

**MAGDALENE, INC. AND SUBSIDIARY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**

**June 30, 2010 and 2009**

**MAGDALENE, INC. AND SUBSIDIARY**

**TABLE OF CONTENTS**

Independent Auditor's Report.....	2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities .....	4 – 5
Consolidated Statements of Functional Expenses .....	6 – 7
Consolidated Statements of Cash Flows.....	8
Notes to Consolidated Financial Statements.....	9 – 14

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Magdalene, Inc. and Subsidiary  
Nashville, Tennessee

We have audited the accompanying consolidated statements of financial position of Magdalene, Inc. and subsidiary (a nonprofit Organization) as of June 30, 2010 and 2009 and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Magdalene, Inc. and subsidiary as of June 30, 2010 and 2009, and the consolidated changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Fraser, Dem + Howard PLLC*

November 8, 2010

**MAGDALENE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2010 and 2009**

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Current assets:		
Cash and cash equivalents	\$ 619,339	\$ 159,599
Unconditional promises to give, current	123,101	142,105
Other current assets	<u>11,166</u>	<u>13,951</u>
Total current assets	753,606	315,655
Cash restricted for endowment	57,304	57,304
Unconditional promises to give, net	61,833	72,389
Third mortgages receivable	20,000	20,000
Property and equipment, net	<u>1,950,025</u>	<u>962,498</u>
Total assets	<u><u>\$ 2,842,768</u></u>	<u><u>\$ 1,427,846</u></u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 81,074	\$ 44,028
Notes payable, current	<u>5,586</u>	<u>5,196</u>
Total current liabilities	<u>86,660</u>	<u>49,224</u>
Unearned revenue on third mortgages	20,000	20,000
Notes payable, net of current portion	<u>40,898</u>	<u>46,426</u>
Total liabilities	<u>147,558</u>	<u>115,650</u>
Net assets:		
Unrestricted	2,078,157	1,040,398
Temporarily restricted	559,749	214,494
Permanently restricted	<u>57,304</u>	<u>57,304</u>
Total net assets	<u>2,695,210</u>	<u>1,312,196</u>
Total liabilities and net assets	<u><u>\$ 2,842,768</u></u>	<u><u>\$ 1,427,846</u></u>

See accompanying notes to consolidated financial statements.

**MAGDALENE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and other support:				
Contributions	\$ 368,732	\$ 1,584,075	\$ -	\$ 1,952,807
Thistle Farms product sales	235,976	-	-	235,976
Men's rehabilitation program	96,500	-	-	96,500
Grants	78,500	-	-	78,500
Other	39,903	6,306	-	46,209
Net assets released from restrictions	1,245,126	(1,245,126)	-	-
Total revenue and other support	<u>2,064,737</u>	<u>345,255</u>	<u>-</u>	<u>2,409,992</u>
Expenses:				
Program services:				
Women's sanctuary and rehabilitation	460,955	-	-	460,955
Thistle Farms	423,157	-	-	423,157
Total program services	<u>884,112</u>	<u>-</u>	<u>-</u>	<u>884,112</u>
Supporting services:				
Management and general	39,577	-	-	39,577
Fundraising	48,733	-	-	48,733
Total supporting services	<u>88,310</u>	<u>-</u>	<u>-</u>	<u>88,310</u>
Total expenses	<u>972,422</u>	<u>-</u>	<u>-</u>	<u>972,422</u>
Losses:				
Loss on disposal of fixed asset	54,556	-	-	54,556
Change in net assets	1,037,759	345,255	-	1,383,014
Net assets, beginning of year	<u>1,040,398</u>	<u>214,494</u>	<u>57,304</u>	<u>1,312,196</u>
Net assets, end of year	<u>\$ 2,078,157</u>	<u>\$ 559,749</u>	<u>\$ 57,304</u>	<u>\$ 2,695,210</u>

See accompanying notes to consolidated financial statements.

**MAGDALENE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and other support:				
Contributions	\$ 351,339	\$ 122,397	\$ -	\$ 473,736
Thistle Farms product sales	234,125	-	-	234,125
In-kind	11,000	-	-	11,000
Men's rehabilitation program	48,850	-	-	48,850
Grants	95,606	-	-	95,606
Other	24,776	-	-	24,776
Net assets released from restrictions	102,005	(102,005)	-	-
Total revenue and other support	<u>867,701</u>	<u>20,392</u>	<u>-</u>	<u>888,093</u>
Expenses:				
Program services:				
Women's sanctuary and rehabilitation	431,696	-	-	431,696
Thistle Farms	337,217	-	-	337,217
Total program services	<u>768,913</u>	<u>-</u>	<u>-</u>	<u>768,913</u>
Supporting services:				
Management and general	33,751	-	-	33,751
Fundraising	48,906	-	-	48,906
Total supporting services	<u>82,657</u>	<u>-</u>	<u>-</u>	<u>82,657</u>
Total expenses	<u>851,570</u>	<u>-</u>	<u>-</u>	<u>851,570</u>
Losses:				
Provision for loss on uncollectible contributions	-	58,237	-	58,237
Change in net assets	16,131	(37,845)	-	(21,714)
Net assets, beginning of year	<u>1,024,267</u>	<u>252,339</u>	<u>57,304</u>	<u>1,333,910</u>
Net assets, end of year	<u>\$ 1,040,398</u>	<u>\$ 214,494</u>	<u>\$ 57,304</u>	<u>\$1,312,196</u>

See accompanying notes to consolidated financial statements.

	Program Services			Supporting Services			Total Expenses
	Women's Sanctuary and Rehabilitation	Thistle Farms	Total Program Services	Management and General	Fundraising	Supporting Services	
	\$ 185,045	\$ 184,634	\$ 369,679	\$ 15,527	\$ 26,910	\$ 42,437	\$ 412,116
Salaries	-	78,434	78,434	-	-	-	78,434
Cost of sales - materials	48,840	-	48,840	-	-	-	48,840
Depreciation	-	44,915	44,915	-	-	-	44,915
Cost of sales - labor	17,598	15,779	33,377	1,487	4,084	5,571	38,948
Payroll tax	29,941	3,333	33,274	-	-	-	33,274
Utilities	27,519	-	27,519	1,529	1,529	3,058	30,577
Reimbursement - St. Augustine's	19,392	10,097	29,489	-	-	-	29,489
Repairs and maintenance	18,361	9,330	27,691	-	-	-	27,691
Insurance	6,870	3,620	10,490	501	13,990	14,491	24,981
Miscellaneous	23,183	-	23,183	-	-	-	23,183
Medical	8,630	12,910	21,540	240	-	240	21,780
Other program expenses	-	2,037	2,037	16,729	-	16,729	18,766
Legal and professional	16,950	-	16,950	-	-	-	16,950
Stipends	14,436	-	14,436	-	-	-	14,436
Mental health	5,692	8,703	14,395	-	-	-	14,395
Transportation	-	13,766	13,766	-	-	-	13,766
Cost of sales - printing	13,354	-	13,354	-	-	-	13,354
Contract labor	-	10,136	10,136	-	-	-	10,136
Advertising and promotion	183	9,345	9,528	-	273	273	9,801
Travel	4,521	1,466	5,987	1,617	560	2,177	8,164
Printing and supplies	-	6,830	6,830	-	-	-	6,830
Supplies	-	5,573	5,573	-	-	-	5,573
Credit card and bank fees	4,185	-	4,185	492	246	738	4,923
Telephone	4,113	-	4,113	-	-	-	4,113
Food and household supplies	1,950	-	1,950	1,138	975	2,113	4,063
Newsletter	3,490	309	3,799	217	-	217	4,016
Outreach ministry	3,629	-	3,629	-	-	-	3,629
Interest	2,322	-	2,322	-	-	-	2,322
Clothing and grooming	615	781	1,396	100	166	266	1,662
Employee benefits	-	1,159	1,159	-	-	-	1,159
Meals and events	136	-	136	-	-	-	136
Individual Development Account							
	\$ 460,955	\$ 423,157	\$ 884,112	\$ 39,577	\$ 48,733	\$ 88,310	\$ 972,422

9

[illegible]

-7-



**MAGDALENE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,383,014	\$ (21,714)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	48,840	49,456
Loss on disposal of fixed assets	54,556	22
Contribution restricted for long-term purpose	(1,500,000)	-
Provision for bad debts (recovery)	(10,659)	58,237
In-kind contributions	-	(10,000)
Change in operating assets and liabilities:		
Unconditional promises to give	40,219	(20,392)
Other current assets	2,785	(2,578)
Accounts payable and accrued expenses	37,046	(200)
Net cash provided by operating activities	<u>55,801</u>	<u>52,831</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,090,923)	(10,720)
Contribution restricted for long-term purpose	1,500,000	-
Net cash provided by (used in) investing activities	<u>409,077</u>	<u>(10,720)</u>
Cash flows from financing activities:		
Principal payments on note payable	(5,138)	(4,774)
Net cash used in financing activities	<u>(5,138)</u>	<u>(4,774)</u>
Net increase in cash and cash equivalents	459,740	37,337
Cash and cash equivalents, beginning of year	159,599	122,262
Cash and cash equivalents, end of year	<u>\$ 619,339</u>	<u>\$ 159,599</u>
Supplemental schedule of cash flow information:		
Interest paid	<u>\$ 3,629</u>	<u>\$ 3,993</u>
Supplemental schedule of non cash financing and investing activities:		
Construction in progress from in-kind activities	<u>\$ -</u>	<u>\$ 10,000</u>

See accompanying notes to consolidated financial statements.

**MAGDALENE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

Magdalene, Inc. and subsidiary (the “Organization”) is a nonprofit corporation, organized in the state of Tennessee in 1993. Its mission is to provide sanctuary, instruction, treatment and employment for women with a history of prostitution and addiction.

The Organization operates from facilities located in Nashville, Tennessee and attracts its participants and its support primarily from the Middle Tennessee area. The Organization is supported primarily by contributions from the general public, by fees for rehabilitation services provided for the men who are arrested for first offense soliciting in conjunction with the local court system, and by fundraising events.

The following program services are provided by the Organization:

*Women’s sanctuary and rehabilitation* – A two-year residential community that provides housing and education for women with a criminal history of addiction and prostitution.

*Thistle Farms* – A program that requires all participants to assist in manufacturing and selling selected domestic home items, such as candles, skin and lip balms, bath salts, etc. under the brand name of Thistle Farms. The program assists the participants in acquiring and developing life skills needed to assimilate into the workplace at the completion of the program.

The Organization has established a wholly-owned subsidiary, Magdalene Homes, LLC, to construct residential housing for graduates of its program.

**Accounting Standards Codification**

The Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) became the sole authoritative source of generally accepted accounting principles in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC had no effect on the Organization’s consolidated financial statements.

**Principles of Consolidation**

The consolidated statements include the accounts and activities of Magdalene, Inc. and Magdalene Homes, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

**MAGDALENE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2010 and 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned and any related investments for general or specific purposes.

**Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, the Organization considers all cash and related short-term investments with original maturities of three months or less to be cash equivalents.

**Unconditional Promises to Give**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restrictions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization uses the allowance method to determine uncollectible unconditional promises to give.

**Property and Equipment**

Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets. Expenditures for repairs and maintenance are charged to expense as incurred.

**MAGDALENE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2010 and 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes**

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Therefore, no provision for federal income taxes is included in the accompanying consolidated financial statements.

On January 1, 2009 the Organization adopted FASB ASC guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. This guidance must be applied to all existing tax positions upon initial adoption. The Organization has no tax penalties or interest reported in the accompanying consolidated financial statements. Tax years that remain open for examination include the years ended June 30, 2007 through June 30, 2010. Adoption of this guidance had no impact on the Organization's consolidated financial statements.

**Functional Allocation of Expenses**

The costs of providing program services and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon management's estimate.

**Use of Estimates**

The preparation of consolidated 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 amounts and disclosures. Actual results could differ from those estimates.

**Donated Goods and Services**

Donated goods and services are recognized at the fair value of items received at the time of donation. Volunteer time is recognized to the extent such time is provided by individuals with specialized training and which would normally need to be purchased. The Organization also receives volunteer services from a number of individuals in carrying out its programs but not meeting the criteria for recognition in the consolidated financial statements.

**MAGDALENE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2010 and 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Subsequent Events**

The Organization evaluated subsequent events through November 8, 2010, when these consolidated financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the consolidated statement of financial position date but prior to the filing of this report that would have a material impact on the consolidated financial statements.

**NOTE 2 – UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give consist of the following at June 30:

	<u><b>2010</b></u>	<u><b>2009</b></u>
Unconditional promises to give	\$ 224,948	\$ 267,714
Less: allowance for uncollectible contributions	(39,353)	(50,512)
Less: discount to net present value	<u>(661)</u>	<u>(2,708)</u>
Net unconditional promises to give	184,934	214,494
Less: amounts receivable in less than one year, net	<u>(123,101)</u>	<u>(142,105)</u>
 Receivable in one to five years, net	 <u><u>\$ 61,833</u></u>	 <u><u>\$ 72,389</u></u>

**NOTE 3 – PROPERTY AND EQUIPMENT**

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

	<u><b>2010</b></u>	<u><b>2009</b></u>
Land and buildings	\$ 2,077,395	\$ 1,086,425
Furniture, fixtures and equipment	52,699	49,555
Vehicle	17,490	20,247
Construction in progress	40,023	20,000
Leasehold improvements	<u>10,236</u>	<u>10,236</u>
	2,197,843	1,186,463
Less: accumulated depreciation	<u>(247,818)</u>	<u>(223,965)</u>
	<u><u>\$ 1,950,025</u></u>	<u><u>\$ 962,498</u></u>

**NOTE 4 – NOTES PAYABLE**

The Organization has a note agreement that provides for monthly payments of \$731, including interest at 7.27%, through maturity in March 2017. Borrowings under this agreement are secured by a first deed of trust on certain property. Amounts outstanding under the loan totaled \$46,484 and \$51,622 at June 30, 2010 and 2009, respectively.

**MAGDALENE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2010 and 2009**

**NOTE 4 – NOTES PAYABLE (Continued)**

Scheduled maturities of the note payable are as follows for the year ending June 30:

2011	\$ 5,586
2012	6,006
2013	6,458
2014	6,943
2015	7,466
Thereafter	<u>14,025</u>
	<u>\$ 46,484</u>

**NOTE 5 – NET ASSETS**

Temporarily restricted net assets consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Donation for the purchase of the new Thistle Farms building	\$ 374,815	\$ -
Unconditional promises to give due in future periods	<u>184,934</u>	<u>214,494</u>
	<u>\$ 559,749</u>	<u>\$ 214,494</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the operations of the Organization. Permanently restricted net assets totaled \$57,304 at June 30, 2010 and 2009.

**NOTE 6 – RELATED PARTIES**

The Executive Director is an Episcopalian priest who is assigned to Saint Augustine's Chapel ("the Chapel") on the campus of Vanderbilt University in Nashville, Tennessee, and receives no compensation from the Organization.

The Organization operates its administrative facilities from the Chapel, which donates the use of these facilities without cost, other than direct reimbursable expenses, as part of its community outreach program. Expenses reimbursed to the Chapel for program and administrative assistance were \$5,577 and \$4,841 for the years ended June 30, 2010 and 2009, respectively.

The Treasurer maintains the internal bookkeeping records of the Organization and was compensated \$500 for these services for each of the years ended June 30, 2010 and 2009.

**MAGDALENE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2010 and 2009**

**NOTE 7 – MAGDALENE HOMES, LLC**

Magdalene Homes, LLC, was organized on April 1, 2004 as a Tennessee limited liability company and is owned 100% by Magdalene, Inc. for the purpose of purchasing real estate and building residential homes for graduates of its program. During the year ended June 30, 2008, the construction of two homes was completed and the homes sold to former Magdalene residents. The sales price of the two homes was \$203,000, including unearned revenue for third mortgages of \$20,000. Unearned revenue on third mortgages represents the non-interest bearing third mortgage loans held by the Organization related to these homes. The homeowner is required to sign a third mortgage for the difference between the estimated fair market value of the home, and the balance of other mortgages at the transfer date. The Organization does not foresee collection of the third mortgage loans except in the event of sale, refinance, or other transfer of the home by the owner.

**NOTE 8 – COMMUNITY FOUNDATION OF MIDDLE TENNESSEE INVESTMENTS**

The Community Foundation of Middle Tennessee, a separate unaffiliated nonprofit organization, maintains investments on behalf of the Organization. The Community Foundation has ultimate authority and control over the investments; accordingly, the net assets of the Organization do not include these investments. The Organization transferred no permanently restricted endowment funds during the years ended June 30, 2010 and 2009. The Organization does anticipate receiving periodic investment earnings on its pro-rata share of the Community Foundation's assets. The balance of the endowment fund held for the benefit of the Organization totaled approximately \$43,000 and \$40,000 at June 30, 2010 and 2009, respectively.

**NOTE 9 – CONCENTRATIONS**

The Organization maintains its cash in bank accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). Management believes the Organization is not exposed to any significant credit risk on cash. Uninsured balances at June 30, 2010 and 2009 totaled \$124,802 and \$0, respectively.