**Project Return, Inc.**
**Financial Statements**
**June 30, 2020 and 2019**

**Project Return, Inc.**
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# PART I

# FINANCIAL STATEMENTS

CDPA PC
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report**

To the Board of Directors
Project Return, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Project Return, Inc. ("Agency"), a nonprofit organization, which comprise the statements of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements (collectively, 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 audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

**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, 2020, 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.

Growing business. Adding Value.

**Other Matters**

*June 30, 2019 Financial Statements*

The financial statements of the Agency, as of and for the year ended June 30, 2019, were audited by other auditors, whose report, dated October 31, 2019, expressed an unmodified opinion on those statements.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 audit 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 as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2021 on our consideration of Project Return, 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 effectiveness of Project Return, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Project Return, Inc.'s internal control over financial reporting and compliance.

CDPA, P.C.

Athens, AL
February 11, 2021

**Project Return, Inc.**
**Statements of Financial Position**
**June 30, 2020 and 2019**

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash | $ 1,631,454 | $ 233,987 |
| Receivables | | |
| Contribution | - | 100,000 |
| Financial assistance awards | 214,189 | 212,242 |
| Contractual agreements | 32,645 | 108,393 |
| Prepaid expenses | 6,373 | 6,373 |
| Inventory | - | 8,324 |
| Total current assets | 1,884,661 | 669,319 |
| Property and equipment, net | 1,504,973 | 1,373,473 |
| Total assets | $ 3,389,634 | $ 2,042,792 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities | | |
| Accounts payable | $ 23,825 | $ 4,455 |
| Accrued expenses | 67,580 | 64,788 |
| Other liabilities | 53,047 | 16,637 |
| Line of credit | - | 200,000 |
| Long-term debt, current portion | 291,202 | 5,517 |
| Total current liabilities | 435,654 | 291,397 |
| Long-term debt, net of current portion | 982,356 | 589,254 |
| Total liabilities | 1,418,010 | 880,651 |
| Net assets | | |
| Without donor restrictions | 1,859,561 | 896,786 |
| With donor restrictions | 112,063 | 265,355 |
| Total net assets | 1,971,624 | 1,162,141 |
| Total liabilities and net assets | $ 3,389,634 | $ 2,042,792 |

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

**Project Return, Inc.**
**Statements of Activities and Changes in Net Assets**
**For the Year Ended June 30, 2020 and 2019**

| **Changes in net assets without donor restrictions** | **2020** | **2019** |
|---|---|---|
| Support and revenues | | |
| Public support | | |
| Corporate and foundation grants | $ 626,126 | $ 364,696 |
| Contributions | 138,862 | 147,361 |
| Donated goods | 11,222 | 46,459 |
| Federal and state government | | |
| Financial assistance awards | 1,718,730 | 1,114,973 |
| Contractual agreements | 36,975 | 54,620 |
| State of Tennessee appropriation | 1,408,120 | 832,010 |
| Rental income | 81,887 | 91,448 |
| Contract services | 1,131,379 | 612,410 |
| Miscellaneous | 9,619 | 17,454 |
| Interest income | 1,547 | 1,233 |
| Net assets released from restrictions | 190,134 | 95,058 |
| Total support and revenues | 5,354,601 | 3,377,722 |
| Expenses | | |
| Program services | 3,129,317 | 2,612,876 |
| Management and general | 1,043,965 | 723,061 |
| Fundraising | 218,544 | 311,244 |
| Total expenses | 4,391,826 | 3,647,181 |
| Change in net assets without donor restrictions | 962,775 | (269,459) |
| **Changes in net assets with donor restrictions** | | |
| Contributions | - | 100,000 |
| Corporate and foundation grants | 30,747 | 60,000 |
| Project restriction | 6,095 | 6,320 |
| Net assets released from restrictions | (190,134) | (95,058) |
| Change in net assets with donor restrictions | (153,292) | 71,262 |
| Total change | 809,483 | (198,197) |
| Net assets, beginning of year | 1,162,141 | 1,360,338 |
| Net assets, end of year | $ 1,971,624 | $ 1,162,141 |

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

**Project Return, Inc.**
**Statements of Cash Flows**
**For the Year Ended June 30, 2020 and 2019**

| | 2020 | 2019 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ 809,483 | $ (198,197) |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities | | |
| Depreciation | 98,326 | 80,749 |
| Imputed interest | (31,185) | - |
| Amortization of imputed interest | 25,268 | 23,358 |
| Change in operating assets and liabilities | | |
| Contribution receivable | 100,000 | (100,000) |
| Financial assistance awards receivable | (1,947) | (4,055) |
| Contractual agreements receivable | 75,748 | (96,195) |
| Prepaid expenses | - | 12,230 |
| Inventory | 8,324 | (2,884) |
| Accounts payable | 19,370 | (7,654) |
| Accrued expenses | 2,792 | 22,064 |
| Other liabilities | 36,410 | 9,343 |
| Net cash provided (used) by operating activities | 1,142,589 | (261,241) |
| **Cash flows from investing activities:** | | |
| Payments for property and equipment | (229,826) | (100,419) |
| Net cash used by investing activities | (229,826) | (100,419) |
| **Cash flows from financing activities:** | | |
| Net (payments) borrowings on line of credit | (200,000) | 200,000 |
| Payments on long-term debt | (31,671) | (28,639) |
| Proceeds from long-term debt | 716,375 | - |
| Net cash provided by financing activities | 484,704 | 171,361 |
| Net increase (decrease) in cash | 1,397,467 | (190,299) |
| Cash, beginning of year | 233,987 | 424,286 |
| Cash, end of year | $ 1,631,454 | $ 233,987 |
| Supplemental disclosures of cash flow information | | |
| Cash payments for interest | $ 8,059 | $ 8,965 |

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

**NOTE 1 – 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 federal and state government financial assistance awards and contractual agreements, an appropriation from the State of Tennessee, corporate and foundation grants, and private contributions.

On February 3, 2017, the Agency formed a wholly owned limited liability company, InnoVestments, LLC (IVL), pursuant to the Tennessee Revised Limited Liability Company Act, Tenn. Code Ann. Section 48-249-101. The purpose of IVL is to own and operate real property used in the programs of the Agency. The accounts of IVL are included in this presentation and all intercompany transactions have been eliminated.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Agency and changes therein are classified and reported as follows:

**Net Assets Without Donor Restrictions**

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Agency. These net assets may be used at the discretion of the Agency's management and the Board of Directors.

**Net Assets With Donor Restrictions**

Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Agency or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein and the disclosures of commitments and contingencies. Actual results could differ from those estimates.

**Contributions, Support, and Receivables**

Contributions are received and recorded as with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions received and unconditional promises to give are measured at their estimated fair values and are reported as an increase in net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenues from financial awards are recognized in the period that a liability is incurred for eligible expenditures under the terms of the grant agreements. Financial assistance awards received prior to expenditure are recorded initially as grantor advances.

Contractual agreement revenues are recognized in the period the services are performed.

The Agency uses the allowance method to determine uncollectible receivables related to contributions and support receivables. The allowance is based on prior years' experience and management's analysis of specific promises made. No allowance was deemed necessary as of June 30, 2020 and 2019. All receivables are classified as current as they are expected to be collected within one year.

**Cash**

Cash includes checking and money market deposits held by financial institutions.

**Property and Equipment and Depreciation**

It is the Agency's policy to capitalize all property and equipment over $1,000. Acquisitions are recorded at cost. Donations of property and equipment are recorded as revenues at their estimated fair value. Such donations are reported as increases to net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. 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 the statements of activities and the statements of functional expenses for the period. A gain on trade-in is applied to reduce the cost of the new acquisition. Depreciation is provided over the estimated useful lives of the assets ranging from five to thirty-nine years and computed on the straight-line method.

**PPP Loan**

On January 30, 2020, the World Health Organization declared the COVID-19 outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. The Agency received a loan in accordance with the Paycheck Protection Program (PPP) section of the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). U.S. GAAP provides companies with several alternatives for reporting the loan and any future forgiveness: 1) proceeds can be treated as debt and future forgiveness recognized as income when the loan or any portion thereof is formally discharged; 2) proceeds can be treated as an income grant where they recognize a deferred income liability and derecognize the liability, and recognize income or reduce expenses, as they incur and recognize qualifying payroll and other operating costs that they estimate with reasonable assurance meet the conditions necessary for forgiveness; 3) proceeds can be treated as a conditional contribution where they recognize a refundable advance and derecognize the liability, and recognize income, as the conditions for forgiveness are substantially met or explicitly waived; or 4) proceeds can be recognized as a liability and derecognize the liability, and recognize income, as all conditions for forgiveness are met. The Agency has elected to treat the PPP loan as debt.

**Inventory**

Inventory consists of apparel and bus passes for use by individuals served by the programs of the Agency. The Agency values these inventory items at the lower of cost (using first-in, first-out method) or net realizable value.

**Donated Goods and Services**

Donated goods are recorded at fair value in the period the goods are received. Donated services are recognized if they create or enhance non-financial assets or the donated service requires specialized skills, was performed by the donor who possesses such skills, and would have been purchased by the Agency if not provided by the donor. Such services are recognized at fair value as support and expense in the period in which the services are performed.

**Advertising**

All advertising costs are expensed when incurred.

**Functional Allocation of Expenses**

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

Program services consist of an adult program, which provides direct referrals to employment services, educates the public regarding criminal justice issues, and supports successful transitions back into the community through life skills training.

Management and general includes the functions necessary to ensure an adequate working environment. These costs are not identifiable with a particular program or with fundraising but are indispensable to the conduct of those activities and are essential to the Agency. Specific activities include oversight, business management, budgeting, recordkeeping, financing, and other administrative activities.

Fundraising includes costs of activities directed toward appeals for financial support including special events. Other activities include the cost of solicitation, creation, and distribution of fundraising materials.

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 non-financial data or subjective methods determined by management.

**Income Taxes**

The Agency is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the tax laws of the state of Tennessee.

U.S. GAAP requires the Agency to evaluate tax positions taken by the Agency and recognize a tax liability (or asset) if the Agency has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Agency and has concluded that, as of June 30, 2020, no uncertain positions are taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Agency is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Agency is no longer subject to U.S. federal income tax examinations by tax authorities for years ended prior to June 30, 2017.

## NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following represents the Agency's financial assets at June 30:

| | 2020 | 2019 |
|---|---|---|
| Financial assets: | | |
| Cash | $ 1,631,454 | $ 233,987 |
| Contribution receivable | - | 100,000 |
| Federal and state government receivables | 246,834 | 320,635 |
| Total financial assets at year-end | 1,878,288 | 654,622 |
| Less amounts not available to be used within one year: | | |
| Net assets with donor restrictions | 112,063 | 265,355 |
| Amounts restricted for use in next year | (30,747) | (160,000) |
| | 81,316 | 105,355 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 1,796,972 | $ 549,267 |

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

| | 2020 | 2019 |
|---|---|---|
| Furniture and equipment | $ 76,572 | $ 76,572 |
| Vehicles | 261,095 | 216,269 |
| Buildings | 1,248,176 | 1,063,176 |
| Land | 225,443 | 225,443 |
| | 1,811,286 | 1,581,460 |
| Less accumulated depreciation | (306,313) | (207,987) |
| | $ 1,504,973 | $ 1,373,473 |

Depreciation expense was $98,326 and $80,749 for 2020 and 2019, respectively.

**NOTE 5 – LINE OF CREDIT**

The Agency has a $250,000 line of credit with a financial institution that was originated in July 2019 and matures in July 2020. Borrowings under the line bear interest at the financial institution's prime rate plus 1.25% (6.75% at June 30, 2020). Borrowings are secured by the assets of the Agency. There were no outstanding borrowings as of June 30, 2020.

**NOTE 6 – LONG TERM DEBT**

The Agency's long-term debt consists of the following at June 30:

| | 2020 | 2019 |
|---|---|---|
| Note payable to CapStar Bank, monthly fixed principal payments of $636 plus accrued interest, variable interest rate of prime less 4.0% (1.5% at June 30, 2020), all unpaid principal and interest due March 2022, collateralized by real estate. This note has been recorded net of unamortized discount of $7,105 imputed at the rate of 4%. | $ 159,065 | $ 160,308 |
| Note payable to CapStar Bank, monthly installment payments of $542, variable interest rate of prime less 4.0% (1.5% at June 30, 2020), all unpaid principal and interest due September 2022, collateralized by real estate. This note has been recorded net of unamortized discount of $14,052 imputed at the rate of 4.5%. | 128,369 | 129,199 |
| Note payable to CapStar Bank, monthly fixed principal payments of $950 plus accrued interest, variable interest rate of prime less 4.0% (1.5% at June 30, 2020), all unpaid principal and interest due November 2022, collateralized by real estate. This note has been recorded net of unamortized discount of $24,900 imputed at the rate of 4.5%. | 230,650 | 231,646 |

| | 2020 | 2019 |
|---|---|---|
| Note payable to Pinnacle Bank, monthly installment payments of $486, variable interest rate of prime less 4.0% (1.5% at June 30, 2020), all unpaid principal and interest due February 2038, collateralized by real estate. This note has been recorded net of unamortized discount of $28,140 imputed at the rate of 4.5%. | 70,725 | 73,618 |
| Note payable to Pinnacle Bank, monthly installment payments of $330, variable interest rate of prime less 4.75% (1.5% at June 30, 2020), all unpaid principal and interest due February 2035, collateralized by real estate. This note has been recorded net of unamortized discount of $30,748 imputed at the rate of 4%. | 74,574 | - |
| Note payable to Pinnacle Bank in accordance with the PPP section of the CARES Act, monthly installment payments of $36,344, beginning November 21, 2020, bearing interest at a rate of 1%, unsecured. This note matures on March 21, 2022. | 610,175 | - |
| | 1,273,558 | 594,771 |
| Less current portion | (291,202) | (5,517) |
| | $ 982,356 | $ 589,254 |

The following table represents future maturities of long-term debt:

| Year ending June 30, | |
|---|---|
| 2021 | $ 291,202 |
| 2022 | 489,219 |
| 2023 | 359,410 |
| 2024 | 4,205 |
| 2025 | 6,228 |
| Thereafter | 123,294 |
| | $ 1,273,558 |

Under the PPP loan program, the Agency may be eligible for forgiveness of some portion of the loan up to 100%, if and when qualifying conditions are met. Accounting for the loan and any future forgiveness could have an impact on future financial reporting. As of the report date, management is actively monitoring qualifying conditions to maximize future loan forgiveness and has expended 74% on potential qualifying costs as defined by the legislation. The Agency has elected to treat the PPP loan as debt and presented it in notes payable in the financial statements. Accrued expenses include $1,304 for interest due on the note through fiscal year-end.

**NOTE 7 – NET ASSETS**

The net assets with donor restrictions from corporate and foundation grants at June 30, 2020 are attributable to grants from various donors for specific program services or event sponsorships totaling $105,968. Net assets with donor restrictions from project restrictions are the result of the Agency holding and disbursing funds on behalf of another charitable organization totaling $6,095.

The net assets with donor restrictions from corporate and foundation grants at June 30, 2019 are attributable to grants from various donors for specific program services or event sponsorships totaling $259,035. Net assets with donor restrictions from project restrictions are the result of the Agency holding and disbursing funds on behalf of another charitable organization totaling $6,320.

**NOTE 8 – DONATED GOODS AND SERVICES**

In-kind contributions of food and supplies totaling $11,222 and $46,459 have been included in changes in net assets without donor restrictions in the financial statements for the years ended June 30, 2020 and 2019, respectively.

**NOTE 9 – CONCENTRATIONS**

Financial assistance awards, contractual agreements, and appropriations comprised 62% and 61% of the Agency's total support and revenues for the years ended June 30, 2020 and 2019, respectively. Contract services accounted for 22% and 18% of total support and revenues for the years ended June 30, 2020 and 2019, respectively.

Financial instruments that potentially subject the Agency to concentrations of credit risk include cash on deposit with financial institutions and receivables from financial assistance awards, contractual agreements, and support received from these agencies. Substantially all receivables for the years ended June 30, 2020 and 2019 were from these sources.

The Agency's cash on deposit with financial institutions may at times exceed the federally insured limit of $250,000. The Agency had cash on deposit in excess of the federally insured limit totaling approximately $1,023,000 at June 30, 2020. The Agency had no cash on deposit in excess of the federally insured limit at June 30, 2019.

**NOTE 10 – LEASING ARRANGEMENTS**

The Agency has operating leases for office space and certain office equipment. Future estimated minimum lease payments required under these leases are as follows:

| Year ending June 30, | | |
|---|---|---|
| 2021 | $ | 55,260 |
| 2022 | | 777 |
| | $ | 56,037 |

Rental expense for office space and office equipment was $119,976 and $123,209 for the years ended June 30, 2020 and 2019, respectively.

The Agency leases property to individuals served by their programs. These leases act as an affordable housing alternative for the individuals and contain various monthly payments and maturities. Rental income under these leases was $81,887 and $91,448 for the years ending June 30, 2020 and 2019, respectively.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

The Agency has received various government grants for specific purposes that are subject to review and audit by grantor agencies. Although such audits could result in disallowance of expenditures, management believes that any required reimbursements would not be significant. Accordingly, no provision has been made for any potential reimbursements to grantors.

**NOTE 12 – SUBSEQUENT EVENTS**

The ongoing COVID-19 pandemic has caused an economic downturn on a global scale, disrupted global supply chains, and created significant uncertainty, volatility, and disruption across economies and financial markets. The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Agency and its financial results will depend on future developments, including the duration and spread of the outbreak within the markets in which the Agency operates and the related impact on consumer confidence and spending, all of which are highly uncertain.

In preparing these financial statements, the Agency has evaluated events and transactions for potential recognition and disclosure through the date of the auditors' report, which was the date the financial statements were available to be issued.

**NOTE 13 – NEW ACCOUNTING PRONOUNCEMENTS**

*Adopted*

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. This ASU intends to make certain improvements to the current reporting requirements for not-for-profit entities. This standard sets forth changes to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The Agency adopted ASU 2016-14 in its financial statements effective June 30, 2019, applying retrospectively to all periods presented. The impact of adoption changes the classification of net assets on the consolidated balance sheets and statements of activities and changes in net assets from three classes of net assets to two classes of net assets. The Agency also added disclosure for the liquidity and availability of financial assets at the balance sheet date to meet cash needs for general expenditures within one year and disaggregated functional expense classifications by their natural expense classification. The impact of adopting ASU 2016-14 had no impact to total unrestricted revenues, excess of revenues over expenses or total net assets.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU intends to clarify and improve current accounting guidance to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional.

*Not Yet Adopted*

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for fair value measurements. The ASU is effective for the Agency for annual and interim reporting periods beginning after December 15, 2019 with early adoption permitted. The Agency is currently assessing the impact that ASU 2018-13 will have on its financial statements and will adopt the provisions upon the effective date.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This accounting guidance will increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard is effective for non-public entities for fiscal years beginning after December 15, 2022. The Agency is currently evaluating the effect that implementation of the new standard will have on its financial statements.

**NOTE 14 – FUNCTIONAL EXPENSES**

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are compensation and benefits, which are allocated on the basis of estimates of time and effort; occupancy costs and depreciation, which are allocated on a square footage basis; and supplies and telephone costs, which are allocated based on usage estimates. For 2020 and 2019, natural expense accounts were allocated as follows:

## Functional Expenses as of June 30, 2020

| | | Supporting Services | | |
|---|---|---|---|---|
| | Program Services | Management and General | Fundraising | Total |
| Compensation and related costs | | | | |
| Salaries and contract labor | $ 1,843,499 | $ 550,450 | $ 125,618 | $ 2,519,567 |
| Employee benefits | 236,971 | 88,682 | 15,010 | 340,663 |
| Payroll taxes | 152,049 | 43,201 | 9,690 | 204,940 |
| | 2,232,519 | 682,333 | 150,318 | 3,065,170 |
| Advertising | 1,456 | 852 | 5,587 | 7,895 |
| Aid to clients | 407,066 | 1,895 | 60 | 409,021 |
| Building maintenance | 37,689 | 39,178 | - | 76,867 |
| Dues and memberships | 12 | 4,607 | 1,405 | 6,024 |
| Equipment rental and maintenance | 28,720 | 17,149 | - | 45,869 |
| Fundraising | - | - | 30,454 | 30,454 |
| Insurance | 35,163 | 11,372 | 1,976 | 48,511 |
| Interest | 30,646 | 1,979 | - | 32,625 |
| Meetings | 1,232 | 4,509 | 845 | 6,586 |
| Office supplies | 7,739 | 67,138 | 386 | 75,263 |
| Postage | - | 4,004 | 242 | 4,246 |
| Printing | 4,011 | 9,886 | 4,444 | 18,341 |
| Professional fees | 64,906 | 126,012 | 4,170 | 195,088 |
| Program supplies | 35,037 | 45 | - | 35,082 |
| Rent | 75,223 | 34,360 | 8,448 | 118,031 |
| Staff development | 1,805 | 5,563 | 60 | 7,428 |
| Telecommunications | 18,895 | 2,163 | 529 | 21,587 |
| Travel | 39,993 | 7,469 | 2,412 | 49,874 |
| Taxes and fees | 14,568 | 1,176 | - | 15,744 |
| Utilities | 15,943 | 6,543 | 1,308 | 23,794 |
| Total expenses | 3,052,623 | 1,028,233 | 212,644 | 4,293,500 |
| Depreciation | 76,694 | 15,732 | 5,900 | 98,326 |
| Total functional expenses | $ 3,129,317 | $ 1,043,965 | $ 218,544 | $ 4,391,826 |

## Functional Expenses as of June 30, 2019

| | Program Services | Supporting Services: Management and General | Supporting Services: Fundraising | Total |
|---|---|---|---|---|
| Compensation and related costs | | | | |
| Salaries and contract labor | $ 1,408,657 | $ 311,404 | $ 170,881 | $ 1,890,942 |
| Employee benefits | 227,884 | 54,180 | 19,821 | 301,885 |
| Payroll taxes | 114,909 | 24,371 | 13,123 | 152,403 |
| | 1,751,450 | 389,955 | 203,825 | 2,345,230 |
| Advertising | 811 | - | 13,134 | 13,945 |
| Aid to clients | 399,866 | 116 | - | 399,982 |
| Building maintenance | 29,638 | 27,728 | - | 57,366 |
| Dues and memberships | 2,254 | 2,327 | 1,583 | 6,164 |
| Equipment rental and maintenance | 9,629 | 6,750 | - | 16,379 |
| Fundraising | - | 588 | 51,042 | 51,630 |
| Insurance | 17,450 | 39,534 | 1,863 | 58,847 |
| Interest | 32,323 | - | - | 32,323 |
| Meetings | 1,707 | 1,491 | 4,643 | 7,841 |
| Miscellaneous | 3,764 | 1,941 | 911 | 6,616 |
| Office supplies | 11,156 | 31,298 | 2,196 | 44,650 |
| Postage | - | 6,017 | 1,813 | 7,830 |
| Printing | 4,543 | 5,682 | 9,296 | 19,521 |
| Professional fees | 100,393 | 149,943 | 2,232 | 252,568 |
| Program supplies | 13,058 | 327 | - | 13,385 |
| Rent | 91,366 | 21,740 | 8,159 | 121,265 |
| Staff development | 2,431 | 9,878 | 472 | 12,781 |
| Telecommunications | 10,185 | 1,873 | 653 | 12,711 |
| Travel | 41,754 | 9,980 | 3,317 | 55,051 |
| Taxes and fees | 9,923 | 564 | 20 | 10,507 |
| Utilities | 16,042 | 2,722 | 1,076 | 19,840 |
| Total expenses | 2,549,743 | 710,454 | 306,235 | 3,566,432 |
| Depreciation | 63,133 | 12,607 | 5,009 | 80,749 |
| Total functional expenses | $ 2,612,876 | $ 723,061 | $ 311,244 | $ 3,647,181 |

# PART II

# REPORTS ON COMPLIANCE AND INTERNAL CONTROL

**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
Project Return, Inc.

We have audited, in accordance with the 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, the financial statements of Project Return, Inc., a nonprofit organization, which comprise the statements of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 11, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Project Return, Inc.'s internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Project Return, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Project Return, Inc.'s internal control.

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 a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Project Return, Inc.'s financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CDPA, P.C.

Athens, AL
February 11, 2021

# Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Project Return, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Project Return, Inc. compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Project Return, Inc.'s major federal programs for the year ended June 30, 2020. Project Return, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Project Return, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Project Return, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Project Return, Inc.'s compliance.

***Opinion on Each Major Federal Program***

In our opinion, Project Return, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Growing business. Adding Value

**Report on Internal Control Over Compliance**

Management of Project Return, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Project Return, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Project Return, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CDPA, P.C.

Athens, AL
February 11, 2021

# PART III

# SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

**Project Return, Inc.**
**Schedule of Expenditures of Federal Awards**
**June 30, 2020**

| Grantor / Pass-Through Grantor | Program Name | CFDA Number | Contract Number | Expenditures |
|---|---|---|---|---|
| **Federal Awards** | | | | |
| Direct Programs | | | | |
| Department of Labor | Reintegration of Ex-Offenders | 17.270 | PE-30789-17-60- A-47 | $ 472,191 |
| Passed Through | | | | |
| Department of Transportation / Tennessee Department of Transportation, Nashville Metropolitan Transit Authority | Job Access Reverse Commute | 20.516 | 40100-14020 | 163,235 |
| Department of Health and Human Services / Tennessee Department of Human Services | Child Support Enforcement | 93.563 | 34513-36320 | 282,701 |
| Tennessee Department of Mental Health and Substance Abuse Services | Opioid STR | 93.788 | 62133 | 36,975 |
| | | | | 319,676 |
| Total Federal Award Expenditures | | | | $ 955,102 |
| **State Financial Assistance** | | | | |
| Tennessee Department of Corrections | Direct Appropriations Grant | N/A | N/A | $ 1,408,120 |
| Regional Transportation Authority of Middle Tennessee | | N/A | N/A | 81,619 |
| Tennessee Housing Development Agency | | N/A | N/A | 77,378 |
| Total State Financial Assistance Expenditures | | | | $ 1,567,117 |
| Total Federal Awards and State Financial Assistance Expenditures | | | | $ 2,522,219 |

See accompanying notes to schedule of expenditures of federal awards.

## NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of the Agency under programs of the federal and state governments for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Agency. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The awards are classified into Type A and Type B categories in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Programs classified as Type A are as follows:

> Reentry Employment Opportunities – Includes awards under grants with agencies and divisions of the Department of Labor.

### Federal CFDA Numbers

Catalog of Federal Domestic Assistance (CFDA) numbers are assigned to contracts and grants on the basis of program type. Pass-through numbers and CFDA numbers are presented where available.

## NOTE 2 – LOANS OUTSTANDING

The Agency has no federal or state loans outstanding as of June 30, 2020.

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For purposes of the Schedule, expenditures for federal award programs are recognized on the accrual basis of accounting. Expenditures for federal awards are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Agency has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

## NOTE 4 – RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

The following schedule is a reconciliation of total federal expenditures as shown on the Schedules to the revenue items shown as contributions and grants and contracts on the Statement of Activities and Changes in Net Assets for the year ended June 30, 2020, which is included in Project Return, Inc.'s basic financial statements.

| | |
|---|---|
| Financial Assistant Awards | $ 1,718,730 |
| Contractual Agreements | 36,975 |
| Non-federal grants and contracts | (800,603) |
| Expenditures per Schedule of Expenditures of Federal Awards | $ 955,102 |

# PART IV

# SCHEDULES OF FINDINGS AND QUESTIONED COSTS

## Section I – Summary of Auditor's Results

### Financial Statements

| | | |
|---|---|---|
| Type of auditor's report issued: | Unmodified | |
| Internal control over financial reporting: | | |
| Material weakness(es) identified? | ____ yes | _x_ no |
| Significant deficiency(ies) identified? | ____ yes | _x_ none reported |
| Noncompliance material to financial statements noted? | ____ yes | _x_ no |

### Federal Awards

| | | |
|---|---|---|
| Internal control over major programs: | | |
| Material weakness(es) identified? | ____ yes | _x_ no |
| Significant deficiency(ies) identified? | ____ yes | _x_ none reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified | |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | ____ yes | _x_ no |

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 17.270 | Department of Labor – Reentry Employment Opportunities |

| | | |
|---|---|---|
| Threshold used to determine Type A and Type B Programs: | $ 750,000 | |
| Auditee qualified as low-risk auditee? | _x_ yes | ___ no |

## Section II – Financial Statement Findings

The audit did not disclose any financial statement findings required to be reported.

## Section III – Federal Award Findings and Questioned Costs

The audit did not disclose any findings or questioned costs required to be reported.

**Project Return, Inc.**
**Schedule of Prior Year Findings and Questioned Costs**

No matters were reported.