MAGDALENE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013 and 2012

MAGDALENE, INC. AND SUBSIDIARY

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FRASIERDEAN
HOWARDCPAs

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Magdalene, Inc. and subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related consolidated notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Magdalene, Inc. and subsidiary as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 9, during 2013 management determined that $67,972 in proceeds received for the PNP Collaborative represented a liability at June 30, 2012. Accordingly, the 2012 financial statements have been restated to correct the error. Our opinion is not modified with respect to that matter.

Frasier, Dean & Howard, PLLC

October 2, 2013

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	2013	2012 *(As Restated)*
Assets		
Current assets:		
Cash and cash equivalents	$ 420,164	$ 378,168
Unconditional promises to give, current	180,181	130,905
Accounts receivable	29,131	14,256
Inventory	46,001	36,258
Other current assets	2,900	9,658
Total current assets	678,377	569,245
Cash restricted for endowment	57,304	57,304
Beneficial interest in assets at Community Foundation of Middle Tennessee	52,081	47,022
Unconditional promises to give, net	124,658	75,461
Third mortgages receivable	20,000	20,000
Property and equipment, net	2,032,157	1,935,299
Total assets	$ 2,964,577	$ 2,704,331
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 99,659	$ 54,998
Nurse practitioner payable	44,980	67,972
Notes payable, current	14,424	13,583
Total current liabilities	159,063	136,553
Unearned revenue on third mortgages	20,000	20,000
Notes payable, net of current portion	24,214	38,005
Total liabilities	203,277	194,558
Net assets:		
Unrestricted	2,335,831	2,066,042
Temporarily restricted	325,469	343,731
Permanently restricted	100,000	100,000
Total net assets	2,761,300	2,509,773
Total liabilities and net assets	$ 2,964,577	$ 2,704,331

See accompanying notes to consolidated finanacial statements.

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Contributions	$ 912,476	$ 128,346	$ -	$ 1,040,822
Thistle Farms product sales	655,848	-	-	655,848
Grants	218,000	100,000	-	318,000
In-kind	83,367	-	-	83,367
Men's rehabilitation program	49,200	-	-	49,200
Thistle Stop Café sales	37,634	-	-	37,634
Other	2,936	5,059	-	7,995
Net assets released from restrictions	251,667	(251,667)	-	-
Total revenue and support	2,211,128	(18,262)	-	2,192,866
Expenses:				
Program services:				
Women's sanctuary and rehabilitation	549,153	-	-	549,153
Thistle Farms	1,075,633	-	-	1,075,633
Thistle Stop Café	108,284	-	-	108,284
Total program services	1,733,070	-	-	1,733,070
Supporting services:				
Management and general	120,164	-	-	120,164
Fundraising	88,105	-	-	88,105
Total supporting services	208,269	-	-	208,269
Total expenses	1,941,339	-	-	1,941,339
Change in net assets	269,789	(18,262)	-	251,527
Net assets, beginning of year (as restated)	2,066,042	343,731	100,000	2,509,773
Net assets, end of year	$ 2,335,831	$ 325,469	$ 100,000	$ 2,761,300

See accompanying notes to consolidated finanacial statements.

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012 *(As Restated)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Contributions	$ 476,352	$ 265,001	$ -	$ 741,353
Thistle Farms product sales	543,114	-	-	543,114
Grants	200,778	-	-	200,778
Men's rehabilitation program	86,400	-	-	86,400
Other	58,630	(2,710)	-	55,920
Net assets released from restrictions	239,175	(239,175)	-	-
Total revenue and support	1,604,449	23,116	-	1,627,565
Expenses:				
Program services:				
Women's sanctuary and rehabilitation	492,762	-	-	492,762
Thistle Farms	961,334	-	-	961,334
Total program services	1,454,096	-	-	1,454,096
Supporting services:				
Management and general	116,869	-	-	116,869
Fundraising	70,265	-	-	70,265
Total supporting services	187,134	-	-	187,134
Total expenses	1,641,230	-	-	1,641,230
Change in net assets	(36,781)	23,116	-	(13,665)
Net assets, beginning of year,	2,102,823	320,615	100,000	2,523,438
Net assets, end of year	$ 2,066,042	$ 343,731	$ 100,000	$ 2,509,773

See accompanying notes to consolidated finanacial statements.

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2013

	Program Services				Supporting Services			
	Women's Sanctuary and Rehabilitation	**Thistle Farms**	**Thistle Stop Café**	**Total Program Services**	**Management and General**	**Fundraising**	**Total Supporting Services**	**Total Expenses**
Salaries	$ 247,323	$ 469,439	$ 31,515	$ 748,277	$ 41,963	$ 34,600	$ 76,563	$ 824,840
Cost of sales - materials	-	162,829	17,905	180,734	-	-	-	180,734
Cost of sales - labor	-	107,679	-	107,679	-	-	-	107,679
Depreciation	55,845	30,593	2,563	89,001	8,994	8,746	17,740	106,741
Miscellaneous	22,834	32,019	17,375	72,228	13,841	6,718	20,559	92,787
Legal and professional	-	51,878	-	51,878	24,173	-	24,173	76,051
Payroll tax and benefits	18,829	36,350	2,692	57,871	8,579	2,830	11,409	69,280
Insurance	25,740	29,671	-	55,411	1,514	3,028	4,542	59,953
Utilities	33,195	18,304	1,442	52,941	1,953	3,905	5,858	58,799
Other program expenses	4,797	29,656	3,275	37,728	-	-	-	37,728
Mental health	37,458	-	-	37,458	-	-	-	37,458
Advertising and promotion	-	15,205	15,520	30,725	-	-	-	30,725
Repairs and maintenance	11,583	12,722	5,886	30,191	-	-	-	30,191
Transportation	14,520	13,947	-	28,467	-	-	-	28,467
Cost of sales - printing	-	26,746	-	26,746	-	-	-	26,746
Contract labor	7,518	7,224	6,877	21,619	-	2,355	2,355	23,974
Supplies	-	19,271	3,234	22,505	-	-	-	22,505
Medical	20,479	-	-	20,479	-	-	-	20,479
Stipends	19,825	-	-	19,825	-	-	-	19,825
Event fundraising	-	-	-	-	-	16,016	16,016	16,016
Bad debt expense	-	-	-	-	15,269	-	15,269	15,269
Education	45	11,316	-	11,361	-	-	-	11,361
Clothing and grooming	8,083	-	-	8,083	-	-	-	8,083
Newsletter	3,408	-	-	3,408	1,988	1,704	3,692	7,100
Printing and supplies	3,491	-	-	3,491	1,253	1,993	3,246	6,737
Food and household supplies	6,407	-	-	6,407	-	-	-	6,407
Telephone	5,413	-	-	5,413	637	318	955	6,368
Donor management	-	-	-	-	-	5,892	5,892	5,892
Interest	2,360	784	-	3,144	-	-	-	3,144
	$ 549,153	$ 1,075,633	$ 108,284	$ 1,733,070	$ 120,164	$ 88,105	$ 208,269	$ 1,941,339

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012

	Program Services			Supporting Services			
	Women's Sanctuary and Rehabilitation	Thistle Farms	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 231,539	$ 398,012	$ 629,551	$ 54,448	$ 32,449	$ 86,897	$ 716,448
Cost of sales - materials	-	153,937	153,937	-	-	-	153,937
Cost of sales - labor	-	108,904	108,904	-	-	-	108,904
Depreciation	52,360	30,402	82,762	9,149	8,746	17,895	100,657
Legal and professional	-	39,214	39,214	36,242	-	36,242	75,456
Payroll tax and benefits	18,252	38,932	57,184	8,485	2,508	10,993	68,177
Utilities	28,357	21,625	49,982	1,668	3,336	5,004	54,986
Miscellaneous	6,043	30,863	36,906	1,230	8,988	10,218	47,124
Insurance	18,391	17,710	36,101	1,082	2,164	3,246	39,347
Cost of sales - printing	-	30,381	30,381	-	-	-	30,381
Repairs and maintenance	16,315	12,876	29,191	-	-	-	29,191
Medical	29,181	-	29,181	-	-	-	29,181
Transportation	12,199	13,918	26,117	-	-	-	26,117
Other program expenses	7,931	16,101	24,032	-	-	-	24,032
Supplies	-	21,412	21,412	-	-	-	21,412
Mental health	17,608	-	17,608	-	-	-	17,608
Advertising and promotion	-	15,676	15,676	-	-	-	15,676
Stipends	13,455	-	13,455	-	-	-	13,455
Clothing and grooming	12,850	-	12,850	-	-	-	12,850
Newsletter	5,068	-	5,068	2,957	2,534	5,491	10,559
Education	156	9,814	9,970	-	-	-	9,970
Printing and supplies	3,552	-	3,552	1,043	4,581	5,624	9,176
Contract labor	6,986	-	6,986	-	-	-	6,986
Telephone	4,803	-	4,803	565	283	848	5,651
Food and household supplies	4,894	-	4,894	-	-	-	4,894
Donor management	-	-	-	-	4,676	4,676	4,676
Interest	2,822	1,557	4,379	-	-	-	4,379
	$ 492,762	$ 961,334	$ 1,454,096	$ 116,869	$ 70,265	$ 187,134	$ 1,641,230

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2013 and 2012

	2013	**2012** *(As Restated)*
Cash flows from operating activities:		
Change in net assets	$ 251,527	$ (13,665)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	106,741	100,657
Change in beneficial interest in assets	(5,059)	2,710
Gain on disposal of fixed assets	-	(37,542)
Provision for bad debts (recovery)	15,269	(19,944)
Change in operating assets and liabilities:		
Accounts receivable	(14,875)	8,354
Unconditional promises to give	(113,742)	(53,799)
Inventory	(9,743)	(12,746)
Other current assets	6,758	205
Accounts payable and accrued expenses	44,661	3,121
Nurse practitioner payable	(22,992)	67,972
Net cash provided by operating activities	258,545	45,323
Cash flows from investing activities:		
Purchases of property and equipment	(203,599)	(83,563)
Proceeds from disposal of fixed assets	-	84,900
Net cash (used in) provided by investing activities	(203,599)	1,337
Cash flows from financing activities:		
Proceeds from issuance of notes payable	-	21,500
Principal payments on note payable	(12,950)	(10,866)
Net cash (used in) provided by financing activities	(12,950)	10,634
Net increase in cash and cash equivalents	41,996	57,294
Cash and cash equivalents, beginning of year	378,168	320,874
Cash and cash equivalents, end of year	$ 420,164	$ 378,168
Supplemental schedule of cash flow information:		
Interest paid	$ 3,144	$ 4,379

See accompanying notes to consolidated financial statements.

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, Thistle Farms product sales, Café sales, fees for rehabilitation services provided for the men who are arrested for first offense soliciting in conjunction with the local court system, and 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 and bath salts 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.
>
> *Thistle Stop Café* – Program graduates and residents sell Nashville-based and fair-trade coffees, teas and healthy catered foods.

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

Principles of Consolidation

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

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:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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.

Accounts Receivable

The Organization fulfills merchandise orders to businesses and sends invoices at a later date. Management believes accounts receivable are fully collectible. Accordingly, no allowance for doubtful accounts is considered necessary.

Inventory

Inventory consisting of bath and home products and related raw materials is stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 income taxes has been made.

The Organization follows guidance that clarifies the accounting for uncertainty in income taxes recognized in an organization'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. 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, 2010 through June 30, 2013. The Organization had no uncertain tax positions at June 30, 2013 or 2012.

Functional Allocation of Expenses

The costs of providing programs 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

The cost of advertising expenditures is expensed when incurred. Advertising expense amounted to $30,725 and $15,676 during the years ended June 30, 2013 and 2012, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Funds

Accounting principles generally accepted in the United States of America state that a nonprofit organization should classify the portion of a donor-restricted endowment fund that is not permanently restricted by the donor or by law as temporarily restricted net assets (time restricted) until it is appropriated for expenditure and donor-imposed purpose restrictions, if any, are met. When the purpose restrictions, if any, on the portion of donor-restricted endowment funds are met and the appropriation has occurred, temporarily restricted net assets are reclassified to unrestricted net assets. The guidance also requires additional disclosures applicable to all nonprofit organizations. Those disclosures provide: a) a description of the organization's policies for making appropriations for expenditures from endowment funds (i.e. the organization's endowment spending policies), b) a description of the organization's investment policies for endowment funds, c) a description of the organization's endowment by net asset class at the end of the period in total and by type of endowment fund, d) a reconciliation of the beginning and ending balances of endowment funds in total and by net asset class, and e) a description of the organization's interpretation of the laws underlying the net asset classification of donor-restricted endowment funds.

Reclassifications

Certain reclassifications have been made to the 2012 consolidated financial statements to conform to the 2013 presentation.

Subsequent Events

The Organization evaluated subsequent events through October 2, 2013, 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:

	2013	2012
Unconditional promises to give	$ 354,196	$ 240,257
Less: allowance for uncollectible contributions	(48,904)	(33,635)
Less: discount to net present value	(453)	(256)
Net unconditional promises to give	304,839	206,366
Less: amounts receivable in less than one year, net	(180,181)	(130,905)
Receivable in one to five years, net	$ 124,658	$ 75,461

MAGDALENE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2013 and 2012

NOTE 3 – PROPERTY AND EQUIPMENT

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

	2013	2012
Land and buildings	$ 2,420,834	$ 2,249,620
Furniture, fixtures and equipment	122,088	89,703
Vehicle	17,490	17,490
Leasehold improvements	10,235	10,235
	2,570,647	2,367,048
Less: accumulated depreciation	(538,490)	(431,749)
	$ 2,032,157	$ 1,935,299

NOTE 4 – NOTES PAYABLE

	2013	2012
Note payable to bank secured by a first deed of trust on certain property with a net book value of $32,320, bearing interest at 7.27%, payable in monthly installments of $731, maturing March 2017.	$ 28,603	$ 35,010
Note payable to retailer, secured by certain equipment with a net book value of $8,986, bearing interest at 5%, payable in monthly installments of $648, maturing September 2014.	10,035	16,578
	$ 38,638	$ 51,588

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

2014	$ 14,424
2015	10,020
2016	8,028
2017	6,166
	$ 38,638

NOTE 5 – NET ASSETS

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

	2013	2012
Unconditional promises to give due in future periods	$ 304,839	$ 206,366
Donations for women's healthcare and nurse practitioner	11,245	16,993
Earnings on endowment funds	9,385	4,326
Donations for Thistle Stop Café	-	100,558
Donation for Thistle Farms technology and improvements	-	15,488
	$ 325,469	$ 343,731

NOTE 6 – 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 were sold to former Magdalene residents. The sales price of the two homes included 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 homeowners were 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 7 – 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.

NOTE 8 – ENDOWMENT

Permanently restricted net assets consist of contributions whose principal is to be held in perpetuity in accordance with terms prescribed by the donors. The income from permanently restricted contributions is expendable to provide maintenance on a resident home. Permanently restricted net assets totaled $100,000 at June 30, 2013 and June 30, 2012.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring that the Organization classify as permanently restricted net assets a) the original value of donor-restricted gifts to the permanent endowment, b) the original value of

NOTE 8 – ENDOWMENT (Continued)

subsequent donor-restricted gifts to the permanent endowment, and c) accumulations (interest, dividends, capital gain/loss) to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Endowment net asset composition by type of fund at June 30, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 9,385	$ 100,000	$ 109,385
Total funds	$ -	$ 9,385	$ 100,000	$ 109,385

Changes in endowment net assets for the year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 4,326	$ 100,000	$ 104,326
Investment return	$ -	5,059	-	5,059
Endowment net assets, end of year	$ -	$ 9,385	$ 100,000	$ 109,385

NOTE 8 – ENDOWMENT (Continued)

Endowment net asset composition by type of fund at June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 4,326	$ 100,000	$ 104,326
Total funds	$ -	$ 4,326	$ 100,000	$ 104,326

Changes in endowment net assets for the year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 7,036	$ 100,000	$ 107,036
Investment return	-	(2,710)	-	(2,710)
Endowment net assets, end of year	$ -	$ 4,326	$ 100,000	$ 104,326

The Organization has contributed approximately $47,000 of its endowment assets to be held at the Community Foundation of Middle Tennessee. The remainder of the endowment assets is comprised of cash held by the Organization. The Organization does not have a formal investment and spending policy for its endowment assets. At June 30, 2013, the Organization's endowment was comprised of approximately 52% cash and cash equivalents, 25% equity funds, 16% fixed income funds, and 7% in alternative investments.

NOTE 9 – RESTATEMENT AND PNP COLLABORATIVE

The Organization serves as the fiscal agent for a Psychiatric Nurse Practitioner (PNP) Collaborative (the "Collaborative") which consisted of four agencies as of June 30, 2013. The Collaborative provides assessment, medication management and treatment for residents in its programs and for staff consultation at each agency. The Collaborative is funded by grants and allocated amongst the agencies, with the Organization receiving 1/5 of the benefits during the year ended June 30, 2013. The Organization maintains an escrow account in which grant awards are deposited and from which expenditures are paid.

NOTE 9 – RESTATEMENT AND PNP COLLABORATIVE (Continued)

During 2013, management determined that the funds received during 2012 and not expended for the PNP Collaborative represented a liability at June 30, 2012. Accordingly, the 2012 financial statements have been restated to correct the error which resulted in an increase in liabilities and a decrease in net assets of $67,972. This amount was calculated as 4/5 of the escrow account balance at June 30, 2012.

A summary of changes to previously reported June 30, 2012 liabilities, net assets and revenue follows:

	As Previously Reported	Restated	As Restated
Nurse practitioner payable	$ -	$ 67,972	$ 67,972
Temporarily restricted net assets	$ 411,703	$ (67,972)	$ 343,731
Grants	$ 268,750	$ (67,972)	$ 200,778