

**DISMAS, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2005 AND 2004**

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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, 2005 and 2004, 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 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 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, 2005 and 2004, and the changes 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 10-14 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.

Blankenship CPA Group, PLLC

March 16, 2006

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004

ASSETS

	2005	2004
CURRENT ASSETS		
Cash	\$ 53,053	\$ 93,859
Grants receivable	<u>6,254</u>	<u>9,307</u>
Total Current Assets	59,307	103,166
PROPERTY AND EQUIPMENT, net	<u>342,041</u>	<u>347,637</u>
TOTAL ASSETS	<u><u>\$ 401,348</u></u>	<u><u>\$ 450,803</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 7,367	\$ 1,834
Line of credit	<u>10,000</u>	<u>-</u>
Total Liabilities	17,367	1,834
UNRESTRICTED NET ASSETS	<u>383,981</u>	<u>448,969</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 401,348</u></u>	<u><u>\$ 450,803</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2005 AND 2004

	2005			2004		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Program service fees	\$ 114,850	-	\$ 114,850	\$ 104,109	-	\$ 104,109
Other grants	114,518	-	114,518	80,341	-	80,341
State grants	105,634	-	105,634	158,557	-	158,557
Fundraising events	92,135	-	92,135	75,701	-	75,701
Contributions	76,596	-	76,596	113,191	-	113,191
Miscellaneous income	13,587	-	13,587	7,419	-	7,419
Federal Grants	-	-	-	24,048	-	24,048
Net assets released from restrictions	-	-	-	23,701	(23,701)	-
Total revenues and other support	517,320	-	517,320	587,067	(23,701)	563,366
Expenses:						
Program services	452,653	-	452,653	567,002	-	567,002
Management and general	129,655	-	129,655	110,013	-	110,013
Total expenses	582,308	-	582,308	677,015	-	677,015
Decrease in net assets from continuing operations	(64,988)	-	(64,988)	(89,948)	(23,701)	(113,649)
Discontinued operations	-	-	-	(69,452)	-	(69,452)
Decrease in net assets	(64,988)	-	(64,988)	(159,400)	(23,701)	(183,101)
Net assets:						
BEGINNING OF THE YEAR	448,969	-	448,969	608,369	23,701	632,070
END OF THE YEAR	\$ 383,981	\$ -	\$ 383,981	\$ 448,969	\$ -	\$ 448,969

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004

	2005			2004		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries	\$ 212,473	\$ 57,538	\$ 270,011	\$ 249,214	\$ 41,743	\$ 290,957
Utilities	50,558	2,688	53,246	45,992	-	45,992
Groceries	41,779	-	41,779	39,564	-	39,564
Depreciation	30,833	-	30,833	39,806	-	39,806
Maintenance	20,559	-	20,559	16,336	-	16,336
Fundraising expenses	18,084	26,709	44,793	31,861	5,622	37,483
Payroll taxes	14,671	2,979	17,650	16,008	3,037	19,045
Miscellaneous	12,976	201	13,177	8,295	1,167	9,462
Office supplies	10,080	1,265	11,345	28,915	3,264	32,179
Travel expenses	8,708	1,395	10,103	10,076	2,050	12,126
Telephone, cable and newspaper	6,950	2,028	8,978	15,210	2,909	18,119
Materials	5,851	-	5,851	10,528	-	10,528
Insurance	5,803	25,957	31,760	48,747	12,889	61,636
Purchased services	5,738	-	5,738	2,852	943	3,795
Professional expense	4,367	8,100	12,467	-	32,886	32,886
Postage	1,870	-	1,870	1,955	528	2,483
Special house events	726	-	726	639	-	639
Staff training	612	-	612	168	2,090	2,258
Taxes, licenses, and fees	15	795	810	836	885	1,721
	<u>\$ 452,653</u>	<u>\$ 129,655</u>	<u>\$ 582,308</u>	<u>\$ 567,002</u>	<u>\$ 110,013</u>	<u>\$ 677,015</u>

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (64,988)	\$ (183,101)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Loss on discontinued operations	-	69,452
Depreciation	30,833	39,806
Decrease (increase) in grants receivable	3,053	(6,057)
Decrease in prepaid expense	-	2,711
Increase (decrease) in accounts payable and accrued liabilities	<u>5,533</u>	<u>(1,900)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(25,569)</u>	<u>(79,089)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment purchases	<u>(25,237)</u>	<u>(34,501)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(25,237)</u>	<u>(34,501)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	<u>10,000</u>	<u>-</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>10,000</u>	<u>-</u>
NET DECREASE IN CASH	(40,806)	(113,590)
CASH, BEGINNING OF THE YEAR	<u>93,859</u>	<u>207,449</u>
CASH, END OF THE YEAR	<u><u>\$ 53,053</u></u>	<u><u>\$ 93,859</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Dismas, Inc. 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, 2005 AND 2004

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.

Income Taxes

Dismas, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for taxes has been made in the financial statements.

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.

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 results.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2005	2004
Land	\$ 57,200	\$ 57,200
Buildings and improvements	650,265	625,028
Furniture and equipment	134,747	134,747
Vehicles	<u>4,300</u>	<u>4,300</u>
	846,512	821,275
Less accumulated depreciation	<u>(504,471)</u>	<u>(473,638)</u>
Net property and equipment	<u>\$ 342,041</u>	<u>\$ 347,637</u>

NOTE 3 - LINE OF CREDIT

The Organization has a \$100,000 line of credit secured by real estate with a local bank that has a variable interest rate that equals the prime rate. As of June 30, 2005 the rate was 6.25%. The line of credit will expire on June 5, 2007 unless it is renewed. The outstanding balance at June 30, 2005 was \$10,000. There was no amount outstanding on the line for June 30, 2004.

NOTE 4 - DISCONTINUED OPERATIONS

As of October 2002, the Central Massachusetts house separated from Dismas, Inc. The Central Massachusetts house formed a new corporation under the laws of the State of Massachusetts. Assets were transferred free of any monetary consideration to the new corporation.

Worcester, Massachusetts	Revenues	Net Income	Loss on Disposal
2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,452</u>

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 5 - COMMITMENTS AND CONTINGENCIES

The Organization received approximately 20% and 28% of its total revenues and support during 2005 and 2004, respectively, from government grants. 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 401-(k) savings incentive match 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 \$3,161 and \$3,551 in 2005 and 2004 in accordance with the terms of the plan.

NOTE 7 - SUBSEQUENT EVENT

On March 1, 2006, the Organization sold the house in Memphis, Tennessee. The sales price was \$170,000 of which \$157,229 was deposited into the Organization's bank account after the deduction of direct selling expenses resulting in an approximate gain on sale of \$120,000. This transaction will be reported in the financial statements for the fiscal year ending June 30, 2006.

SUPPLEMENTAL INFORMATION

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
UPPER CUMBERLAND HOUSE
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
REVENUES AND OTHER SUPPORT		
Other grants	\$ 16,494	\$ 9,039
Program service fees	15,110	26,479
Fundraising events	8,498	1,126
Miscellaneous	5,925	2,662
Contributions	5,096	10,567
State grants	1,966	38,865
	<hr/>	<hr/>
Total Revenues and Other Support	53,089	88,738
	<hr/>	<hr/>
EXPENSES		
Salaries	37,406	64,907
Utilities and maintenance	12,132	8,210
Groceries	7,024	9,509
Insurance	3,981	15,844
Telephone, cable and newspaper	3,342	4,001
Payroll taxes	2,539	2,717
Fundraising expenses	1,356	10,950
Materials	823	948
Office supplies	710	1,682
Postage	454	789
Travel expenses	439	1,341
Miscellaneous	57	-
Copy and printing	-	220
	<hr/>	<hr/>
Total Expenses	70,263	121,118
	<hr/>	<hr/>
Decrease in Net Assets	\$ (17,174)	\$ (32,380)
	<hr/>	<hr/>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
NASHVILLE HOUSE
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
REVENUES AND OTHER SUPPORT		
Other grants	\$ 63,378	\$ 35,502
Program service fees	30,226	35,698
Contributions	26,886	42,326
Miscellaneous income	513	171
State grants	-	22,977
Fundraising events	-	912
	<u>121,003</u>	<u>137,586</u>
EXPENSES		
Salaries	71,587	74,685
Utilities and maintenance	25,800	31,084
Groceries	13,289	12,049
Materials	4,865	3,270
Payroll taxes	4,675	5,000
Office supplies	3,598	10,303
Travel expenses	957	580
Special house events	701	529
Miscellaneous	567	-
Insurance	-	29,887
Telephone, cable and newspaper	-	5,675
Staff training	-	1,075
Capital and printing	-	615
	<u>126,039</u>	<u>174,752</u>
Total Expenses		
	<u>126,039</u>	<u>174,752</u>
Decrease in Net Assets	<u>\$ (5,036)</u>	<u>\$ (37,166)</u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
MICHIANA HOUSE
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
REVENUES AND OTHER SUPPORT		
Contributions	\$ 36,289	\$ 26,479
Fundraising events	35,303	22,935
Other grants	34,646	23,800
Program service fees	27,007	25,914
Miscellaneous income	5,215	30
State grants	168	-
Federal grants	-	17,263
	<u>138,628</u>	<u>116,421</u>
Total Revenues and Other Support		
	<u>138,628</u>	<u>116,421</u>
EXPENSES		
Salaries	72,710	49,804
Fundraising expenses	22,970	8,889
Groceries	14,786	13,825
Utilities and maintenance	11,639	11,922
Travel expenses	5,635	2,184
Payroll taxes	4,794	5,355
Telephone, cable and newspapers	3,277	3,904
Insurance	2,755	11,372
Office supplies	2,755	1,354
Purchased services	2,541	3,795
Postage	1,264	1,313
Computer maintenance	969	-
Miscellaneous	519	2,528
Staff training	419	-
Materials	163	5,986
Special house events	25	-
Small equipment expenditures	-	402
	<u>147,221</u>	<u>122,633</u>
Total Expenses		
	<u>147,221</u>	<u>122,633</u>
Decrease in Net Assets	<u>\$ (8,593)</u>	<u>\$ (6,212)</u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
MEMPHIS HOUSE
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
REVENUES AND OTHER SUPPORT		
Program service fees	\$ 42,507	\$ 16,019
Contributions	3,084	16,915
Miscellaneous income	1,191	2,493
Other grants	-	12,000
Fundraising events	<u>-</u>	<u>1,340</u>
Total Revenues and Other Support	<u>46,782</u>	<u>48,767</u>
EXPENSES		
Salaries	40,874	27,161
Utilities and maintenance	19,936	11,112
Groceries	6,525	3,870
Office supplies	3,709	583
Payroll taxes	2,663	1,304
Miscellaneous	2,602	65
Travel expense	1,877	3,684
Postage	111	519
Telephone, cable and newspaper	-	3,581
Insurance	<u>-</u>	<u>1,634</u>
Total Expenses	<u>78,297</u>	<u>53,513</u>
Decrease in Net Assets	<u><u>\$ (31,515)</u></u>	<u><u>\$ (4,746)</u></u>

DISMAS, INC.
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES
DISMAS, INC.
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
REVENUES AND OTHER SUPPORT		
State grants	\$ 103,500	\$ 103,500
Fundraising events	48,334	49,387
Contributions	5,241	16,905
Miscellaneous income	<u>743</u>	<u>2,062</u>
Total Revenues and Other Support	<u>157,818</u>	<u>171,854</u>
EXPENSES		
Salaries	57,538	45,207
Depreciation expense	30,833	39,806
Insurance	25,957	32,093
Fundraising expenses	20,449	17,395
Professional fees	8,100	12,620
Consulting	6,260	20,266
Payroll taxes	2,979	4,668
Rent	2,688	-
Telephone	2,028	-
Meetings expense	1,395	4,338
Office supplies	1,265	16,017
Taxes, licenses and fees	795	1,675
Miscellaneous	<u>201</u>	<u>10,914</u>
Total Expenses	<u>160,488</u>	<u>204,999</u>
Decrease in Net Assets	<u>\$ (2,670)</u>	<u>\$ (33,145)</u>