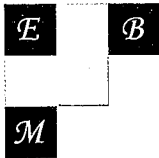


**DISMAS, INC.  
FINANCIAL STATEMENTS,  
SUPPLEMENTAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2010 AND 2009**

**DISMAS, INC.  
FINANCIAL STATEMENTS,  
SUPPLEMENTAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2010 AND 2009**

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*Edmondson, Betzler & Montgomery, PLLC*  
(Certified Public 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, 2010 and 2009, 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 audits 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, 2010 and 2009, and the change 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 10-13 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.

*Edmondson, Betzler & Montgomery, PLLC*

December 14, 2010

**DISMAS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2010 AND 2009**

**ASSETS**

	2010	2009
<b>CURRENT ASSETS</b>		
Cash	\$ 154,974	\$ 122,857
Pledges receivable	7,500	-
Accounts receivable	11,616	12,736
Prepaid expenses	<u>3,507</u>	<u>3,262</u>
Total current assets	177,597	138,855
<b>PROPERTY AND EQUIPMENT, net</b>	<u>229,965</u>	<u>251,451</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 407,562</u></u>	<u><u>\$ 390,306</u></u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 8,547	\$ 5,214
Line of credit	<u>55,000</u>	<u>50,000</u>
Total liabilities	<u>63,547</u>	<u>55,214</u>
<b>NET ASSETS</b>		
Unrestricted	328,515	334,662
Temporarily restricted	<u>15,500</u>	<u>430</u>
Total net assets	<u>344,015</u>	<u>335,092</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 407,562</u></u>	<u><u>\$ 390,306</u></u>

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

**DISMAS, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<b>2010</b>			<b>2009</b>		
	<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	\$ 142,647	\$ -	\$ 142,647	\$ 106,733	\$ -	\$ 106,733
Other grants	136,918	-	136,918	106,424	-	106,424
State grants	103,500	-	103,500	103,500	-	103,500
Contributions	102,511	-	102,511	114,154	2,000	116,154
Program service fees	52,111	-	52,111	62,125	-	62,125
Insurance proceeds	30,000	-	30,000	-	-	-
Special projects	-	15,500	15,500	-	-	-
Donated services and materials	9,255	-	9,255	-	-	-
Miscellaneous income	8,879	-	8,879	3,403	-	3,403
Loss on disposal of assets	(6,750)	-	(6,750)			
Net assets released from restrictions	430	(430)	-	4,570	(4,570)	-
<b>Total revenues and other support</b>	<b>579,501</b>	<b>15,070</b>	<b>594,571</b>	<b>500,909</b>	<b>(2,570)</b>	<b>498,339</b>
Expenses:						
Program services	426,440	-	426,440	404,440	-	404,440
Management and general	94,554	-	94,554	80,877	-	80,877
Fundraising	64,654	-	64,654	56,338	-	56,338
<b>Total expenses</b>	<b>585,648</b>	<b>-</b>	<b>585,648</b>	<b>541,655</b>	<b>-</b>	<b>541,655</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(6,147)</b>	<b>15,070</b>	<b>8,923</b>	<b>(40,746)</b>	<b>(2,570)</b>	<b>(43,316)</b>
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	<b>334,662</b>	<b>430</b>	<b>335,092</b>	<b>375,408</b>	<b>3,000</b>	<b>378,408</b>
<b>NET ASSETS, END OF THE YEAR</b>	<b>\$ 328,515</b>	<b>\$ 15,500</b>	<b>\$ 344,015</b>	<b>\$ 334,662</b>	<b>\$ 430</b>	<b>\$ 335,092</b>

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

**DISMAS, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010			2009				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 209,676	\$ 59,907	\$ 29,954	\$ 299,537	\$ 207,410	\$ 59,260	\$ 29,630	\$ 296,300
Fundraising events	-	-	32,361	32,361	-	-	24,551	24,551
Groceries	31,124	-	-	31,124	33,930	-	-	33,930
Materials	30,051	-	-	30,051	16,959	-	-	16,959
Utilities	29,775	-	-	29,775	34,159	-	-	34,159
Payroll taxes	16,371	4,678	2,339	23,388	15,101	4,314	2,157	21,572
Depreciation	20,488	218	-	20,706	20,200	188	-	20,388
Professional fees	10,146	8,195	-	18,341	4,673	3,824	-	8,497
Insurance	13,992	3,498	-	17,490	13,593	3,398	-	16,991
Office supplies	14,200	3,245	-	17,445	10,510	2,627	-	13,137
Maintenance	16,584	-	-	16,584	18,386	-	-	18,386
Travel	10,382	3,933	-	14,315	7,090	1,772	-	8,862
Telephone, cable and newspaper	10,929	2,732	-	13,661	10,791	2,698	-	13,489
Staff training	4,914	3,002	-	7,916	642	525	-	1,167
Miscellaneous	2,471	4,956	-	7,427	5,018	1,255	-	6,273
Postage	3,301	190	-	3,491	2,177	544	-	2,721
Purchased services	1,825	-	-	1,825	3,224	-	-	3,224
Taxes, licenses and fees	211	-	-	211	577	472	-	1,049
	\$ 426,440	\$ 94,554	\$ 64,654	\$ 585,648	\$ 404,440	\$ 80,877	\$ 56,338	\$ 541,655

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

**DISMAS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 8,923	\$ (43,316)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	20,706	20,388
Loss on disposal of assets	6,750	-
Increase in accounts receivable	(6,380)	(9,367)
(Increase) decrease in prepaid expenses	(245)	1,256
Increase in accounts payable and accrued liabilities	<u>3,333</u>	<u>2,272</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>33,087</u>	<u>(28,767)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	<u>(5,970)</u>	<u>(11,519)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(5,970)</u>	<u>(11,519)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit, net	<u>5,000</u>	<u>29,953</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>5,000</u>	<u>29,953</u>
NET INCREASE (DECREASE) IN CASH	32,117	(10,333)
CASH, BEGINNING OF THE YEAR	<u>122,857</u>	<u>133,190</u>
CASH, END OF THE YEAR	<u><u>\$ 154,974</u></u>	<u><u>\$ 122,857</u></u>
 <u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u><u>\$ 291</u></u>	<u><u>\$ 397</u></u>

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

**DISMAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**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, 2010 AND 2009**

**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.

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, 2010, the Organization has no donated property or equipment which is restricted.

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.

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, 2010 AND 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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. 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.

Events Occurring After Reporting Date

Dismas Inc. has evaluated events and transactions that occurred between June 30, 2010 and December 14, 2010, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**NOTE 2 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	2010	2009
Land	\$ 44,200	\$ 44,200
Buildings and improvements	476,005	487,383
Furniture and equipment	73,561	74,447
Vehicles	<u>8,935</u>	<u>8,935</u>
	602,701	614,965
Less accumulated depreciation	<u>(372,736)</u>	<u>(363,514)</u>
Net property and equipment	<u>\$ 229,965</u>	<u>\$ 251,451</u>

Depreciation expense was \$20,706 and \$20,388 for the years ended June 30, 2010 and 2009, respectively.

**NOTE 3 - LINE OF CREDIT**

The Organization has a \$100,000 line of credit secured by a certificate of deposit with a local bank that has a variable interest rate that equals the prime rate. As of June 30, 2010 the rate was 3.75%. The outstanding balance was \$55,000 and \$50,000 at June 30, 2010 and 2009, respectively.

**DISMAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS**

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

	2010	2009
Contributions for special project	\$ 15,500	\$ -
Grant for resident savings program	<u>-</u>	<u>430</u>
Total temporarily restricted net assets	<u>\$ 15,500</u>	<u>\$ 430</u>

**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 \$5,326 and \$4,898 in 2010 and 2009 in accordance with the terms of the plan.

**NOTE 7 - LEASE COMMITMENT**

The Organization has begun leasing facilities under an operating lease agreement dated August 1, 2010 that will expire July 31, 2011.

Future minimum rental payments required under all operating leases in effect at June 30, 2010 are as follows:

<u>Year Ending June 30,</u>	
2011	\$ 17,600
2012	<u>1,600</u>
Total	<u>\$ 19,200</u>

**SUPPLEMENTAL INFORMATION**

**DISMAS, INC.**  
**SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES**  
**UPPER CUMBERLAND HOUSE**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>REVENUES AND OTHER SUPPORT</b>		
Other grants	\$ 29,619	\$ 72,818
Contributions	27,640	11,991
Fundraising events	23,082	14,131
Program service fees	9,673	10,397
Miscellaneous	1,694	155
	<hr/>	<hr/>
Total revenues and other support	91,708	109,492
	<hr/>	<hr/>
<b>EXPENSES</b>		
Salaries	55,379	42,190
Groceries	10,704	7,673
Depreciation	10,660	10,524
Telephone, cable and newspaper	7,010	4,187
Utilities	6,516	7,456
Office supplies	5,781	6,182
Payroll taxes	4,827	3,434
Maintenance	4,810	3,841
Travel	4,633	3,236
Materials	4,482	5,584
Fundraising events	3,289	2,558
Professional fees	2,680	343
Staff training	2,473	200
Postage	616	1,063
Miscellaneous	519	569
Taxes, licenses and fees	95	30
	<hr/>	<hr/>
Total expenses	124,474	99,070
	<hr/>	<hr/>
Increase (decrease) in net assets	\$ (32,766)	\$ 10,422
	<hr/>	<hr/>

**DISMAS, INC.**  
**SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES**  
**NASHVILLE HOUSE**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>REVENUES AND OTHER SUPPORT</b>		
Other grants	\$ 54,919	\$ 15,408
Contributions	39,723	52,756
Program service fees	25,970	31,663
Fundraising events	23,527	21,120
Donated services and materials	9,255	-
Miscellaneous income	60	23
Loss on disposal of assets	(6,750)	-
	<u>146,704</u>	<u>120,970</u>
Total revenues and other support		
<b>EXPENSES</b>		
Salaries	73,700	80,175
Materials	20,625	4,611
Utilities	13,451	15,151
Groceries	9,163	9,743
Maintenance	7,925	7,247
Professional fees	7,239	-
Payroll taxes	5,983	6,047
Fundraising events	5,279	2,011
Depreciation	4,740	4,576
Telephone, cable and newspaper	3,726	4,775
Travel	3,606	468
Office supplies	2,443	2,017
Staff training	2,316	195
Miscellaneous	918	958
Postage	708	-
	<u>161,822</u>	<u>137,974</u>
Total expenses		
Decrease in net assets	<u>\$ (15,118)</u>	<u>\$ (17,004)</u>

**DISMAS, INC.**  
**SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES**  
**MICHIANA HOUSE**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>REVENUES AND OTHER SUPPORT</b>		
Fundraising events	\$ 70,847	\$ 49,742
Other grants	52,380	18,198
Contributions	32,000	48,202
Program service fees	16,468	20,065
Miscellaneous income	227	250
Interest	3	19
	<hr/>	<hr/>
Total revenues and other support	171,925	136,476
	<hr/>	<hr/>
<b>EXPENSES</b>		
Salaries	88,910	96,624
Groceries	11,257	16,514
Fundraising events	10,527	7,037
Utilities	9,808	11,552
Payroll taxes	6,665	7,042
Office supplies	5,976	3,584
Depreciation	5,088	5,100
Materials	4,944	6,764
Maintenance	3,849	7,156
Telephone, cable and newspapers	2,925	2,778
Travel	2,143	1,430
Postage	1,977	1,325
Purchased services	1,825	3,224
Miscellaneous	1,035	976
Professional fees	227	690
Staff training	125	772
Taxes, licenses and fees	116	394
	<hr/>	<hr/>
Total expenses	157,397	172,962
	<hr/>	<hr/>
Increase (decrease) in net assets	\$ 14,528	\$ (36,486)
	<hr/>	<hr/>

**DISMAS, INC.**  
**SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES**  
**DISMAS, INC.**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>REVENUES AND OTHER SUPPORT</b>		
State grants	\$ 103,500	\$ 103,500
Insurance proceeds	30,000	-
Fundraising events	25,191	21,740
Special projects	15,500	-
Miscellaneous income	4,069	13
Contributions	3,148	3,205
Interest	2,826	2,943
	<u>184,234</u>	<u>131,401</u>
Total revenues and other support		
<b>EXPENSES</b>		
Salaries	81,548	77,311
Insurance	17,490	16,991
Fundraising events	13,266	12,945
Professional fees	8,195	7,464
Payroll taxes	5,913	5,049
Miscellaneous	4,955	3,770
Travel	3,933	3,728
Office expenses	3,245	1,354
Training	3,002	-
Depreciation	218	188
Postage	190	333
Telephone, cable and newspapers	-	1,749
Taxes, licenses and fees	-	625
Maintenance	-	142
	<u>141,955</u>	<u>131,649</u>
Total expenses		
Increase (decrease) in net assets	<u>\$ 42,279</u>	<u>\$ (248)</u>