

PROJECT RETURN, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2005 AND 2004

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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, 2005 and 2004, 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, 2005 and 2004, 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 13, 2005

PROJECT RETURN, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 26,381	\$ 12,738
State grant receivable	44,550	56,633
Contributions receivable - Note 2	151,893	-
Prepaid expenses	2,545	1,519
Furniture and equipment, net - Note 3	<u>14,034</u>	<u>15,066</u>
TOTAL ASSETS	<u>\$ 239,403</u>	<u>\$ 85,956</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 4,585	\$ 21,430
Accrued expenses	28,127	29,487
Obligation under line of credit - Note 4	<u>47,585</u>	<u>-</u>
TOTAL LIABILITIES	<u>80,297</u>	<u>50,917</u>
COMMITMENTS AND CONTINGENCIES - Notes 6 and 7		
<u>NET ASSETS</u>		
Unrestricted (deficit)	(22,978)	17,833
Temporarily restricted - Note 5	<u>182,084</u>	<u>17,206</u>
TOTAL NET ASSETS	<u>159,106</u>	<u>35,039</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 239,403</u>	<u>\$ 85,956</u>

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

PROJECT RETURN, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005			2004		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT						
Public support:						
Corporate and foundation grants	\$ 6,933	\$ 187,143	\$ 194,076	\$ 20,245	\$ 12,500	\$ 32,745
Contributions	12,973	-	12,973	20,375	-	20,375
State of Tennessee appropriation	182,000	-	182,000	182,000	-	182,000
State of Tennessee Bridges grant	362,581	-	362,581	284,634	-	284,634
Fundraising event	-	-	-	460	-	460
Net assets released from restrictions:						
Satisfaction of time and purpose restrictions	22,265	(22,265)	-	27,110	(27,110)	-
Total Public Support	586,752	164,878	751,630	534,824	(14,610)	520,214
Other revenues						
Interest income	502	-	502	764	-	764
Miscellaneous	1,282	-	1,282	-	-	-
Total Other Revenues	1,784	-	1,784	764	-	764
TOTAL REVENUES AND SUPPORT	588,536	164,878	753,414	535,588	(14,610)	520,978
EXPENSES						
Program services:						
Adult program	481,015	-	481,015	419,267	-	419,267
Youth program	25,471	-	25,471	46,944	-	46,944
Supporting services:						
Management and general	62,664	-	62,664	60,799	-	60,799
Fundraising	60,197	-	60,197	37,092	-	37,092
TOTAL EXPENSES	629,347	-	629,347	564,102	-	564,102
CHANGE IN NET ASSETS	(40,811)	164,878	124,067	(28,514)	(14,610)	(43,124)
NET ASSETS - BEGINNING OF YEAR	17,833	17,206	35,039	46,347	31,816	78,163
NET ASSETS (DEFICIT) - END OF YEAR	\$ (22,978)	\$ 182,084	\$ 159,106	\$ 17,833	\$ 17,206	\$ 35,039

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

PROJECT RETURN, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Change in net assets	<u>\$ 124,067</u>	<u>\$ (43,124)</u>
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	3,232	3,289
(Increase) decrease in:		
State grant receivable	12,083	(41,815)
Contributions receivable	(151,893)	-
Prepaid expenses	(1,026)	10,079
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>(18,205)</u>	<u>26,847</u>
TOTAL ADJUSTMENTS	<u>(155,809)</u>	<u>(1,600)</u>
NET CASH USED IN OPERATING ACTIVITIES	(31,742)	(44,724)
NET CASH USED IN INVESTING ACTIVITIES		
Additions to property and equipment	(2,200)	(4,207)
NET CASH PROVIDED BY FINANCING ACTIVITIES		
Proceeds from line of credit borrowings	<u>47,585</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,643	(48,931)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>12,738</u>	<u>61,669</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 26,381</u>	<u>\$ 12,738</u>
OTHER CASH FLOW INFORMATION		
Interest expense paid	<u>\$ 409</u>	<u>\$ 82</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, 2005 AND 2004

	2005						2004					
	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	\$ 267,921	\$ 8,262	\$	31,803	\$ 38,352	\$ 346,338	\$ 249,537	\$ 21,941	\$	36,677	\$ 19,321	\$ 327,476
Employee benefits	48,089	1,483		5,708	6,884	62,164	37,274	3,277		5,479	2,886	48,916
Payroll taxes	23,929	738		2,840	3,425	30,933	24,693	2,094		3,596	2,174	32,557
TOTAL PAYROLL AND RELATED EXPENSES	\$ 339,939	\$ 10,483	\$	40,352	\$ 48,661	\$ 439,435	311,504	27,312		45,752	24,381	408,949
Advertising	403	-		-	169	572	474	120		13	410	1,017
Aid to clients	57,762	127		-	-	57,889	42,971	1,586		-	-	44,557
Dues/memberships	-	-		280	908	1,188	80	-		85	430	595
Equipment and maintenance	3,733	855		570	1,168	6,326	2,231	981		409	1,129	4,750
Fundraising expense	-	-		-	469	469	-	-		-	321	321
Insurance	4,266	2,102		5,094	1,273	12,735	3,095	1,401		4,548	759	9,803
Interest	-	-		409	-	409	-	-		82	-	82
Living expenses of full-time volunteer	11,644	-		-	-	11,644	463	-		-	-	463
Meetings	-	-		359	-	359	362	6		451	-	819
Miscellaneous	-	-		121	-	121	30	-		30	-	60
Office supplies	3,485	777		518	518	5,298	2,724	800		472	434	4,430
Postage	293	66		44	194	597	337	120		51	216	724
Printing	313	19		129	33	494	312	83		75	75	545
Professional fees	10,020	3,375		9,466	-	22,861	11,215	3,436		3,111	2,093	19,855
Rent and maintenance	25,740	5,940		3,960	3,960	39,600	22,464	8,256		3,302	4,378	38,400
Staff development	15	-		-	-	15	50	-		400	89	539
Subscriptions	-	-		-	82	82	400	272		-	909	1,581
Taxes and licenses	-	-		340	-	340	-	-		20	250	270
Telecommunications	3,957	722		482	777	5,938	3,502	1,158		608	690	5,958
Travel	17,345	519		217	1,662	19,743	15,129	706		1,107	153	17,095
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	478,915	24,985		62,341	59,874	626,115	417,343	46,237		60,516	36,717	560,813
Depreciation of furniture and equipment	2,100	486		323	323	3,232	1,924	707		283	375	3,289
TOTAL FUNCTIONAL EXPENSES	\$ 481,015	\$ 25,471	\$	62,664	\$ 60,197	\$ 629,347	\$ 419,267	\$ 46,944	\$	60,799	\$ 37,092	\$ 564,102

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

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

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, state and local 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, 2005 and 2004.

The State of Tennessee Bridges grant revenue is recognized in the period at 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, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions receivable

Unconditional promises to give that are expended 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 is received (4% in 2005; not applicable in 2004). Amortization of the discount is recognized on the interest method over the term of the gift and is 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 an estimated useful life of five to ten years.

Program and Supporting Services

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

Program services - consist of an Adult program and a Youth program, 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, fundraising, general record keeping, budgeting, and related purposes.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

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>2005</u>	<u>2004</u>
Due in less than one year	\$ 60,000	\$ -
Due in one to five years	<u>100,000</u>	<u>-</u>
Total contribution receivable	160,000	-
Less discount to net present value	<u>(8,107)</u>	<u>-</u>
Contributions receivable - net	<u>\$ 151,893</u>	<u>\$ -</u>

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at June 30:

	<u>2005</u>	<u>2004</u>
Furniture and equipment	\$ 41,924	\$ 39,725
Less accumulated depreciation	<u>(27,890)</u>	<u>(24,659)</u>
Furniture and equipment - net	<u>\$ 14,034</u>	<u>\$ 15,066</u>

The Agency had fully depreciated assets with an original cost of approximately \$18,000 as of June 30, 2005 and 2004.

NOTE 4 - 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.

NOTE 5 - 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>2005</u>	<u>2004</u>
Unconditional promises to give for subsequent year's programs:		
Next year's operations	\$ 17,891	\$ 17,206
Youth programs	<u>164,193</u>	<u>-</u>
	<u>\$ 182,084</u>	<u>\$ 17,206</u>

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 6 - OPERATING LEASE

The Agency leases its offices under a non-cancelable operating lease agreement, expiring June 30, 2007. Future minimum lease payments required under the agreement as of June 30, 2005, are as follows:

Year Ending June 30,

2006	\$ 40,800
2007	<u>42,000</u>
	<u>\$ 82,800</u>

Total rent expense recognized under the lease was \$39,600 for the year ended June 30, 2005, and \$38,400 for the year ended June 30, 2004.

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.

Support and grants from the State of Tennessee comprise 72% and 89% of the Agency's revenue and support for the years ended June 30, 2005 and 2004, respectively. In addition, a multi-year pledge from one donor comprises 19% of the Agency's revenue and support for the year ended June 30, 2005 (\$0 in 2004). 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.