

**DISMAS, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2007 AND 2006**

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BLANKENSHIP CPA GROUP, PLLC

Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Dismas, Inc.

We have audited the accompanying statements of financial position of Dismas, Inc., as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Dismas, Inc.'s management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 10-14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Blankenship CPA Group, PLLC

January 8, 2008

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

ASSETS

	2007	2006
CURRENT ASSETS		
Cash	\$ 138,867	\$ 164,022
Accounts receivable	16,726	16,308
Prepaid expenses	<u>6,776</u>	<u>6,883</u>
Total Current Assets	162,369	187,213
PROPERTY AND EQUIPMENT, net	<u>270,357</u>	<u>282,970</u>
TOTAL ASSETS	<u><u>\$ 432,726</u></u>	<u><u>\$ 470,183</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 2,100</u>	<u>\$ 9,451</u>
Total Liabilities	2,100	9,451
UNRESTRICTED NET ASSETS	<u>430,626</u>	<u>460,732</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 432,726</u></u>	<u><u>\$ 470,183</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Revenues and other support:		
Contributions	\$ 130,827	\$ 94,890
Fundraising events	117,764	126,025
State grants	112,241	103,500
Program service fees	86,705	79,205
Other grants	69,281	114,775
Miscellaneous income	<u>12,401</u>	<u>5,093</u>
Total revenues and other support	<u>529,219</u>	<u>523,488</u>
Expenses:		
Program services	435,846	402,943
Management and general	59,527	58,346
Fundraising	<u>63,952</u>	<u>72,361</u>
Total expenses	<u>559,325</u>	<u>533,650</u>
Decrease in net assets from continuing operations	<u>(30,106)</u>	<u>(10,162)</u>
Discontinued operations (Note 4)	<u>-</u>	<u>86,913</u>
Increase (decrease) in net assets	(30,106)	76,751
Net assets:		
BEGINNING OF THE YEAR	<u>460,732</u>	<u>383,981</u>
END OF THE YEAR	<u><u>\$ 430,626</u></u>	<u><u>\$ 460,732</u></u>

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	2007				2006			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 213,819	\$ 40,091	\$ 13,364	\$ 267,274	\$ 194,770	\$ 36,520	\$ 12,173	\$ 243,463
Fundraising events	-	-	49,644	49,644	-	-	59,226	59,226
Groceries	43,984	-	-	43,984	41,694	-	-	41,694
Utilities	35,165	-	-	35,165	34,983	-	-	34,983
Insurance	22,507	5,279	-	27,786	22,827	5,356	-	28,183
Maintenance	26,244	-	-	26,244	30,668	-	-	30,668
Depreciation	18,544	574	-	19,118	21,298	833	-	22,131
Materials	17,885	-	-	17,885	4,361	-	-	4,361
Payroll taxes	13,288	2,492	830	16,610	13,158	2,467	822	16,447
Professional fees	5,993	5,106	-	11,099	9,356	8,100	-	17,456
Office supplies	9,888	306	-	10,194	8,354	334	-	8,688
Travel	7,655	1,044	-	8,699	8,459	1,238	-	9,697
Miscellaneous	5,813	2,259	-	8,072	2,885	1,154	-	4,039
Telephone, cable and newspaper	5,665	1,598	-	7,263	5,744	1,634	-	7,378
Purchased services	6,274	-	-	6,274	1,062	-	-	1,062
Postage	2,050	114	114	2,278	2,525	140	140	2,805
Staff training	679	534	-	1,213	672	530	-	1,202
Taxes, licenses and fees	393	130	-	523	127	40	-	167
	<u>\$ 435,846</u>	<u>\$ 59,527</u>	<u>\$ 63,952</u>	<u>\$ 559,325</u>	<u>\$ 402,943</u>	<u>\$ 58,346</u>	<u>\$ 72,361</u>	<u>\$ 533,650</u>

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (30,106)	\$ 76,751
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Gain on sale of building and equipment	-	(111,208)
Depreciation	19,118	23,512
Increase in accounts receivable	(418)	(10,054)
(Increase) decrease in prepaid expenses	107	(6,883)
Increase (decrease) in accounts payable and accrued liabilities	<u>(7,351)</u>	<u>2,084</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(18,650)</u>	<u>(25,798)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of building and equipment	-	157,229
Property and equipment purchases	<u>(6,505)</u>	<u>(10,462)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(6,505)</u>	<u>146,767</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments on line of credit	<u>-</u>	<u>(10,000)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>-</u>	<u>(10,000)</u>
NET INCREASE (DECREASE) IN CASH	(25,155)	110,969
CASH, BEGINNING OF THE YEAR	<u>164,022</u>	<u>53,053</u>
CASH, END OF THE YEAR	<u><u>\$ 138,867</u></u>	<u><u>\$ 164,022</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2007 AND 2006

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. 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, 2007 AND 2006

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 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.

Income Tax

Dismas, Inc. 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.

Cash and Cash Equivalents

For purposes of the statements of cash flows, Dismas, Inc. considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2007 AND 2006

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2007	2006
Land	\$ 44,200	\$ 44,200
Buildings and improvements	480,133	475,170
Furniture and equipment	121,405	119,863
Vehicles	<u>9,234</u>	<u>9,234</u>
	654,972	648,467
Less accumulated depreciation	<u>(384,615)</u>	<u>(365,497)</u>
Net property and equipment	<u>\$ 270,357</u>	<u>\$ 282,970</u>

NOTE 3 - LINE OF CREDIT

The Organization has a \$100,000 line of credit secured by real estate with a local bank that has a variable interest rate that equals the prime rate. As of June 30, 2007 the rate was 8.25%. No amounts were outstanding at June 30, 2007 and 2006.

NOTE 4 - DISCONTINUED OPERATIONS

On March 1, 2006, the Organization sold the house in Memphis, Tennessee. The sales price was \$170,000 of which \$157,229 was deposited into the Organization's bank account after the deduction of direct selling expenses resulting in a gain on sale of \$111,208.

Memphis, Tennessee	Revenues	Net Loss	Gain on Disposal
2006	<u>\$ 8,973</u>	<u>\$ (24,295)</u>	<u>\$111,208</u>

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2007 AND 2006

NOTE 5 - 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 6 - 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 \$4,966 and \$0 in 2007 and 2006 in accordance with the terms of the plan.

SUPPLEMENTAL INFORMATION

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
UPPER CUMBERLAND HOUSE
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
REVENUES AND OTHER SUPPORT		
Other grants	\$ 46,974	\$ 58,415
Program service fees	16,213	15,550
Contributions	15,283	14,763
Fundraising events	10,722	7,638
Miscellaneous	3,325	-
	<u>92,517</u>	<u>96,366</u>
Total Revenues and Other Support		
EXPENSES		
Salaries	40,865	35,091
Groceries	13,135	12,281
Depreciation	10,789	10,796
Utilities	6,386	5,763
Maintenance	6,130	10,573
Materials	5,450	154
Travel	4,617	4,536
Insurance	4,345	6,458
Telephone, cable and newspaper	3,895	2,878
Payroll taxes	3,102	2,677
Fundraising events	2,490	3,486
Office supplies	2,003	3,647
Miscellaneous	206	1,033
Postage	90	197
Staff training	80	45
Professional fees	-	1,861
	<u>103,583</u>	<u>101,476</u>
Total Expenses		
Decrease in Net Assets	<u>\$ (11,066)</u>	<u>\$ (5,110)</u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
NASHVILLE HOUSE
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
REVENUES AND OTHER SUPPORT		
Contributions	\$ 50,009	\$ 32,089
Program service fees	32,037	32,437
Fundraising events	14,624	35,082
State Grant	8,741	-
Other grants	4,487	35,408
Miscellaneous income	79	242
	<u>109,977</u>	<u>135,258</u>
Total Revenues and Other Support		
EXPENSES		
Salaries	87,041	76,269
Utilities	19,984	19,670
Groceries	13,751	11,035
Maintenance	7,065	13,278
Payroll taxes	5,531	4,915
Depreciation	3,663	6,673
Materials	3,571	-
Miscellaneous	2,995	320
Office supplies	1,859	17
Special house events	501	-
Travel	170	353
Fundraising events	-	-
Insurance	-	6,911
Professional fees	-	3,327
Postage	-	1,557
	<u>146,131</u>	<u>144,325</u>
Total Expenses		
Decrease in Net Assets	<u>\$ (36,154)</u>	<u>\$ (9,067)</u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
MICHIANA HOUSE
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
REVENUES AND OTHER SUPPORT		
Fundraising events	\$ 77,945	\$ 59,422
Contributions	37,235	48,038
Program service fees	38,455	31,218
Other grants	17,820	20,952
Miscellaneous income	3,356	3,678
Interest	32	-
	<u>174,843</u>	<u>163,308</u>
Total Revenues and Other Support		
	<u>174,843</u>	<u>163,308</u>
EXPENSES		
Salaries	83,387	86,210
Fundraising events	27,051	23,811
Groceries	17,098	18,378
Maintenance	13,049	6,817
Utilities	8,795	9,550
Materials	7,899	4,207
Purchased services	6,274	1,062
Office supplies	5,332	4,690
Payroll taxes	5,116	5,707
Depreciation	4,666	3,829
Insurance	2,976	9,458
Miscellaneous	2,402	1,532
Postage	2,085	893
Professional fees	2,049	4,168
Telephone, cable and newspapers	1,776	2,866
Travel	1,242	3,570
Staff training	1,133	627
Special house events	234	-
Taxes, licenses and fees	126	127
	<u>192,690</u>	<u>187,502</u>
Total Expenses		
	<u>192,690</u>	<u>187,502</u>
Decrease in Net Assets	<u>\$ (17,847)</u>	<u>\$ (24,194)</u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
MEMPHIS HOUSE
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
REVENUES AND OTHER SUPPORT		
Program service fees	\$ -	\$ 7,722
Contributions	-	1,251
Miscellaneous income	-	-
Fundraising events	-	-
	<u>-</u>	<u>-</u>
Total Revenues and Other Support	<u>-</u>	<u>8,973</u>
EXPENSES		
Salaries	-	14,808
Utilities	-	6,422
Insurance	-	4,306
Maintenance	-	3,339
Groceries	-	1,432
Depreciation	-	1,381
Payroll taxes	-	861
Miscellaneous	-	346
Travel	-	228
Postage	-	145
Office supplies	-	-
	<u>-</u>	<u>-</u>
Total Expenses	<u>-</u>	<u>33,268</u>
Discontinued Operations - Gain on Sale of Assets (Note 4)	<u>-</u>	<u>111,208</u>
Increase in Net Assets	<u>\$ -</u>	<u>\$ 86,913</u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
DISMAS, INC.
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
REVENUES AND OTHER SUPPORT		
State grants	\$ 103,500	\$ 103,500
Other grants	25,000	-
Fundraising events	14,473	23,883
Interest	5,609	-
Contributions	3,300	-
Miscellaneous income	-	1,173
	<u>151,882</u>	<u>128,556</u>
Total Revenues and Other Support		
EXPENSES		
Salaries	55,981	45,893
Insurance	20,465	5,356
Fundraising events	20,103	31,929
Professional fees	9,050	8,100
Payroll taxes	2,861	3,148
Travel	2,669	1,238
Miscellaneous	1,735	1,154
Telephone, cable and newspapers	1,592	1,634
Office supplies	1,000	335
Materials expense	965	-
Taxes, licenses and fees	397	40
Postage	103	158
Depreciation	-	833
Training	-	530
	<u>116,921</u>	<u>100,348</u>
Total Expenses		
Increase in Net Assets	<u>\$ 34,961</u>	<u>\$ 28,208</u>