

PROJECT CU, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 1: OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding Project CU, Inc.'s consolidated financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the consolidated financial statements.

Organization

Project CU, Inc. (the "Organization") is a Missouri not-for-profit corporation formed in 1958. The Organization currently provides work training and employment opportunities for individuals with disabilities.

The accompanying consolidated financial statements include the accounts of the Organization and its affiliates Project Workshop, Inc., a Missouri not-for-profit corporation formed on January 27, 1966 and DeCycleIt!, Inc., a Missouri not-for-profit corporation formed on March 10, 2011. Project Workshop, Inc. was established to operate and administer a sheltered workshop that employs individuals with disabilities. DeCycleIt! Inc. is a secured shredding business that provides work training and employment opportunities to individuals with disabilities.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Consolidation

All significant intercompany balances and transactions are eliminated.

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Without Donor Restrictions – Those resources over which the board of Directors has discretionary control. Designated amounts represent those resources that the Board has set aside for particular purposes. If funds are received during the year with restrictions, and the restrictions were met during the year, those funds are included in net assets without donor restriction in the year received.

With Donor Restrictions – Those resources subject to donor-imposed restrictions that will be satisfied by actions of the Organization or the passage of time. If those restrictions are met in the same year received, those resources are classified as net assets without donor restriction. The Organization's net assets with donor restriction of \$0 at June 30, 2021 and \$0 at June 30, 2020.

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NOTE 1: OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that will affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the reported amounts of revenue and expenses during the reporting period, and certain disclosures. Actual results could differ from those estimates.

Accounts Receivable

The Organization considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Asset Impairment Assessments

The Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is recognized to the extent that the sum of undiscounted estimated future cash flows expected to result from use of the assets is less than carrying value. If impairment is recognized, the carrying value of the impaired asset is reduced to its fair value. There was no impairment required at June 30, 2021 and June 30, 2020.

Property, Plant and Equipment

Property, plant and equipment are stated at costs less accumulated depreciation. Donated property and equipment are recorded at fair value on the date received. Expenditures for major renewals and improvements that increase the useful lives of assets are capitalized. Maintenance and repairs are expensed as incurred.

The consolidated financial statements present expenses by functional classifications in accordance with the overall service mission of the organization. Each functional classification displays all expenses related to the underlying operation by natural classifications. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method.

Depreciation of property, plant and equipment is provided under the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and Improvements	15-40
Machinery and Equipment	5-7
Vehicles	5

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NOTE 1: OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Support

Certain revenues received under government grants and fees for service programs are subject to audit by the funding agencies. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Shipping and Handling Costs

Freight billed to customers is classified as work contracts revenue and the related freight costs as program service expenses.

Contributed Services

During the years ended June 30, 2021, and June 30, 2020, the value of contributed services meeting the requirements for recognition in the consolidated financial statements was not material and, accordingly has not been recorded in the consolidated financial statements.

Income Taxes

Project CU, Inc. is a tax-exempt organization described in §501(a) of the Internal Revenue Code (“Code”) as an organization described in §501(c)(3). Accordingly, the Organization is not subject to federal income taxes. The Organization is classified as a publicly supported charitable organization under §509(a)(2) of the Code and contributions to the Organization qualify as charitable tax deductions by the contributor. Consequently, no provision for income taxes is included in the financial statements.

The Organization’s 2020, 2019 and 2018 tax years are open for examination by the Internal Revenue Service (“IRS”). The Organization files as a tax-exempt organization. Should that status be challenged in the future, all years since inception could be subject to review by the IRS.

Management of the Organization has evaluated the tax positions of the Organization and believes that no uncertain tax positions exist at June 30, 2021 and June 30, 2020, respectively.

NOTE 2: ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	<u>June 30</u>	
	<u>2021</u>	<u>2020</u>
Government Agencies:		
Product Living board	\$ 7,547	\$ 10,382
St. Louis Office for Development Disability Resources		29,080
Extended Employment Sheltered Workshops	<u>36,296</u>	<u>31,065</u>
Total Government Agencies	43,843	70,527
Work Contracts	120,270	61,420
Other	<u>9,614</u>	<u>5,567</u>
	<u>\$ 173,727</u>	<u>\$ 137,514</u>

The Organization has fees for service program arrangements with all of the government agencies listed above.

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NOTE 3: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is reported at cost less accumulated depreciation and consists of the following:

	June 30	
	2021	2020
Land	\$ 372,748	\$ 372,748
Buildings and Improvements	1,940,952	1,918,752
Machinery and Equipment	840,085	840,085
Vehicles	24,057	24,057
	\$ 3,177,842	\$3,155,642
Less: Accumulated Depreciation	(1,557,005)	(1,484,860)
	\$ 1,620,837	\$1,670,782

Depreciation expense was \$72,146 and \$75,110 for the years ended June 30, 2021 and 2020, respectively.

NOTE 4: ACCRUED SALARIES AND WAGES

Accrued salaries and wages of \$68,971 at June 30, 2021 and \$49,762 at June 30, 2020 represent payroll earned in June payable in July of the subsequent fiscal year and accrued paid time off.

Under the prior vacation and paid time off policy, Prior to September 1, 2020, paid time off accumulates at a rate of 0.0192 hours per hour worked up to 40 hours per year, after the employee has been employed for 90 days. At year end, staff employees can request to have 24 hours of vacation carried over to the next fiscal year. For certified workers, paid time off accumulates based on a rate of 0.0385 hours per hour worked. Certified workers can request to have 21 hours carried over to the next fiscal year. All vacation and paid time off hours that are carried over must be used the first month of the next benefit year for staff and before September for certified workers.

Under the current vacation and paid time off policy, effective September 1, 2020, vacation is earned by seniority or based on their “anniversary” in the company. For full time employees, from their first anniversary through their fourth anniversary the employee is entitled to 2 weeks (80 hours) of vacation a year. From their fifth anniversary to their ninth anniversary, the employee is entitled to 3 weeks (120 hours) of vacation. As of their tenth anniversary, the employee is entitled to four weeks (160 hours) of vacation. For part-time employees, as of their first anniversary, the employee is entitled to 2 weeks of vacation, with a week being their average amount of hours per week. All employees as of their first anniversary are able to accrue two years’ worth of accrued vacation time to the next anniversary year, any excess time will be lost.

Accrued paid time off included in accrued salaries and wages was \$28,924 and \$14,523 at June 30, 2021 and June 30, 2020 respectively.

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NOTE 5. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30	
	2021	2020
Non-interest bearing note agreements with St. Louis Office for Development Disability Resources (DD Resources) to purchase and renovate a new facility. Notes are to be reimbursed to DD Resources upon encumbrance, sale, disposition, or alternation of ownership or other violation of the facility. The notes are secured by a deed of trust on real property at its current location.	\$ 783,238	\$ 783,238
Non-interest bearing note agreements with St. Louis Office for Developmental Disability Resources (DD Resources) for roof improvements. Notes are to be reimbursed to DD Resources upon encumbrance, sale disposition, or alteration of ownership or other violation of the facility. The notes are secured by a deed of trust on real property at its current location.	116,250	116,250
Note payable to Indoff Capital, for building lighting improvements. Note is payable monthly in installments of \$994.12 for 60 months with a rate of interest of 8.378% per annum. The maturity date on this note was November 2020.		4,891
Note Payable to Enterprise Bank & Trust. The note is secured by a deed of trust on real property at its current location The notes payable to restructured on October 4, 2019 with a 5 year extension. The loan is payable in 80 payments of \$4,791.33 including interest at a rate of 4.75% per annum.	172,528	220,461
PPP Loan payable due to the Carrolton Bank including interest at 1%. Payment, including interest due April 2022. Note is unsecured.		194,463
	1,072,016	1,319,303
Less: Current Maturities of Long-Term Debt	(50,397)	(52,954)
	\$1,021,619	\$1,266,349

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NOTE 5. LONG-TERM DEBT (CONTINUED)

Scheduled maturities of long-term debt at June 30, 2021 are as follows:

<u>Years Ended June 30,</u>	<u>Amount</u>
2022	50,397
2023	52,844
2024	55,409
2025	13,878
2026 and after	899,488
	<u>\$ 1,072,016</u>

Total interest expense for the year was \$9,996 for the year ended June 30, 2021 and \$12,355 for the year ended June 30, 2020, respectively.

NOTE 6. GRANTS, CONTRACTS AND FEES FOR SERVICE PROGRAMS

The Organization has a contract with DD Resources. The contract is to support employment and related services for up to 65 individuals. The contract calls for DD Resources to reimburse the Organization on an average cost per unit of service basis. The contract runs from July 1 to June 30. During the year ended June 30, 2021 and June 30, 2020, the amount of reimbursement was \$136,620 and \$158,145, respectively. During the year ended June 30, 2021 and June 30, 2020, DD Resources funded additional COVID related grant requests for \$664 and \$29,080, respectively.

The Organization also entered into other agreements with DD Resources for machinery and equipment purchases. There were no reimbursements from DD Resources for machinery and equipment for the year ending June 30, 2021 and June 30, 2020. The agreements may include a provision whereby the Organization is to reimburse DD Resources for any property and equipment purchases disposed of during a specified period of time after purchase. The reimbursement to DD Resources is reduced by the applicable percentage each year the asset is kept by the Organization. At June 30, 2021 and June 30, 2020, the Organization had no outstanding obligation to reimburse DD Resources for recent disposals. Outstanding liens with DD Resources at June 30, 2021 related to machinery and equipment expire up to July 2022.

The Organization has an On the Job Training Program contract with the Productive Living Board (PLB). The PLB reimburses the Organization on an average cost per unit of service basis. A unit of service is computed for every one hour of service provided by an Organization staff member to a qualified employee. The contract runs from July 1 to June 30. During the year ended June 30, 2021 and June 30, 2020, the amount of reimbursement was \$98,612 and \$88,788, respectively.

NOTE 7. COST ALLOCATION

The Consolidated 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. The expenses that are allocated include compensation, benefits, payroll services, repairs and maintenance, education and training, and office supplies which are allocated on the basis of estimates of time and effort studies.

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NOTE 8. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization’s financial assets as of the statement of financial position date, reduced by amounts not available for general use because of general contractual or donor-imposed restrictions within one year of the statement position date.

	2021	2020
Financial assets, at year end	\$ 594,162	\$ 456,742
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	0	0
Financial assets available to meet cash needs for general expenditures:		
Within one year	\$ 594,162	\$ 456,742

NOTE 10. PPP LOAN FOREGIVENESS

The Organization applied for and received PPP Loan Forgiveness in the amount of \$194,463. It is recorded as revenue in the Statements of Activities.

NOTE 10. UNCERTAINTIES, CONTINGENCIES, AND RISKS

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. The resulting restrictions on travel and quarantines imposed, have had a negative impact on the U.S. Economy and business activity globally. The full impact of which is not yet known and may result in an adverse impact to the Company’s assets and operating results.

NOTE 11. NEW ACCOUNTING PRONOUNCEMENT

In June 2018, The FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarified and improved current guidance by providing criteria for determining whether a nonprofit is receiving commensurate value in return for the resources transferred. The outcome of the analysis determines whether the contract or grant constitutes either a contribution or an exchange transaction. The guidance also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The Organization adopted this update on a prospective basis. The adoption of this new guidance had no material changes in revenue related to contributions.

For the year ended June 30, 2021 the Organization adopted ASU 2014-09, Revenue from Contract with Customer (ASC 606) that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. ASC 606 is effective for fiscal years beginning after December 15, 2018. The adoption has no material change in the revenue recognition policies of the Organization.

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NOTE 12. SUBSEQUENT EVENTS

Management has evaluated the effect of subsequent events through October 14, 2021. From this evaluation, the following item met the requirement for disclosure:

Project CU, Inc. requested to affiliate with Challenge Unlimited, Inc. To that end Project CU agrees that at least 80% of the Project CU Inc. board of directors will be comprised of members of Challenge Unlimited Inc's Board of Directors. This affiliation has an effective date of July 1, 2021.