

**DISMAS, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2020 AND 2019**

**DISMAS, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2020 AND 2019**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Dismas, Inc.

We have audited the accompanying financial statements of Dismas, Inc., which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dismas, Inc., as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Edmondson, Betyer & Deme, PLLC

September 9, 2020

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

ASSETS

	2020	2019
CURRENT ASSETS		
Cash	\$ 394,856	\$ 596,301
Restricted cash	<u>-</u>	<u>200,000</u>
Total cash and cash equivalents	394,856	796,301
Pledges receivable, net allowance of \$ 4,271 in 2020 and 2019	28,649	38,721
Prepaid expenses	<u>734</u>	<u>15,500</u>
Total current assets	424,239	850,522
PROPERTY AND EQUIPMENT, net	<u>10,561,961</u>	<u>4,098,905</u>
TOTAL ASSETS	<u><u>\$ 10,986,200</u></u>	<u><u>\$ 4,949,427</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 59,280	\$ 271,349
Accrued liabilities	78,208	40,046
Current portion of long-term debt	132,972	2,454
Line of credit	<u>-</u>	<u>145,500</u>
Total current liabilities	270,460	459,349
Long-term debt	<u>5,160,403</u>	<u>1,103,631</u>
Total liabilities	<u>5,430,863</u>	<u>1,562,980</u>
NET ASSETS		
Without donor restrictions	5,555,337	3,186,447
With donor restrictions	<u>-</u>	<u>200,000</u>
Total net assets	<u>5,555,337</u>	<u>3,386,447</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 10,986,200</u></u>	<u><u>\$ 4,949,427</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:						
Contributions and grants	\$ 3,125,813	\$ -	\$ 3,125,813	\$ 1,037,393	\$ 200,000	\$ 1,237,393
Fundraising events	199,268	-	199,268	266,634	-	266,634
State grants	125,394	-	125,394	103,500	-	103,500
In-kind revenue	22,200	-	22,200	-	-	-
Program service fees	12,902	-	12,902	48,972	-	48,972
Miscellaneous income	274	-	274	411	-	411
Net assets released from restrictions	200,000	(200,000)	-	242,427	(242,427)	-
Total revenues and other support	3,685,851	(200,000)	3,485,851	1,699,337	(42,427)	1,656,910
Expenses:						
Program services	823,265	-	823,265	572,528	-	572,528
Management and general	305,811	-	305,811	86,553	-	86,553
Fundraising	187,885	-	187,885	156,832	-	156,832
Total expenses	1,316,961	-	1,316,961	815,913	-	815,913
Increase (decrease) in net assets	2,368,890	(200,000)	2,168,890	883,424	(42,427)	840,997
NET ASSETS, BEGINNING OF THE YEAR	3,186,447	200,000	3,386,447	2,303,023	242,427	2,545,450
NET ASSETS, END OF THE YEAR	\$ 5,555,337	\$ -	\$ 5,555,337	\$ 3,186,447	\$ 200,000	\$ 3,386,447

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2020 AND 2019

	2020				2019			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 388,479	\$ 48,561	\$ 48,561	\$ 485,601	\$ 242,301	\$ 30,288	\$ 30,287	\$ 302,876
Rent	101,493	11,277	-	112,770	123,750	13,750	-	137,500
Professional fees	36,205	67,717	4,004	107,926	64,579	5,227	5,227	75,033
Interest expense	-	99,404	-	99,404	1,791	199	-	1,990
Residential support	80,740	-	-	80,740	34,274	-	-	34,274
Depreciation	59,259	6,584	-	65,843	1,237	137	-	1,374
Advertising	-	-	58,545	58,545	-	-	24,776	24,776
Insurance	37,961	20,441	-	58,402	9,836	5,300	-	15,136
Fundraising costs	-	-	50,810	50,810	-	-	86,957	86,957
Utilities	31,490	3,499	-	34,989	9,449	1,050	-	10,499
Payroll taxes	27,232	3,404	3,404	34,040	16,573	2,072	2,071	20,716
Office expense	7,376	17,212	-	24,588	1,927	4,496	-	6,423
Staff training	16,740	5,580	-	22,320	3,901	1,300	-	5,201
Meetings	1,856	1,856	14,844	18,556	27,311	3,414	3,414	34,139
Maintenance	12,331	1,542	1,542	15,415	9,284	-	-	9,284
Dues and subscriptions	1,262	5,679	5,679	12,620	830	3,733	3,733	8,296
Telephone and cable	10,251	1,139	-	11,390	6,794	755	-	7,549
Travel	9,969	1,108	-	11,077	6,231	692	-	6,923
Miscellaneous	-	6,710	-	6,710	-	5,000	-	5,000
Credit card processing and bank fees	-	3,974	-	3,974	-	5,048	-	5,048
Postage	621	124	496	1,241	460	92	367	919
Taxes, licenses and fees	-	-	-	-	12,000	4,000	-	16,000
	<u>\$ 823,265</u>	<u>\$ 305,811</u>	<u>\$ 187,885</u>	<u>\$ 1,316,961</u>	<u>\$ 572,528</u>	<u>\$ 86,553</u>	<u>\$ 156,832</u>	<u>\$ 815,913</u>

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 2,168,890	\$ 840,997
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	65,843	1,374
Donated revenue	(22,200)	-
(Increase) decrease in pledges receivable, net	10,072	(4,489)
(Increase) decrease in prepaid expenses	14,766	(2,556)
Increase (decrease) in accounts payable	(212,069)	269,849
Increase (decrease) in accrued liabilities	38,162	(100,456)
	<u>2,063,464</u>	<u>1,004,719</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(6,506,699)</u>	<u>(2,295,318)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(6,506,699)</u>	<u>(2,295,318)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	4,187,290	1,106,085
Proceeds from (payments on) line of credit, net	<u>(145,500)</u>	<u>145,500</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>4,041,790</u>	<u>1,251,585</u>
NET DECREASE IN CASH	(401,445)	(39,014)
CASH, BEGINNING OF THE YEAR	<u>796,301</u>	<u>835,315</u>
CASH, END OF THE YEAR	<u><u>\$ 394,856</u></u>	<u><u>\$ 796,301</u></u>
 <u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u><u>\$ 81,712</u></u>	<u><u>\$ 19,372</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of the Organization's significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are a representation of the Organization's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Activities

Dismas, Inc. (the "Organization") is a re-entry facility that offers a transformational and supportive community for men newly released from prison who face challenges and obstacles as they transition back into society. The Organization's programming is based on four pillars: Basic Needs which covers food, shelter, clothing and transportation; Health and Well-being which cover physical, dental and eye exams, mental health counseling and additional support services, along with wellness classes to improve physical and mental well-being; Life Skills which case managers work with residents on short and long term goals, transition plans and assist with skill development; and Legal Support which residents meet with the Legal Aid Society to address expungements, child support, child custody, and other legal matters and an attorney who specializes in driver's license restoration.

Basis of Accounting

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America using the accrual method of accounting.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents during the year may exceed Federal Deposit Insurance Corporation ("FDIC") limits.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Pledges receivable are stated at the amount the Organization expects to collect from outstanding balances. The Organization provides for estimated uncollectible receivables through bad debt expense and a credit to an allowance based on its assessment of the current status of individual accounts and historical write-off experience. Balances that are still outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable.

Property and Equipment

Property and equipment are reported at cost and include improvements that significantly add to utility or extend useful lives and exceed \$1,000. Costs of maintenance and repairs are charged to expense as incurred. Assets are depreciated using a straight-line basis to allocate cost over their estimated useful lives of 5-7 years for vehicles, furniture and equipment and over 15 - 40 years for buildings and improvements. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except on trade-in) or loss is included in income for the period. A gain on trade-in is applied to reduce the cost of the new acquisition.

Long-Lived Assets

The Organization periodically reviews the values assigned to long-lived assets to determine if any impairments are other than temporary. Management believes that the long-lived assets in the statements of financial position are appropriately valued.

Contributions

All contributions are considered to be without donor restriction unless specifically stated by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. However, if a restriction is fulfilled in the same time period the contribution is received, the Organization reports the support as net assets without donor restriction.

Grants

Grant revenues are recognized when earned. Grants receivable represent the difference between amounts earned and amounts received.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Material and Services

Contributions of donated material that are useable for program services, fundraising, and support of management and general functions are recorded at their estimated fair values in the period received. Contributions of donated services requiring specialized skills and which would typically need to be purchased if not donated, are recorded at their estimated fair values in the period received.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. As of June 30, 2020, the Organization has no donated property or equipment which is restricted.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and files an IRS Form 990. Accordingly, no provision for income taxes is included in the accompanying financial statements.

The Organization has adopted ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, including the position that the Organization continues to qualify to be treated as a tax-exempt entity for both federal and state income tax purposes. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the year ended June 30, 2020, the Organization has no material uncertain tax positions to be accounted for in the financial statements under these rules. The Organization has exempt organization tax filings open to Internal Revenue Service audit, generally, for three years after they are filed.

Advertising Costs

The Organization expenses all advertising costs as incurred. Total advertising expense amounted to \$58,545 and \$24,776 in 2020 and 2019, respectively.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include salaries and benefits, payroll taxes, meetings and professional fees, which are allocated on the basis of estimates of time and effort, and rent, maintenance, depreciation, insurance and utilities are allocated on the basis of estimated square footage utilized by each program service and by supporting services. All other expenses are directly assigned to their related program.

Events Occurring After Reporting Date

The Organization evaluated events and transactions that occurred after June 30, 2020, through the date of the issued financial statements. During the period there were no material recognizable subsequent events that required recognition in the disclosures to the June 30, 2020 financial statements.

NOTE 2 - CONCENTRATION OF CREDIT RISK AND REVENUE SOURCES

The Organization maintains cash balances in banks insured by the Federal Deposit Insurance Corporation up to \$250,000. In the normal course of business, the Organization may have deposits that exceed the insured balance. At June 30, 2020, the Organization had \$158,018 that was uninsured by the Federal Deposit Insurance Corporation.

Contributions from one organization comprised approximately 75% of total revenue for the year ended June 30, 2020. Contributions from two organizations comprised approximately 50% of total revenue for the year ended June 30, 2019.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2020	2019
Land	\$ 1,257,862	\$ 1,257,862
Buildings	8,720,402	-
Furniture and equipment	650,147	33,160
Vehicles	32,552	-
Construction in process	-	2,841,043
	<u>10,660,963</u>	<u>4,132,065</u>
Less accumulated depreciation	(99,002)	(33,160)
Net property and equipment	<u>\$ 10,561,961</u>	<u>\$ 4,098,905</u>

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 3 - PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation expense was \$65,843 and \$1,374 for the years ended June 30, 2020 and 2019, respectively.

NOTE 4 - LINE OF CREDIT

The Organization had a \$200,000 line of credit secured by the reserve cash account of the Organization that has a variable interest rate that equals the prime rate plus .50%. The line of credit was closed as of May 27, 2020. The outstanding balance was \$145,500 at June 30, 2019.

NOTE 5 - LONG-TERM DEBT

The Organization opened a construction loan in November 2018 for \$5,000,000 to help finance construction of a new facility. The construction loan is collateralized by the Organization's land and facilities. The loan accrues interest at a fixed rate of 5.79%. The Organization will make interest only payments until October 2020. Beginning in October 2020, the Organization will make principal and interest payments in monthly installments of \$35,218 through April 2023 with a final balloon payment due in May 2023. The Organization reached a standstill agreement with the bank due to the stress on the economy due to COVID-19 pandemic. The bank deferred interest for a standstill period of March 27, 2020 to May 27, 2020 with the balance accrued due on the loan at maturity. The outstanding balance was \$5,072,575 and \$1,106,085 at June 30, 2020 and 2019, respectively.

The Organization opened a loan with the Small Business Administration for \$150,000 to help finance construction of a new facility. The loan is collateralized by all assets of the Organization. The loan accrues interest at a fixed rate of 2.75%. The Organization will begin making principal and interest payments in monthly installments of \$641 in June 2021 with the final payment due in May 2050. The outstanding balance was \$149,900 at June 30, 2020.

The Organization has an unsecured note payable with First Horizon bank dated April 22, 2020 due in monthly installments of \$3,990, including interest at a fixed rate of 1.00%. Payments are scheduled to begin on November 22, 2020. The note is due in full on April 22, 2022. The balance of the note payable at June 30, 2020 was \$70,900.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The loan from First Horizon Bank was received under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Organization intends to use the proceeds for purposes consistent with the PPP. While the Department currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, we cannot assure you that we will not take actions that could cause the Department to be ineligible for forgiveness of the loan, in whole or in part.

Maturities of long-term debt is as follows:

Year Ending <u>June 30,</u>	<u>Amount</u>
2021	\$ 132,972
2022	182,482
2023	4,831,619
2024	3,715
2025	3,819
Thereafter	<u>138,768</u>
Total	<u><u>\$ 5,293,375</u></u>

NOTE 6 - BOARD DESIGNATED FUNDS

The Organization's governing board has designated from net assets without donor restrictions funds for the following purposes as of June 30, 2020 and 2019.

	2020	2019
Quasi-endowment	<u>\$ 4,827</u>	<u>\$ 200,951</u>

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30 were restricted for the following purposes:

	2020	2019
Contributions to be used for capacity costs of programs at new facility	\$ <u> -</u>	\$ <u>200,000</u>

NOTE 8 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization has \$423,505 of financial assets available within one year of the statement financial position date consisting of cash of \$394,856, and net pledges receivable of \$28,649. The Organization has a goal to maintain financial assets, which consist of cash on hand, to meet 60 days of normal operating expense, which are, on average, approximately \$175,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Contingencies

The Organization receives a substantial amount of its support and revenues from government agencies. A significant reduction in the level of this support, if this were to occur, may have an effect on the Organization's programs and activities. In addition, the funding received by the Organization from governmental agencies is subject to audit and retroactive adjustment.