

WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Prison Scholar Fund
Orting, Washington

We have audited the accompanying statement of financial position of The Prison Scholar Fund (a Washington nonprofit corporation) as of December 31, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides 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 The Prison Scholar Fund as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 2009 financial statements were compiled by us, and our report thereon, dated August 15, 2011, stated that we did not audit or review those financial statements and, accordingly, expressed no opinion or other form of assurance on them.

Watson & McDowell, PLLC

August 19, 2011

THE PRISON SCHOLAR FUND

Financial Statements
for the Year Ended December 31, 2010
(With Comparative Totals for 2009)
and Independent Auditors' Report

THE PRISON SCHOLAR FUND
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For the Year Ended December 31, 2010

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THE PRISON SCHOLAR FUND
Statement of Financial Position
December 31, 2010 - Audited
(With Comparative Totals for 2009 - Compiled)

ASSETS	2010 <u>(Audited)</u>	2009 <u>(Compiled)</u>
Current assets:		
Cash and cash equivalents	\$ <u>1,133</u>	\$ <u>7,548</u>

LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,089	\$ 1,675
Unrestricted net assets	<u>44</u>	<u>5,873</u>
	<u>\$ 1,133</u>	<u>\$ 7,548</u>

The accompanying notes should be read with these financial statements.

THE PRISON SCHOLAR FUND
Statement of Activities
For the Year Ended December 31, 2010 - Audited
(With Comparative Totals for 2009 - Compiled)

	<u>2010</u> <u>(Audited)</u>	<u>2009</u> <u>(Compiled)</u>
Support and revenue:		
Contributions	\$ 4,173	\$ 8,095
Interest and other income	<u>114</u>	<u>1,050</u>
Total support and revenue	<u>4,287</u>	<u>9,145</u>
Expenses:		
Program	9,022	25,458
Administration	1,094	887
Fundraising	<u> </u>	<u>94</u>
Total expenses	<u>10,116</u>	<u>26,439</u>
Change in unrestricted net assets	(5,829)	(17,294)
Unrestricted net assets, beginning of year	<u>5,873</u>	<u>23,167</u>
Unrestricted net assets, end of year	<u>\$ 44</u>	<u>\$ 5,873</u>

The accompanying notes should be read with these financial statements.

THE PRISON SCHOLAR FUND
Statement of Functional Expenses
For the Year Ended December 31, 2010 - Audited
(With Comparative Totals for 2009 - Compiled)

	Scholarship <u>Program</u>	<u>Administration</u>	2010 <u>(Audited)</u>	2009 <u>(Compiled)</u>
Scholarships, tuition	\$ 7,612		\$ 7,612	\$ 21,487
Scholarships, books	886		886	2,862
Education	60		60	60
Professional fees	100	\$ 22	122	200
Equipment		131	131	826
Office supplies	64	150	214	58
Books and publications				9
Telephone		168	168	209
Postage	300	623	923	728
	<u>\$ 9,022</u>	<u>\$ 1,094</u>	<u>\$ 10,116</u>	<u>\$ 26,439</u>

The accompanying notes should be read with these financial statements.

THE PRISON SCHOLAR FUND
Statement of Cash Flows
For the Year Ended December 31, 2010 - Audited
(With Comparative Totals for 2009 - Compiled)

	<u>2010</u>	<u>2009</u>
	<u>(Audited)</u>	<u>(Compiled)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (5,829)	\$ (17,294)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Decrease (increase) in operating assets:		
Contributions receivable		14,000
Increase (decrease) in operating liabilities:		
Accounts payable	<u>(586)</u>	<u>1,574</u>
NET CASH USED IN OPERATING ACTIVITIES	(6,415)	(1,720)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,548</u>	<u>9,268</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,133</u>	<u>\$ 7,548</u>

The accompanying notes should be read with these financial statements.

THE PRISON SCHOLAR FUND
Notes to the Financial Statements
For the Year Ended December 31, 2010

NOTE 1 - ORGANIZATION

The Prison Scholar Fund (the Organization) was formed in 2006 to advocate for correctional reform and invest in incarcerated students, empowering them to realize their post-secondary educational aspirations. In 2010, 24 scholarships were awarded.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Organization's significant accounting policies, consistently applied in the preparation of the accompanying financial statements, follows:

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no permanently or temporarily restricted net assets at December 31, 2010.

Restricted and unrestricted revenue and support

Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Income taxes

The Prison Scholar Fund is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code under an advanced ruling period which ended December 31, 2010. There was no unrelated business income subject to federal income tax during 2010. The Prison Scholar Fund's income tax filings are subject to examination by various taxing authorities. The Prison Scholar Fund's open examination periods are 2007 to 2010.

Use of estimates

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.

THE PRISON SCHOLAR FUND
Notes to the Financial Statements
For the Year Ended December 31, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Donated services

The Organization is operated by volunteers who receive no compensation. These services are not considered professional and do not meet the criteria for recognition under generally accepted accounting principles.

NOTE 3 - CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. The Organization maintains its cash in bank accounts whose balances at times may exceed federally insured limits.

NOTE 4 - CONDITIONAL GRANT

The Organization has been awarded a \$3,000 grant upon the completion of an audit of the financial statements.

NOTE 5 - CONCENTRATIONS

For the year ended December 31, 2010, contributions from three individuals provided 93 percent of total support and revenue.

NOTE 6 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through August 19, 2011, which is the date the financial statements were available to be issued.