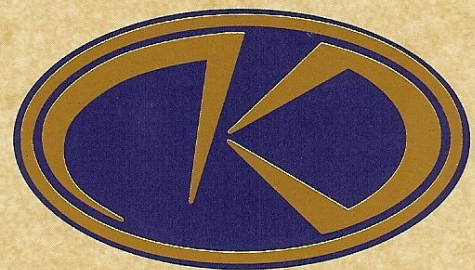


PROJECT RETURN, INC.
NASHVILLE, TENNESSEE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2010 AND 2009



KraftCPAs
PLLC

Certified Public Accountants and Consultants

PROJECT RETURN, INC.
NASHVILLE, TENNESSEE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2010 AND 2009

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows.....	4
Statements of Functional Expenses.....	5
Notes to Financial Statements	6 - 12



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, 2010 and 2009, 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, 2010 and 2009, 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
February 11, 2011

PROJECT RETURN, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 7,468	\$ 52,225
Contributions receivable - Note 2	7,500	22,504
Federal and state grants receivable - Note 3	89,123	29,350
Prepaid expenses	6,390	10,872
Furniture and equipment, net - Note 4	<u>29,389</u>	<u>19,996</u>
TOTAL ASSETS	<u>\$ 139,870</u>	<u>\$ 134,947</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 56,293	\$ 15,272
Accrued expenses	30,033	42,570
Obligation under line of credit - Note 5	34,740	33,002
Obligation under capital lease - Note 8	<u>10,224</u>	<u>12,117</u>
TOTAL LIABILITIES	<u>131,290</u>	<u>102,961</u>
COMMITMENTS AND CONTINGENCIES - Notes 7 and 8		
<u>NET ASSETS</u>		
Unrestricted	8,580	7,838
Temporarily restricted - Note 6	<u>-</u>	<u>24,148</u>
TOTAL NET ASSETS	<u>8,580</u>	<u>31,986</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 139,870</u>	<u>\$ 134,947</u>

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

PROJECT RETURN, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT						
Public support:						
Corporate and foundation grants	\$ 65,106	\$ 29,984	\$ 95,090	\$ 49,336	\$ 110,670	\$ 160,006
Contributions	35,631	-	35,631	18,374	-	18,374
Donated goods	3,750	-	3,750	4,250	-	4,250
State of Tennessee appropriation	182,000	-	182,000	250,000	-	250,000
Federal, state and local government grants	679,663	-	679,663	212,264	-	212,264
Program fees	-	-	-	3,715	-	3,715
Net assets released resulting from satisfaction of donor restrictions	54,132	(54,132)	-	101,672	(101,672)	-
Total public support	1,020,282	(24,148)	996,134	639,611	8,998	648,609
Other revenues:						
Interest income	131	-	131	537	-	537
Miscellaneous	400	-	400	355	-	355
Total other revenues	531	-	531	892	-	892
TOTAL REVENUES AND SUPPORT	1,020,813	(24,148)	996,665	640,503	8,998	649,501
EXPENSES						
Program services:						
Adult program	846,854	-	846,854	415,906	-	415,906
Youth program	73,592	-	73,592	111,276	-	111,276
Supporting services:						
Management and general	72,368	-	72,368	50,074	-	50,074
Fundraising	27,257	-	27,257	26,652	-	26,652
TOTAL EXPENSES	1,020,071	-	1,020,071	603,908	-	603,908
CHANGE IN NET ASSETS	742	(24,148)	(23,406)	36,595	8,998	45,593
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	7,838	24,148	31,986	(28,757)	15,150	(13,607)
NET ASSETS - END OF YEAR	\$ 8,580	\$ -	\$ 8,580	\$ 7,838	\$ 24,148	\$ 31,986

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

PROJECT RETURN, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (23,406)	\$ 45,593
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,314	4,001
(Increase) decrease in current assets:		
Contributions receivable	15,004	(12,214)
Federal and state grants receivable	(59,773)	(14,052)
Prepaid expenses	4,482	(2,103)
Increase (decrease) in current liabilities:		
Accounts payable	41,021	9,643
Accrued expenses	(12,537)	8,040
TOTAL ADJUSTMENTS	(5,489)	(6,685)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(28,895)	38,908
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to furniture and equipment	(15,707)	(5,354)
NET CASH USED IN INVESTING ACTIVITIES	(15,707)	(5,354)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(1,893)	(2,557)
Proceeds from line of credit borrowings, net of repayments	1,738	2,154
NET CASH USED IN FINANCING ACTIVITIES	(155)	(403)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(44,757)	33,151
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	52,225	19,074
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,468	\$ 52,225
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Equipment acquired under capital lease	\$ -	\$ 12,117
Cancellation of previous lease obligation and removal of remaining net book value of leased equipment returned	\$ -	\$ 2,145
Interest paid	\$ 3,387	\$ 1,160

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

PROJECT RETURN, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010					2009				
	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	\$ 372,362	\$ 29,805	\$ 32,380	\$ 3,320	\$ 437,867	\$ 187,907	\$ 42,941	\$ 33,521	\$ 10,522	\$ 274,891
Employee benefits	59,703	8,899	1,392	5,758	75,752	31,308	9,960	124	1,547	42,939
Payroll taxes	35,069	2,443	2,522	202	40,236	18,166	3,803	3,852	920	26,741
TOTAL PAYROLL AND RELATED EXPENSES	467,134	41,147	36,294	9,280	553,855	237,381	56,704	37,497	12,989	344,571
Advertising	-	-	332	-	332	-	-	432	-	432
Aid to clients	73,866	-	-	-	73,866	75,485	11,460	-	-	86,945
Building supplies	263	-	-	-	263	-	-	-	-	-
Donated food for program clients	3,750	-	-	-	3,750	500	3,750	-	-	4,250
Dues/memberships	325	100	-	1,155	1,580	-	-	300	769	1,069
Equipment rental and maintenance	6,007	155	2,257	84	8,503	3,976	856	1,255	533	6,620
Insurance	11,486	733	2,454	397	15,070	7,600	2,426	836	1,221	12,083
Interest	-	-	3,387	-	3,387	553	251	220	136	1,160
Meetings	69	388	1,166	-	1,623	729	812	463	-	2,004
Miscellaneous	-	-	1,070	-	1,070	-	-	201	-	201
Office supplies	9,965	1,200	467	650	12,282	5,176	1,495	986	851	8,508
Postage	236	-	1,948	185	2,369	752	336	140	225	1,453
Printing	1,980	78	79	-	2,137	801	-	-	-	801
Professional fees	202,644	17,362	13,555	5,071	238,632	36,951	18,768	1,618	2,420	59,757
Rent - Note 8	31,204	7,182	7,980	5,434	51,800	25,419	9,657	4,440	4,884	44,400
Software maintenance	-	-	-	2,877	2,877	-	-	-	1,298	1,298
Staff development	824	-	-	-	824	275	-	-	-	275
Stipend and living expenses of full-time volunteer	11,101	-	-	-	11,101	11,490	-	-	-	11,490
Taxes and licenses	-	-	20	-	20	-	-	270	-	270
Telecommunications	4,825	986	411	1,220	7,442	2,050	584	651	470	3,755
Travel	17,829	2,746	316	83	20,974	4,647	3,217	365	336	8,565
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	843,508	72,077	71,736	26,436	1,013,757	413,785	110,316	49,674	26,132	599,907
Depreciation of furniture and equipment	3,346	1,515	632	821	6,314	2,121	960	400	520	4,001
TOTAL FUNCTIONAL EXPENSES	\$ 846,854	\$ 73,592	\$ 72,368	\$ 27,257	\$ 1,020,071	\$ 415,906	\$ 111,276	\$ 50,074	\$ 26,652	\$ 603,908

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

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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.

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.

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.
- *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, 2010 and 2009.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

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.

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.

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, 2010 AND 2009

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.

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.

On July 1, 2009 the Agency adopted new guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. The adoption of this guidance did not have a material effect on the Agency's financial position and change in net assets.

As of June 30, 2010 and 2009, the Agency did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the years then ended.

The Agency files a U.S. Federal Form 990 for organizations exempt from income tax. Tax returns for years prior to fiscal year 2007 are closed.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Events Occurring After Reporting Date

The Agency has evaluated events and transactions that occurred between June 30, 2010 and February 11, 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, 2010 and 2009 are expected to be collected within one year.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 3 - FEDERAL AND STATE GRANTS RECEIVABLE

Federal and state grants receivable consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
U.S. Department of Labor - Prisoner Re-entry Initiative grant	\$ 11,474	\$ 8,204
Federal Transit Authority - Jobs Access and Reverse Commute grant	2,473	2,460
Tennessee Department of Corrections - Genesis grant	32,386	9,456
Tennessee Department of Mental Health and Development - Access to Recovery	3,625	5,000
Tennessee Department of Transportation - New Freedom grant	1,701	1,230
Tennessee Arts Commission	-	3,000
Department of Justice - Coaching for Life grant	29,587	-
Office of Criminal Justice Programs grant	7,877	-
	<u>\$ 89,123</u>	<u>\$ 29,350</u>

NOTE 4 - FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 69,040	\$ 53,333
Less accumulated depreciation	<u>(39,651)</u>	<u>(33,337)</u>
Furniture and equipment - net	<u>\$ 29,389</u>	<u>\$ 19,996</u>

The Agency had fully depreciated assets with an original cost of approximately \$24,500 as of June 30, 2010 (\$22,000 as of June 30, 2009).

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

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, 2010). 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, 2010, the outstanding balance was \$34,740 (\$33,002 at June 30, 2009).

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>2010</u>	<u>2009</u>
Adult programs	\$ -	\$ 22,504
Youth programs	-	<u>1,644</u>
	<u>\$ -</u>	<u>\$ 24,148</u>

NOTE 7 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Agency to concentrations of credit risk include contributions receivable, grants receivable and support received from federal, state and local government grants, corporate and foundation grants and contributions. Federal and state grants receivable from three grantors amounted to 82% of total grants receivable at June 30, 2010 (87% of total grants receivable was from four grantors at June 30, 2009). Contributions receivable is from one source at June 30, 2010 (two sources at June 30, 2009). Four donors represented 87% of corporate and foundation grants and other contributions revenue at June 30, 2010 (four donors represented 82% of corporate and foundation grants and other contributions revenue at June 30, 2009).

Federal, state and local government grants and appropriations comprised 87% and 71% of the Agency's total public support for the years ended June 30, 2010 and 2009, respectively. A reduction in the level of funding from federal, state and local grants and appropriations, if this were to occur, could have a significant impact on the Agency's activities.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 8 - LEASES

The Agency leases office space under a non-cancelable operating lease agreement, expiring June 30, 2012. The Agency also leases office space on the same premises as the main office under a non-cancelable operating lease agreement which expires March 31, 2011. In addition, the Agency leases certain office equipment, with a capitalized cost and related accumulated depreciation of \$12,117 and \$2,423, 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, 2009, are as follows:

<u>Year Ending June 30,</u>	<u>Operating Lease</u>	<u>Capital Lease</u>	<u>Total</u>
2011	\$ 52,200	\$ 5,280	\$ 57,480
2012	48,000	5,280	53,280
2013	-	5,280	5,280
Total minimum lease payments	100,200	15,840	116,040
Less amount representing interest (imputed rate of 31.0%)	-	(5,616)	(5,616)
Net minimum lease payments	<u>\$ 100,200</u>	<u>\$ 10,224</u>	<u>\$ 110,424</u>

Total rent expense recognized under the operating leases was \$51,800 for the year ended June 30, 2010, and \$44,400 for the year ended June 30, 2009.

NOTE 9 - OTHER MATTERS

As discussed in Note 7, the Agency's programs are dependent on revenues from government grants and appropriations. In an effort to expand the Agency's revenue resources, establish operating reserves and generate surplus funds to reduce the outstanding line of credit, the Agency, with the assistance of a development consultant, has developed a Fund Development Plan that addresses increasing public awareness and support from individuals.