

**DISMAS, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2019 AND 2018**

**DISMAS, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2019 AND 2018**

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Edmondson, Betzler & Dame
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, 2019 and 2018, 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, 2019 and 2018, 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.

Edmundson, Betyer & Deme, PLLC

December 4, 2019

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS

	2019	2018
CURRENT ASSETS		
Cash	\$ 596,301	\$ 592,888
Restricted cash	<u>200,000</u>	<u>242,427</u>
Total cash and cash equivalents	796,301	835,315
Pledges receivable, net allowance of \$ 4,271 and \$3,803 in 2019 and 2018, respectively	38,721	34,232
Prepaid expenses	<u>15,500</u>	<u>12,944</u>
Total current assets	850,522	882,491
PROPERTY AND EQUIPMENT, net	<u>4,098,905</u>	<u>1,804,961</u>
TOTAL ASSETS	<u><u>\$ 4,949,427</u></u>	<u><u>\$ 2,687,452</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 271,349	\$ 1,500
Accrued liabilities	40,046	140,502
Current portion of long-term debt	2,454	-
Line of credit	<u>145,500</u>	<u>-</u>
Total current liabilities	459,349	142,002
Long-term debt	<u>1,103,631</u>	<u>-</u>
Total liabilities	<u>1,562,980</u>	<u>142,002</u>
NET ASSETS		
Without donor restrictions	3,186,447	2,303,023
With donor restrictions	<u>200,000</u>	<u>242,427</u>
Total net assets	<u>3,386,447</u>	<u>2,545,450</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,949,427</u></u>	<u><u>\$ 2,687,452</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:						
Contributions	\$ 1,037,393	\$ 200,000	\$1,237,393	\$ 308,966	\$ 573,877	\$ 882,843
Fundraising events	266,634	-	266,634	279,754	-	279,754
State grants	103,500	-	103,500	103,500	-	103,500
Program service fees	48,972	-	48,972	66,285	-	66,285
Miscellaneous income	411	-	411	7,922	-	7,922
Net assets released from restrictions	242,427	(242,427)	-	370,858	(370,858)	-
Total revenues and other support	1,699,337	(42,427)	1,656,910	1,137,285	203,019	1,340,304
Expenses:						
Program services	572,528	-	572,528	588,174	-	588,174
Management and general	86,553	-	86,553	129,273	-	129,273
Fundraising	156,832	-	156,832	194,231	-	194,231
Total functional expenses	815,913	-	815,913	911,678	-	911,678
Grant to other organization	-	-	-	134,078	-	134,078
Total expenses	815,913	-	815,913	1,045,756	-	1,045,756
Increase (decrease) in net assets	883,424	(42,427)	840,997	91,529	203,019	294,548
NET ASSETS, BEGINNING OF THE YEAR	2,303,023	242,427	2,545,450	2,211,494	39,408	2,250,902
NET ASSETS, END OF THE YEAR	<u>\$3,186,447</u>	<u>\$ 200,000</u>	<u>\$3,386,447</u>	<u>\$2,303,023</u>	<u>\$ 242,427</u>	<u>\$2,545,450</u>

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Program Services	Management and General	Fundraising	Program Services	Management and General	Fundraising
			Total			Total
Salaries and benefits	\$ 242,301	\$ 30,288	\$ 30,287	\$ 237,506	\$ 46,387	\$ 80,954
Rent	123,750	13,750	-	109,527	12,170	-
Fundraising costs	-	-	86,957	-	-	70,890
Professional fees	64,579	5,227	5,227	43,766	27,699	-
Residential support	34,274	-	-	33,646	-	-
Meetings	27,311	3,414	3,414	46,592	-	-
Advertising	-	-	24,776	-	-	31,232
Payroll taxes	16,573	2,072	2,071	17,488	3,415	5,961
Taxes, licenses and fees	12,000	4,000	-	20,991	5,248	-
Insurance	9,836	5,300	-	20,490	5,196	-
Utilities	9,449	1,050	-	18,104	2,011	-
Maintenance	9,284	-	-	9,929	-	-
Dues and subscriptions	830	3,733	3,733	1,003	4,515	4,515
Telephone and cable	6,794	755	-	9,272	1,030	-
Transportation	6,231	692	-	2,827	314	-
Office supplies	1,927	4,496	-	5,186	12,102	-
Staff training	3,901	1,300	-	751	250	-
Credit card processing and bank fees	-	5,048	-	-	3,284	-
Miscellaneous	-	5,000	-	4,884	4,885	-
Interest expense	1,791	199	-	2,371	264	-
Depreciation	1,237	137	-	2,992	333	-
Postage	460	92	367	849	170	679
			919			
	<u>\$ 572,528</u>	<u>\$ 86,553</u>	<u>\$ 156,832</u>	<u>\$ 588,174</u>	<u>\$ 129,273</u>	<u>\$ 194,231</u>
			<u>\$ 815,913</u>			<u>\$ 907,388</u>

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 840,997	\$ 294,548
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,374	3,325
Loss on property gifted to other organization	-	26,361
Increase in pledges receivable, net	(4,489)	(9,057)
Increase in prepaid expenses	(2,556)	(9,900)
Increase (decrease) in accounts payable	269,849	(6,958)
Increase (decrease) in accrued liabilities	(100,456)	49,909
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,004,719</u>	<u>348,228</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(2,295,318)</u>	<u>(335,131)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,295,318)</u>	<u>(335,131)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	1,106,085	-
Proceeds from (payments on) line of credit, net	<u>145,500</u>	<u>(50,255)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>1,251,585</u>	<u>(50,255)</u>
NET DECREASE IN CASH	(39,014)	(37,158)
CASH, BEGINNING OF THE YEAR	<u>835,315</u>	<u>872,473</u>
CASH, END OF THE YEAR	<u><u>\$ 796,301</u></u>	<u><u>\$ 835,315</u></u>
<u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u><u>\$ 19,372</u></u>	<u><u>\$ 2,635</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

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. (the "Organization") 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 have been prepared in conformity with accounting principles generally accepted in the United States of America using the accrual method of accounting.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

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, 2019 AND 2018

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.

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.

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

All contributions are considered to be without donor restriction unless specifically stated by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. However, if a restriction is fulfilled in the same time period the contribution is received, the Organization reports the support as net assets without donor restriction.

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, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2019, the Organization has no donated property or equipment which is restricted.

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, 2019, 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.

Advertising Costs

The Organization expenses all advertising costs as incurred. Total advertising expense amounted to \$24,776 and \$31,232 in 2019 and 2018, respectively.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include salaries and benefits, payroll taxes, meetings and professional fees, which are allocated on the basis of estimates of time and effort, and rent, maintenance, depreciation, insurance and utilities are allocated on the basis of estimated square footage utilized by each program service and by supporting services. All other expenses are directly assigned to their related program.

Change in Accounting Principle

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Organization has adopted the guidance and has applied the changes retrospectively to all period presented. The new standard changes the following aspects of the Organization's financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The financial statements include a disclosure about liquidity and availability of resources in Note 3.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 is as follows:

Net Asset Classifications	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted	\$ 2,303,023	\$ -	\$ 1,102,697
Temporarily restricted	-	242,427	1,346,907
Permanently restricted	-	-	-
Net assets as reported	<u>\$ 2,303,023</u>	<u>\$ 242,427</u>	<u>\$ 2,449,604</u>

Prior Year Financial Statements

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Organization evaluated events and transactions that occurred after June 30, 2019, through the date of the issued financial statements. During the period there were no material recognizable subsequent events that required recognition in the disclosures to the June 30, 2019 financial statements.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances in banks insured by the Federal Deposit Insurance Corporation up to \$250,000. In the normal course of business, the Organization may have deposits that exceed the insured balance. At June 30, 2019 and 2018, the Organization had \$513,187 and \$665,107 respectively that was uninsured by the Federal Deposit Insurance Corporation.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2019	2018
Land	\$ 1,257,862	\$ 1,257,862
Construction in process	2,841,043	545,723
Furniture and equipment	<u>33,160</u>	<u>33,160</u>
	4,132,065	1,836,745
Less accumulated depreciation	<u>(33,160)</u>	<u>(31,784)</u>
Net property and equipment	<u>\$ 4,098,905</u>	<u>\$ 1,804,961</u>

Depreciation expense was \$1,374 and \$3,325 for the years ended June 30, 2019 and 2018, respectively.

NOTE 4 - 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, 2019, the rate was 4.25%. The maturity date of this line of credit is April 2020. The outstanding balance was \$145,500 at June 30, 2019. There was no balance outstanding at June 30, 2018.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 5 - LONG-TERM DEBT

The Organization opened a construction loan in November 2018 for \$5,000,000 to help finance construction of a new half-way house. The construction loan is collateralized by the Organization's land and facilities. The loan accrues interest at a fixed rate of 5.79%. The Organization will make interest only payments until June 2020. Beginning in June 2020, the Organization will make principal and interest payments in monthly installments through April 2023 based on twenty-year amortization rates with a final balloon payment due in May 2023. The outstanding balance was \$1,106,085 at June 30, 2019.

Maturities of long-term debt is as follows:

Year Ending June 30,	Amount
2020	\$ 2,454
2021	30,389
2022	32,196
2023	<u>1,041,046</u>
Total	<u>\$ 1,106,085</u>

NOTE 6 - BOARD DESIGNATED FUNDS

The Organization's governing board has designated, from net assets without donor restrictions of \$3,186,447, net assets for the following purposes as of June 30, 2019 and 2018.

	2019	2018
Quasi-endowment	<u>\$ 200,951</u>	<u>\$ 252,131</u>

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30 were restricted for the following purposes:

	2019	2018
Contributions to be used for capacity costs of programs at new facility	\$ 200,000	\$ -
Contributions to be used for construction of new facility	<u>-</u>	<u>242,427</u>
	<u>\$ 200,000</u>	<u>\$ 242,427</u>

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 8 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization has \$835,022 of financial assets available within one year of the statement financial position date consisting of substantially cash of \$796,301, and net pledges receivable of \$38,721. Cash and cash equivalents of \$596,301 is not restricted by donors, and \$200,000 is restricted by donors, as of financial statement date. The Organization has a goal to maintain financial assets, which consist of cash on hand, to meet 60 days of normal operating expense, which are, on average, approximately \$143,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. As described in Note 4, the Organization also has a line of credit in the amount of \$200,000, with a balance of \$145,500 at June 30, 2019, which could be drawn upon in the event of an unanticipated liquidity need.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Commitments

The Organization has entered into two agreements with vendors for the construction of a new building. The contracted price with both vendors totaled \$8,479,504. Costs incurred were \$2,684,299 and \$344,123 at June 30, 2019 and 2018, respectively.

Contingencies

The Organization has been awarded grants totaling \$3,700,500 for construction of a new facility. As of June 30, 2019, \$825,000 have been recognized 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.

NOTE 10 - 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 \$251 in 2018 in accordance with the terms of the plan. There were no contributions to the plan in 2019.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 11 - GIFT TO OTHER ORGANIZATION

As of June 30, 2018, the Organization ceased its operations of the house located in South Bend, Indiana. The property was sold to a separate organization, Dismas House of Indiana, Inc. The sales price was \$42,625 of which \$40,650 was deposited in the Organization's bank account after the deduction of direct selling expenses at an approximate loss on sale of \$26,361. The Organization then issued a grant to Dismas House of Indiana, Inc. of \$134,078 which included the funds from the sale of the property and funds remaining in a bank account operated by the Organization for the former house.