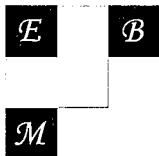


**DISMAS, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2008 AND 2007**

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FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2008 AND 2007**

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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 statement of financial position of Dismas, Inc., as of June 30, 2008, and the related statement of activities, functional expenses, and cash flows for the year 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 audit. The financial statements of Dismas, Inc. as of June 30, 2007 were audited by other auditors whose report dated January 8, 2008, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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, 2008, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was 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 audit 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

November 11, 2008

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS

	2008	2007
CURRENT ASSETS		
Cash	\$ 133,190	\$ 138,867
Accounts receivable	3,369	16,726
Prepaid expenses	<u>4,518</u>	<u>6,776</u>
Total current assets	141,077	162,369
PROPERTY AND EQUIPMENT, net	<u>260,320</u>	<u>270,357</u>
TOTAL ASSETS	<u><u>\$ 401,397</u></u>	<u><u>\$ 432,726</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,942	\$ 2,100
Line of credit	<u>20,047</u>	<u>-</u>
Total liabilities	<u>22,989</u>	<u>2,100</u>
NET ASSETS		
Unrestricted	375,408	430,626
Temporarily restricted	<u>3,000</u>	<u>-</u>
Total net assets	<u>378,408</u>	<u>430,626</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 401,397</u></u>	<u><u>\$ 432,726</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2008 AND 2007

	2008			2007		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:						
Contributions	\$ 140,875	\$ 3,000	\$ 143,875	\$ 130,827	\$ -	\$ 130,827
Fundraising events	111,611	-	111,611	117,764	-	117,764
State grants	103,500	-	103,500	112,241	-	112,241
Program service fees	88,735	-	88,735	86,705	-	86,705
Other grants	78,389	-	78,389	69,281	-	69,281
Miscellaneous income	13,803	-	13,803	12,401	-	12,401
Donated services and materials	2,120	-	2,120	-	-	-
Total revenues and other support	<u>539,033</u>	<u>3,000</u>	<u>542,033</u>	<u>529,219</u>	<u>-</u>	<u>529,219</u>
Expenses:						
Program services	481,915	-	481,915	435,846	-	435,846
Management and general	69,185	-	69,185	59,527	-	59,527
Fundraising	43,151	-	43,151	63,952	-	63,952
Total expenses	<u>594,251</u>	<u>-</u>	<u>594,251</u>	<u>559,325</u>	<u>-</u>	<u>559,325</u>
INCREASE (DECREASE) IN NET ASSETS	(55,218)	3,000	(52,218)	(30,106)	-	(30,106)
NET ASSETS, BEGINNING OF THE YEAR	<u>430,626</u>	<u>-</u>	<u>430,626</u>	<u>460,732</u>	<u>-</u>	<u>460,732</u>
NET ASSETS, END OF THE YEAR	<u>\$ 375,408</u>	<u>\$ 3,000</u>	<u>\$ 378,408</u>	<u>\$ 430,626</u>	<u>\$ -</u>	<u>\$ 430,626</u>

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	2008			2007		
	Program Services	Management and General	Fundraising	Program Services	Management and General	Fundraising
	Total			Total		
Salaries and benefits	\$ 250,994	\$ 47,061	\$ 15,687	\$ 213,819	\$ 40,091	\$ 13,364
Groceries	52,741	-	-	43,984	-	-
Utilities	35,860	-	-	35,165	-	-
Insurance	21,586	5,396	-	22,507	5,279	-
Fundraising events	-	-	26,344	-	-	49,644
Payroll taxes	17,924	3,361	1,120	13,288	2,492	830
Materials	21,241	-	-	17,885	-	-
Maintenance	20,036	-	-	26,244	-	-
Depreciation	19,796	-	-	18,544	574	-
Office supplies	10,219	2,555	-	9,888	306	-
Travel	9,247	2,312	-	7,655	1,044	-
Miscellaneous	6,986	1,745	-	5,813	2,259	-
Professional fees	3,750	3,069	-	5,993	5,106	-
Telephone, cable and newspaper	4,946	1,236	-	5,665	1,598	-
Staff training	2,012	1,647	-	679	534	-
Purchased services	2,859	-	-	6,274	-	-
Postage	1,013	253	-	2,050	114	114
Taxes, licenses and fees	705	550	-	393	130	-
	<u>\$ 481,915</u>	<u>\$ 69,185</u>	<u>\$ 43,151</u>	<u>\$ 435,846</u>	<u>\$ 59,527</u>	<u>\$ 63,952</u>
			<u>\$ 594,251</u>			<u>\$ 559,325</u>

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (52,218)	\$ (30,106)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	19,796	19,118
Donated equipment	(1,370)	-
(Increase) decrease in accounts receivable	13,357	(418)
Decrease in prepaid expenses	2,258	107
Increase (decrease) in accounts payable and accrued liabilities	842	(7,351)
NET CASH USED IN OPERATING ACTIVITIES	<u>(17,335)</u>	<u>(18,650)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	<u>(8,389)</u>	<u>(6,505)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(8,389)</u>	<u>(6,505)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	<u>20,047</u>	<u>-</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>20,047</u>	<u>-</u>
NET DECREASE IN CASH	(5,677)	(25,155)
CASH, BEGINNING OF THE YEAR	<u>138,867</u>	<u>164,022</u>
CASH, END OF THE YEAR	<u><u>\$ 133,190</u></u>	<u><u>\$ 138,867</u></u>
<u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u>\$ 264</u>	<u>\$ 238</u>
NON-CASH INVESTING ACTIVITY: Donated equipment	<u><u>\$ 1,370</u></u>	<u><u>\$ -</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2008 AND 2007

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, 2008 AND 2007

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, 2008, 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, 2008 AND 2007

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.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2008	2007
Land	\$ 44,200	\$ 44,200
Buildings and improvements	487,383	480,133
Furniture and equipment	62,928	121,405
Vehicles	<u>8,935</u>	<u>9,234</u>
	603,446	654,972
Less accumulated depreciation	<u>(343,126)</u>	<u>(384,615)</u>
Net property and equipment	<u>\$ 260,320</u>	<u>\$ 270,357</u>

Depreciation expense was \$19,796 and \$19,118 for the years ended June 30, 2008 and 2007, 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, 2008 the rate was 4.75%. The outstanding balance was \$20,047 and \$-0- at June 30, 2008 and 2007, respectively.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

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

	2008	2007
Grant for technology equipment	<u>\$ 3,000</u>	<u>\$ -</u>
Total temporarily restricted net assets	<u>\$ 3,000</u>	<u>\$ -</u>

NOTE 5 - DONATED MATERIALS AND SERVICES

The Organization receives donated materials and services ("in-kind" contributions) in the normal course of its operations, to include program materials, special events, fundraising goods or services, property and equipment and office supplies. The estimated fair values of these items are included in the statements of activities for the years ended June 30, 2008 and 2007 as follows:

	2008	2007
Property and equipment	\$ 1,370	\$ -
Program materials	<u>750</u>	<u>-</u>
Total in-kind contributions	<u>\$ 2,120</u>	<u>\$ -</u>

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 \$4,372 and \$4,966 in 2008 and 2007 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, 2008 AND 2007

	2008	2007
REVENUES AND OTHER SUPPORT		
Other grants	\$ 48,116	\$ 46,974
Program service fees	16,156	16,213
Contributions	13,100	15,283
Fundraising events	9,358	10,722
Miscellaneous	3,992	3,325
	<hr/>	<hr/>
Total revenues and other support	90,722	92,517
	<hr/>	<hr/>
EXPENSES		
Salaries	45,689	40,865
Groceries	18,806	13,135
Depreciation	10,778	10,789
Maintenance	9,374	6,130
Materials	8,442	5,450
Utilities	6,974	6,386
Travel	4,745	4,617
Payroll taxes	3,483	3,102
Telephone, cable and newspaper	2,501	3,895
Office supplies	2,124	2,003
Fundraising events	1,456	2,490
Miscellaneous	506	206
Postage	486	90
Taxes, licenses and fees	279	-
Insurance	-	4,345
Staff training	-	80
	<hr/>	<hr/>
Total expenses	115,643	103,583
	<hr/>	<hr/>
Decrease in net assets	\$ (24,921)	\$ (11,066)
	<hr/>	<hr/>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
NASHVILLE HOUSE
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
REVENUES AND OTHER SUPPORT		
Contributions	\$ 36,346	\$ 50,009
Program service fees	28,727	32,037
Fundraising events	26,031	14,624
Other grants	15,408	4,487
Miscellaneous income	202	79
State Grant	-	8,741
	<u>106,714</u>	<u>109,977</u>
EXPENSES		
Salaries	86,885	87,041
Utilities	19,216	19,984
Groceries	16,065	13,751
Payroll taxes	5,563	5,531
Materials	4,901	3,571
Depreciation	4,041	3,663
Miscellaneous	3,297	2,995
Maintenance	3,029	7,065
Fundraising events	2,444	-
Office supplies	1,021	1,859
Travel	329	170
Staff training	216	-
Special house events	-	501
	<u>147,007</u>	<u>146,131</u>
Total expenses	<u>147,007</u>	<u>146,131</u>
Decrease in net assets	<u><u>\$ (40,293)</u></u>	<u><u>\$ (36,154)</u></u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
MICHIANA HOUSE
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
REVENUES AND OTHER SUPPORT		
Contributions	\$ 81,397	\$ 37,235
Fundraising events	55,267	77,945
Program service fees	43,852	38,455
Other grants	14,865	17,820
Miscellaneous income	2,294	3,356
Donated services and materials	2,120	-
Interest	515	32
	<u>200,310</u>	<u>174,843</u>
EXPENSES		
Salaries	99,704	83,387
Groceries	17,870	17,098
Fundraising events	13,145	27,051
Utilities	9,670	8,795
Materials	7,898	7,899
Maintenance	7,632	13,049
Payroll taxes	5,908	5,116
Office supplies	5,343	5,332
Depreciation	4,978	4,666
Telephone, cable and newspapers	3,681	1,776
Travel	2,974	1,242
Purchased services	2,859	6,274
Insurance	2,641	2,976
Miscellaneous	2,167	2,402
Professional fees	819	2,049
Postage	774	2,085
Staff training	737	1,133
Taxes, licenses and fees	426	126
Special house events	-	234
	<u>189,226</u>	<u>192,690</u>
Total expenses	<u>189,226</u>	<u>192,690</u>
Increase (decrease) in net assets	<u><u>\$ 11,084</u></u>	<u><u>\$ (17,847)</u></u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
DISMAS, INC.
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
REVENUES AND OTHER SUPPORT		
State grants	\$ 103,500	\$ 103,500
Fundraising events	20,955	14,473
Contributions	13,032	3,300
Interest	6,672	5,609
Miscellaneous income	128	-
Other grants	-	25,000
	<u>144,287</u>	<u>151,882</u>
Total revenues and other support		
EXPENSES		
Salaries	81,465	55,981
Insurance	24,341	20,465
Fundraising events	9,299	20,103
Payroll taxes	7,451	2,861
Professional fees	6,000	9,050
Office expenses	4,291	1,000
Travel	3,511	2,669
Training	2,706	-
Miscellaneous	2,761	1,735
Taxes, licenses and fees	550	397
Postage	-	103
Telephone, cable and newspapers	-	1,592
Materials expense	-	965
	<u>142,375</u>	<u>116,921</u>
Total expenses		
Increase in net assets	<u>\$ 1,912</u>	<u>\$ 34,961</u>