

PROJECT RETURN, INC.
NASHVILLE, TENNESSEE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2007 AND 2006



KraftCPAs
PLLC

Certified Public Accountants and Consultants

PROJECT RETURN, INC.
NASHVILLE, TENNESSEE
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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, 2007 and 2006, 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, 2007 and 2006, 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
October 11, 2007

PROJECT RETURN, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 69,003	\$ 6,732
Contributions receivable - Note 2	63,848	105,755
Federal and state grants receivable - Note 3	5,383	53,585
Prepaid expenses	6,944	8,574
Furniture and equipment, net - Note 4	<u>14,238</u>	<u>20,357</u>
TOTAL ASSETS	<u>\$ 159,416</u>	<u>\$ 195,003</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 6,034	\$ 3,438
Accrued expenses	27,678	31,313
Obligation under line of credit - Note 5	-	40,000
Obligation under capital lease - Note 8	<u>6,890</u>	<u>8,622</u>
TOTAL LIABILITIES	<u>40,602</u>	<u>83,373</u>
COMMITMENTS AND CONTINGENCIES - Notes 7 and 8		
<u>NET ASSETS</u>		
Unrestricted (deficit)	23,730	(31,103)
Temporarily restricted - Note 6	<u>95,084</u>	<u>142,733</u>
TOTAL NET ASSETS	<u>118,814</u>	<u>111,630</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 159,416</u>	<u>\$ 195,003</u>

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

PROJECT RETURN, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>			<u>2006</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	\$ 2,000	\$ 62,338	\$ 64,338	\$ 300	\$ 44,811	\$ 45,111
Contributions	22,159	-	22,159	12,079	-	12,079
State of Tennessee appropriation	182,000	-	182,000	182,000	-	182,000
State of Tennessee grants	63,320	-	63,320	139,508	-	139,508
Federal grants	154,223	-	154,223	43,223	3,871	47,094
Net assets released resulting from satisfaction of donor restrictions	<u>109,987</u>	<u>(109,987)</u>	<u>-</u>	<u>88,033</u>	<u>(88,033)</u>	<u>-</u>
Total Public Support	<u>533,689</u>	<u>(47,649)</u>	<u>486,040</u>	<u>465,143</u>	<u>(39,351)</u>	<u>425,792</u>
Other revenues						
Interest income	1,704	-	1,704	1,102	-	1,102
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>227</u>	<u>-</u>	<u>227</u>
Total Other Revenues	<u>1,704</u>	<u>-</u>	<u>1,704</u>	<u>1,329</u>	<u>-</u>	<u>1,329</u>
TOTAL REVENUES AND SUPPORT	<u>535,393</u>	<u>(47,649)</u>	<u>487,744</u>	<u>466,472</u>	<u>(39,351)</u>	<u>427,121</u>
EXPENSES						
Program services:						
Adult program	300,295	-	300,295	305,182	-	305,182
Youth program	111,410	-	111,410	65,238	-	65,238
Supporting services:						
Management and general	36,624	-	36,624	52,403	-	52,403
Fundraising	<u>32,231</u>	<u>-</u>	<u>32,231</u>	<u>51,775</u>	<u>-</u>	<u>51,775</u>
TOTAL EXPENSES	<u>480,560</u>	<u>-</u>	<u>480,560</u>	<u>474,597</u>	<u>-</u>	<u>474,597</u>
CHANGE IN NET ASSETS	54,833	(47,649)	7,184	(8,125)	(39,351)	(47,476)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	<u>(31,103)</u>	<u>142,733</u>	<u>111,630</u>	<u>(22,978)</u>	<u>182,084</u>	<u>159,106</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 23,730</u>	<u>\$ 95,084</u>	<u>\$ 118,814</u>	<u>\$ (31,103)</u>	<u>\$ 142,733</u>	<u>\$ 111,630</u>

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

PROJECT RETURN, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 7,184	\$ (47,476)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,119	5,915
(Increase) decrease in current assets:		
Contributions receivable	41,907	46,138
Federal and state grants receivable	48,202	(9,035)
Prepaid expenses	1,630	(6,029)
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	(1,039)	2,039
TOTAL ADJUSTMENTS	<u>96,819</u>	<u>39,028</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>104,003</u>	<u>(8,448)</u>
NET CASH USED IN INVESTING ACTIVITIES		
Additions to property and equipment	<u>-</u>	<u>(2,338)</u>
FINANCING ACTIVITIES		
Principal payments on capital lease	(1,732)	(1,278)
Proceeds from line of credit borrowings	23,200	45,000
Principal payments on line of credit	<u>(63,200)</u>	<u>(52,585)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(41,732)</u>	<u>(8,863)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	62,271	(19,649)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>6,732</u>	<u>26,381</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 69,003</u>	<u>\$ 6,732</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 3,274</u>	<u>\$ 2,853</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired under capital lease	<u>\$ -</u>	<u>\$ 9,900</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, 2007 AND 2006

	2007					2006				
	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	\$ 158,059	\$ 47,646	\$ 17,248	\$ 12,816	\$ 235,769	\$ 163,218	\$ 27,914	\$ 27,962	\$ 30,190	\$ 249,284
Employee benefits	18,201	5,486	1,986	1,476	27,149	20,731	3,545	3,552	3,835	31,663
Payroll taxes	13,917	4,196	1,519	1,128	20,760	13,354	2,284	2,288	2,470	20,396
TOTAL PAYROLL AND RELATED EXPENSES	190,177	57,328	20,753	15,420	283,678	197,303	33,743	33,802	36,495	301,343
Advertising	586	-	695	-	1,281	-	-	887	-	887
Aid to clients	32,410	20,991	-	-	53,401	33,198	4,236	-	-	37,434
Dues/memberships	-	-	335	909	1,244	-	-	255	769	1,024
Equipment and maintenance	2,389	1,081	451	586	4,507	2,349	1,064	443	576	4,432
Fundraising expense	-	-	-	4,362	4,362	-	-	-	314	314
Insurance	8,849	4,007	1,670	2,170	16,696	6,976	3,159	4,282	1,711	16,128
Interest	-	-	3,274	-	3,274	-	-	2,853	-	2,853
Living expenses of full-time volunteer	11,413	-	-	-	11,413	12,014	-	-	-	12,014
Meetings	160	2,488	615	20	3,283	84	852	634	26	1,596
Miscellaneous	-	-	463	-	463	-	-	487	-	487
Office supplies	3,267	1,480	617	801	6,165	1,908	864	360	468	3,600
Postage	1,066	483	201	261	2,011	852	386	160	209	1,607
Printing	516	234	97	126	973	452	141	26	791	1,410
Professional fees	14,448	6,542	2,726	3,544	27,260	14,809	6,706	2,794	3,632	27,941
Rent - Note 7	24,780	11,747	2,918	2,555	42,000	22,236	10,234	3,740	4,590	40,800
Staff development	132	-	100	-	232	175	-	-	-	175
Subscriptions	424	-	-	139	563	-	-	-	768	768
Taxes and licenses	-	-	270	-	270	-	-	320	-	320
Telecommunications	2,951	1,336	556	724	5,567	2,855	1,293	539	701	5,388
Travel	2,750	2,775	271	2	5,798	6,126	1,673	229	133	8,161
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	296,318	110,492	36,012	31,619	474,441	301,337	64,351	51,811	51,183	468,682
Depreciation of furniture and equipment	3,977	918	612	612	6,119	3,845	887	592	592	5,915
TOTAL FUNCTIONAL EXPENSES	\$ 300,295	\$ 111,410	\$ 36,624	\$ 32,231	\$ 480,560	\$ 305,182	\$ 65,238	\$ 52,403	\$ 51,775	\$ 474,597

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

PROJECT RETURN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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 financial statements of the Agency have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Resources are classified as unrestricted, temporarily restricted and 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 in perpetuity 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, 2007 and 2006.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

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. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

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 (4% in 2007 and 2006). 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.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Furniture and Equipment

Furniture and equipment are recorded at cost at the date of purchase, or at estimated fair value at the time of the gift to the Agency. Depreciation is calculated by the straight-line method to allocate the cost of depreciable assets, as so determined, to operations over the estimated useful lives of five to ten years. The Agency capitalizes purchases with a cost of \$500 or more and an expected useful life greater than one year.

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.

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.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Due in less than one year	\$ 65,806	\$ 61,551
Due in one to five years	<u>-</u>	<u>50,000</u>
Total contributions receivable	65,806	111,551
Less discount to net present value	<u>(1,958)</u>	<u>(5,796)</u>
Contributions receivable - net	<u>\$ 63,848</u>	<u>\$ 105,755</u>

NOTE 3 - GRANTS RECEIVABLE

Grants receivable consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Federal Adult Offender grant	\$ -	\$ 43,223
Tennessee Department of Corrections - Genesis grant	<u>5,383</u>	<u>10,362</u>
	<u>\$ 5,383</u>	<u>\$ 53,585</u>

NOTE 4 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Furniture and equipment	\$ 45,762	\$ 45,762
Less accumulated depreciation	<u>(31,524)</u>	<u>(25,405)</u>
Furniture and equipment - net	<u>\$ 14,238</u>	<u>\$ 20,357</u>

The Agency had fully depreciated assets with an original cost of approximately \$10,000 as of June 30, 2007.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 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. As of June 30, 2007, the outstanding balance was \$-0- (\$40,000 at June 30, 2006).

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>2007</u>	<u>2006</u>
Adult programs	\$ 12,500	\$ 12,357
Youth programs	<u>82,584</u>	<u>130,376</u>
	<u>\$ 95,084</u>	<u>\$ 142,733</u>

NOTE 7 - 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 in 2007 and 2006.

Support and grants from the State of Tennessee comprised 50% and 76% of the Agency's revenue and support for the years ended June 30, 2007 and 2006, respectively. A Federal grant comprised 32% of the Agency's revenue and support for the year ended June 30, 2007 (11% in 2006). A reduction in the level of funding from state or federal grants, 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, 2007 AND 2006

NOTE 8 - LEASES

The Agency leases office space under a non-cancelable operating lease agreement, expiring June 30, 2012. 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, 2007, are as follows:

<u>Year Ending June 30,</u>	<u>Operating Lease</u>	<u>Capital Lease</u>	<u>Total</u>
2008	\$ 43,200	\$ 3,588	\$ 46,788
2009	44,400	3,588	47,988
2010	45,600	2,093	47,693
2011	46,800	-	46,800
2012	<u>48,000</u>	<u>-</u>	<u>48,000</u>
Total minimum lease payments	228,000	9,269	237,269
Less amount representing interest (imputed rate of 23.5%)	<u>-</u>	<u>(2,379)</u>	<u>(2,379)</u>
Net minimum lease payments	<u>\$ 228,000</u>	<u>\$ 6,890</u>	<u>\$ 234,890</u>

Total rent expense recognized under the operating lease was \$42,000 for the year ended June 30, 2007, and \$40,800 for the year ended June 30, 2006.