

**DISMAS, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2011 AND 2010**

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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, 2011 and 2010, 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, 2011 and 2010, 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 schedules, as listed in the table of contents, on pages 11 through 15 are presented for purposes of additional analysis and are not a required part of the basic 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 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 taken as a whole.

Edmondson, Betzler & Montgomery, PLLC

December 8, 2011

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

ASSETS

	2011	2010
CURRENT ASSETS		
Cash	\$ 129,374	\$ 154,974
Grants receivable	32,918	11,616
Accounts receivable	2,465	-
Pledges receivable	-	7,500
Prepaid expenses	<u>2,114</u>	<u>3,507</u>
Total current assets	166,871	177,597
PROPERTY AND EQUIPMENT, net	<u>260,336</u>	<u>229,965</u>
TOTAL ASSETS	<u><u>\$ 427,207</u></u>	<u><u>\$ 407,562</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 7,407	\$ 8,547
Line of credit	<u>65,000</u>	<u>55,000</u>
Total liabilities	<u>72,407</u>	<u>63,547</u>
NET ASSETS		
Unrestricted	342,800	328,515
Temporarily restricted	<u>12,000</u>	<u>15,500</u>
Total net assets	<u>354,800</u>	<u>344,015</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 427,207</u></u>	<u><u>\$ 407,562</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2011 AND 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Other grants	\$ 193,918	\$ 30,000	\$ 223,918	\$ 136,918	\$ -	\$ 136,918
Fundraising events	152,965	-	152,965	142,647	-	142,647
State grants	103,500	-	103,500	103,500	-	103,500
Contributions	102,195	-	102,195	102,511	15,500	118,011
Program service fees	69,174	-	69,174	52,111	-	52,111
Merchandise sales (net of direct costs of \$32,804 for 2011)	34,651	-	34,651	-	-	-
Insurance proceeds	12,769	-	12,769	30,000	-	30,000
Donated services and materials	10,246	-	10,246	9,255	-	9,255
Miscellaneous income	2,862	-	2,862	8,879	-	8,879
Loss on disposal of assets	-	-	-	(6,750)	-	(6,750)
Net assets released from restrictions	33,500	(33,500)	-	430	(430)	-
Total revenues and other support	715,780	(3,500)	712,280	579,501	15,070	594,571
Expenses:						
Program services	572,461	-	572,461	426,440	-	426,440
Management and general	60,835	-	60,835	94,554	-	94,554
Fundraising	68,199	-	68,199	64,654	-	64,654
Total expenses	701,495	-	701,495	585,648	-	585,648
INCREASE (DECREASE) IN NET ASSETS	14,285	(3,500)	10,785	(6,147)	15,070	8,923
NET ASSETS, BEGINNING OF THE YEAR	328,515	15,500	344,015	334,662	430	335,092
NET ASSETS, END OF THE YEAR	<u>\$ 342,800</u>	<u>\$ 12,000</u>	<u>\$ 354,800</u>	<u>\$ 328,515</u>	<u>\$ 15,500</u>	<u>\$ 344,015</u>

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2011 AND 2010

	2011			2010				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 286,772	\$ 39,766	\$ 31,011	\$ 357,549	\$ 209,676	\$ 59,907	\$ 29,954	\$ 299,537
Utilities	37,975	-	-	37,975	29,775	-	-	29,775
Groceries	35,561	-	-	35,561	31,124	-	-	31,124
Fundraising events	-	-	34,523	34,523	-	-	32,361	32,361
Materials	34,232	-	-	34,232	30,051	-	-	30,051
Payroll taxes	24,006	2,666	2,665	29,337	16,371	4,678	2,339	23,388
Insurance	23,336	5,834	-	29,170	13,992	3,498	-	17,490
Office supplies	23,618	729	-	24,347	14,200	3,245	-	17,445
Maintenance	22,522	-	-	22,522	16,584	-	-	16,584
Depreciation	20,808	219	-	21,027	20,488	218	-	20,706
Telephone, cable and newspaper	15,664	2,276	-	17,940	10,929	2,732	-	13,661
Rent	17,600	-	-	17,600	-	-	-	-
Travel	9,374	1,252	-	10,626	10,382	3,933	-	14,315
Professional fees	3,692	6,094	-	9,786	10,146	8,195	-	18,341
Miscellaneous	5,686	1,306	-	6,992	2,471	4,956	-	7,427
Purchased services	6,110	-	-	6,110	1,825	-	-	1,825
Staff training	2,393	-	-	2,393	4,914	3,002	-	7,916
Postage	1,934	134	-	2,068	3,301	190	-	3,491
Taxes, licenses and fees	1,177	560	-	1,737	211	-	-	211
	\$ 572,461	\$ 60,835	\$ 68,199	\$ 701,495	\$ 426,440	\$ 94,554	\$ 64,654	\$ 585,648

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 10,785	\$ 8,923
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	21,027	20,706
Loss on disposal of assets	-	6,750
(Increase) decrease in pledges receivable	7,500	(7,500)
(Increase) decrease in grants receivable	(21,302)	1,120
Increase in accounts receivable	(2,465)	-
(Increase) decrease in prepaid expenses	1,393	(245)
Increase (decrease) in accounts payable and accrued liabilities	(1,140)	3,333
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>15,798</u>	<u>33,087</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	<u>(51,398)</u>	<u>(5,970)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(51,398)</u>	<u>(5,970)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit, net	<u>10,000</u>	<u>5,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>10,000</u>	<u>5,000</u>
NET INCREASE (DECREASE) IN CASH	(25,600)	32,117
CASH, BEGINNING OF THE YEAR	<u>154,974</u>	<u>122,857</u>
CASH, END OF THE YEAR	<u><u>\$ 129,374</u></u>	<u><u>\$ 154,974</u></u>
 <u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u><u>\$ 752</u></u>	<u><u>\$ 291</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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. 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, 2011 AND 2010

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, 2011, 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, 2011 AND 2010

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.

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

Dismas Inc. has evaluated events and transactions that occurred between June 30, 2011 and December 8, 2011, 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:

	2011	2010
Land	\$ 44,200	\$ 44,200
Buildings and improvements	495,277	476,005
Furniture and equipment	105,687	73,561
Vehicles	8,935	8,935
	<u>654,099</u>	<u>602,701</u>
Less accumulated depreciation	<u>(393,763)</u>	<u>(372,736)</u>
Net property and equipment	<u>\$ 260,336</u>	<u>\$ 229,965</u>

Depreciation expense was \$21,027 and \$20,706 for the years ended June 30, 2011 and 2010, respectively.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

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, 2011 the rate was 3.00%. The outstanding balance was \$65,000 and \$55,000 at June 30, 2011 and 2010, respectively.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

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

	2011	2010
Contributions to be used by specific program	<u>\$ 12,000</u>	<u>\$ 15,500</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 \$5,331 and \$5,326 in 2011 and 2010 in accordance with the terms of the plan.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 7 - LEASE COMMITMENTS

The Organization began leasing facilities under an operating lease agreement dated August 1, 2010 that will expire July 31, 2011. This original lease agreement was extended in July 2011 for an additional year and will expire on July 31, 2012.

The Organization began leasing a copier under an operating lease agreement dated May 26, 2011 that will expire on June 30, 2016.

Future minimum rental payments required under all operating leases in effect at June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	
2012	\$ 20,196
2013	2,596
2014	996
2015	996
2016	996
Total	<u>\$ 25,780</u>

SUPPLEMENTAL INFORMATION

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES
UPPER CUMBERLAND HOUSE
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
REVENUES AND OTHER SUPPORT		
Other grants	\$ 65,595	\$ 29,619
Fundraising events	20,430	23,082
Contributions	15,124	27,640
Program service fees	13,617	9,673
Donated services and materials	7,465	-
Miscellaneous	210	1,694
	<hr/>	<hr/>
Total revenues and other support	122,441	91,708
	<hr/>	<hr/>
EXPENSES		
Salaries	54,395	55,379
Materials	12,675	4,482
Groceries	10,708	10,704
Depreciation	9,084	10,660
Telephone, cable and newspaper	8,249	7,010
Utilities	8,219	6,516
Maintenance	7,947	4,810
Office supplies	7,227	5,781
Payroll taxes	5,111	4,827
Fundraising events	3,068	3,289
Travel	2,997	4,633
Professional fees	2,092	2,680
Insurance	1,625	-
Miscellaneous	787	519
Postage	418	616
Taxes, licenses and fees	130	95
Staff training	-	2,473
	<hr/>	<hr/>
Total expenses	134,732	124,474
	<hr/>	<hr/>
Decrease in net assets	\$ (12,291)	\$ (32,766)
	<hr/>	<hr/>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES
NASHVILLE HOUSE
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
REVENUES AND OTHER SUPPORT		
Other grants	\$ 53,428	\$ 54,919
Program service fees	36,074	25,970
Contributions	32,274	39,723
Fundraising events	20,657	23,527
Donated services and materials	2,781	9,255
Miscellaneous income	326	60
Loss on disposal of assets	<u>-</u>	<u>(6,750)</u>
Total revenues and other support	<u>145,540</u>	<u>146,704</u>
EXPENSES		
Salaries	77,949	73,700
Utilities	15,292	13,451
Materials	12,826	20,625
Groceries	9,960	9,163
Maintenance	8,262	7,925
Payroll taxes	6,551	5,983
Depreciation	5,678	4,740
Fundraising events	4,761	5,279
Telephone, cable and newspaper	4,439	3,726
Office supplies	3,053	2,443
Professional fees	1,209	7,239
Travel	1,000	3,606
Miscellaneous	938	918
Staff training	914	2,316
Postage	497	708
Taxes, licenses and fees	<u>50</u>	<u>-</u>
Total expenses	<u>153,379</u>	<u>161,822</u>
Decrease in net assets	<u>\$ (7,839)</u>	<u>\$ (15,118)</u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES
MICHIANA HOUSE
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
REVENUES AND OTHER SUPPORT		
Fundraising events	\$ 82,846	\$ 70,847
Other grants	74,895	52,380
Contributions	35,000	32,000
Program service fees	19,483	16,468
Miscellaneous income	952	227
Interest	-	3
	<hr/>	<hr/>
Total revenues and other support	213,176	171,925
	<hr/>	<hr/>
EXPENSES		
Salaries	83,853	88,910
Fundraising events	17,271	10,527
Groceries	14,893	11,257
Utilities	10,689	9,808
Materials	8,731	4,944
Maintenance	6,313	3,849
Payroll taxes	6,145	6,665
Purchased services	6,110	1,825
Office supplies	5,650	5,976
Depreciation	4,379	5,088
Insurance	3,493	-
Travel	3,454	2,143
Telephone, cable and newspapers	2,690	2,925
Staff training	1,479	125
Postage	886	1,977
Miscellaneous	747	1,035
Taxes, licenses and fees	257	116
Professional fees	-	227
	<hr/>	<hr/>
Total expenses	177,040	157,397
	<hr/>	<hr/>
Increase in net assets	\$ 36,136	\$ 14,528
	<hr/>	<hr/>

DISMAS INC.
SCHEDULE OF OPERATING ACTIVITIES
TRIPLE THREAD APPAREL
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
REVENUES AND OTHER SUPPORT		
Merchandise sales (net of direct costs of \$32,804 for 2011)	\$ 34,651	\$ -
Other grants	30,000	-
Contributions	18,597	15,500
Fundraising events	1,050	-
Miscellaneous income	474	-
	<u>84,772</u>	<u>15,500</u>
Total revenues and other support		
EXPENSES		
Salaries	53,797	-
Rent	17,600	-
Office supplies	6,959	-
Payroll taxes	5,536	-
Utilities	3,775	-
Telephone, cable and newspapers	2,025	-
Miscellaneous	1,908	-
Depreciation	1,667	-
Insurance	1,535	-
Travel	672	-
Fundraising events	578	-
Professional fees	391	-
Taxes, licenses and fees	180	-
	<u>96,623</u>	<u>-</u>
Total expenses		
Increase (decrease) in net assets	<u>\$ (11,851)</u>	<u>\$ 15,500</u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES
DISMAS, INC.
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
REVENUES AND OTHER SUPPORT		
State grants	\$ 103,500	\$ 103,500
Insurance proceeds	12,769	30,000
Fundraising events	27,982	25,191
Miscellaneous income	-	4,069
Contributions	1,200	3,148
Interest	900	2,826
	<u>146,351</u>	<u>168,734</u>
Total revenues and other support		
EXPENSES		
Salaries	87,555	81,548
Insurance	22,517	17,490
Fundraising events	8,845	13,266
Professional fees	6,094	8,195
Payroll taxes	5,994	5,913
Miscellaneous	2,612	4,955
Travel	2,503	3,933
Office expenses	1,458	3,245
Taxes, licenses and fees	1,120	-
Telephone, cable and newspapers	537	-
Postage	267	190
Depreciation	219	218
Training	-	3,002
	<u>139,721</u>	<u>141,955</u>
Total expenses		
Increase in net assets	<u>\$ 6,630</u>	<u>\$ 26,779</u>