

**DISMAS, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2023 AND 2022**

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Edmondson, Betzler & Dame
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Dismas, Inc.

Opinion

We have audited the accompanying financial statements of Dismas, Inc. (the "Organization"), which comprises the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Dismas, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Dismas, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

INDEPENDENT AUDITORS' REPORT, (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Dismas, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Dismas, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Brentwood, Tennessee

Brentwood, Tennessee

September 8, 2023

I do hereby solemnly swear or affirm that the information contained hereon and on the attached pages, if any, is to the best of my knowledge, true, correct and complete.

Your signature Stephen Byrd Date: 9/25/23

STATE OF TN, COUNTY of Rutherford, Given under my hand this 25th day of September, 2023.

Notary Signature, Tracy N. Wilt, Notary Public. My Commission Expires 2/27/2025



DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

ASSETS

	2023	2022
CURRENT ASSETS		
Cash	\$ 84,290	\$ 178,545
Receivables, net allowance of \$1,824 in 2023 and 2022, respectively	156,705	59,460
Prepaid expenses	<u>42,745</u>	<u>19,427</u>
Total current assets	283,740	257,432
PROPERTY AND EQUIPMENT, net	<u>10,236,325</u>	<u>10,586,018</u>
TOTAL ASSETS	<u><u>\$ 10,520,065</u></u>	<u><u>\$ 10,843,450</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 105,065	\$ 25,537
Accrued liabilities	50,208	60,629
Line of credit	80,143	-
Current portion of long-term debt	19,564	4,687,132
Deferred revenue	<u>15,000</u>	<u>-</u>
Total current liabilities	269,980	4,773,298
LONG-TERM DEBT	<u>5,126,788</u>	<u>588,846</u>
Total liabilities	<u>5,396,768</u>	<u>5,362,144</u>
NET ASSETS		
Without donor restrictions	<u>5,123,297</u>	<u>5,481,306</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 10,520,065</u></u>	<u><u>\$ 10,843,450</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Revenues and other support:		
Governmental grants	\$ 1,697,362	\$ 1,026,464
Program service fees	460,361	324,377
Fundraising events	401,459	417,628
Contributions and grants	254,612	327,300
In-kind revenue	105,900	77,890
Miscellaneous income	-	3,426
	<u>2,919,694</u>	<u>2,177,085</u>
Total revenues and other support		
Expenses:		
Program services	2,710,704	1,924,771
Management and general	284,113	208,536
Fundraising	282,886	220,148
	<u>3,277,703</u>	<u>2,353,455</u>
Total expenses		
Decrease in net assets	<u>(358,009)</u>	<u>(176,370)</u>
NET ASSETS, BEGINNING OF THE YEAR	<u>5,481,306</u>	<u>5,657,676</u>
NET ASSETS, END OF THE YEAR	<u><u>\$ 5,123,297</u></u>	<u><u>\$ 5,481,306</u></u>

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2023 AND 2022

	2023			2022				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 1,195,822	\$ 149,478	\$ 149,478	\$ 1,494,778	\$ 817,697	\$ 103,092	\$ 112,559	\$ 1,033,348
Depreciation	333,380	37,042	-	370,422	257,344	28,594	-	285,938
Interest expense	256,341	28,482	-	284,823	204,035	22,670	-	226,705
Residential support	272,883	-	-	272,883	172,707	-	-	172,707
Professional fees	250,070	10,529	2,633	263,232	197,831	8,663	1,555	208,049
Marketing	11,301	-	102,780	114,081	8,799	-	79,189	87,988
Payroll taxes	85,665	10,708	10,708	107,081	57,819	7,227	7,227	72,273
Utilities	68,983	7,665	-	76,648	59,176	6,575	-	65,751
Property tax	56,257	6,250	-	62,507	-	-	-	-
Insurance	55,738	5,060	-	60,798	52,847	5,872	-	58,719
Telephone and cable	44,032	4,892	-	48,924	40,177	4,464	-	44,641
Maintenance	35,500	3,944	-	39,444	25,478	2,831	-	28,309
Dues and subscriptions	2,483	11,174	11,173	24,830	3,366	15,145	15,145	33,656
Bad debt	11,670	2,917	-	14,587	6,486	1,621	-	8,107
Credit card processing and bank fees	6,177	2,745	4,804	13,726	7,572	203	4,111	11,886
Staff training	7,229	1,446	964	9,639	2,011	402	269	2,682
Office expense	7,506	781	83	8,370	8,582	878	76	9,536
Amortization	6,377	709	-	7,086	-	-	-	-
Travel	3,052	264	263	3,579	316	18	17	351
Postage	238	27	-	265	2,528	281	-	2,809
	<u>\$ 2,710,704</u>	<u>\$ 284,113</u>	<u>\$ 282,886</u>	<u>\$ 3,277,703</u>	<u>\$ 1,924,771</u>	<u>\$ 208,536</u>	<u>\$ 220,148</u>	<u>\$ 2,353,455</u>

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (358,009)	\$ (176,370)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	370,422	285,938
Amortization	7,086	-
Increase in receivables, net	(97,245)	(50,858)
Increase in prepaid expenses	(23,318)	(5,614)
Increase in other assets	(60,734)	-
Increase in accounts payable	79,528	14,479
Increase (decrease) in accrued liabilities	(10,421)	6,142
Increase in deferred revenue	15,000	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(77,691)</u>	<u>73,717</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(20,729)</u>	<u>(6,706)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(20,729)</u>	<u>(6,706)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(4,763,442)	(145,948)
Proceeds from long-term debt	4,767,607	350,000
Payments on line of credit, net	<u>-</u>	<u>(150,000)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>4,165</u>	<u>54,052</u>
NET INCREASE (DECREASE) IN CASH	(94,255)	121,063
CASH, BEGINNING OF THE YEAR	<u>178,545</u>	<u>57,482</u>
CASH, END OF THE YEAR	<u><u>\$ 84,290</u></u>	<u><u>\$ 178,545</u></u>
<u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u><u>\$ 301,132</u></u>	<u><u>\$ 210,434</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

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 addiction 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, 2023 AND 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

In previous years, receivables were stated at the amount the Organization expects to collect from outstanding balances. The Organization provided 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 were still outstanding after the Organization had used reasonable collection efforts were written off through a charge to the valuation allowance and a credit to receivables.

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, 2023 AND 2022

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, 2023, 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, 2023, 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.

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.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Organization evaluated events and transactions that occurred after June 30, 2023, 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, 2023 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, 2023, the Organization had no cash balances that were uninsured by the Federal Deposit Insurance Corporation.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2023	2022
Land	\$ 1,257,862	\$ 1,257,862
Buildings	9,248,125	9,248,125
Furniture and equipment	678,769	665,539
Vehicles	67,184	67,184
Improvements	13,266	13,266
Construction in process	<u>7,500</u>	<u>-</u>
	11,272,705	11,251,976
Less accumulated depreciation	<u>(1,036,380)</u>	<u>(665,958)</u>
Net property and equipment	<u><u>\$ 10,236,325</u></u>	<u><u>\$ 10,586,018</u></u>

Depreciation expense was \$370,422 and \$285,938 for the years ended June 30, 2023 and 2022, respectively.

NOTE 4 - LINE OF CREDIT

The Organization has a \$100,000 line of credit secured by the assets account of the Organization that has a variable interest rate that equals the prime rate plus .50% that matures December 2023. The interest rate as of June 30, 2023 was 8.75%. The outstanding balance is \$80,143 at June 30, 2023. There was no outstanding balance at June 30, 2022.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022

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 was originally scheduled to make interest only payments until October 2022. Beginning in October 2022, the Organization was scheduled to 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. This loan was paid off in November 2022.

The Organization opened a mortgage loan for \$1,500,000 on November 22, 2022. The loan is collateralized by all assets of the Organization. The loan accrues interest at a rate of Index minus four points (4.25% at June 30, 2023). The Organization is scheduled to make eighteen interest only payments in monthly installments through May 2024. Starting June 2024, they are scheduled to make forty-one principal and interest payments, with a final balloon payment in November 2027. The outstanding balance was \$1,500,000 at June 30, 2023.

The Organization opened a second mortgage loan for \$3,200,000 on November 22, 2022. The loan is collateralized by all assets of the Organization. The loan accrues interest at a fixed rate of 6.50%. The Organization is scheduled to make eighteen interest only payments in monthly installments through May 2024. Starting June 2024, they are scheduled to make forty-one principal and interest payments, with a final balloon payment in November 2027. The outstanding balance was \$3,200,000 at June 30, 2023.

The Organization opened a loan with the Small Business Administration for \$150,000 which increased to \$500,000 on July 31, 2021. The loan is collateralized by all assets of the Organization. The loan accrues interest at a fixed rate of 2.75%. The Organization is scheduled to make principal and interest payments in monthly installments of \$2,209 in December 2023 with the final payment due in May 2050. The outstanding balance was \$500,000 at both June 30, 2023 and 2022.

The Organization incurred loan costs of \$60,734 related to the mortgage loans. These loan costs will be amortized over the life of the loans. Amortization expense for the year ended June 30, 2023 was \$7,086.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Maturities of long-term debt is as follows:

2024	\$ 19,564
2025	100,496
2026	105,909
2027	111,634
2028	4,428,357
Thereafter	<u>434,040</u>
	5,200,000
Less: deferred loan costs	<u>(53,648)</u>
Total	<u><u>\$ 5,146,352</u></u>

NOTE 6 - PAYCHECK PROTECTION PROGRAM

The Organization received the second installation of the Paycheck Protection Program ("PPP") loan through the United States Small Business Administration, an unsecured note payable with First Horizon bank in the amount of \$120,547, dated March 5, 2021. The note was forgiven by the Small Business Administration on January 10, 2022.

NOTE 7 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization has \$240,995 of financial assets available within one year of the statement financial position date consisting of cash of \$84,290, and net receivables of \$156,705. The Organization has a goal to maintain financial assets, which consist of cash on hand, to meet 45 days of normal operating expense, which are, on average, approximately \$275,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as described in Note 4, the Organization has a line of credit with \$219,857 available, which could be drawn upon in the event of an unanticipated liquidity need.

NOTE 8 - 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.