

PROJECT RETURN, INC.  
NASHVILLE, TENNESSEE  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
JUNE 30, 2011 AND 2010

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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, 2011 and 2010, and the related statements of activities, functional expenses and cash flows 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2011 and 2010, 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  
December 20, 2011

PROJECT RETURN, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash	\$ 44,988	\$ 7,468
Contributions receivable	-	7,500
Federal and state government receivables:		
Financial assistance awards	67,334	53,112
Contractual agreements	70,949	36,011
Prepaid expenses	7,351	6,390
Furniture and equipment, net	<u>22,141</u>	<u>29,389</u>
TOTAL ASSETS	<u>\$ 212,763</u>	<u>\$ 139,870</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 40,616	\$ 56,293
Accrued expenses	32,804	30,033
Grantor advances	17,293	-
Obligation under line of credit	-	34,740
Obligation under capital lease	<u>7,793</u>	<u>10,224</u>
TOTAL LIABILITIES	<u>98,506</u>	<u>131,290</u>
COMMITMENTS AND CONTINGENCIES		
<u>NET ASSETS</u>		
Unrestricted	114,257	8,580
Temporarily restricted	<u>-</u>	<u>-</u>
TOTAL NET ASSETS	<u>114,257</u>	<u>8,580</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 212,763</u>	<u>\$ 139,870</u>

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

**PROJECT RETURN, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND SUPPORT</b>						
Public support:						
Corporate and foundation grants	\$ 59,431	\$ 56,010	\$ 115,441	\$ 72,666	\$ 29,984	\$ 102,650
Contributions	37,861	-	37,861	35,631	-	35,631
Donated goods	8,060	-	8,060	3,750	-	3,750
Federal and state government:						
Financial assistance awards	594,645	-	594,645	385,733	-	385,733
Contractual agreements	390,134	-	390,134	286,370	-	286,370
State of Tennessee appropriation	182,000	-	182,000	182,000	-	182,000
Net assets released resulting from satisfaction of donor restrictions	56,010	(56,010)	-	54,132	(54,132)	-
Total public support	1,328,141	-	1,328,141	1,020,282	(24,148)	996,134
Other revenues:						
Interest income	78	-	78	131	-	131
Miscellaneous	1,304	-	1,304	400	-	400
Total other revenues	1,382	-	1,382	531	-	531
<b>TOTAL REVENUES AND SUPPORT</b>	<b>1,329,523</b>	<b>-</b>	<b>1,329,523</b>	<b>1,020,813</b>	<b>(24,148)</b>	<b>996,665</b>
<b>EXPENSES</b>						
Program services:						
Adult program	1,129,834	-	1,129,834	846,854	-	846,854
Youth program	12,664	-	12,664	73,592	-	73,592
Supporting services:						
Management and general	55,620	-	55,620	72,368	-	72,368
Fundraising	25,728	-	25,728	27,257	-	27,257
<b>TOTAL EXPENSES</b>	<b>1,223,846</b>	<b>-</b>	<b>1,223,846</b>	<b>1,020,071</b>	<b>-</b>	<b>1,020,071</b>
<b>CHANGE IN NET ASSETS</b>	<b>105,677</b>	<b>-</b>	<b>105,677</b>	<b>742</b>	<b>(24,148)</b>	<b>(23,406)</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>8,580</b>	<b>-</b>	<b>8,580</b>	<b>7,838</b>	<b>24,148</b>	<b>31,986</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 114,257</b>	<b>\$ -</b>	<b>\$ 114,257</b>	<b>\$ 8,580</b>	<b>\$ -</b>	<b>\$ 8,580</b>

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

PROJECT RETURN, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011					2010				
	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	\$ 556,942	\$ 6,405	\$ 21,127	\$ 5,707	\$ 590,181	\$ 372,362	\$ 29,805	\$ 32,380	\$ 3,320	\$ 437,867
Employee benefits	105,620	1,827	724	5,391	113,562	59,703	8,899	1,392	5,758	75,752
Payroll taxes	48,715	1,390	5,249	615	55,969	35,069	2,443	2,522	202	40,236
<b>TOTAL PAYROLL AND RELATED EXPENSES</b>	<b>711,277</b>	<b>9,622</b>	<b>27,100</b>	<b>11,713</b>	<b>759,712</b>	<b>467,134</b>	<b>41,147</b>	<b>36,294</b>	<b>9,280</b>	<b>553,855</b>
Advertising	-	-	332	-	332	-	-	332	-	332
Aid to clients	88,958	-	-	-	88,958	73,866	-	-	-	73,866
Building supplies	-	-	-	-	-	263	-	-	-	263
Donated food for program clients	8,060	-	-	-	8,060	3,750	-	-	-	3,750
Dues/memberships	50	-	350	727	1,127	325	100	-	1,155	1,580
Equipment rental and maintenance	6,175	-	141	93	6,409	6,007	155	2,257	84	8,503
Insurance	10,724	-	2,010	671	13,405	11,486	733	2,454	397	15,070
Interest	2,194	-	285	370	2,849	-	-	3,387	-	3,387
Meetings	721	-	808	-	1,529	69	388	1,166	-	1,623
Miscellaneous	-	-	1,727	2,559	4,286	-	-	1,070	-	1,070
Office supplies	12,607	-	317	148	13,072	9,965	1,200	467	650	12,282
Postage	1,400	-	174	171	1,745	236	-	1,948	185	2,369
Printing	8,104	-	-	117	8,221	1,980	78	79	-	2,137
Professional fees	187,178	-	16,026	1,751	204,955	202,644	17,362	13,555	5,071	238,632
Rent	45,739	2,242	5,222	5,597	58,800	31,204	7,182	7,980	5,434	51,800
Software maintenance	-	-	-	-	-	-	-	-	2,877	2,877
Staff development	2,149	-	-	-	2,149	824	-	-	-	824
Stipend and living expenses of full-time volunteer	-	-	-	-	-	-	-	-	-	-
Taxes and licenses	12,063	-	-	-	12,063	11,101	-	20	-	11,101
Telecommunications	7,064	-	22	-	7,086	4,825	986	411	1,220	7,442
Travel	19,790	800	-	72	20,662	17,829	2,746	316	83	20,974
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION</b>	<b>1,124,253</b>	<b>12,664</b>	<b>54,895</b>	<b>24,786</b>	<b>1,216,598</b>	<b>843,508</b>	<b>72,077</b>	<b>71,736</b>	<b>26,436</b>	<b>1,013,757</b>
Depreciation of furniture and equipment	5,581	-	725	942	7,248	3,346	1,515	632	821	6,314
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 1,129,834</b>	<b>\$ 12,664</b>	<b>\$ 55,620</b>	<b>\$ 25,728</b>	<b>\$ 1,223,846</b>	<b>\$ 846,854</b>	<b>\$ 73,592</b>	<b>\$ 72,368</b>	<b>\$ 27,257</b>	<b>\$ 1,020,071</b>

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

PROJECT RETURN, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	<u>\$ 105,677</u>	<u>\$ (23,406)</u>
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	7,248	6,314
(Increase) decrease in current assets:		
Contributions receivable	7,500	13,404
Financial assistance awards receivable	(14,222)	(23,762)
Contractual agreement receivable	(34,938)	(34,411)
Prepaid expenses	(961)	4,482
Increase (decrease) in current liabilities:		
Accounts payable	(15,677)	41,021
Accrued expenses	2,771	(12,537)
Deferred revenue	<u>17,293</u>	<u>-</u>
TOTAL ADJUSTMENTS	<u>(30,986)</u>	<u>(5,489)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>74,691</u>	<u>(28,895)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to furniture and equipment	<u>-</u>	<u>(15,707)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>-</u>	<u>(15,707)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(2,431)	(1,893)
Proceeds from line of credit borrowings, net of repayments	<u>(34,740)</u>	<u>1,738</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(37,171)</u>	<u>(155)</u>
NET INCREASE (DECREASE) IN CASH	37,520	(44,757)
CASH - BEGINNING OF YEAR	<u>7,468</u>	<u>52,225</u>
CASH - END OF YEAR	<u>\$ 44,988</u>	<u>\$ 7,468</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 2,849</u>	<u>\$ 3,387</u>

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

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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 federal and state government financial assistance awards and contractual agreements, an appropriation from the State of Tennessee, corporate and foundation grants, and private contributions.

Cash

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

Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Agency on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose. The Agency had no temporarily restricted net assets as of June 30, 2011 and 2010.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Agency had no permanently restricted net assets as of June 30, 2011 and 2010.



PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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. 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.

Furniture and Equipment

Furniture and equipment are reported at cost at the date of purchase, or at estimated fair value at the time of the gift to the Agency. The Agency's policy is to capitalize purchases with a cost of \$500 or more and an expected useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets ranging from five to ten years.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

The following program and supporting services allocations are included in the accompanying financial statements:

Program services - consist of Adult 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. The Youth program was suspended during 2011.

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.

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.

Income Taxes

The Agency qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

The Agency files a U.S. Federal Form 990 for organizations exempt from income tax. Tax returns for years prior to fiscal year 2008 are closed.

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. Donated goods consisting primarily of food for youth and adult programs have been recognized at their estimated fair value in the period received, with a corresponding charge to the applicable expense.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP 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.

Events Occurring After Reporting Date

The Agency has evaluated events and transactions that occurred between June 30, 2011 and December 20, 2011, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

Certain reclassifications have been made to prior year amounts in order to be comparative with the current year presentation.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2011 and 2010 are expected to be collected within one year.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 3 - FEDERAL AND STATE GOVERNMENT RECEIVABLES

Financial assistance awards receivable consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
U.S. Department of Labor - Reintegration of Ex-offenders grant	\$ 47,250	\$ 11,474
Federal Transit Authority - Jobs Access and Reverse Commute grant	-	2,473
Tennessee Department of Transportation - Jobs Access and Reverse Commute grant	-	1,701
U. S. Department of Justice - Coaching for Life grant	-	29,587
U. S. Department of Justice - Byrne Justice Assistance Grant	<u>20,084</u>	<u>7,877</u>
	<u>\$ 67,334</u>	<u>\$ 53,112</u>

Contractual agreements receivable consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Tennessee Department of Corrections - Genesis contract	\$ 31,610	\$ 32,386
Tennessee Department of Mental Health - Addictions to Recovery contract	3,300	3,625
Tennessee Department of Human Services - Child Support Services contract	<u>36,039</u>	<u>-</u>
	<u>\$ 70,949</u>	<u>\$ 36,011</u>

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 4 - FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 53,811	\$ 69,040
Less accumulated depreciation	<u>(31,670)</u>	<u>(39,651)</u>
Furniture and equipment - net	<u>\$ 22,141</u>	<u>\$ 29,389</u>

The Agency had fully depreciated assets with an original cost of approximately \$21,000 as of June 30, 2011 (\$24,500 as of June 30, 2010).

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% (4.25% at June 30, 2011). 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. As of June 30, 2011, the outstanding balance was \$0 (\$34,740 at June 30, 2010).

NOTE 6 - CONCENTRATION OF CREDIT RISK

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. Federal and state government receivables, including financial assistance awards and contractual agreements, from four agencies amounted to 98% of these receivables at June 30, 2011 (82% of these receivables was from three agencies at June 30, 2010). Four donors represented 85% of corporate and foundation grants and other contributions revenue at June 30, 2011 (four donors represented 82% of corporate and foundation grants and other contributions revenue at June 30, 2010).

Financial assistance awards, contractual agreements and appropriations comprised 88% and 86% of the Agency's total public support for the years ended June 30, 2011 and 2010, respectively. The Agency expects a reduction in the level of funding from certain federal and state assistance awards and contractual agreements during 2012 that will have a significant impact on the Agency's activities.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 7 - LEASES

The Agency leases office space under a non-cancelable operating lease agreement, expiring June 30, 2012. The Agency leases additional office space relating to the operations of financial assistance award programs which expires March 31, 2012. In addition, the Agency leases certain office equipment, with a capitalized cost and related accumulated depreciation of \$12,117 and \$4,847, respectively, under a non-cancelable agreement that is accounted for as a capital lease expiring June 30, 2013. Depreciation of this asset is included in depreciation of furniture and equipment expense.

Future minimum lease payments required under these lease agreements as of June 30, 2011, are as follows:

<u>Year Ending June 30,</u>	<u>Operating Lease</u>	<u>Capital Lease</u>	<u>Total</u>
2012	\$ 53,400	\$ 5,280	\$ 58,680
2013	<u>-</u>	<u>5,280</u>	<u>5,280</u>
Total minimum lease payments	53,400	10,560	63,960
Less amount representing interest (imputed rate of 31.0%)	<u>-</u>	<u>(2,767)</u>	<u>(2,767)</u>
Net minimum lease payments	<u>\$ 53,400</u>	<u>\$ 7,793</u>	<u>\$ 61,193</u>

Total rent expense recognized under the operating leases was \$58,800 for the year ended June 30, 2011, and \$51,800 for the year ended June 30, 2010.