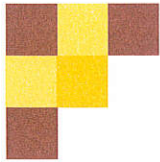


**DISMAS, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2015 AND 2014**

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FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2015 AND 2014**

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Edmondson, Betzler & Dame, 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, 2015 and 2014, 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, 2015 and 2014, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of continuing operating activities on page 12 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.

Carmonach, Betyer & Dame, PLLC

December 29, 2015

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

ASSETS

	2015	2014
CURRENT ASSETS		
Cash	\$ 448,183	\$ 527,263
Prepaid expenses	<u>4,500</u>	<u>-</u>
Total current assets	452,683	527,263
PROPERTY AND EQUIPMENT, net	<u>103,571</u>	<u>115,007</u>
TOTAL ASSETS	<u><u>\$ 556,254</u></u>	<u><u>\$ 642,270</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 33,064	\$ 22,757
Line of credit	<u>98,000</u>	<u>6,000</u>
Total liabilities	<u>131,064</u>	<u>28,757</u>
NET ASSETS		
Unrestricted net assets:		
Designated by the Board	496,024	496,024
Undesignated	<u>(70,834)</u>	<u>97,489</u>
Total unrestricted net assets	425,190	593,513
Temporarily restricted net assets	<u>-</u>	<u>20,000</u>
Total net assets	<u>425,190</u>	<u>613,513</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 556,254</u></u>	<u><u>\$ 642,270</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2015 AND 2014

	2015			2014		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:						
Contributions	\$ 112,913	\$ -	\$ 112,913	\$ 684,887	\$ -	\$ 684,887
Fundraising events	109,178	-	109,178	97,997	-	97,997
State grants	103,500	-	103,500	103,500	-	103,500
Program service fees	48,161	-	48,161	42,392	-	42,392
Other grants	17,232	-	17,232	45,902	20,000	65,902
Miscellaneous income	2,412	-	2,412	2,147	-	2,147
Gain on sale of assets	-	-	-	5,408	-	5,408
Merchandise sales (net of direct costs of \$26,544 for 2014)	-	-	-	4,431	-	4,431
Net assets released from restrictions	20,000	(20,000)	-	-	-	-
Total revenues and other support	<u>413,396</u>	<u>(20,000)</u>	<u>393,396</u>	<u>986,664</u>	<u>20,000</u>	<u>1,006,664</u>
Expenses:						
Program services	386,470	-	386,470	374,899	-	374,899
Management and general	124,806	-	124,806	69,984	-	69,984
Fundraising	70,443	-	70,443	52,143	-	52,143
Total expenses	<u>581,719</u>	<u>-</u>	<u>581,719</u>	<u>497,026</u>	<u>-</u>	<u>497,026</u>
Increase (decrease) in net assets from continuing operations	<u>(168,323)</u>	<u>(20,000)</u>	<u>(188,323)</u>	<u>489,638</u>	<u>20,000</u>	<u>509,638</u>
Discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,526)</u>	<u>-</u>	<u>(14,526)</u>
Increase (decrease) in net assets	<u>(168,323)</u>	<u>(20,000)</u>	<u>(188,323)</u>	<u>475,112</u>	<u>20,000</u>	<u>495,112</u>
NET ASSETS, BEGINNING OF THE YEAR	<u>593,513</u>	<u>20,000</u>	<u>613,513</u>	<u>118,401</u>	<u>-</u>	<u>118,401</u>
NET ASSETS, END OF THE YEAR	<u>\$ 425,190</u>	<u>\$ -</u>	<u>\$ 425,190</u>	<u>\$ 593,513</u>	<u>\$ 20,000</u>	<u>\$ 613,513</u>

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2015 AND 2014

	2015			2014				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 235,877	\$ 36,168	\$ 27,444	\$ 299,488	\$ 201,369	\$ 35,441	\$ 25,953	\$ 262,764
Professional fees	14,854	18,062	40,000	72,916	14,939	11,931	-	26,870
Fundraising events	-	-	39,713	39,713	-	-	24,554	24,554
Utilities	23,297	-	-	23,297	29,816	-	-	29,816
Insurance	16,768	4,192	-	20,960	20,073	5,018	-	25,091
Payroll taxes	15,008	2,823	2,092	19,924	15,582	2,182	1,636	19,400
Maintenance	13,914	-	-	13,914	8,077	-	-	8,077
Office supplies	9,458	3,152	-	12,610	10,194	3,291	-	13,485
Groceries	12,353	-	-	12,353	12,683	-	-	12,683
Video production expense	5,368	5,368	1,194	11,930	-	-	-	-
Depreciation	10,292	1,144	-	11,436	15,111	1,679	-	16,790
Telephone, cable and newspaper	10,004	1,025	-	11,029	9,655	943	-	10,598
Residential support	10,957	-	-	10,957	15,664	-	-	15,664
Travel	3,812	2,836	-	6,648	4,426	1,341	-	5,767
Website	3,668	1,222	-	4,890	-	-	-	-
Postage	1,334	1,220	-	2,554	1,406	189	-	1,595
Taxes, licenses and fees	1,558	767	-	2,325	1,223	402	-	1,625
Miscellaneous	1,690	363	-	2,053	2,369	878	-	3,247
Staff training	1,258	348	-	1,606	602	60	-	662
Interest expense	-	1,116	-	1,116	-	6,628	-	6,628
Rent	-	-	-	-	11,710	-	-	11,710
	<u>\$ 391,470</u>	<u>\$ 79,806</u>	<u>\$ 110,443</u>	<u>\$ 581,719</u>	<u>\$ 374,899</u>	<u>\$ 69,984</u>	<u>\$ 52,143</u>	<u>\$ 497,026</u>

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (188,323)	\$ 495,112
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	11,436	16,790
Gain on sale of assets	-	(5,408)
Decrease in grants receivable	-	7,899
Decrease in accounts receivable	-	3,609
(Increase) decrease in prepaid expenses	(4,500)	3,200
Increase in accounts payable and accrued liabilities	10,307	4,504
	<u>(171,080)</u>	<u>525,706</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	-	(27,820)
Proceeds from sale of property and equipment	-	131,555
	<u>-</u>	<u>103,735</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (payments) on line of credit, net	92,000	(135,016)
	<u>92,000</u>	<u>(135,016)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	(79,080)	494,425
CASH, BEGINNING OF THE YEAR	527,263	32,838
CASH, END OF THE YEAR	<u>\$ 448,183</u>	<u>\$ 527,263</u>
 <u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u>\$ 1,116</u>	<u>\$ 6,628</u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

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 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. 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.

Basis of Accounting and Financial Statement Presentation

The Organization's financial statements have been prepared on the accrual basis of accounting, and in accordance with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Audits of Not-for-Profit Organizations*.

The financial statements are prepared in conformity with the standards promulgated by the Financial Accounting Standards Board in FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*, and FASB ASC 958-225, *Financial Statements of Not-for-Profit Organizations*.

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, 2015 AND 2014

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.

Net Assets

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

Unrestricted

Unrestricted net assets represent resources over which the Board of Directors has unlimited discretionary control to carry out activities in accordance with the Organization's Articles of Incorporation and By-laws.

Temporarily Restricted

Temporarily restricted net assets represent resources whose use is limited by donor-imposed restrictions that will be met either by the Organization's actions or by the passage of time.

Permanently Restricted

Permanently restricted net assets represent resources whose use is limited by donor-imposed restrictions that require the net assets to be maintained permanently. The Organization currently has no permanently restricted net assets.

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.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The Organization 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.

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, 2015, 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, 2015, 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.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred after June 30, 2015 through the date of the issued financial statements. During this period, there were no material recognizable subsequent events that required recognition in our disclosures to the June 30, 2015 financial statements.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2015	2014
Land	\$ 17,200	\$ 17,200
Buildings and improvements	338,211	338,211
Furniture and equipment	43,531	46,182
Vehicles	<u>8,935</u>	<u>8,935</u>
	407,877	410,528
Less accumulated depreciation	<u>(304,306)</u>	<u>(295,521)</u>
Net property and equipment	<u>\$ 103,571</u>	<u>\$ 115,007</u>

Depreciation expense was \$11,436 and \$16,790 for the years ended June 30, 2015 and 2014, 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, 2015 the rate was 5.00%. The maturity date of this line of credit is April 2016. The outstanding balance was \$98,000 and \$6,000 at June 30, 2015 and 2014, respectively.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30 were restricted for the following purposes:

	2015	2014
Grant to be used by specific program	<u>\$ -</u>	<u>\$ 20,000</u>

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 - DISCONTINUED OPERATIONS

In July 2013, the Organization determined that the house located in Cookeville, Tennessee would cease operations as of September 30, 2013. For the year ended June 30, 2014, operations had revenues of \$2,151 and reported a loss of \$14,526. The sale of this property was finalized on June 10, 2014. The sales price was \$138,500 of which \$131,555 was deposited into the Organization's bank account after the deduction of direct selling expenses resulting in a gain on sale of \$20,169.

In November 2013, the Organization determined that Triple Thread Apparel program would cease operations as of December 31, 2013. For the year ended June 30, 2014, operations had revenues of \$30,974 and a reported loss of \$38,812. The equipment owned by the Organization for this program was sold with a loss on sale of equipment of \$14,761. The Organization's lease on the real property was canceled as of December 31, 2013.

NOTE 6 - 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 7 - 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 \$4,249 and \$5,241 in 2015 and 2014, respectively, in accordance with the terms of the plan.

SUPPLEMENTAL INFORMATION

DISMAS, INC.
SCHEDULE OF CONTINUING OPERATING ACTIVITIES
YEAR ENDED JUNE 30, 2015

	Nashville	South Bend	Inc.	Total
REVENUES AND OTHER SUPPORT				
Contributions	\$ 55,241	\$ 51,586	\$ 6,086	\$ 112,913
Fundraising events	47,690	61,488	-	109,178
State grant	-	-	103,500	103,500
Program fees	20,704	27,457	-	48,161
Other grants	-	7,232	10,000	17,232
Miscellaneous	1,694	289	429	2,412
Total revenues and other support	125,329	148,052	120,015	393,396
EXPENSES				
Salaries and benefits	97,767	114,481	87,240	299,488
Professional fees	-	-	72,916	72,916
Fundraising events	23,069	16,644	-	39,713
Utilities	12,737	10,560	-	23,297
Insurance	8,384	8,384	4,192	20,960
Payroll taxes	6,307	6,309	7,308	19,924
Maintenance	5,687	8,227	-	13,914
Office supplies	1,683	2,352	8,575	12,610
Groceries	2,555	9,798	-	12,353
Video production expense	11,930	-	-	11,930
Depreciation	-	-	11,436	11,436
Telephone and cable	6,014	3,990	1,025	11,029
Resident support	4,941	6,016	-	10,957
Travel	212	3,600	2,836	6,648
Website	-	-	4,890	4,890
Postage	545	789	1,220	2,554
Taxes, licenses and fees	400	1,158	767	2,325
Miscellaneous	484	656	913	2,053
Staff training	738	520	348	1,606
Interest expense	-	-	1,116	1,116
Total expenses	183,453	193,484	204,782	581,719
Increase (decrease) in net assets from continuing operations	\$ (58,124)	\$ (45,432)	\$ (84,767)	\$ (188,323)