

**DISMAS, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2009 AND 2008**

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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, 2009 and 2008, 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, 2009 and 2008, 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 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 audits 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, Belyue & Montgomery, PLLC
November 23, 2009

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

ASSETS

	2009	2008
CURRENT ASSETS		
Cash	\$ 122,857	\$ 133,190
Accounts receivable	12,736	3,369
Prepaid expenses	<u>3,262</u>	<u>4,518</u>
Total current assets	138,855	141,077
PROPERTY AND EQUIPMENT, net	<u>251,451</u>	<u>260,320</u>
TOTAL ASSETS	<u><u>\$ 390,306</u></u>	<u><u>\$ 401,397</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 5,214	\$ 2,942
Line of credit	<u>50,000</u>	<u>20,047</u>
Total liabilities	<u>55,214</u>	<u>22,989</u>
NET ASSETS		
Unrestricted	334,662	375,408
Temporarily restricted	<u>430</u>	<u>3,000</u>
Total net assets	<u>335,092</u>	<u>378,408</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 390,306</u></u>	<u><u>\$ 401,397</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2009 AND 2008

	2009			2008		
	<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	\$ 114,154	\$ 2,000	\$ 116,154	\$ 140,875	\$ 3,000	\$ 143,875
Fundraising events	106,733	-	106,733	111,611	-	111,611
Other grants	106,424	-	106,424	78,389	-	78,389
State grants	103,500	-	103,500	103,500	-	103,500
Program service fees	62,125	-	62,125	88,735	-	88,735
Miscellaneous income	3,403	-	3,403	13,803	-	13,803
Donated services and materials	-	-	-	2,120	-	2,120
Net assets released from restrictions	4,570	(4,570)	-	-	-	-
 Total revenues and other support	<u>500,909</u>	<u>(2,570)</u>	<u>498,339</u>	<u>539,033</u>	<u>3,000</u>	<u>542,033</u>
Expenses:						
Program services	404,440	-	404,440	481,915	-	481,915
Management and general	80,877	-	80,877	69,185	-	69,185
Fundraising	56,338	-	56,338	43,151	-	43,151
 Total expenses	<u>541,655</u>	<u>-</u>	<u>541,655</u>	<u>594,251</u>	<u>-</u>	<u>594,251</u>
 INCREASE (DECREASE) IN NET ASSETS	(40,746)	(2,570)	(43,316)	(55,218)	3,000	(52,218)
 NET ASSETS, BEGINNING 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>
 NET ASSETS, END OF THE YEAR	<u>\$ 334,662</u>	<u>\$ 430</u>	<u>\$ 335,092</u>	<u>\$ 375,408</u>	<u>\$ 3,000</u>	<u>\$ 378,408</u>

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	2009				2008			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 207,410	\$ 59,260	\$ 29,630	\$ 296,300	\$ 250,994	\$ 47,061	\$ 15,687	\$ 313,742
Utilities	34,159	-	-	34,159	35,860	-	-	35,860
Groceries	33,930	-	-	33,930	52,741	-	-	52,741
Fundraising events	-	-	24,551	24,551	-	-	26,344	26,344
Payroll taxes	15,101	4,314	2,157	21,572	17,924	3,361	1,120	22,405
Depreciation	20,200	188	-	20,388	19,796	-	-	19,796
Maintenance	18,386	-	-	18,386	20,036	-	-	20,036
Insurance	13,593	3,398	-	16,991	21,586	5,396	-	26,982
Materials	16,959	-	-	16,959	21,241	-	-	21,241
Telephone, cable and newspaper	10,791	2,698	-	13,489	4,946	1,236	-	6,182
Office supplies	10,510	2,627	-	13,137	10,219	2,555	-	12,774
Travel	7,090	1,772	-	8,862	9,247	2,312	-	11,559
Professional fees	4,673	3,824	-	8,497	3,750	3,069	-	6,819
Miscellaneous	5,018	1,255	-	6,273	6,986	1,745	-	8,731
Purchased services	3,224	-	-	3,224	2,859	-	-	2,859
Postage	2,177	544	-	2,721	1,013	253	-	1,266
Staff training	642	525	-	1,167	2,012	1,647	-	3,659
Taxes, licenses and fees	577	472	-	1,049	705	550	-	1,255
	<u>\$ 404,440</u>	<u>\$ 80,877</u>	<u>\$ 56,338</u>	<u>\$ 541,655</u>	<u>\$ 481,915</u>	<u>\$ 69,185</u>	<u>\$ 43,151</u>	<u>\$ 594,251</u>

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (43,316)	\$ (52,218)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	20,388	19,796
Donated equipment	-	(1,370)
(Increase) decrease in accounts receivable	(9,367)	13,357
Decrease in prepaid expenses	1,256	2,258
Increase in accounts payable and accrued liabilities	2,272	842
NET CASH USED IN OPERATING ACTIVITIES	<u>(28,767)</u>	<u>(17,335)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	<u>(11,519)</u>	<u>(8,389)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(11,519)</u>	<u>(8,389)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit, net	<u>29,953</u>	<u>20,047</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>29,953</u>	<u>20,047</u>
NET DECREASE IN CASH	(10,333)	(5,677)
CASH, BEGINNING OF THE YEAR	<u>133,190</u>	<u>138,867</u>
CASH, END OF THE YEAR	<u><u>\$ 122,857</u></u>	<u><u>\$ 133,190</u></u>
<u>SUPPLEMENTAL DISCLOSURES</u>		
CASH PAID DURING THE YEAR FOR INTEREST	<u><u>\$ 397</u></u>	<u><u>\$ 264</u></u>
NON-CASH INVESTING ACTIVITY: Donated equipment	<u><u>\$ -</u></u>	<u><u>\$ 1,370</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

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, 2009 AND 2008

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, 2009, 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, 2009 AND 2008

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 between June 30, 2009 and November 23, 2009, 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:

	2009	2008
Land	\$ 44,200	\$ 44,200
Buildings and improvements	487,383	487,383
Furniture and equipment	74,447	62,928
Vehicles	<u>8,935</u>	<u>8,935</u>
	614,965	603,446
Less accumulated depreciation	<u>(363,514)</u>	<u>(343,126)</u>
Net property and equipment	<u>\$ 251,451</u>	<u>\$ 260,320</u>

Depreciation expense was \$20,388 and \$19,796 for the years ended June 30, 2009 and 2008, 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, 2009 the rate was 4.40%. The outstanding balance was \$50,000 and \$20,047 at June 30, 2009 and 2008, respectively.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

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

	2009	2008
Grant for resident savings program	\$ 430	\$ -
Grant for technology equipment	<u>-</u>	<u>3,000</u>
Total temporarily restricted net assets	<u>\$ 430</u>	<u>\$ 3,000</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 \$4,898 and \$4,372 in 2009 and 2008 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, 2009 AND 2008

	2009	2008
REVENUES AND OTHER SUPPORT		
Other grants	\$ 72,818	\$ 48,116
Fundraising events	14,131	9,358
Contributions	11,991	13,100
Program service fees	10,397	16,156
Miscellaneous	155	3,992
	<u>109,492</u>	<u>90,722</u>
Total revenues and other support		
EXPENSES		
Salaries	42,190	45,689
Depreciation	10,524	10,778
Groceries	7,673	18,806
Utilities	7,456	6,974
Office supplies	6,182	2,124
Materials	5,584	8,442
Telephone, cable and newspaper	4,187	2,501
Maintenance	3,841	9,374
Payroll taxes	3,434	3,483
Travel	3,236	4,745
Fundraising events	2,558	1,456
Postage	1,063	486
Miscellaneous	569	506
Professional fees	343	-
Staff training	200	-
Taxes, licenses and fees	30	279
	<u>99,070</u>	<u>115,643</u>
Total expenses		
Increase (decrease) in net assets	<u>\$ 10,422</u>	<u>\$ (24,921)</u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
NASHVILLE HOUSE
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
REVENUES AND OTHER SUPPORT		
Contributions	\$ 52,756	\$ 36,346
Program service fees	31,663	28,727
Fundraising events	21,120	26,031
Other grants	15,408	15,408
Miscellaneous income	23	202
	<u>120,970</u>	<u>106,714</u>
EXPENSES		
Salaries	80,175	86,885
Utilities	15,151	19,216
Groceries	9,743	16,065
Maintenance	7,247	3,029
Payroll taxes	6,047	5,563
Telephone, cable and newspaper	4,775	-
Materials	4,611	4,901
Depreciation	4,576	4,041
Office supplies	2,017	1,021
Fundraising events	2,011	2,444
Miscellaneous	958	3,297
Travel	468	329
Staff training	195	216
	<u>137,974</u>	<u>147,007</u>
Total expenses	<u>137,974</u>	<u>147,007</u>
Decrease in net assets	<u>\$ (17,004)</u>	<u>\$ (40,293)</u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
MICHIANA HOUSE
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
REVENUES AND OTHER SUPPORT		
Fundraising events	\$ 49,742	\$ 55,267
Contributions	48,202	81,397
Program service fees	20,065	43,852
Other grants	18,198	14,865
Miscellaneous income	250	2,294
Interest	19	515
Donated services and materials	-	2,120
	<hr/>	<hr/>
Total revenues and other support	136,476	200,310
	<hr/>	<hr/>
EXPENSES		
Salaries	96,624	99,704
Groceries	16,514	17,870
Utilities	11,552	9,670
Maintenance	7,156	7,632
Payroll taxes	7,042	5,908
Fundraising events	7,037	13,145
Materials	6,764	7,898
Depreciation	5,100	4,978
Office supplies	3,584	5,343
Purchased services	3,224	2,859
Telephone, cable and newspapers	2,778	3,681
Travel	1,430	2,974
Postage	1,325	774
Miscellaneous	976	2,167
Staff training	772	737
Professional fees	690	819
Taxes, licenses and fees	394	426
Insurance	-	2,641
	<hr/>	<hr/>
Total expenses	172,962	189,226
	<hr/>	<hr/>
Increase (decrease) in net assets	\$ (36,486)	\$ 11,084
	<hr/>	<hr/>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
DISMAS, INC.
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
REVENUES AND OTHER SUPPORT		
State grants	\$ 103,500	\$ 103,500
Fundraising events	21,740	20,955
Contributions	3,205	13,032
Interest	2,943	6,672
Miscellaneous income	13	128
	<u>131,401</u>	<u>144,287</u>
EXPENSES		
Salaries	77,311	81,465
Insurance	16,991	24,341
Fundraising events	12,945	9,299
Professional fees	7,464	6,000
Payroll taxes	5,049	7,451
Miscellaneous	3,770	2,761
Travel	3,728	3,511
Telephone, cable and newspapers	1,749	-
Office expenses	1,354	4,291
Taxes, licenses and fees	625	550
Postage	333	-
Depreciation	188	-
Maintenance	142	-
Training	-	2,706
	<u>131,649</u>	<u>142,375</u>
Total expenses		
	<u>131,649</u>	<u>142,375</u>
Increase (decrease) in net assets	<u>\$ (248)</u>	<u>\$ 1,912</u>