

**DISMAS, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2017 AND 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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 pages 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.


November 28, 2017

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash	\$ 872,473	\$ 399,317
Pledges receivable	25,175	17,668
Deposits	-	30,000
Prepaid expenses	<u>3,044</u>	<u>3,100</u>
Total current assets	900,692	450,085
PROPERTY AND EQUIPMENT, net	<u>1,499,516</u>	<u>95,514</u>
TOTAL ASSETS	<u><u>\$ 2,400,208</u></u>	<u><u>\$ 545,599</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 77,751	\$ 17,251
Line of credit	<u>50,255</u>	<u>182,204</u>
Total liabilities	<u>128,006</u>	<u>199,455</u>
NET ASSETS		
Unrestricted net assets:		
Designated by the Board	513,195	332,674
Undesignated	<u>1,509,007</u>	<u>13,470</u>
Total unrestricted net assets	2,022,202	346,144
Temporarily restricted net assets	<u>250,000</u>	<u>-</u>
Total net assets	<u>2,272,202</u>	<u>346,144</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,400,208</u></u>	<u><u>\$ 545,599</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Contributions	\$ 261,180	\$ 250,000	\$ 511,180	\$ 152,749	\$ -	\$ 152,749
Fundraising events	240,252	-	240,252	166,881	-	166,881
State grants	103,500	-	103,500	103,500	-	103,500
Program service fees	40,193	-	40,193	56,324	-	56,324
Other grants	-	-	-	6,550	-	6,550
Miscellaneous income	5,739	-	5,739	5,719	-	5,719
Gain on sale of property	1,686,890	-	1,686,890	-	-	-
Total revenues and other support	2,337,754	250,000	2,587,754	491,723	-	491,723
Expenses:						
Program services	364,859	-	364,859	399,918	-	399,918
Management and general	94,347	-	94,347	78,824	-	78,824
Fundraising	202,490	-	202,490	92,027	-	92,027
Total expenses	661,696	-	661,696	570,769	-	570,769
Increase (decrease) in net assets	1,676,058	250,000	1,926,058	(79,046)	-	(79,046)
NET ASSETS, BEGINNING OF THE YEAR	346,144	-	346,144	425,190	-	425,190
NET ASSETS, END OF THE YEAR	<u>\$2,022,202</u>	<u>\$ 250,000</u>	<u>\$2,272,202</u>	<u>\$ 346,144</u>	<u>\$ -</u>	<u>\$ 346,144</u>

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 183,297	\$ 45,824	\$ 76,374	\$ 305,495	\$ 226,099	\$ 36,801	\$ 28,309	\$ 291,209
Fundraising events	-	-	92,728	92,728	-	-	61,486	61,486
Professional fees	16,514	20,642	4,128	41,284	20,340	24,860	-	45,200
Insurance	23,908	5,977	-	29,885	23,054	5,763	-	28,817
Residential support	28,046	-	-	28,046	9,314	-	-	9,314
Maintenance	26,933	-	-	26,933	20,770	-	-	20,770
Payroll taxes	13,544	3,386	5,644	22,574	17,186	2,901	2,232	22,319
Advertising	-	-	21,191	21,191				
Utilities	17,630	1,959	-	19,589	23,942	-	-	23,942
Groceries	15,880	-	-	15,880	19,326	-	-	19,326
Office supplies	4,317	10,073	-	14,390	5,739	2,946	-	8,685
Depreciation	8,844	983	-	9,827	9,008	1,001	-	10,009
Telephone and cable	8,532	948	-	9,480	7,642	849	-	8,491
Transportation	5,582	620	-	6,202	6,990	479	-	7,469
Interest expense	4,847	538	-	5,385	5,607	624	-	6,231
Dues and subscriptions	468	2,104	2,104	4,676	-	-	-	-
Credit card processing and bank fees	4,299	-	-	4,299	-	-	-	-
Staff training	1,817	605	-	2,422	2,082	1,261	-	3,343
Postage	401	80	321	802	1,099	98	-	1,197
Taxes, licenses and fees	-	608	-	608	614	303	-	917
Website	-	-	-	-	1,106	938	-	2,044
	\$ 364,859	\$ 94,347	\$ 202,490	\$ 661,696	\$ 399,918	\$ 78,824	\$ 92,027	\$ 570,769

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 1,926,058	\$ (79,046)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,827	10,009
Gain on sale of property and equipment	(1,686,890)	-
Increase in accounts receivable	(7,507)	(17,668)
(Increase) decrease in deposits	30,000	(30,000)
Decrease in prepaid expenses	56	1,400
Increase (decrease) in accounts payable and accrued liabilities	<u>60,500</u>	<u>(15,813)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>332,044</u>	<u>(131,118)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment, net of settlement fees	1,741,515	-
Purchases of property and equipment	<u>(1,468,454)</u>	<u>(1,952)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>273,061</u>	<u>(1,952)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan	1,342,716	-
Principal payments on loan	(1,342,716)	-
Proceeds (payments) on line of credit, net	<u>(131,949)</u>	<u>84,204</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(131,949)</u>	<u>84,204</u>
NET INCREASE (DECREASE) IN CASH	473,156	(48,866)
CASH, BEGINNING OF THE YEAR	<u>399,317</u>	<u>448,183</u>
CASH, END OF THE YEAR	<u><u>\$ 872,473</u></u>	<u><u>\$ 399,317</u></u>
<u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u><u>\$ 5,385</u></u>	<u><u>\$ 6,231</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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 a 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, 2017 AND 2016

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. No allowance was considered necessary at June 30, 2017 and 2016.

Property and Equipment

Property and equipment are reported at cost and include improvements that significantly add to utility or extend useful lives and exceed \$1,000. 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 as of June 30, 2017.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017, the Organization has no donated property or equipment which is restricted.

Grants

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017, 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.

Advertising Costs

The Organization expenses all advertising costs as incurred. Total advertising expense amounted to \$21,191 and \$0 in 2017 and 2016, respectively.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred after June 30, 2017, through the date of the issued financial statements. During this time, the Organization received a large grant for the construction of a new facility. See *Note 4 Commitments and Contingencies* for further details.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2017	2016
Land	\$ 1,265,062	\$ 17,200
Buildings and improvements	119,966	338,211
Construction in process	210,592	-
Furniture and equipment	38,572	45,483
Vehicles	8,935	8,935
	<u>1,643,127</u>	<u>409,829</u>
Less accumulated depreciation	<u>(143,611)</u>	<u>(314,315)</u>
Net property and equipment	<u>\$ 1,499,516</u>	<u>\$ 95,514</u>

Depreciation expense was \$9,827 and \$10,009 for the years ended June 30, 2017 and 2016, 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%. As of June 30, 2017 the rate was 3.75%. The maturity date of this line of credit is April 2018. The outstanding balance was \$50,255 and \$182,204 at June 30, 2017 and 2016, respectively.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Commitments

In 2017, the Organization entered into an agreement with EOA Architects for the constructions of a new building. The total contracted price is \$415,050. Costs incurred at June 30, 2017 related to this contract were \$167,190.

Contingencies

Prior to June 30, 2017, grants totaling \$760,000 were awarded to the Organization for construction of a new facility. Subsequent to June 30, 2017, a grant for \$740,000 was awarded to the Organization for this same purpose. No amounts have been recognized at June 30, 2017 on the financial statements related to these grants, and all amounts are contingent on the construction of a new facility.

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.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

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 \$2,889 and \$3,640 in 2017 and 2016, respectively, in accordance with the terms of the plan.

NOTE 6 - DONATED SERVICES

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

	2017	2016
Contributions in-kind		
Groceries	\$ 8,422	\$ 8,626
Resident materials	985	4,094
Resident clothing	<u>800</u>	<u>640</u>
Total contributions in-kind	<u>\$ 10,207</u>	<u>\$ 13,360</u>
Expenses		
Functional expenses:		
Programs	<u>\$ 10,207</u>	<u>\$ 13,360</u>
Increase in net assets	<u>\$ -</u>	<u>\$ -</u>

NOTE 7 - LEASES

In June 2017, the Organization entered into a lease agreement for a residence to be used for organizational activities. The terms of the lease are monthly payments of \$10,000 for 18 months beginning July 2017. There was no rent paid for the years ended June 30, 2017 and 2016, respectively.

Future minimum lease payments are as follows:

2018	\$ 120,000
2019	<u>60,000</u>
	<u>\$ 180,000</u>

SUPPLEMENTAL INFORMATION

DISMAS, INC.
SCHEDULE OF OPERATING ACTIVITIES - NASHVILLE
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
REVENUES AND OTHER SUPPORT		
Contributions	\$ 434,705	\$ 74,266
Fundraising events	156,168	87,938
State grant	103,500	103,500
Program fees	21,810	25,681
Miscellaneous	5,254	5,415
Other grants	-	6,550
Gain on sale of property	1,686,890	-
	<hr/>	<hr/>
Total revenues and other support	2,408,327	303,350
EXPENSES		
Salaries and benefits	211,976	177,522
Fundraising events	71,523	34,163
Insurance	28,348	27,352
Resident support	24,890	4,966
Professional fees	23,616	45,200
Advertising	21,191	-
Payroll taxes	16,311	16,343
Maintenance	14,307	9,329
Depreciation	9,827	10,009
Office supplies	9,415	3,724
Utilities	8,724	13,796
Groceries	8,422	11,773
Telephone and cable	6,955	6,724
Interest expense	5,385	6,231
Transportation	3,990	1,562
Credit card processing and bank fees	3,800	-
Dues and subscriptions	3,438	-
Staff training	857	1,980
Taxes, licenses and fees	608	892
Postage	442	676
Website	-	2,044
	<hr/>	<hr/>
Total expenses	474,025	374,286
	<hr/>	<hr/>
Increase (decrease) in net assets from operations	\$ 1,934,302	\$ (70,936)

DISMAS, INC.
SCHEDULE OF OPERATING ACTIVITIES - SOUTH BEND
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
REVENUES AND OTHER SUPPORT		
Fundraising events	\$ 84,084	\$ 78,943
Contributions	76,475	78,483
Program fees	18,383	30,643
Miscellaneous	485	304
	<hr/>	<hr/>
Total revenues and other support	179,427	188,373
	<hr/>	<hr/>
EXPENSES		
Salaries and benefits	93,519	113,687
Fundraising events	21,205	27,323
Professional fees	17,668	-
Maintenance	12,626	11,441
Utilities	10,865	10,146
Groceries	7,458	7,553
Payroll taxes	6,263	5,976
Office supplies	4,975	4,961
Resident support	3,156	4,348
Telephone and cable	2,525	1,767
Transportation	2,212	5,907
Staff training	1,565	-
Insurance	1,537	1,465
Dues and subscriptions	1,238	-
Credit card processing and bank fees	499	25
Postage	360	521
Website	-	1,363
	<hr/>	<hr/>
Total expenses	187,671	196,483
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Decrease in net assets from operations	\$ (8,244)	\$ (8,110)
	<hr/>	<hr/>