

**DISMAS, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2016 AND 2015**

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Edmondson, Betzler & Dame
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, 2016 and 2015, 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, 2016 and 2015, 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 operating activities on page 13 and 14 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.

Edmondson, Betfer & Darne, PLLC

March 1, 2017

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash	\$ 399,317	\$ 448,183
Pledges receivable	17,668	-
Deposits	30,000	-
Prepaid expenses	<u>3,100</u>	<u>4,500</u>
Total current assets	450,085	452,683
PROPERTY AND EQUIPMENT, net	<u>95,514</u>	<u>103,571</u>
TOTAL ASSETS	<u><u>\$ 545,599</u></u>	<u><u>\$ 556,254</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 17,251	\$ 33,064
Line of credit	<u>182,204</u>	<u>98,000</u>
Total liabilities	<u>199,455</u>	<u>131,064</u>
NET ASSETS		
Unrestricted net assets:		
Designated by the Board	332,674	496,024
Undesignated	<u>13,470</u>	<u>(70,834)</u>
Total unrestricted net assets	<u>346,144</u>	<u>425,190</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 545,599</u></u>	<u><u>\$ 556,254</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:						
Fundraising events	\$ 166,881	\$ -	\$ 166,881	\$ 109,178	\$ -	\$ 109,178
Contributions	152,749	-	152,749	112,913	-	112,913
State grants	103,500	-	103,500	103,500	-	103,500
Program service fees	56,324	-	56,324	48,161	-	48,161
Other grants	6,550	-	6,550	17,232	-	17,232
Miscellaneous income	5,719	-	5,719	2,412	-	2,412
Net assets released from restrictions	-	-	-	20,000	(20,000)	-
Total revenues and other support	<u>491,723</u>	<u>-</u>	<u>491,723</u>	<u>413,396</u>	<u>(20,000)</u>	<u>393,396</u>
Expenses:						
Program services	399,918	-	399,918	391,470	-	391,470
Management and general	78,824	-	78,824	79,806	-	79,806
Fundraising	92,027	-	92,027	110,443	-	110,443
Total expenses	<u>570,769</u>	<u>-</u>	<u>570,769</u>	<u>581,719</u>	<u>-</u>	<u>581,719</u>
Decrease in net assets	<u>(79,046)</u>	<u>-</u>	<u>(79,046)</u>	<u>(168,323)</u>	<u>(20,000)</u>	<u>(188,323)</u>
NET ASSETS, BEGINNING 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>
NET ASSETS, END OF THE YEAR	<u>\$ 346,144</u>	<u>\$ -</u>	<u>\$ 346,144</u>	<u>\$ 425,190</u>	<u>\$ -</u>	<u>\$ 425,190</u>

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 226,099	\$ 36,801	\$ 28,309	\$ 291,209	\$ 235,877	\$ 36,168	\$ 27,444	\$ 299,488
Fundraising events	-	-	61,486	61,486	-	-	39,713	39,713
Professional fees	20,340	24,860	-	45,200	14,854	18,062	40,000	72,916
Insurance	23,054	5,763	-	28,817	16,768	4,192	-	20,960
Utilities	23,942	-	-	23,942	23,297	-	-	23,297
Payroll taxes	17,186	2,901	2,232	22,319	15,008	2,823	2,092	19,924
Maintenance	20,770	-	-	20,770	13,914	-	-	13,914
Groceries	19,326	-	-	19,326	12,353	-	-	12,353
Depreciation	9,008	1,001	-	10,009	10,292	1,144	-	11,436
Residential support	9,314	-	-	9,314	10,957	-	-	10,957
Office supplies	5,739	2,946	-	8,685	9,458	3,152	-	12,610
Telephone, cable and newspaper	7,642	849	-	8,491	10,004	1,025	-	11,029
Travel	6,990	479	-	7,469	3,812	2,836	-	6,648
Interest expense	5,607	624	-	6,231	1,004	112	-	1,116
Staff training	2,082	1,261	-	3,343	1,258	348	-	1,606
Website	1,106	938	-	2,044	3,668	1,222	-	4,890
Postage	1,099	98	-	1,197	1,334	1,220	-	2,554
Taxes, licenses and fees	614	303	-	917	1,558	767	-	2,325
Miscellaneous	-	-	-	-	1,690	363	-	2,053
Video production expense	-	-	-	-	5,368	5,368	1,194	11,930
	\$ 399,918	\$ 78,824	\$ 92,027	\$ 570,769	\$ 392,474	\$ 78,802	\$ 110,443	\$ 581,719

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (79,046)	\$ (188,323)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	10,009	11,436
Increase in accounts receivable	(17,668)	-
Increase in deposits	(30,000)	-
(Increase) decrease in prepaid expenses	1,400	(4,500)
Increase (decrease) in accounts payable and accrued liabilities	<u>(15,813)</u>	<u>10,307</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(131,118)</u>	<u>(171,080)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(1,952)</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,952)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on line of credit, net	<u>84,204</u>	<u>92,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>84,204</u>	<u>92,000</u>
NET DECREASE IN CASH	(48,866)	(79,080)
CASH, BEGINNING OF THE YEAR	<u>448,183</u>	<u>527,263</u>
CASH, END OF THE YEAR	<u><u>\$ 399,317</u></u>	<u><u>\$ 448,183</u></u>
<u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u><u>\$ 6,231</u></u>	<u><u>\$ 1,116</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Pledges receivable are stated at the amount the Organization expects to collect from outstanding balances. The Organization provides 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 are still outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable.

Deposits

Deposits at June 30, 2016 consist of a security deposit for the purchase of land.

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. The Organization has no temporarily restricted net assets.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

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.

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, 2016, the Organization has no donated property or equipment which is restricted.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants

Grant revenues are recognized when earned. Grants receivable represent the difference between amounts earned and amounts received.

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, 2016, 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

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, 2016, through the date of the issued financial statements. On October 5, 2016, the Organization purchased land for development of a new Nashville location. The purchase was financed by taking out a new loan with The Housing Fund, Inc. Terms of the loan are \$2,000,000 financed at a rate of 3.5% annually with a maturity date of October 31, 2017.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2016	2015
Land	\$ 17,200	\$ 17,200
Buildings and improvements	338,211	338,211
Furniture and equipment	45,483	43,531
Vehicles	<u>8,935</u>	<u>8,935</u>
	409,829	407,877
Less accumulated depreciation	<u>(314,315)</u>	<u>(304,306)</u>
Net property and equipment	<u>\$ 95,514</u>	<u>\$ 103,571</u>

Depreciation expense was \$10,009 and \$11,436 for the years ended June 30, 2016 and 2015, respectively.

NOTE 3 - LINE OF CREDIT

The Organization has a \$200,000 line of credit secured by the reserve cash account 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, 2016 the rate was 5.00%. The maturity date of this line of credit is April 2017. The outstanding balance was \$182,204 and \$98,000 at June 30, 2016 and 2015, respectively.

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 \$3,640 and \$4,249 in 2016 and 2015, respectively, in accordance with the terms of the plan.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 6 - DONATED SERVICES

Donated services ("in-kind" contributions) included in the statements of activities are as follows:

	2016	2015
Contributions in-kind		
Groceries	\$ 8,626	\$ 7,000
Resident materials	4,094	1,631
Resident clothing	<u>640</u>	<u>500</u>
Total contributions in-kind	<u><u>\$ 13,360</u></u>	<u><u>\$ 9,131</u></u>
Expenses		
Functional expenses:		
Festival and programs	<u>\$ 13,360</u>	<u>\$ 9,131</u>
Increase in net assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

SUPPLEMENTAL INFORMATION

DISMAS, INC.
SCHEDULE OF OPERATING ACTIVITIES - NASHVILLE
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
REVENUES AND OTHER SUPPORT		
State Grant	\$ 103,500	\$ 103,500
Fundraising events	87,938	47,690
Contributions	74,266	61,327
Program fees	25,681	20,704
Other grants	6,550	10,000
Miscellaneous	5,415	2,123
	<hr/>	<hr/>
Total revenues and other support	303,350	245,344
EXPENSES		
Salaries and benefits	177,522	185,007
Professional fees	45,200	72,916
Fundraising events	34,163	23,069
Insurance	27,352	12,576
Payroll Taxes	16,343	13,615
Utilities	13,796	12,737
Groceries	11,773	2,555
Depreciation	10,009	11,436
Maintenance	9,329	5,687
Telephone and cable	6,724	7,039
Interest expense	6,231	1,116
Resident support	4,966	4,941
Office supplies	3,724	10,258
Website	2,044	4,890
Staff training	1,980	1,086
Travel	1,562	3,048
Taxes, licenses and fees	892	1,167
Postage	676	1,765
Video production expense	-	11,930
Miscellaneous	-	1,397
	<hr/>	<hr/>
Total expenses	374,286	388,235
	<hr/>	<hr/>
Decrease in net assets from operations	\$ (70,936)	\$ (142,891)

DISMAS, INC.
SCHEDULE OF OPERATING ACTIVITIES - SOUTH BEND
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
REVENUES AND OTHER SUPPORT		
Fundraising events	78,943	61,488
Contributions	\$ 78,483	\$ 51,586
Program fees	30,643	27,457
Miscellaneous	304	289
Other grants	-	7,232
	<hr/>	<hr/>
Total revenues and other support	188,373	148,052
	<hr/>	<hr/>
EXPENSES		
Salaries and benefits	113,687	114,481
Fundraising events	27,323	16,644
Maintenance	11,441	8,227
Utilities	10,146	10,560
Groceries	7,553	9,798
Payroll Taxes	5,976	6,309
Travel	5,907	3,600
Office supplies	4,961	2,352
Resident support	4,348	6,016
Telephone and cable	1,767	3,990
Insurance	1,465	8,384
Website	1,363	-
Postage	521	789
Taxes, licenses and fees	25	1,158
Miscellaneous	-	656
Staff training	-	520
	<hr/>	<hr/>
Total expenses	196,483	193,484
	<hr/>	<hr/>
Decrease in net assets from operations	\$ (8,110)	\$ (45,432)
	<hr/>	<hr/>