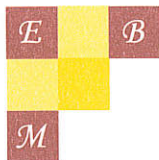


**DISMAS, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2013 AND 2012**

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FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2013 AND 2012**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 11



Edmondson, Betzler & Montgomery, PLLC
(Certified Public Accountants)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Dismas, Inc.

We have audited the accompanying financial statements of Dismas, Inc., which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dismas, Inc., as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Edmondson, Betfer & Montgomery, PLLC

June 16, 2014

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash	\$ 32,838	\$ 130,607
Grants receivable	7,899	3,887
Accounts receivable, less allowance for doubtful accounts of \$3,000 in 2013 and \$3,445 in 2012	3,609	8,089
Prepaid expenses	<u>3,200</u>	<u>2,580</u>
Total current assets	47,546	145,163
PROPERTY AND EQUIPMENT, net	<u>230,124</u>	<u>250,517</u>
TOTAL ASSETS	<u><u>\$ 277,670</u></u>	<u><u>\$ 395,680</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 18,253	\$ 21,065
Line of credit	<u>141,016</u>	<u>126,000</u>
Total liabilities	<u>159,269</u>	<u>147,065</u>
NET ASSETS		
Unrestricted	<u>118,401</u>	<u>248,615</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 277,670</u></u>	<u><u>\$ 395,680</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Fundraising events	\$ 139,349	\$ -	\$ 139,349	\$ 131,553	\$ -	\$ 131,553
State grants	103,500	-	103,500	103,500	-	103,500
Contributions	103,362	-	103,362	88,114	-	88,114
Other grants	60,291	-	60,291	113,768	-	113,768
Program service fees	56,721	-	56,721	48,508	-	48,508
Merchandise sales (net of direct costs of \$45,844 and \$75,025 for 2013 and 2012, respectively)	41,054	-	41,054	80,673	-	80,673
Miscellaneous income	1,311	-	1,311	3,884	-	3,884
Loss on disposal of assets	(1,895)	-	(1,895)	-	-	-
Net assets released from restrictions	-	-	-	12,000	(12,000)	-
Total revenues and other support	503,693	-	503,693	582,000	(12,000)	570,000
Expenses:						
Program services	464,660	-	464,660	514,838	-	514,838
Management and general	103,009	-	103,009	92,688	-	92,688
Fundraising	66,239	-	66,239	68,659	-	68,659
Total expenses	633,907	-	633,907	676,185	-	676,185
DECREASE IN NET ASSETS	(130,214)	-	(130,214)	(94,185)	(12,000)	(106,185)
NET ASSETS, BEGINNING OF THE YEAR	248,615	-	248,615	342,800	12,000	354,800
NET ASSETS, END OF THE YEAR	\$ 118,401	\$ -	\$ 118,401	\$ 248,615	\$ -	\$ 248,615

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012

	2013			2012				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 271,373	\$ 35,804	\$ 28,190	\$ 335,367	\$ 293,617	\$ 43,738	\$ 33,663	\$ 371,018
Utilities	36,859	-	-	36,859	33,876	-	-	33,876
Fundraising events	-	-	35,923	35,923	-	-	32,199	32,199
Insurance	26,178	6,545	-	32,723	24,083	6,021	-	30,104
Depreciation	-	26,587	-	26,587	-	24,829	-	24,829
Payroll taxes	21,744	2,659	2,126	26,529	24,557	3,628	2,797	30,982
Groceries	24,783	-	-	24,783	29,195	-	-	29,195
Professional fees	4,954	18,938	-	23,892	1,937	6,372	-	8,309
Rent	19,200	-	-	19,200	19,200	-	-	19,200
Office supplies	14,217	527	-	14,744	18,478	1,326	-	19,804
Telephone, cable and newspaper	12,472	1,386	-	13,858	14,580	1,620	-	16,200
Residential support	9,649	-	-	9,649	11,841	-	-	11,841
Travel	5,137	3,033	-	8,170	9,135	1,424	-	10,559
Maintenance	7,830	-	-	7,830	21,678	-	-	21,678
Miscellaneous	3,466	3,705	-	7,171	4,681	1,760	-	6,441
Interest expense	-	3,424	-	3,424	-	1,848	-	1,848
Taxes, licenses and fees	2,159	267	-	2,426	523	10	-	533
Bad debts	1,752	-	-	1,752	3,445	-	-	3,445
Postage	1,548	133	-	1,681	1,893	112	-	2,005
Staff training	1,339	-	-	1,339	2,119	-	-	2,119
	\$ 464,660	\$ 103,009	\$ 66,239	\$ 633,907	\$ 514,838	\$ 92,688	\$ 68,659	\$ 676,185

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (130,214)	\$ (106,185)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	26,587	24,829
Loss on disposal of assets	1,895	-
(Increase) decrease in grants receivable	(4,012)	29,031
(Increase) decrease in accounts receivable	4,480	(5,624)
Increase in prepaid expenses	(620)	(466)
Increase (decrease) in accounts payable and accrued liabilities	<u>(2,812)</u>	<u>13,658</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(104,696)</u>	<u>(44,757)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	<u>(8,089)</u>	<u>(15,010)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(8,089)</u>	<u>(15,010)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit, net	<u>15,016</u>	<u>61,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>15,016</u>	<u>61,000</u>
NET INCREASE (DECREASE) IN CASH	(97,769)	1,233
CASH, BEGINNING OF THE YEAR	<u>130,607</u>	<u>129,374</u>
CASH, END OF THE YEAR	<u><u>\$ 32,838</u></u>	<u><u>\$ 130,607</u></u>
<u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u><u>\$ 3,189</u></u>	<u><u>\$ 1,703</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Dismas, Inc. (the "Organization") is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of Dismas, Inc.'s management who are responsible for their integrity and objectivity. 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 financial statements.

Nature of Activities

Dismas, Inc. is an affiliated group of half-way houses that offer a supportive community for men and women newly released from prison who have no family or who fear that a return to their former surroundings might lead to their return to lawbreaking. Dismas, Inc. also serves, on a limited basis, as a supervised residence for offenders participating in program alternatives to incarceration. Another program provides participants with interviewing evaluation and job training to help develop necessary employment skills within the community. Dismas, Inc. also serves as a residence for university students. Together with community volunteers and other residents, they form a welcoming environment for newly released prisoners.

Basis of Accounting

The financial statements of Dismas, Inc. have been prepared on the accrual basis of accounting.

Basis of Presentation

Dismas, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Dismas, Inc. follows the policy of reporting donor-imposed restricted contributions whose restrictions are met in the same year as revenues in the unrestricted net asset class.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are reported at cost and include improvements that significantly add to utility or extend useful lives and exceed \$500. 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 - 27.5 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.

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, 2013, the Organization has no donated property or equipment which is restricted.

Income Tax

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income tax has been made in the financial statements.

Functional Allocation

Allocation of costs on a functional basis is dependent upon management's estimate of the percentage of staff time incurred in conjunction with each activity and the nature of the expense.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Prior Year Financial Statements

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2013	2012
Land	\$ 44,200	\$ 44,200
Buildings and improvements	505,337	501,417
Furniture and equipment	114,557	114,557
Vehicles	<u>8,935</u>	<u>8,935</u>
	673,029	669,109
Less accumulated depreciation	<u>(442,905)</u>	<u>(418,592)</u>
Net property and equipment	<u>\$ 230,124</u>	<u>\$ 250,517</u>

Depreciation expense was \$26,587 and \$24,829 for the years ended June 30, 2013 and 2012, respectively.

NOTE 3 - LINE OF CREDIT

The Organization has a \$200,000 line of credit secured by property of the organization that has a variable interest rate that equals the prime rate plus .50% with a minimum rate of 5.00%. As of June 30, 2013 the rate was 5.00%. The maturity date of this line of credit is April 2016. The outstanding balance was \$141,016 and \$26,000 at June 30, 2013 and 2012, respectively.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 4 - COMMITMENTS AND 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.

NOTE 5 - EMPLOYEE BENEFIT PLAN

The Organization sponsors a "Savings Incentive Match Plan for Employees" (SIMPLE) IRA plan, which covers substantially all full-time employees of the Organization. The Organization is obligated to contribute up to a 3% match limited to the respective participating employees' salary deferral amounts in each fiscal year. The Organization contributed \$3,030 and \$4,572 in 2013 and 2012 in accordance with the terms of the plan.

NOTE 6 - LEASE COMMITMENTS

The Organization began leasing facilities under an operating lease agreement dated August 1, 2010 that expired July 31, 2012. This lease agreement was extended to December 2013.

The Organization began leasing a copier under an operating lease agreement dated May 26, 2011 that will expire on June 30, 2016.

Future minimum rental payments required under all operating leases in effect at June 30, 2013 are as follows:

<u>Year Ending June 30,</u>	
2014	\$ 12,596
2015	996
2016	996
Total	<u>\$ 14,588</u>

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 7 - SUBSEQUENT EVENTS

The Organization has evaluated events and transactions that occurred after June 30, 2013 through the date of the issued financial statements.

As of September 30, 2013, the Organization ceased its operations of the house located in Cookeville, Tennessee. The sale of this property was finalized on June 10, 2014. The sales price was \$138,500 of which \$132,000 was deposited into the Organization's bank account after the deduction of direct selling expenses resulting in an approximate gain on sale of \$20,000. This transaction will be reported in the financial statements for the fiscal year ending June 30, 2014.

As of December 31, 2013, the Organization ceased its operations of Triple Thread Apparel program. The equipment owned by the Organization for this program was sold for approximately \$2,000 with an estimated loss on sale of equipment of approximately \$15,000. The Organization's lease on the real property was canceled as of December 31, 2013.

Subsequent to June 30, 2013, the Organization was made aware that it was named as a beneficiary in a last will and testament with benefits to be paid out from a marital trust. On February 26, 2014, the Organization received a one-time unrestricted donation from the trust in the amount of \$590,892.