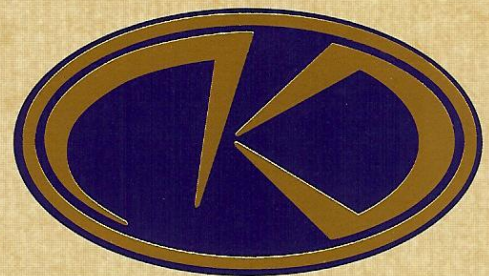


PROJECT RETURN, INC.
NASHVILLE, TENNESSEE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2009 AND 2008



KraftCPAs
PLLC

Certified Public Accountants and Consultants

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

JUNE 30, 2009 AND 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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 16, 2009

PROJECT RETURN, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 52,225	\$ 19,074
Contributions receivable - Note 2	22,504	10,290
Federal and state grants receivable - Note 3	29,350	15,298
Prepaid expenses	10,872	8,769
Furniture and equipment, net - Note 4	<u>19,996</u>	<u>8,671</u>
TOTAL ASSETS	<u>\$ 134,947</u>	<u>\$ 62,102</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 15,272	\$ 5,629
Accrued expenses	42,570	34,530
Obligation under line of credit - Note 5	33,002	30,848
Obligation under capital lease - Note 8	<u>12,117</u>	<u>4,702</u>
TOTAL LIABILITIES	<u>102,961</u>	<u>75,709</u>
COMMITMENTS AND CONTINGENCIES - Notes 7 and 8		
<u>NET ASSETS</u>		
Unrestricted (deficit)	7,838	(28,757)
Temporarily restricted - Note 6	<u>24,148</u>	<u>15,150</u>
TOTAL NET ASSETS (DEFICIT)	<u>31,986</u>	<u>(13,607)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 134,947</u>	<u>\$ 62,102</u>

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

PROJECT RETURN, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT						
Public support:						
Corporate and foundation grants	\$ 92,076	\$ 110,670	\$ 202,746	\$ 600	\$ 58,215	\$ 58,815
Contributions	34,126	-	34,126	20,094	-	20,094
Donated goods	4,250	-	4,250	-	-	-
State of Tennessee appropriation	250,000	-	250,000	182,000	-	182,000
State of Tennessee grants	88,585	-	88,585	142,174	-	142,174
Federal grants	68,902	-	68,902	961	-	961
Net assets released resulting from satisfaction of donor restrictions	101,672	(101,672)	-	138,149	(138,149)	-
Total public support	639,611	8,998	648,609	483,978	(79,934)	404,044
Other revenues:						
Interest income	537	-	537	1,525	-	1,525
Miscellaneous	355	-	355	455	-	455
Total other revenues	892	-	892	1,980	-	1,980
TOTAL REVENUES AND SUPPORT	640,503	8,998	649,501	485,958	(79,934)	406,024
EXPENSES						
Program services:						
Adult program	415,906	-	415,906	354,311	-	354,311
Youth program	111,276	-	111,276	114,919	-	114,919
Supporting services:						
Management and general	50,074	-	50,074	40,367	-	40,367
Fundraising	26,652	-	26,652	28,848	-	28,848
TOTAL EXPENSES	603,908	-	603,908	538,445	-	538,445
CHANGE IN NET ASSETS	36,595	8,998	45,593	(52,487)	(79,934)	(132,421)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	(28,757)	15,150	(13,607)	23,730	95,084	118,814
NET ASSETS (DEFICIT) - END OF YEAR	\$ 7,838	\$ 24,148	\$ 31,986	\$ (28,757)	\$ 15,150	\$ (13,607)

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

PROJECT RETURN, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 45,593	\$ (132,421)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	4,001	5,567
(Increase) decrease in current assets:		
Contributions receivable	(12,214)	53,558
Federal and state grants receivable	(14,052)	(9,915)
Prepaid expenses	(2,103)	(1,825)
Increase (decrease) in current liabilities:		
Accounts payable	9,643	(405)
Accrued expenses	<u>8,040</u>	<u>6,852</u>
TOTAL ADJUSTMENTS	<u>(6,685)</u>	<u>53,832</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>38,908</u>	<u>(78,589)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	<u>(5,354)</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(5,354)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(2,557)	(2,188)
Proceeds from line of credit borrowings	42,002	30,848
Principal payments on line of credit	<u>(39,848)</u>	<u>-</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(403)</u>	<u>28,660</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	33,151	(49,929)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>19,074</u>	<u>69,003</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 52,225</u>	<u>\$ 19,074</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Equipment acquired under capital lease	<u>\$ 12,117</u>	<u>\$ -</u>
Cancellation of previous lease obligation and removal of remaining net book value of leased equipment returned	<u>\$ 2,145</u>	<u>\$ -</u>
Interest paid	<u>\$ 1,160</u>	<u>\$ 1,467</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, 2009 AND 2008

	2009					2008				
	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	\$ 187,907	\$ 42,941	\$ 33,521	\$ 10,522	\$ 274,891	\$ 214,034	\$ 48,548	\$ 20,384	\$ 12,341	\$ 295,307
Employee benefits	31,308	9,960	124	1,547	42,939	21,984	4,987	2,094	1,268	30,333
Payroll taxes	18,166	3,803	3,852	920	26,741	21,488	4,874	2,047	1,239	29,648
TOTAL PAYROLL AND RELATED EXPENSES	237,381	56,704	37,497	12,989	344,571	257,506	58,409	24,525	14,848	355,288
Advertising	-	-	432	-	432	-	-	332	-	332
Aid to clients	75,485	11,460	-	-	86,945	26,504	22,850	-	-	49,354
Donated food for program clients	500	3,750	-	-	4,250	-	-	-	-	-
Dues/memberships	-	-	300	769	1,069	428	-	520	841	1,789
Equipment rental and maintenance	3,976	856	1,255	533	6,620	2,247	913	381	495	4,036
Fundraising expense	-	-	-	1,298	1,298	-	-	-	1,725	1,725
Insurance	7,600	2,426	836	1,221	12,083	7,465	564	2,072	306	10,407
Interest	553	251	220	136	1,160	-	-	1,467	-	1,467
Meetings	729	812	463	-	2,004	350	1,581	560	19	2,510
Miscellaneous	-	-	201	-	201	209	-	225	-	434
Office supplies	5,176	1,495	986	851	8,508	3,325	1,210	497	647	5,679
Postage	752	336	140	225	1,453	-	-	1,452	175	1,627
Printing	801	-	-	-	801	270	-	58	-	328
Professional fees	36,951	18,768	1,618	2,420	59,757	11,009	13,830	2,072	2,694	29,605
Rent - Note 8	25,419	9,657	4,440	4,884	44,400	22,896	10,368	4,320	5,616	43,200
Staff development	275	-	-	-	275	961	-	-	-	961
Stipend and living expenses of full-time volunteer	11,490	-	-	-	11,490	13,447	-	-	-	13,447
Taxes and licenses	-	-	270	-	270	-	-	320	-	320
Telecommunications	2,050	584	651	470	3,755	2,605	1,179	641	789	5,214
Travel	4,647	3,217	365	336	8,565	1,471	3,180	368	136	5,155
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	413,785	110,316	49,674	26,132	599,907	350,693	114,084	39,810	28,291	532,878
Depreciation of furniture and equipment	2,121	960	400	520	4,001	3,618	835	557	557	5,567
TOTAL FUNCTIONAL EXPENSES	\$ 415,906	\$ 111,276	\$ 50,074	\$ 26,652	\$ 603,908	\$ 354,311	\$ 114,919	\$ 40,367	\$ 28,848	\$ 538,445

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

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

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, 2009 and 2008.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

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, 2009 AND 2008

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. 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.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

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

Events Occurring After Reporting Date

The Agency has evaluated events and transactions that occurred between June 30, 2009 and December 16, 2009, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Recent Accounting Pronouncement

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*. 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 positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. 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 December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Agency has elected this deferral and, accordingly, will be required to adopt FIN 48 in its June 30, 2010 annual financial statements. Prior to adopting FIN 48, the Agency will continue to evaluate uncertain tax positions and related income tax contingencies under Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies*. SFAS No. 5 requires annual accrual for losses that are considered probable and can be reasonably estimated, or disclosure for losses that are considered reasonably possible and/or cannot be reasonably estimated.

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

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2009 and 2008 are expected to be collected within one year.

NOTE 3 - FEDERAL AND STATE GRANTS RECEIVABLE

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

	<u>2009</u>	<u>2008</u>
U.S. Department of Labor - Prisoner Re-entry Initiative grant	\$ 8,204	\$ -
Federal Transit Authority - Jobs Access and Reverse Commute grant	2,460	-
Tennessee Department of Corrections - Genesis grant	9,456	3,976
Tennessee Department of Corrections - Change is Possible grant	-	11,322
Tennessee Department of Mental Health and Development - Access to Recovery	5,000	-
Tennessee Department of Transportation - New Freedom grant	1,230	-
Tennessee Arts Commission	3,000	-
	<u>\$ 29,350</u>	<u>\$ 15,298</u>

NOTE 4 - FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Furniture and equipment	\$ 53,333	\$ 45,762
Less accumulated depreciation	<u>(33,337)</u>	<u>(37,091)</u>
Furniture and equipment - net	<u>\$ 19,996</u>	<u>\$ 8,671</u>

The Agency had fully depreciated assets with an original cost of approximately \$22,000 as of June 30, 2009 (\$18,500 as of June 30, 2008).

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

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, 2009). 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, 2009, the outstanding balance was \$33,002 (\$30,848 at June 30, 2008).

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>2009</u>	<u>2008</u>
Adult programs	\$ 22,504	\$ 10,000
Youth programs	<u>1,644</u>	<u>5,150</u>
	<u>\$ 24,148</u>	<u>\$ 15,150</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 and state grantors. Federal and state grants receivable from four grants amount to 87% of total grants receivable at June 30, 2009 (two grants amounted to 100% of total grants receivable at June 30, 2008). A contributions from one source amounted to 97% of the total contributions receivable at June 30, 2009 (one contribution amounted to 98% of the total contributions receivable at June 30, 2008).

Support and grants from the State of Tennessee comprised 52% and 80% of the Agency's total public support for the years ended June 30, 2009 and 2008, respectively. Federal grant revenue comprised 11% of the Agency's total public support for the year ended June 30, 2009. Federal support was not significant for the year ended June 30, 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.

PROJECT RETURN, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

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 \$12,117, under a non-cancelable agreement that is accounted for as a capital lease expiring June 30, 2013.

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>
2010	\$ 45,600	\$ 5,280	\$ 50,880
2011	46,800	5,280	52,080
2012	48,000	5,280	53,280
2013	-	5,280	5,280
Total minimum lease payments	140,400	21,120	161,520
Less amount representing interest (imputed rate of 31.0%)	-	(9,003)	(9,003)
Net minimum lease payments	<u>\$ 140,400</u>	<u>\$ 12,117</u>	<u>\$ 152,517</u>

Total rent expense recognized under the operating lease was \$44,400 for the year ended June 30, 2009, and \$43,200 for the year ended June 30, 2008.