

PRINCETON OUTREACH PROJECTS, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

PRINCETON OUTREACH PROJECTS, INC.
YEARS ENDED DECEMBER 31, 2010 AND 2009

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In accordance with *Government Auditing Standards*, we have also issued a report dated August 23, 2011 on our consideration of Princeton Outreach Projects, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of assets, liabilities and net assets by program are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as whole.

Klatzkin & Company, LLP

KLATZKIN & COMPANY_{LLP}

Hamilton, New Jersey
August 23, 2011

Klatzkin & Company LLP

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To the Board of Directors
Princeton Outreach Projects, Inc.
Princeton, New Jersey

We have audited the accompanying statements of assets, liabilities, and net assets - modified cash basis of PRINCETON OUTREACH PROJECTS, INC. (a nonprofit organization) as of December 31, 2010 and 2009, and the related statements of support, revenue, and expenses - modified cash basis for the years 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Princeton Outreach Projects, Inc. as of December 31, 2010 and 2009, and its support, revenue, and expenses for the years then ended, on the basis of accounting described in Note 1.

PRINCETON OUTREACH PROJECTS, INC.

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS

	December 31,	
	<u>2010</u>	<u>2009</u>
ASSETS		
Cash.....	\$ 1,100,416	\$ 652,947
Security Deposits.....	3,500	3,500
Investments.....	1,333,703	1,285,738
Property and Equipment - Net of \$150,735 and \$128,096		
Accumulated Depreciation.....	118,115	93,479
Credits for Food Purchases.....	<u>1,940</u>	<u>1,819</u>
TOTAL ASSETS.....	<u>\$ 2,557,674</u>	<u>\$ 2,037,483</u>
LIABILITIES AND NET ASSETS		
Liabilities.....	\$ -	\$ -
Net Assets.....	<u>2,557,674</u>	<u>2,037,483</u>
TOTAL LIABILITIES AND NET ASSETS.....	<u>\$ 2,557,674</u>	<u>\$ 2,037,483</u>

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

PRINCETON OUTREACH PROJECTS, INC.

STATEMENTS OF SUPPORT, REVENUES, AND EXPENSES - MODIFIED CASH BASIS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>Crisis</u>	<u>Trenton</u>	<u>Trenton</u>	<u>Housing</u>	<u>Joint</u>	<u>2010</u>	<u>2009</u>
	<u>Ministry</u>	<u>School</u>	<u>Children's</u>	<u>Initiative</u>	<u>Administration</u>	<u>Total</u>	<u>Total</u>
<u>Support and Revenues:</u>							
Donations.....	\$ 1,078,177	\$ 132,212	\$ 69,387	\$ 31,531	\$ 11,026	\$ 1,322,333	\$ 1,123,062
Special Event Revenue.....	53,075	1,437	40,181	33,114	2,000	129,807	86,022
Grants.....	591,700	107,382	85,027	14,400	-	798,509	543,710
Tuition.....	-	43,394	2,824	-	-	46,218	52,775
Summer Enrichment.....	-	-	-	-	-	-	9,928
Interest and Dividend Income.....	34,313	5	349	349	-	35,016	27,149
Unrealized Gain (Loss) on Investments.....	13,672	-	-	-	-	13,672	43,790
Other Income.....	1,247	100	2,833	-	-	4,180	2,434
Total Support and Revenues.....	1,772,184	284,530	200,601	79,394	13,026	2,349,735	1,888,870
<u>Expenses:</u>							
<u>Personnel:</u>							
Payroll.....	392,526	175,134	88,866	-	-	656,526	697,428
Payroll Taxes.....	23,720	13,607	6,896	-	-	44,223	45,242
Payroll Service Fee.....	2,178	2,137	1,344	-	-	5,659	4,992
Employee Benefits.....	84,162	41,272	7,712	-	-	133,146	116,279
Temporary Staff.....	-	-	150	-	-	150	275
Total Personnel Expenses.....	502,586	232,150	104,968	-	-	839,704	864,216
<u>Direct Assistance:</u>							
Food.....	72,910	-	-	-	-	72,910	70,217
Medical.....	-	-	-	-	-	-	35,379
Rent.....	258,733	-	-	-	-	258,733	210,459
Mortgage.....	33,852	-	-	-	-	33,852	-
Security Deposits.....	86,628	-	-	-	-	86,628	114,572
Utilities.....	85,411	-	-	-	-	85,411	62,414
Other.....	8,830	-	-	-	-	8,830	6,658
Total Direct Assistance.....	546,364	-	-	-	-	546,364	499,699
<u>Program Expenses:</u>							
Food.....	-	4,726	2,565	-	-	7,291	12,822
Camp Expense.....	-	69	8,363	-	-	8,432	6,810
Summer Enrichment.....	-	431	807	-	-	1,238	514
Transportation.....	-	-	3,185	-	-	3,185	2,587
Security.....	-	3,472	-	-	-	3,472	5,186
Supplies.....	-	2,401	-	-	-	2,401	-
Curriculum.....	-	2,248	-	-	-	2,248	-
Education Assistance.....	-	-	14,208	-	-	14,208	12,150
Rent.....	-	-	-	18,200	-	18,200	16,800
Utilities.....	-	-	-	10,645	-	10,645	10,038
Uniforms.....	-	-	15	-	-	15	236
Family Assistance.....	-	-	-	6,825	-	6,825	7,413
Other.....	-	-	3,483	-	-	3,483	3,570
Total Program Expenses.....	-	13,347	32,626	35,670	-	81,643	78,126

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

PRINCETON OUTREACH PROJECTS, INC.

STATEMENTS OF SUPPORT, REVENUES, AND EXPENSES - MODIFIED CASH BASIS (CONT'D)

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>Crisis</u>	<u>Trenton</u>	<u>Trenton</u>	<u>Housing</u>	<u>Joint</u>	<u>2010</u>	<u>2009</u>
	<u>Ministry</u>	<u>After</u>	<u>Children's</u>	<u>Initiative</u>	<u>Administration</u>	<u>Total</u>	<u>Total</u>
		<u>School</u>	<u>Chorus</u>	<u>Program</u>			
		<u>Program</u>					
Other Operating Costs:							
Insurance.....	23,412	11,656	2,516	2,580	-	40,164	34,246
Fundraising Expenses.....	-	-	15,447	-	-	15,447	843
Special Events.....	24,353	113	-	15,989	-	40,455	31,684
Joint Organization Expenses.....	-	-	-	-	1,711	1,711	504
Conference and Training.....	3,897	1,046	436	-	-	5,379	2,472
Consultants.....	470	-	-	1,105	-	1,575	2,489
Audit.....	10,210	11,171	2,695	500	-	24,576	13,590
Maintenance and Supplies.....	14,906	-	-	3,794	-	18,700	22,320
Miscellaneous.....	-	4,281	-	8,651	40	12,972	3,873
Newsletter and Publicity.....	5,289	100	5,001	1,425	-	11,815	10,402
Office.....	19,080	-	1,276	194	-	20,550	22,998
Postage.....	4,931	1,196	-	-	-	6,127	5,436
Rent.....	60,000	14,400	5,250	-	-	79,650	72,100
Staff and Volunteer Support.....	1,481	-	-	-	-	1,481	1,375
Telephone.....	14,992	5,080	1,654	-	-	21,726	16,929
Transportation.....	8,528	6,775	-	-	-	15,303	13,819
Utilities.....	21,563	-	-	-	-	21,563	14,164
Depreciation.....	16,377	4,860	1,087	315	-	22,639	19,452
Total Operating Costs.....	229,489	60,678	35,362	34,553	1,751	361,833	288,696
Total Expenses.....	1,278,439	306,175	172,956	70,223	1,751	1,829,544	1,730,737
Change in Net Assets:							
Excess (Deficiency) of Revenues							
Over Expenses for the Year.....	493,745	(21,645)	27,645	9,171	11,275	520,191	158,133
Net Assets at the Beginning of Year.....	1,656,619	83,628	160,600	132,902	3,734	2,037,483	1,879,350
NET ASSETS AT END OF YEAR.....	\$ 2,150,364	\$ 61,983	\$ 188,245	\$ 142,073	\$ 15,009	\$ 2,557,674	\$ 2,037,483

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

PRINCETON OUTREACH PROJECTS, INC.

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 1. Summary of Significant Accounting Policies

Organization and Nature of Activities:

Princeton Outreach Projects, Inc. (POPI) is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The Organization oversees several community outreach programs, described below:

The mission of the Crisis Ministry of Princeton and Trenton is to partner with our community to achieve stability for our neighbors in need. The program focuses on hunger prevention, homelessness prevention, and workforce development for low-income individuals and families in Mercer County, New Jersey. Core programs include the operation of two food pantries, financial assistance for rent, mortgage and utilities, as well as job training and job search assistance.

The Trenton After School Program provides after school tutoring and enrichment activities, mentoring and summer camp assistance to children in the West Ward of Trenton. The program is a licensed child care agency with the Division of Youth and Family Services of New Jersey.

The Trenton Childrens' Chorus offers children from Trenton, New Jersey an opportunity to sing a wide range of choral literature, and provides a way for children of different backgrounds to get to know one another through artistic endeavor.

Housing Initiatives of Princeton, LLC is a transitional housing program that seeks to provide housing, supervision, and social services for low-income families who are homeless or under-housed.

Basis of Accounting:

The Organization prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America; but includes depreciation and amortization on capitalized assets. Under this basis, revenues are recognized when received, rather than when earned, and expenses are generally recognized when paid rather than when incurred. Consequently, accounts receivable, accounts payable, and other prepaid expenses and certain accrued expenses are not included in the financial statements.

Contributions:

All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor.

PRINCETON OUTREACH PROJECTS, INC.

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONT'D)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 1. Summary of Significant Accounting Policies (Cont'd)

Management's Use of Estimates and Assumptions:

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Investments:

Investments are in a mutual fund, investing in intermediate-term, investment-grade corporate bonds, and money market funds. Investments are carried at fair market value using quoted market prices in active markets. Realized gains are determined using the average cost method. Mutual funds and money market accounts are not insured by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of the investment at \$1 per share, it is possible for the value to fall below \$1 per share.

Property, Equipment and Depreciation:

Property and equipment are stated at cost. Significant additions are capitalized, while expenditures for maintenance and repairs are expensed as incurred. The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation accounts are relieved, and any gain or loss is included in the Statements of Support, Revenues and Expenses - Modified Cash Basis.

Concentrations of Credit Risk:

The Organization maintains its cash accounts in a commercial bank located in New Jersey. Accounts at this institution are insured up to \$250,000 for interest-bearing accounts by the Federal Deposit Insurance Corporation. Insurance is unlimited for non-interest bearing accounts. The uninsured balance of cash as of December 31, 2010 and 2009 was approximately \$37,000 and \$371,000, respectively.

Contributed Services and Goods:

The Organization receives a substantial amount of donated services and goods in carrying out its ministry. The Organization also receives the free use of office space from Nassau Presbyterian Church. No amounts have been reflected in these financial statements for those services and donated goods.

PRINCETON OUTREACH PROJECTS, INC.

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONT'D)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 1. Summary of Significant Accounting Policies (Cont'd)

Income Taxes:

The Organization is a non-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization is subject to routine audits by taxing jurisdictions. There are currently no such audits for any tax periods in progress. The Organization believes it is not longer subject to income tax examination for years prior to 2008.

The Organization's policy is to classify income tax related interest and penalties in interest expense and miscellaneous operating costs, respectively.

Date of Management Evaluation of Subsequent Events:

Management has evaluated subsequent events through August 23, 2011, the date on which the financial statements were available to be issued.

Note 2. Investments

Investments as of December 31, 2010 and 2009 are summarized as follows:

Crisis Ministry of Princeton and Trenton - unrestricted:

<u>December 31, 2010</u>	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized gain</u>
Vanguard Intermediate Term Investment - Grade Fund Admiral Shares.....	\$ 493,950	\$ 494,441	\$ 491
Vanguard Prime Money Market Fund.....	150,157	150,157	-
Vanguard Admiral Treasury Money Market Fund.....	<u>689,105</u>	<u>689,105</u>	<u>-</u>
Total.....	<u>\$1,333,212</u>	<u>\$1,333,703</u>	<u>\$ 491</u>

PRINCETON OUTREACH PROJECTS, INC.

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONT'D)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 2. Investments (Cont'd)

<u>December 31, 2009</u>	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized loss</u>
Vanguard Intermediate Term Investment - Grade Fund Admiral Shares.....	\$ 459,829	\$ 446,648	\$ (13,181)
Vanguard Prime Money Market Fund.....	150,064	150,064	-
Vanguard Admiral Treasury Money Market Fund.....	<u>689,026</u>	<u>689,026</u>	<u>-</u>
Total.....	<u>\$1,298,919</u>	<u>\$1,285,738</u>	<u>\$ (13,181)</u>

The fair value of investments is based on quoted market prices available on an active market.

Note 3. Property and Equipment

The following is a summary of property and equipment:

	<u>Estimated useful lives in years</u>	<u>2010</u>	<u>2009</u>
Furniture.....	7	\$ 2,206	\$ 2,206
Computers and office equipment	3 - 5	100,771	88,884
Leasehold improvements	10 - 40	80,346	61,458
Vehicle	5 - 10	<u>85,527</u>	<u>69,027</u>
		268,850	221,575
Accumulated depreciation		<u>150,735</u>	<u>128,096</u>
		<u>\$118,115</u>	<u>\$ 93,479</u>

Depreciation expense charged to operations was \$22,639 and \$19,452 for the years ended December 31, 2010 and 2009, respectively.

PRINCETON OUTREACH PROJECTS, INC.

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONT'D)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 4. Donor Restricted Contributions

Donor restricted contributions received during the years ended December 31, 2010 and 2009 totaled \$799,526 and \$368,668, respectively. The ending balance in temporarily restricted net assets was approximately \$79,000 and \$32,000 at December 31, 2010 and 2009, respectively. The balance at December 31, 2010 was restricted for specific purposes within the Crisis Ministries.

Note 5. Endowment Investment and Spending Policies

The Organization's endowment consists of contributions that donors designated for the operation of Crisis Ministry's Princeton office. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Subsequent to December 31, 2010, the Organization established an endowment fund with the Princeton Area Community Foundation, an unaffiliated organization, with the \$250,000 contribution received in 2010. After the Fund has been established, the Foundation will have full authority and discretion as to the investment of the assets of the Fund.

The Organization can receive annual payments of up to 5% of the endowment fund's fair value of the prior calendar year-end. The payments can be used for operating expenses of Crisis Ministry.

Endowment net asset composition is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
December 31, 2010 - Balance.....	\$ -	\$ -	\$250,000	\$250,000
December 31, 2009 - Balance.....	\$ -	\$ -	\$ -	\$ -

PRINCETON OUTREACH PROJECTS, INC.

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONT'D)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 5. Endowment Investment and Spending Policies (Cont'd)

Changes in endowment net assets are as follows:

Year ended December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	250,000	250,000
Appropriated for expenditures.....	-	-	-	-
Investment income.....	-	-	-	-
Unrealized gain (loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$250,000</u>	<u>\$250,000</u>

Note 6. Retirement Plan

The Organization participates in the retirement benefit plan of the Presbyterian Church (U.S.A.). Contributions are 11% of salary for all employees who work more than 20 hours per week, except for the Executive Director of Crisis Ministry. The Executive Director of Crisis Ministry participants in the benefits plan of the Episcopal Church. Contributions are 19% of salary. During the years ended December 31, 2010 and 2009, expenses to the Organization under these arrangements were \$40,135 and \$46,889, respectively.

PRINCETON OUTREACH PROJECTS, INC.

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONT'D)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 7. Operating Lease Agreements and Commitments

As of January 1, 2009, the Crisis Ministry of Princeton and Trenton entered into a five-year operating lease for its Trenton food pantry and office facility. At the end of twenty-four months, either party to the lease may terminate the agreement with twelve months written notice.

Minimum future rental payments under non-cancellable operating leases having a remaining terms in excess of one year as of December 31, 2010 for each of the next five years and in the aggregate are:

<u>Year ended December 31,</u>	<u>Amount</u>
2011	\$ 64,200
2012	66,768
2013	69,432
2014	-
2015	<u>-</u>
Total minimum future rental payments	<u>\$200,400</u>

Rental expense under all operating leases aggregated \$79,650 and \$72,100 for the years ending December 31, 2010 and 2009, respectively.

Note 8. Functional Allocation of Expenses

Approximately 87% of the Organization's expenses relate to core program services, 10% to supporting services, and 3% to fundraising.

Note 9. Related Party Transactions

The Organization is sponsored by Nassau Presbyterian Church and Trinity Episcopal Church of Princeton. The Organization receives a substantial part of its support from these two churches, and their members.

PRINCETON OUTREACH PROJECTS, INC.

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONT'D)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 10. Financial Statement Presentation

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation. Such reclassifications have increased previously reported net assets by \$2,800.

Note 11. Subsequent Event

Effective January 1, 2011, Housing Initiatives of Princeton (HIP) is operating as a separate entity and is no longer a program within Princeton Outreach Projects, Inc. Effective August 1, 2011, Trenton Children's Chorus (TCC) has incorporated and will also operate as an independent New Jersey non-profit. In 2011, the Trenton After School Program (TASP) transitioned one of its location to another non-profit organization. A second location was closed and the program is in the process of winding down its operations.

PRINCETON OUTREACH PROJECTS, INC.

SCHEDULES OF ASSETS, LIABILITIES, AND NET ASSETS BY PROGRAM - MODIFIED CASH BASIS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>Crisis Ministry</u>	<u>Trenton After School Program</u>	<u>Trenton Children's Chorus</u>	<u>Housing Initiative Program</u>	<u>Joint Administration</u>	<u>2010 Total</u>	<u>2009 Total</u>
ASSETS							
Cash.....	\$ 700,771	\$ 57,983	\$ 186,103	\$ 140,550	\$ 15,009	\$ 1,100,416	\$ 652,947
Security Deposits.....	3,500	-	-	-	-	3,500	3,500
Investments.....	1,333,703	-	-	-	-	1,333,703	1,285,738
Property and Equipment.....	206,516	48,926	11,202	2,206	-	268,850	221,575
Accumulated Depreciation.....	(96,066)	(44,926)	(9,060)	(683)	-	(150,735)	(128,096)
Credits for Food Purchases.....	1,940	-	-	-	-	1,940	1,819
TOTAL ASSETS.....	<u>\$ 2,150,364</u>	<u>\$ 61,983</u>	<u>\$ 188,245</u>	<u>\$ 142,073</u>	<u>\$ 15,009</u>	<u>\$ 2,557,674</u>	<u>\$ 2,037,483</u>
 LIABILITIES AND NET ASSETS							
Liabilities.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Assets.....	<u>2,150,364</u>	<u>61,983</u>	<u>188,245</u>	<u>142,073</u>	<u>15,009</u>	<u>2,557,674</u>	<u>2,037,483</u>
TOTAL LIABILITIES AND AND NET ASSETS.....	<u>\$ 2,150,364</u>	<u>\$ 61,983</u>	<u>\$ 188,245</u>	<u>\$ 142,073</u>	<u>\$ 15,009</u>	<u>\$ 2,557,674</u>	<u>\$ 2,037,483</u>

See independent auditors' report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Princeton Outreach Projects, Inc.
Trenton, New Jersey

We have audited the financial statements of PRINCETON OUTREACH PROJECTS, INC. as of and for the year ended December 31, 2010, and have issued our report thereon dated August 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Princeton Outreach Projects, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Princeton Outreach Projects, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the Schedule of Findings and Responses to be a material weakness (Finding 2010-1).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency (Finding 2010-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Princeton Outreach Projects, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Princeton Outreach Projects, Inc. in a separate letter dated August 23, 2011.

Princeton Outreach Projects, Inc.'s responses to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Princeton Outreach Projects, Inc.'s responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of directors, management, others within the entity and other awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Klatzkin & Company, LLP

KLATZKIN & COMPANY_{LLP}

Hamilton, New Jersey
August 23, 2011

PRINCETON OUTREACH PROJECTS, INC.

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED DECEMBER 31, 2010

2010-1 Material Weakness in Internal Control Over Financial Reporting

Condition: As with most organizations of its size, the Organization does not have the internal capability of preparing financial statements and disclosures in accordance with the modified cash basis of accounting. Under current auditing standards, we must therefore inform you that this is a material weakness in your internal control.

Criteria: The definition of a material weakness in internal control includes consideration of the year-end financial reporting process. To avoid the auditor reporting a material weakness in internal control, your system of controls would need to present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries as a result of the audit process. In addition, the Organization would have to be capable of preparing a complete set of year-end financial statements for the auditor to test. To accomplish such a high level of internal control over financial reporting is a difficult task for most non-profit organizations.

Effect: The Organization relies on the auditor to prepare financial statements and disclosures in accordance with the modified cash basis of accounting. The auditor cannot be a part of an Organization's internal control.

Cause: To accomplish such a high level of internal control over financial reporting is a difficult task for most nonprofit organizations. The Organization, as with most nonprofits of its size, operates with only enough staff to process monthly transactions and reports, and rely on the auditor to prepare certain year-end entries and annual financial statements. The Organization does not have the funds available to have an accounting professional on staff or hire a consultant to handle these tasks.

Recommendation: In order to eliminate this from being reported as a material weakness, the Organization would have to meet the criteria explained above. To meet this criteria, a certified public accountant or accountant with significant experience preparing nonprofit financial statements would have to be hired as an employee or independent contractor. We understand fully that this may not be feasible given current budget constraints.

Management's Response: Due to the Organization's size and budget constraints the cost benefit would not make it worthwhile to hire an accountant to perform these services.

PRINCETON OUTREACH PROJECTS, INC.

SCHEDULE OF FINDINGS AND RESPONSES (CONT'D)

FOR THE YEAR ENDED DECEMBER 31, 2010

2010-2 Significant Deficiency in Internal Control Over Financial Reporting

Condition: During our testing of the cash disbursement process, we noted the following:

- Many disbursements tested were supported by vendor invoices that were not approved by a responsible person. This does not apply to the Crisis Ministry program.
- Each program has its own policy for the cash disbursement function. There is no centralized disbursement function or consistent set of procedures followed by all programs.

Criteria: The Organization's internal controls should include procedures to ensure that payment is not made without adequate support.

Effect: The lack of centralized procedures regarding cash disbursements increases the likelihood that an improper disbursement would not be detected.

Cause: The procedures for the Organization's programs are not centralized or consistent in regard to authorization of disbursements.

Recommendation: We recommend that all programs adopt procedures similar to the Crisis Ministry for cash disbursements. Furthermore, periodic internal inspections should be performed by a centralized department to ensure that the procedures are being followed properly.

Management's Response: Subsequent to December 31, 2010, the Organization has started the process of separating each program as independent organizations. Centralized accounting will be irrelevant. Also, Crisis Ministry will be the remaining program under Princeton Outreach Projects, Inc. Their cash disbursements policy currently includes adequate support and authorization. They will strive to continue to follow these procedures in the future.