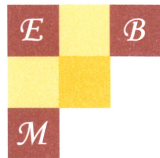


**DISMAS, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2012 AND 2011**

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FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2012 AND 2011**

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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, 2012 and 2011, 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, 2012 and 2011, 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
January 11, 2013

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash	\$ 130,607	\$ 129,374
Grants receivable	3,887	32,918
Accounts receivable	8,089	2,465
Prepaid expenses	<u>2,580</u>	<u>2,114</u>
Total current assets	145,163	166,871
PROPERTY AND EQUIPMENT, net	<u>250,517</u>	<u>260,336</u>
TOTAL ASSETS	<u><u>\$ 395,680</u></u>	<u><u>\$ 427,207</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 21,065	\$ 7,407
Line of credit	<u>126,000</u>	<u>65,000</u>
Total liabilities	<u>147,065</u>	<u>72,407</u>
NET ASSETS		
Unrestricted	248,615	342,800
Temporarily restricted	<u>-</u>	<u>12,000</u>
Total net assets	<u>248,615</u>	<u>354,800</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 395,680</u></u>	<u><u>\$ 427,207</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Fundraising events	\$ 131,553	\$ -	\$ 131,553	\$ 152,965	\$ -	\$ 152,965
Other grants	113,768	-	113,768	193,918	30,000	223,918
State grants	103,500	-	103,500	103,500	-	103,500
Contributions	88,114	-	88,114	102,195	-	102,195
Merchandise sales (net of direct costs of \$75,025 and \$32,804 for 2012 and 2011, respectively)	80,673	-	80,673	34,651	-	34,651
Program service fees	48,508	-	48,508	69,174	-	69,174
Miscellaneous income	3,884	-	3,884	2,862	-	2,862
Insurance proceeds	-	-	-	12,769	-	12,769
Donated services and materials	-	-	-	10,246	-	10,246
Net assets released from restrictions	12,000	(12,000)	-	33,500	(33,500)	-
Total revenues and other support	582,000	(12,000)	570,000	715,780	(3,500)	712,280
Expenses:						
Program services	541,297	-	541,297	572,461	-	572,461
Management and general	66,229	-	66,229	60,835	-	60,835
Fundraising	68,659	-	68,659	68,199	-	68,199
Total expenses	676,185	-	676,185	701,495	-	701,495
INCREASE (DECREASE) IN NET ASSETS	(94,185)	(12,000)	(106,185)	14,285	(3,500)	10,785
NET ASSETS, BEGINNING OF THE YEAR	342,800	12,000	354,800	328,515	15,500	344,015
NET ASSETS, END OF THE YEAR	<u>\$ 248,615</u>	<u>\$ -</u>	<u>\$ 248,615</u>	<u>\$ 342,800</u>	<u>\$ 12,000</u>	<u>\$ 354,800</u>

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012			2011				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 293,617	\$ 43,738	\$ 33,663	\$ 371,018	\$ 286,772	\$ 39,766	\$ 31,011	\$ 357,549
Utilities	33,876	-	-	33,876	37,975	-	-	37,975
Fundraising events	-	-	32,199	32,199	-	-	34,523	34,523
Payroll taxes	24,557	3,628	2,797	30,982	24,006	2,666	2,665	29,337
Insurance	24,083	6,021	-	30,104	23,336	5,834	-	29,170
Groceries	29,195	-	-	29,195	35,561	-	-	35,561
Depreciation	24,611	218	-	24,829	20,808	219	-	21,027
Maintenance	21,678	-	-	21,678	22,522	-	-	22,522
Office supplies	18,478	1,326	-	19,804	23,618	729	-	24,347
Rent	19,200	-	-	19,200	17,600	-	-	17,600
Telephone, cable and newspaper	14,580	1,620	-	16,200	15,664	2,276	-	17,940
Materials	11,841	-	-	11,841	34,232	-	-	34,232
Travel	9,135	1,424	-	10,559	9,374	1,252	-	10,626
Professional fees	1,937	6,372	-	8,309	3,692	6,094	-	9,786
Miscellaneous	6,529	1,760	-	8,289	5,686	1,306	-	6,992
Bad debts	3,445	-	-	3,445	-	-	-	-
Staff training	2,119	-	-	2,119	2,393	-	-	2,393
Postage	1,893	112	-	2,005	1,934	134	-	2,068
Taxes, licenses and fees	523	10	-	533	1,177	560	-	1,737
Purchased services	-	-	-	-	6,110	-	-	6,110
	\$ 541,297	\$ 66,229	\$ 68,659	\$ 676,185	\$ 572,461	\$ 60,835	\$ 68,199	\$ 701,495

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (106,185)	\$ 10,785
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	24,829	21,027
Decrease in pledges receivable	-	7,500
(Increase) decrease in grants receivable	29,031	(21,302)
Increase in accounts receivable	(5,624)	(2,465)
(Increase) decrease in prepaid expenses	(466)	1,393
Increase (decrease) in accounts payable and accrued liabilities	13,658	(1,140)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(44,757)</u>	<u>15,798</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	<u>(15,010)</u>	<u>(51,398)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(15,010)</u>	<u>(51,398)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit, net	<u>61,000</u>	<u>10,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>61,000</u>	<u>10,000</u>
NET INCREASE (DECREASE) IN CASH	1,233	(25,600)
CASH, BEGINNING OF THE YEAR	<u>129,374</u>	<u>154,974</u>
CASH, END OF THE YEAR	<u><u>\$ 130,607</u></u>	<u><u>\$ 129,374</u></u>
 <u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u><u>\$ 1,703</u></u>	<u><u>\$ 752</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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, 2012 AND 2011

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, 2012, 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, 2012 AND 2011

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.

Events Occurring After Reporting Date

Dismas Inc. has evaluated events and transactions that occurred after June 30, 2012 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, 2012 financial statements.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2012	2011
Land	\$ 44,200	\$ 44,200
Buildings and improvements	501,417	495,277
Furniture and equipment	114,557	105,687
Vehicles	<u>8,935</u>	<u>8,935</u>
	669,109	654,099
Less accumulated depreciation	<u>(418,592)</u>	<u>(393,763)</u>
Net property and equipment	<u>\$ 250,517</u>	<u>\$ 260,336</u>

Depreciation expense was \$24,829 and \$21,027 for the years ended June 30, 2012 and 2011, respectively.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - LINES 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, 2012 the rate was 2.75%. The outstanding balance was \$100,000 and \$65,000 at June 30, 2012 and 2011, respectively.

The Organization opened another \$100,000 line of credit in 2012 secured by property of the organization that has a variable interest rate that equals the prime rate plus 2.25%. As of June 30, 2012 the rate was 5.00%. The outstanding balance was \$26,000 at June 30, 2012.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

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

	2012	2011
Contributions to be used by specific program	\$ <u> </u> -	\$ <u>12,000</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 \$4,572 and \$5,331 in 2012 and 2011 in accordance with the terms of the plan.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 7 - LEASE COMMITMENTS

The Organization began leasing facilities under an operating lease agreement dated August 1, 2010 that will expire July 31, 2012. This lease agreement was extended in July 2012 for ninety days.

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, 2012 are as follows:

<u>Year Ending June 30,</u>	
2013	\$ 2,596
2014	996
2015	996
2016	996
Total	<u>\$ 5,584</u>

SUPPLEMENTAL INFORMATION

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES
UPPER CUMBERLAND HOUSE
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
REVENUES AND OTHER SUPPORT		
Other grants	\$ 25,425	\$ 65,595
Fundraising events	16,534	20,430
Program service fees	9,430	13,617
Contributions	5,927	15,124
Miscellaneous	102	210
Donated services and materials	-	7,465
	<hr/>	<hr/>
Total revenues and other support	57,418	122,441
	<hr/>	<hr/>
EXPENSES		
Salaries and benefits	44,128	54,395
Depreciation	9,646	9,084
Maintenance	8,087	7,947
Utilities	7,047	8,219
Groceries	5,727	10,708
Materials	4,229	12,675
Payroll taxes	4,142	5,111
Telephone, cable and newspaper	3,954	8,249
Travel	2,918	2,997
Office supplies	2,277	7,227
Fundraising events	2,247	3,068
Professional fees	1,843	2,092
Miscellaneous	835	787
Postage	215	418
Taxes, licenses and fees	25	130
Insurance	-	1,625
	<hr/>	<hr/>
Total expenses	97,320	134,732
	<hr/>	<hr/>
Decrease in net assets	\$ (39,902)	\$ (12,291)
	<hr/>	<hr/>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES
NASHVILLE HOUSE
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
REVENUES AND OTHER SUPPORT		
Contributions	\$ 33,998	\$ 32,274
Fundraising events	27,898	20,657
Program service fees	14,568	36,074
Other grants	5,000	53,428
Miscellaneous income	444	326
Donated services and materials	-	2,781
	<hr/>	<hr/>
Total revenues and other support	81,908	145,540
	<hr/>	<hr/>
EXPENSES		
Salaries and benefits	49,058	77,949
Utilities	11,909	15,292
Depreciation	6,774	5,678
Fundraising events	6,371	4,761
Groceries	5,496	9,960
Telephone, cable and newspaper	5,430	4,439
Maintenance	5,172	8,262
Payroll taxes	4,275	6,551
Materials	2,279	12,826
Office supplies	1,578	3,053
Travel	569	1,000
Postage	405	497
Miscellaneous	289	938
Professional fees	-	1,209
Staff training	-	914
Taxes, licenses and fees	-	50
	<hr/>	<hr/>
Total expenses	99,605	153,379
	<hr/>	<hr/>
Decrease in net assets	\$ (17,697)	\$ (7,839)
	<hr/>	<hr/>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES
MICHIANA HOUSE
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
REVENUES AND OTHER SUPPORT		
Other grants	\$ 65,843	\$ 74,895
Fundraising events	65,364	82,846
Contributions	39,067	35,000
Program service fees	24,510	19,483
Miscellaneous income	1,102	952
	<u>195,886</u>	<u>213,176</u>
Total revenues and other support		
EXPENSES		
Salaries and benefits	101,155	83,853
Groceries	17,972	14,893
Fundraising events	14,498	17,271
Utilities	10,490	10,689
Maintenance	7,603	6,313
Office supplies	7,479	5,650
Payroll taxes	7,199	6,145
Materials	5,333	8,731
Travel	3,870	3,454
Depreciation	3,256	4,379
Telephone, cable and newspapers	2,841	2,690
Staff training	2,119	1,479
Postage	1,162	886
Miscellaneous	757	747
Taxes, licenses and fees	292	257
Professional fees	94	-
Purchased services	-	6,110
Insurance	-	3,493
	<u>186,120</u>	<u>177,040</u>
Total expenses		
Increase in net assets	<u>\$ 9,766</u>	<u>\$ 36,136</u>

DISMAS INC.
SCHEDULE OF OPERATING ACTIVITIES
TRIPLE THREAD APPAREL
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
REVENUES AND OTHER SUPPORT		
Merchandise sales (net of direct costs of \$75,025 and \$32,804 for 2012 and 2011, respectively)	\$ 80,673	\$ 34,651
Other grants	17,500	30,000
Contributions	7,835	18,597
Miscellaneous income	909	474
Fundraising events	-	1,050
	<hr/>	<hr/>
Total revenues and other support	106,917	84,772
	<hr/>	<hr/>
EXPENSES		
Salaries and benefits	75,930	53,797
Rent	19,200	17,600
Payroll taxes	7,050	5,536
Office supplies	5,818	6,959
Depreciation	4,935	1,667
Utilities	4,430	3,775
Bad debts	3,445	-
Miscellaneous	2,888	1,908
Telephone, cable and newspapers	2,394	2,025
Fundraising events	2,027	578
Maintenance	816	-
Travel	355	672
Taxes, licenses and fees	196	180
Insurance	-	1,535
Professional fees	-	391
	<hr/>	<hr/>
Total expenses	129,484	96,623
	<hr/>	<hr/>
Decrease in net assets	\$ (22,567)	\$ (11,851)
	<hr/>	<hr/>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES
DISMAS, INC.
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
REVENUES AND OTHER SUPPORT		
State grants	\$ 103,500	\$ 103,500
Fundraising events	21,757	27,982
Contributions	1,287	1,200
Interest	1,004	900
Miscellaneous income	323	-
Insurance proceeds	<u>-</u>	<u>12,769</u>
Total revenues and other support	<u>127,871</u>	<u>146,351</u>
EXPENSES		
Salaries and benefits	100,747	87,555
Insurance	30,104	22,517
Payroll taxes	8,316	5,994
Fundraising events	7,056	8,845
Professional fees	6,372	6,094
Miscellaneous	3,520	2,612
Travel	2,847	2,503
Office expenses	2,652	1,458
Telephone, cable and newspapers	1,581	537
Postage	223	267
Depreciation	218	219
Taxes, licenses and fees	<u>20</u>	<u>1,120</u>
Total expenses	<u>163,656</u>	<u>139,721</u>
Increase (decrease) in net assets	<u><u>\$ (35,785)</u></u>	<u><u>\$ 6,630</u></u>