support

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 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 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 Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

The Agency had no permanently restricted net assets at June 30, 2006 and 2005.

Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to expenditure are recorded initially as deferred revenue.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise was received (4% in 2006 and 2005). Amortization of the discount is recognized on the interest method over the term of the gift and included in contributions revenue. Conditional promises to give are not included in support until such time as the conditions are substantially met. Cash collections on previously recognized promises to give are shown as releases of temporarily restricted net assets if there are no other purpose restrictions to be fulfilled.

An allowance for uncollectible amounts has not been provided on contributions receivable since, in management's opinion, the receivable amount is fully collectible, based on past history.

Income Taxes

The Agency is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

Furniture and Equipment

Furniture and equipment purchases in excess of \$500 are capitalized and stated at acquisition cost, or at estimated fair value at the time of the gift if donated. Depreciation on furniture and equipment is calculated by the straight-line method over estimated useful lives of five to ten years.

Program and Supporting Services

The following functional expense allocations are included in the accompanying financial statements:

Program services - consist of Adult programs and Youth programs, both of which provide direct referrals to employment sources, educate the public regarding criminal justice issues, and support successful transitions back into the community through life skills training.

Management and general - includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program. Includes costs associated with providing coordination and articulation of the Agency's program strategy, business management, general record keeping, budgeting, and related purposes.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (continued)

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

Allocation of Functional Expenses

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 reasonable subjective methods determined by management.

Donated Goods and Services

The value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

Use of Estimates in the Preparation of Financial Statements

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.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Due in less than one year	\$ 61,551	\$ 60,000
Due in one to five years	<u>50,000</u>	<u>100,000</u>
Total contributions receivable	111,551	160,000
Less discount to net present value	<u>(5,796)</u>	<u>(8,107)</u>
Contributions receivable - net	<u>\$ 105,755</u>	<u>\$ 151,893</u>

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 3 - GRANTS RECEIVABLE

Grants receivable consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Federal Adult Offender grant	\$ 43,223	\$ -
Tennessee Department of Corrections - Genesis grant	10,362	-
Tennessee Bridges grant	<u>-</u>	<u>44,550</u>
	<u>\$ 53,585</u>	<u>\$ 44,550</u>

NOTE 4 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Furniture and equipment	\$ 45,762	\$ 41,924
Less accumulated depreciation	<u>(25,405)</u>	<u>(27,890)</u>
Furniture and equipment - net	<u>\$ 20,357</u>	<u>\$ 14,034</u>

The Agency had fully depreciated assets with an original cost of approximately \$10,000 as of June 30, 2006.

NOTE 5 - 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.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets, consisting of contributions received or receivable whose use is subject to time or program restrictions, are as follows at June 30:

	<u>2006</u>	<u>2005</u>
Technology grant	\$ -	\$ 1,042
Adult programs	12,357	16,849
Youth programs	<u>130,376</u>	<u>164,193</u>
	<u>\$ 142,733</u>	<u>\$ 182,084</u>

NOTE 7 - LEASES

The Agency leases office space under a non-cancelable operating lease agreement, expiring June 30, 2007. In addition, the Agency leases certain office equipment, with a capitalized cost of \$9,900, under a noncancelable agreement that is accounted for as a capital lease.

Future minimum lease payments required under these lease agreements as of June 30, 2006, are as follows:

<u>Year Ending June 30,</u>	<u>Operating Lease</u>	<u>Capital Lease</u>	<u>Total</u>
2007	\$ 42,000	\$ 3,588	\$ 45,588
2008	-	3,588	3,588
2009	-	3,588	3,588
2010	-	<u>2,093</u>	<u>2,093</u>
Total minimum lease payments	42,000	12,857	54,857
Less amount representing interest (imputed rate of 23.5%)	<u>-</u>	<u>(4,235)</u>	<u>(4,235)</u>
Net minimum lease payments	<u>\$ 42,000</u>	<u>\$ 8,622</u>	<u>\$ 50,622</u>

Total rent expense recognized under the operating lease was \$40,800 for the year ended June 30, 2006, and \$39,600 for the year ended June 30, 2005.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 8 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Agency to concentrations of credit risk consist principally of contributions receivable. Contributions receivable represent a concentration of credit risk as the entire receivable is from one source.

Support and grants from the State of Tennessee comprise 76% and 72% of the Agency's revenue and support for the years ended June 30, 2006 and 2005, respectively. A Federal grant comprised 11% of the Agency's revenue and support for the year ended June 30, 2006 (\$-0- in 2005). In addition, a multi-year pledge from one donor comprised 19% of the Agency's revenue and support for the year ended June 30, 2005. A reduction in the level of funding from the State of Tennessee, if this were to occur, could have a significant impact on the Agency's activities.