PROJECT RETURN, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2008 AND 2007

KraftCPAs
PLLC
Certified Public Accountants and Consultants

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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, 2008 and 2007, 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, 2008 and 2007, 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.

Kraft CPAs PLLC

Nashville, Tennessee
October 28, 2008

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PROJECT RETURN, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Cash and cash equivalents	$ 19,074	$ 69,003
Contributions receivable - Note 2	10,290	63,848
Federal and state grants receivable - Note 3	15,298	5,383
Prepaid expenses	8,769	6,944
Furniture and equipment, net - Note 4	8,671	14,238
TOTAL ASSETS	$ 62,102	$ 159,416
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 5,629	$ 6,034
Accrued expenses	34,530	27,678
Obligation under line of credit - Note 5	30,848	-
Obligation under capital lease - Note 8	4,702	6,890
TOTAL LIABILITIES	75,709	40,602
COMMITMENTS AND CONTINGENCIES - Notes 7 and 8		
NET ASSETS		
Unrestricted (deficit)	(28,757)	23,730
Temporarily restricted - Note 6	15,150	95,084
TOTAL NET ASSETS (DEFICIT)	(13,607)	118,814
TOTAL LIABILITIES AND NET ASSETS	$ 62,102	$ 159,416

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

PROJECT RETURN, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT						
Public support:						
Corporate and foundation grants	$ 600	$ 58,215	$ 58,815	$ 2,000	$ 62,338	$ 64,338
Contributions	20,094	-	20,094	22,159	-	22,159
State of Tennessee appropriation	182,000	-	182,000	182,000	-	182,000
State of Tennessee grants	142,174	-	142,174	63,320	-	63,320
Federal grants	961	-	961	154,223	-	154,223
Net assets released resulting from satisfaction of donor restrictions	138,149	(138,149)	-	109,987	(109,987)	-
Total Public Support	483,978	(79,934)	404,044	533,689	(47,649)	486,040
Other revenues						
Interest income	1,525	-	1,525	1,704	-	1,704
Miscellaneous	455	-	455	-	-	-
Total Other Revenues	1,980	-	1,980	1,704	-	1,704
TOTAL REVENUES AND SUPPORT	485,958	(79,934)	406,024	535,393	(47,649)	487,744
EXPENSES						
Program services:						
Adult program	354,311	-	354,311	300,295	-	300,295
Youth program	114,919	-	114,919	111,410	-	111,410
Supporting services:						
Management and general	40,367	-	40,367	36,624	-	36,624
Fundraising	28,848	-	28,848	32,231	-	32,231
TOTAL EXPENSES	538,445	-	538,445	480,560	-	480,560
CHANGE IN NET ASSETS	(52,487)	(79,934)	(132,421)	54,833	(47,649)	7,184
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	23,730	95,084	118,814	(31,103)	142,733	111,630
NET ASSETS (DEFICIT) - END OF YEAR	$ (28,757)	$ 15,150	$ (13,607)	$ 23,730	$ 95,084	$ 118,814

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

PROJECT RETURN, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING ACTIVITIES		
Change in net assets	$ (132,421)	$ 7,184
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	5,567	6,119
(Increase) decrease in current assets:		
Contributions receivable	53,558	41,907
Federal and state grants receivable	(9,915)	48,202
Prepaid expenses	(1,825)	1,630
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	6,447	(1,039)
TOTAL ADJUSTMENTS	53,832	96,819
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(78,589)	104,003
FINANCING ACTIVITIES		
Principal payments on capital lease	(2,188)	(1,732)
Proceeds from line of credit borrowings	30,848	23,200
Principal payments on line of credit	-	(63,200)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITES	28,660	(41,732)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(49,929)	62,271
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	69,003	6,732
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 19,074	$ 69,003
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 1,467	$ 3,274

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

PROJECT RETURN, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008					2007				
	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	$ 214,034	$ 48,548	$ 20,384	$ 12,341	$ 295,307	$ 155,704	$ 47,646	$ 17,248	$ 12,816	$ 233,414
Employee benefits	21,984	4,987	2,094	1,268	30,333	18,201	5,486	1,986	1,476	27,149
Payroll taxes	21,488	4,874	2,047	1,239	29,648	13,917	4,196	1,519	1,128	20,760
TOTAL PAYROLL AND RELATED EXPENSES	257,506	58,409	24,525	14,848	355,288	187,822	57,328	20,753	15,420	281,323
Advertising	-	-	332	-	332	586	-	695	-	1,281
Aid to clients	26,504	22,850	-	-	49,354	32,410	20,991	-	-	53,401
Dues/memberships	-	-	520	697	1,217	-	-	335	909	1,244
Equipment rental	831	376	157	204	1,568	347	157	65	85	654
Fundraising expense	-	-	-	1,725	1,725	-	-	-	4,362	4,362
Insurance	7,465	564	2,072	306	10,407	8,849	4,007	1,670	2,170	16,696
Interest	-	-	1,467	-	1,467	-	-	3,274	-	3,274
Maintenance and repairs	1,416	537	224	291	2,468	2,042	924	386	501	3,853
Meetings	350	1,581	560	19	2,510	160	2,488	615	20	3,283
Miscellaneous	209	-	225	-	434	-	-	463	-	463
Office supplies	3,325	1,210	497	647	5,679	3,267	1,480	617	801	6,165
Postage	-	-	1,452	175	1,627	1,066	483	201	261	2,011
Printing	270	-	58	-	328	516	234	97	126	973
Professional fees	11,009	13,830	2,072	2,694	29,605	14,448	6,542	2,726	3,544	27,260
Rent - Note 7	22,896	10,368	4,320	5,616	43,200	24,780	11,747	2,918	2,555	42,000
Staff development	961	-	-	-	961	132	-	100	-	232
Stipend and living expenses of full-time volunteer	13,447	-	-	-	13,447	13,768	-	-	-	13,768
Subscriptions	428	-	-	144	572	424	-	-	139	563
Taxes and licenses	-	-	320	-	320	-	-	270	-	270
Telecommunications	2,605	1,179	641	789	5,214	2,951	1,336	556	724	5,567
Travel	1,471	3,180	368	136	5,155	2,750	2,775	271	2	5,798
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	350,693	114,084	39,810	28,291	532,878	296,318	110,492	36,012	31,619	474,441
Depreciation of furniture and equipment	3,618	835	557	557	5,567	3,977	918	612	612	6,119
TOTAL FUNCTIONAL EXPENSES	$ 354,311	$ 114,919	$ 40,367	$ 28,848	$ 538,445	$ 300,295	$ 111,410	$ 36,624	$ 32,231	$ 480,560

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

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 operations 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, 2008 and 2007.

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 (0% and 4% in 2008 and 2007, respectively). 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.

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.

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.

Reclassifications

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

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at June 30:

	2008	2007
Due in less than one year	$ 10,290	$ 65,806
Due in one to five years	-	-
Total contributions receivable	10,290	65,806
Less discount to net present value	-	(1,958)
Contributions receivable - net	$ 10,290	$ 63,848

NOTE 3 - GRANTS RECEIVABLE

Grants receivable consisted of the following at June 30:

	2008	2007
Tennessee Department of Corrections - Genesis grant	$ 3,976	$ 5,383
Tennessee Department of Corrections - Change is Possible grant	11,322	-
	$ 15,298	$ 5,383

NOTE 4 - FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following at June 30:

	2008	2007
Furniture and equipment	$ 45,762	$ 45,762
Less accumulated depreciation	(37,091)	(31,524)
Furniture and equipment - net	$ 8,671	$ 14,238

The Agency had fully depreciated assets with an original cost of approximately $18,500 as of June 30, 2008 ($10,000 as of June 30, 2007).

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, 2008, the outstanding balance was $30,848 ($-0- at June 30, 2007).

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:

	2008	2007
Adult programs	$ 10,000	$ 12,500
Youth programs	5,150	82,584
	$ 15,150	$ 95,084

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 2008 and 2007.

Support and grants from the State of Tennessee comprised 80% and 50% of the Agency's revenue and support for the years ended June 30, 2008 and 2007, respectively. A Federal grant comprised 32% of the Agency's revenue and support for the year ended June 30, 2007 (0% in 2008). 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.

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, 2008, are as follows:

Year Ending June 30,	Operating Lease	Capital Lease	Total
2009	$ 44,400	$ 3,588	$ 47,988
2010	45,600	2,093	47,693
2011	46,800	-	46,800
2012	48,000	-	48,000
Total minimum lease payments	184,800	5,681	190,481
Less amount representing interest (imputed rate of 23.5%)	-	(979)	(979)
Net minimum lease payments	$ 184,800	$ 4,702	$ 189,502

Total rent expense recognized under the operating lease was $43,200 for the year ended June 30, 2008, and $42,000 for the year ended June 30, 2007.

NOTE 9 - RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, which is effective for fiscal years beginning after December 15, 2007. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file in a particular jurisdiction. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (FAS-157), *Fair Value Measurements.* FAS-157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS-157 are effective for fiscal years beginning after November 15, 2007.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (FAS-159), *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115.* The fair value option established by FAS-159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in operations at each subsequent reporting date. FAS-159 is effective for fiscal years beginning after November 15, 2007.

The Agency is currently evaluating the impact, if any, of the adoption of these pronouncements on the financial statements.