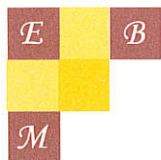


**DISMAS, INC.  
FINANCIAL STATEMENTS,  
SUPPLEMENTAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2014 AND 2013**

**DISMAS, INC.  
FINANCIAL STATEMENTS,  
SUPPLEMENTAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2014 AND 2013**

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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 financial statements of Dismas, Inc., which comprise the statements of financial position as of June 30, 2014 and 2013, 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, 2014 and 2013, 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 11 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, Betzler & Montgomery, PLLC*

May 1, 2015

**DISMAS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2014 AND 2013**

**ASSETS**

	<b>2014</b>	<b>2013</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 527,263	\$ 32,838
Grants receivable	-	7,899
Accounts receivable, less allowance for doubtful accounts of \$3,000 in 2013	-	3,609
Prepaid expenses	-	3,200
	<hr/>	<hr/>
Total current assets	527,263	47,546
<b>PROPERTY AND EQUIPMENT, net</b>	<hr/> 115,007	<hr/> 230,124
<b>TOTAL ASSETS</b>	<hr/> <u>\$ 642,270</u>	<hr/> <u>\$ 277,670</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 22,757	\$ 18,253
Line of credit	6,000	141,016
	<hr/>	<hr/>
Total liabilities	28,757	159,269
<b>NET ASSETS</b>		
Unrestricted net assets:		
Designated by the Board	496,024	-
Undesignated	97,489	118,401
	<hr/>	<hr/>
Total unrestricted net assets	593,513	118,401
Temporarily restricted net assets	20,000	-
	<hr/>	<hr/>
Total net assets	613,513	118,401
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<hr/> <u>\$ 642,270</u>	<hr/> <u>\$ 277,670</u>

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

**DISMAS, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>2014</b>			<b>2013</b>		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Contributions	\$ 684,887	\$ -	\$ 684,887	\$ 103,362	\$ -	\$ 103,362
State grants	103,500	-	103,500	103,500	-	103,500
Fundraising events	97,997	-	97,997	139,349	-	139,349
Other grants	45,902	20,000	65,902	60,291	-	60,291
Program service fees	42,392	-	42,392	56,721	-	56,721
Gain (loss) on sale of assets	5,408	-	5,408	(1,895)	-	(1,895)
Merchandise sales (net of direct costs of \$26,544 and \$45,844 for 2014 and 2013, respectively)	4,431	-	4,431	41,054	-	41,054
Miscellaneous income	2,147	-	2,147	1,311	-	1,311
Total revenues and other support	986,664	20,000	1,006,664	503,693	-	503,693
Expenses:						
Program services	374,899	-	374,899	464,660	-	464,660
Management and general	69,984	-	69,984	103,008	-	103,008
Fundraising	52,143	-	52,143	66,239	-	66,239
Total expenses	497,026	-	497,026	633,907	-	633,907
Increase (decrease) in net assets from continuing operations	489,638	20,000	509,638	(130,214)	-	(130,214)
Discontinued operations	(14,526)	-	(14,526)	-	-	-
Increase (decrease) in net assets	475,112	20,000	495,112	(130,214)	-	(130,214)
NET ASSETS, BEGINNING OF THE YEAR	118,401	-	118,401	248,615	-	248,615
NET ASSETS, END 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>

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

**DISMAS, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

	2014			2013				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 201,369	\$ 35,441	\$ 25,953	\$ 262,764	\$ 271,373	\$ 35,804	\$ 28,190	\$ 335,367
Utilities	29,816	-	-	29,816	36,859	-	-	36,859
Professional fees	14,939	11,931	-	26,870	4,954	18,938	-	23,892
Insurance	20,073	5,018	-	25,091	26,178	6,545	-	32,723
Fundraising events	-	-	24,554	24,554	-	-	35,923	35,923
Payroll taxes	15,582	2,182	1,636	19,400	21,744	2,659	2,126	26,529
Depreciation	15,111	1,679	-	16,790	23,928	2,659	-	26,587
Residential support	15,664	-	-	15,664	9,649	-	-	9,649
Office supplies	10,194	3,291	-	13,485	14,217	527	-	14,744
Groceries	12,683	-	-	12,683	24,783	-	-	24,783
Rent	11,710	-	-	11,710	19,200	-	-	19,200
Telephone, cable and newspaper	9,655	943	-	10,598	12,472	1,386	-	13,858
Maintenance	8,077	-	-	8,077	7,830	-	-	7,830
Interest expense	-	6,628	-	6,628	-	3,424	-	3,424
Travel	4,426	1,341	-	5,767	5,137	3,033	-	8,170
Miscellaneous	2,369	878	-	3,247	3,466	3,705	-	7,171
Taxes, licenses and fees	1,223	402	-	1,625	2,159	267	-	2,426
Postage	1,406	189	-	1,595	1,548	133	-	1,681
Staff training	602	60	-	662	1,339	-	-	1,339
Bad debts	-	-	-	-	1,752	-	-	1,752
	\$ 374,899	\$ 69,984	\$ 52,143	\$ 497,026	\$ 488,588	\$ 79,080	\$ 66,239	\$ 633,907

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

**DISMAS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 495,112	\$ (130,214)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	16,790	26,587
(Gain) loss on sale of assets	(5,408)	1,895
(Increase) decrease in grants receivable	7,899	(4,012)
Decrease in accounts receivable	3,609	4,480
(Increase) decrease in prepaid expenses	3,200	(620)
Increase (decrease) in accounts payable and accrued liabilities	4,504	(2,812)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>525,706</u>	<u>(104,696)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(27,820)	(8,089)
Proceeds from sale of property and equipment	<u>131,555</u>	<u>-</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>103,735</u>	<u>(8,089)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (payments) on line of credit, net	<u>(135,016)</u>	<u>15,016</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(135,016)</u>	<u>15,016</u>
NET INCREASE (DECREASE) IN CASH	494,425	(97,769)
CASH, BEGINNING OF THE YEAR	<u>32,838</u>	<u>130,607</u>
CASH, END OF THE YEAR	<u><u>\$ 527,263</u></u>	<u><u>\$ 32,838</u></u>
 <u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u><u>\$ 6,628</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, 2014 AND 2013**

**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.

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.

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.

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, 2014 AND 2013**

**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, 2014, the Organization has no donated property or equipment which is restricted.

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.

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, 2014 AND 2013**

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

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.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred after June 30, 2014 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, 2014 financial statements.

**NOTE 2 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	2014	2013
Land	\$ 17,200	\$ 44,200
Buildings and improvements	338,211	505,337
Furniture and equipment	46,182	114,557
Vehicles	<u>8,935</u>	<u>8,935</u>
	410,528	673,029
Less accumulated depreciation	<u>(295,521)</u>	<u>(442,905)</u>
Net property and equipment	<u>\$ 115,007</u>	<u>\$ 230,124</u>

Depreciation expense was \$16,790 and \$26,587 for the years ended June 30, 2014 and 2013, 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, 2014 the rate was 5.00%. The maturity date of this line of credit is April 2016. The outstanding balance was \$6,000 and \$141,016 at June 30, 2014 and 2013, respectively.

**DISMAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS**

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

	<b>2014</b>	<b>2013</b>
Grant to be used by specific program	<u>\$ 20,000</u>	<u>\$ -</u>

**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 \$5,241 and \$3,030 in 2014 and 2013, respectively, in accordance with the terms of the plan.

## **SUPPLEMENTAL INFORMATION**

**DISMAS, INC.**  
**SCHEDULE OF CONTINUING OPERATING ACTIVITIES**  
**YEAR ENDED JUNE 30, 2014**

	Nashville	South Bend	Inc.	Total
<b>REVENUES AND OTHER SUPPORT</b>				
Program service fees	\$ 607,715	\$ 71,100	\$ 6,072	\$ 684,887
State grant	-	-	103,500	103,500
Fundraising events	5,270	60,784	31,943	97,997
Other grants	33,000	12,902	20,000	65,902
Contributions	19,739	22,653	-	42,392
Gain on sale of assets	-	-	5,408	5,408
Miscellaneous	6	1,540	601	2,147
Total revenues and other support	665,730	168,979	167,524	1,002,233
<b>EXPENSES</b>				
Salaries and benefits	52,081	111,241	76,275	239,597
Utilities	13,175	14,324	-	27,499
Insurance	10,037	10,036	5,018	25,091
Fundraising events	506	12,984	11,064	24,554
Professional fees	4,868	-	21,829	26,697
Payroll taxes	4,675	6,160	5,469	16,304
Resident support	1,381	14,283	-	15,664
Groceries	3,515	9,168	-	12,683
Office supplies	1,342	4,884	6,660	12,886
Depreciation	-	-	16,790	16,790
Telephone and cable	6,404	2,477	943	9,824
Maintenance	2,522	5,136	-	7,658
Interest expense	-	-	6,628	6,628
Travel	50	4,343	1,341	5,734
Miscellaneous	758	560	878	2,196
Taxes, licenses and fees	200	1,023	402	1,625
Postage	539	853	189	1,581
Staff training	500	102	60	662
Rent	-	110	-	110
Total expenses	102,553	197,684	153,546	453,783
Increase (decrease) in net assets from continuing operations	\$ 563,177	\$ (28,705)	\$ 13,978	\$ 548,450