

**DISMAS, INC.
FINANCIAL STATEMENTS
AND SCHEDULES
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2004 AND 2003**

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Blankenship

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Dismas, Inc.

We have audited the accompanying statements of financial position of Dismas, Inc., as of June 30, 2004 and 2003, 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, 2004 and 2003, 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 12-18 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.

October 7, 2004

DISMAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2004 AND 2003

ASSETS		
	2004	2003
CURRENT ASSETS		
Cash	\$ 93,859	\$ 207,449
Grants receivable	9,307	3,250
Prepaid expenses	<u>-</u>	<u>2,711</u>
Total Current Assets	<u>103,166</u>	<u>213,410</u>
Property and equipment, net (note 2)	<u>347,637</u>	<u>422,394</u>
TOTAL ASSETS	<u><u>\$ 450,803</u></u>	<u><u>\$ 635,804</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 1,834</u>	<u>\$ 3,734</u>
TOTAL LIABILITIES	<u>1,834</u>	<u>3,734</u>
NET ASSETS		
Unrestricted	448,969	608,369
Temporarily restricted (note 4)	<u>-</u>	<u>23,701</u>
TOTAL NET ASSETS	<u>448,969</u>	<u>632,070</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 450,803</u></u>	<u><u>\$ 635,804</u></u>

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

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2004 AND 2003

	2004		
	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
State grants	\$ 158,557	\$ -	\$ 158,557
Contributions	113,191	-	113,191
Program service fees	104,109	-	104,109
Private foundation grants	80,341	-	80,341
Fundraising events	75,701	-	75,701
Federal grants	24,048	-	24,048
Miscellaneous income	7,185	-	7,185
Interest income	234	-	234
Gain on sale of building and equipment	-	-	-
Net assets released from restrictions (note 5)	23,701	(23,701)	-
Total revenues and other support	587,067	(23,701)	563,366
Expenses:			
Program services	567,002	-	567,002
Management and general	110,013	-	110,013
Total expenses	677,015	-	677,015
Increase (decrease) in net assets from continuing operations	(89,948)	(23,701)	(113,649)
Discontinued operations (note 6)	(69,452)	-	(69,452)
Decrease in net assets	(159,400)	(23,701)	(183,101)
Net assets:			
BEGINNING OF YEAR	608,369	23,701	632,070
END OF YEAR	\$ 448,969	\$ -	\$ 448,969

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

* = 746,767 00 990

DISMAS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2004 AND 2003

2003		
Unrestricted	Temporarily Restricted	Total
\$ 107,944	\$ -	\$ 107,944
143,105	-	143,105
109,372	-	109,372
194,109	41,392	235,501
26,071	-	26,071
31,774	-	31,774
6,731	-	6,731
1,666	-	1,666
3,236	-	3,236
69,335	(69,335)	-
<u>693,343</u>	<u>(27,943)</u>	<u>665,400</u>
570,360	-	570,360
<u>112,188</u>	<u>-</u>	<u>112,188</u>
<u>682,548</u>	<u>-</u>	<u>682,548</u>
10,795	(27,943)	(17,148)
<u>(191,387)</u>	<u>-</u>	<u>(191,387)</u>
(180,592)	(27,943)	(208,535)
<u>788,961</u>	<u>51,644</u>	<u>840,605</u>
<u>\$ 608,369</u>	<u>\$ 23,701</u>	<u>\$ 632,070</u>

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

DISMAS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003

	2004		
	Program Services	Management and General	Total
Salaries	\$ 220,020	\$ 41,743	\$ 261,763
Insurance	77,941	12,889	90,830
Depreciation	39,806	-	39,806
Groceries	39,564	-	39,564
Fundraising expenses	31,861	5,622	37,483
Electricity	35,991	-	35,991
Professional expense	-	32,886	32,886
Office supplies	27,806	2,133	29,939
Payroll taxes	16,008	3,037	19,045
Telephone, cable and newspaper	15,210	2,909	18,119
Maintenance	16,336	-	16,336
Travel expenses	10,076	2,050	12,126
Materials	10,528	-	10,528
Miscellaneous	8,295	1,167	9,462
Natural gas	5,377	-	5,377
Water and sewer	4,624	-	4,624
Purchased services	2,852	943	3,795
Postage	1,955	528	2,483
Staff training	168	2,090	2,258
Taxes, licenses, and fees	836	885	1,721
Copying and printing	750	1,024	1,774
Special house events	639	-	639
Small equipment expenditures	359	107	466
	<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 FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003

2003		
Program Services	Management and General	Total
\$ 229,984	\$ 43,633	\$ 273,617
72,662	12,016	84,678
43,016	-	43,016
35,726	-	35,726
7,497	6,572	14,069
36,485	-	36,485
-	24,988	24,988
25,785	2,118	27,903
17,507	3,322	20,829
17,790	3,402	21,192
17,587	-	17,587
7,707	1,568	9,275
10,161	-	10,161
25,146	3,389	28,535
3,209	-	3,209
1,381	-	1,381
1,908	631	2,539
1,744	471	2,215
308	3,825	4,133
342	362	704
1,880	2,568	4,448
1,381	-	1,381
11,154	3,323	14,477
<u>\$ 570,360</u>	<u>\$ 112,188</u>	<u>\$ 682,548</u>

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

DISMAS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (183,101)	\$ (208,535)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Gain on sale of building and equipment	-	(45,894)
Loss on disposal of asset	69,452	42,658
Depreciation	39,806	43,016
(Increase) decrease in grants receivable	(6,057)	25,821
Decrease in prepaid expense	2,711	8,100
Decrease in accounts payable and accrued liabilities	<u>(1,900)</u>	<u>(6,998)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(79,089)</u>	<u>(141,832)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Proceeds from sale of building and equipment	-	111,797
Property and equipment purchases	<u>(34,501)</u>	<u>(26,131)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(34,501)</u>	<u>85,666</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	<u>-</u>	<u>(8,333)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>-</u>	<u>(8,333)</u>
NET DECREASE IN CASH	(113,590)	(64,499)
CASH, BEGINNING OF THE YEAR	<u>207,449</u>	<u>271,948</u>
CASH, END OF THE YEAR	<u><u>\$ 93,859</u></u>	<u><u>\$ 207,449</u></u>

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

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

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. is also 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 net assets, temporarily restricted net assets, 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 statement of activities as net assets released from restrictions. Dismas follows the policy of reporting donor-imposed restricted contributions whose restrictions are met in the same year as revenues of the unrestricted net asset class.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS, (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Property and Equipment

Property and equipment are stated in the accompanying balance sheet at cost, or, if contributed, at fair market value at the date of the gift.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from five to thirty years.

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 statement of cash flows, Dismas, Inc. considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Estimates

The preparation of the 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.

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS, (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2004 and 2003:

	2004	2003
Land	\$ 82,200	\$ 82,200
Buildings and improvements	600,028	708,514
Furniture and fixtures	134,747	118,961
Vehicles	<u>4,300</u>	<u>4,300</u>
	821,275	913,975
Less accumulated depreciation	<u>473,638</u>	<u>491,581</u>
Net property and equipment	<u>\$ 347,637</u>	<u>\$ 422,394</u>

NOTE 3 - LINE OF CREDIT

The Organization has a \$100,000 line of credit secured by real estate with a local bank with an interest rate of 4.75%. There was no amount outstanding on the line of credit for June 30, 2004 and 2003.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available at June 30 for the following purposes:

	2004	2003
Restricted for program services	<u>\$ -</u>	<u>\$ 23,701</u>

NOTE 5 - DONOR IMPOSED RESTRICTIONS

Donor imposed restrictions expired on temporarily restricted net assets as follows:

	2004	2003
Restricted for capital expenditures	<u>\$ 23,701</u>	<u>\$ 69,335</u>

DISMAS, INC.
NOTES TO FINANCIAL STATEMENTS, (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 6 - 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>
2003	<u>\$ 48,275</u>	<u>\$ 16,010</u>	<u>\$ 191,387</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The Organization receives a substantial amount of its support from government. 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.

DISMAS, INC.
OPERATING ACTIVITIES FOR DISMAS HOUSES
UPPER CUMBERLAND HOUSE
YEARS ENDED JUNE 30, 2004 AND 2003

SCHEDULE 1

	2004	2003
REVENUES AND OTHER SUPPORT		
State grants	\$ 38,865	\$ 112,572
Program service fees	26,479	14,810
Contributions	10,567	5,330
Private foundation grants	9,039	47,273
Miscellaneous	2,662	-
Fundraising events	<u>1,126</u>	<u>5,461</u>
 Total Revenue and Other Support	 <u>88,738</u>	 <u>185,446</u>
 EXPENSES		
Salaries	64,907	79,803
Insurance	15,844	13,008
Fundraising expenses	10,950	5,357
Groceries	9,509	6,130
Utilities and maintenance	8,210	6,934
Telephone, cable and newspaper	4,001	3,360
Payroll taxes	2,717	4,338
Office supplies	1,682	4,311
Travel expenses	1,341	2,000
Materials	948	333
Postage	789	277
Copy and printing	220	-
Miscellaneous	<u>-</u>	<u>3,166</u>
 Total Expenses	 <u>121,118</u>	 <u>129,017</u>
 Increase (Decrease) in Net Assets	 <u><u>\$ (32,380)</u></u>	 <u><u>\$ 56,429</u></u>

DISMAS, INC.
OPERATING ACTIVITIES FOR DISMAS HOUSES
NASHVILLE HOUSE
YEARS ENDED JUNE 30, 2004 AND 2003

SCHEDULE 1, CONTINUED

	2004	2003
REVENUES AND OTHER SUPPORT		
Contributions	\$ 42,326	\$ 51,654
Program service fees	35,698	28,706
Private foundation grants	35,502	63,498
State grants	22,977	-
Fundraising events	912	-
Miscellaneous income	171	7,119
	<u>137,586</u>	<u>150,977</u>
Total Revenue and Other Support		
	<u>137,586</u>	<u>150,977</u>
EXPENSES		
Salaries	74,685	65,528
Utilities and maintenance	31,084	26,474
Insurance	29,887	24,545
Groceries	12,049	8,656
Office supplies	10,303	9,107
Telephone, cable and newspaper	5,675	6,650
Payroll taxes	5,000	4,985
Materials	3,270	2,074
Staff training	1,075	2,648
Capital and printing	615	-
Travel expenses	580	1,547
Special house events	529	593
Miscellaneous	-	9,536
	<u>174,752</u>	<u>162,343</u>
Total Expenses		
	<u>174,752</u>	<u>162,343</u>
Decrease in Net Assets	<u>\$ (37,166)</u>	<u>\$ (11,366)</u>

DISMAS, INC.
OPERATING ACTIVITIES FOR DISMAS HOUSES
KNOXVILLE HOUSE
YEARS ENDED JUNE 30, 2004 AND 2003

SCHEDULE 1 CONTINUED

	2004	2003
REVENUES AND OTHER SUPPORT		
Contributions	\$ -	\$ -
Private foundation grants	-	-
Program service fees	-	-
Federal grants	-	-
Gain on sale of fixed assets (note 2)	-	3,236
Miscellaneous income	-	252
	<hr/>	<hr/>
Total Revenue and Other Support	-	3,488
	<hr/>	<hr/>
EXPENSES		
Salaries	-	-
Payroll taxes	-	-
Groceries	-	-
Insurance	-	-
Telephone, cable and newspapers	-	-
Travel expenses	-	-
Utilities and maintenance	-	-
Office supplies	-	-
Postage	-	-
Materials	-	-
Fundraising expenses	-	-
Small equipment expenditures	-	-
Miscellaneous	-	-
	<hr/>	<hr/>
Total Expenses	-	-
	<hr/>	<hr/>
Increase in Net Assets	\$ -	\$ 3,488
	<hr/>	<hr/>

DISMAS, INC.
OPERATING ACTIVITIES FOR DISMAS HOUSES
MICHIANA HOUSE
YEARS ENDED JUNE 30, 2004 AND 2003

SCHEDULE 1, CONTINUED

	2004	2003
REVENUES AND OTHER SUPPORT		
Contributions	\$ 26,479	\$ 31,156
Program service fees	25,914	39,484
Private foundation grants	23,800	38,000
Fundraising events	22,935	20,576
Federal grants	17,263	9,120
Miscellaneous income	30	-
	<u>116,421</u>	<u>138,336</u>
Total Revenue and Other Support		
EXPENSES		
Salaries	49,804	50,924
Groceries	13,825	17,127
Utilities and maintenance	11,922	11,198
Insurance	11,372	12,748
Fundraising expenses	8,889	7,187
Materials	5,986	6,530
Payroll taxes	5,355	3,765
Telephone, cable and newspapers	3,904	2,564
Purchased services	3,795	2,539
Miscellaneous	2,528	4,378
Travel expenses	2,184	2,647
Office supplies	1,354	2,061
Postage	1,313	1,419
Small equipment expenditures	402	11,914
	<u>122,633</u>	<u>137,001</u>
Total Expenses		
Increase (Decrease) in Net Assets	<u><u>\$ (6,212)</u></u>	<u><u>\$ 1,335</u></u>

DISMAS, INC.
OPERATING ACTIVITIES FOR DISMAS HOUSES
CENTRAL MASSACHUSETTS HOUSE
YEARS ENDED JUNE 30, 2004 AND 2003

SCHEDULE 1, CONTINUED

	2004	2003
REVENUES AND OTHER SUPPORT		
Contributions	\$ -	\$ 966
Private foundation grants	-	27,500
Program service fees	-	3,848
State grants	-	15,186
Forgiveness of debt	-	-
Miscellaneous income	-	775
	-	-
Total Revenue and Other Support	-	48,275
EXPENSES		
Salaries	-	16,271
Payroll taxes	-	1,275
Groceries	-	1,534
Insurance	-	2,782
Telephone, cable and newspaper	-	1,773
Travel expense	-	201
Utilities and maintenance	-	3,606
Office supplies	-	485
Postage	-	191
Materials	-	316
Fundraising expense	-	-
Small equipment expenditures	-	2,577
Special house events	-	752
Miscellaneous	-	502
	-	-
Total Expenses	-	32,265
Discontinued Operations - Transfer of Assets (note 7)	(69,452)	(191,387)
Decrease in Net Assets	<u>\$ (69,452)</u>	<u>\$ (175,377)</u>

DISMAS, INC.
OPERATING ACTIVITIES FOR DISMAS HOUSES
DISMAS, INC.
YEARS ENDED JUNE 30, 2004 AND 2003

SCHEDULE 1, CONTINUED

	2004	2003
REVENUES AND OTHER SUPPORT		
State grants	\$ 103,500	\$ -
Fundraising events	49,387	-
Contributions	16,905	29,806
Miscellaneous income	<u>2,062</u>	<u>249</u>
Total Revenue and Other Support	<u>171,854</u>	<u>30,055</u>
EXPENSES		
Salaries	45,207	6,737
Depreciation expense	39,806	43,016
Insurance	32,093	26,398
Consulting	20,266	16,766
Fundraising expenses	17,395	1,524
Office supplies	16,017	13,549
Professional fees	12,620	8,162
Miscellaneous	10,914	9,608
Payroll taxes	4,668	495
Meetings expense	4,338	2,087
Taxes, licenses and fees	1,675	-
Employee benefits	<u>-</u>	<u>2,200</u>
Total Expenses	<u>204,999</u>	<u>130,542</u>
Decrease in Net Assets	<u><u>\$ (33,145)</u></u>	<u><u>\$ (100,487)</u></u>

DISMAS, INC.
OPERATING ACTIVITIES FOR DISMAS HOUSES
MEMPHIS HOUSE
YEARS ENDED JUNE 30, 2004 AND 2003

SCHEDULE 1, CONTINUED

	2004	2003
REVENUES AND OTHER SUPPORT		
Contributions	\$ 16,915	\$ 24,227
Program service fees	16,019	22,525
Private foundation grants	12,000	59,231
Miscellaneous income	2,493	-
Fundraising events	1,340	-
State grants	-	2,840
	<u>48,767</u>	<u>108,823</u>
Total Revenue and Other Support		
	<u>48,767</u>	<u>108,823</u>
EXPENSES		
Salaries	27,161	54,355
Utilities and maintenance	11,112	10,098
Groceries	3,870	2,279
Travel expense	3,684	2,169
Telephone, cable and newspaper	3,581	4,704
Insurance	1,634	5,198
Payroll taxes	1,304	3,772
Office supplies	583	2,837
Postage	519	327
Miscellaneous	65	4,733
Materials	-	908
	<u>53,513</u>	<u>91,380</u>
Total Expenses		
	<u>53,513</u>	<u>91,380</u>
Increase (Decrease) in Net Assets	<u><u>\$ (4,746)</u></u>	<u><u>\$ 17,443</u></u>