MAGDALENE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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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, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

December 26, 2014

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 482,057	420,164
Unconditional promises to give, current	117,247	180,181
Accounts receivable	37,451	29,131
Inventory	70,921	46,001
Other current assets	4,693	2,900
Total current assets	712,369	678,377
Cash restricted for endowment	57,304	57,304
Beneficial interest in assets at Community Foundation of Middle Tennessee	57,409	52,081
Unconditional promises to give, net	131,552	124,658
Third mortgages receivable	20,000	20,000
Property and equipment, net	2,093,218	2,032,157
Total assets	$ 3,071,852	$ 2,964,577
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 121,629	$ 99,659
Nurse practitioner payable	27,206	44,980
Notes payable, current	8,755	14,424
Total current liabilities	157,590	159,063
Unearned revenue on third mortgages	20,000	20,000
Notes payable, net of current portion	14,242	24,214
Total liabilities	191,832	203,277
Net assets:		
Unrestricted	2,512,799	2,335,831
Temporarily restricted	267,221	325,469
Permanently restricted	100,000	100,000
Total net assets	2,880,020	2,761,300
Total liabilities and net assets	$ 3,071,852	$ 2,964,577

See accompanying notes to consolidated finanacial statements.

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Contributions	$ 1,232,189	$ 142,735	$ -	$ 1,374,924
Thistle Farms product sales	939,926	-	-	939,926
Thistle Stop Café sales	268,295	-	-	268,295
In-kind	115,000	-	-	115,000
Men's rehabilitation program	59,700	-	-	59,700
Other	48,928	5,328	-	54,256
Grants	47,180	-	-	47,180
Gain on sale of property	44,932	-	-	44,932
Net assets released from restrictions	206,311	(206,311)	-	-
Total revenue and support	2,962,461	(58,248)	-	2,904,213
Expenses:				
Program services:				
Women's sanctuary and rehabilitation	645,140	-	-	645,140
Thistle Farms	1,435,268	-	-	1,435,268
Thistle Stop Café	416,836	-	-	416,836
Total program services	2,497,244	-	-	2,497,244
Supporting services:				
Management and general	180,227	-	-	180,227
Fundraising	108,022	-	-	108,022
Total supporting services	288,249	-	-	288,249
Total expenses	2,785,493	-	-	2,785,493
Change in net assets	176,968	(58,248)	-	118,720
Net assets, beginning of year	2,335,831	325,469	100,000	2,761,300
Net assets, end of year	$ 2,512,799	$ 267,221	$ 100,000	$ 2,880,020

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	557,308	-	-	557,308
Thistle Farms	1,015,642	-	-	1,015,642
Thistle Stop Café	108,284	-	-	108,284
Total program services	1,681,234	-	-	1,681,234
Supporting services:				
Management and general	172,000	-	-	172,000
Fundraising	88,105	-	-	88,105
Total supporting services	260,105	-	-	260,105
Total expenses	1,941,339	-	-	1,941,339
Change in net assets	269,789	(18,262)	-	251,527
Net assets, beginning of year,	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 FUNCTIONAL EXPENSES
For the Year Ended June 30, 2014

	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, taxes and benefits	$ 285,419	$ 545,795	$ 143,257	$ 974,471	$ 99,799	$ 38,090	$ 137,889	$ 1,112,360
Cost of sales - materials	-	298,613	166,499	465,112	-	-	-	465,112
Cost of sales - labor	-	144,860	-	144,860	-	-	-	144,860
Depreciation	57,724	23,227	24,010	104,961	8,866	8,746	17,612	122,573
Legal and professional	4,889	27,247	22,650	54,786	47,749	-	47,749	102,535
Utilities and telephone	42,311	19,815	9,706	71,832	2,864	4,602	7,466	79,298
Insurance	31,592	30,914	3,684	66,190	1,858	3,717	5,575	71,765
Advertising and promotion	-	69,593	524	70,117	-	-	-	70,117
Contract labor	6,900	33,990	11,937	52,827	347	3,948	4,295	57,122
Cost of sales - printing	-	49,478	-	49,478	-	-	-	49,478
Repairs and maintenance	29,731	8,692	9,132	47,555	-	-	-	47,555
Mental health	45,877	-	-	45,877	-	-	-	45,877
Miscellaneous	7,916	19,562	7,175	34,653	4,440	6,339	10,779	45,432
Event costs	-	-	-	-	-	40,043	40,043	40,043
Printing and supplies	4,273	24,426	7,251	35,950	1,245	517	1,762	37,712
Medical	33,593	-	-	33,593	-	-	-	33,593
Other program expenses	6,654	24,816	1,405	32,875	-	-	-	32,875
Conference expenses	-	32,218	-	32,218	-	-	-	32,218
Education and outreach	22,246	6,996	125	29,367	1,302	-	1,302	30,669
Credit card and bank fees	199	21,969	7,082	29,250	-	-	-	29,250
Transportation	12,748	15,631	-	28,379	-	-	-	28,379
Stipends	26,902	-	-	26,902	-	-	-	26,902
Dues, licenses and fees	2,457	16,732	2,399	21,588	-	-	-	21,588
Cost of sales - shipping	-	20,694	-	20,694	-	-	-	20,694
Bad debt expense	-	-	-	-	9,399	-	9,399	9,399
Food and household supplies	9,116	-	-	9,116	-	-	-	9,116
Clothing and grooming	9,003	-	-	9,003	-	-	-	9,003
Newsletter	4,042	-	-	4,042	2,358	2,020	4,378	8,420
Interest	1,548	-	-	1,548	-	-	-	1,548
	$ 645,140	$ 1,435,268	$ 416,836	$ 2,497,244	$ 180,227	$ 108,022	$ 288,249	$ 2,785,493

See accompanying notes to consolidated financial 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, taxes and benefits	$ 271,406	$ 449,599	$ 34,207	$ 755,212	$ 100,821	$ 37,430	$ 138,251	$ 893,463
Cost of sales - materials	-	162,829	17,905	180,734	-	-	-	180,734
Depreciation	55,845	30,593	2,563	89,001	8,994	8,746	17,740	106,741
Cost of sales - labor	-	90,029	-	90,029	-	-	-	90,029
Advertising and promotion	-	53,831	15,520	69,351	-	-	-	69,351
Utilities and telephone	38,608	18,304	1,442	58,354	2,590	4,223	6,813	65,167
Insurance	25,740	29,671	-	55,411	1,514	3,028	4,542	59,953
Miscellaneous	9,923	10,101	17,009	37,033	10,083	6,718	16,801	53,834
Legal and professional	-	14,748	-	14,748	24,173	-	24,173	38,921
Other program expenses	4,797	29,656	3,275	37,728	-	-	-	37,728
Mental health	37,458	-	-	37,458	-	-	-	37,458
Contract labor	7,518	14,554	6,877	28,949	4,458	2,355	6,813	35,762
Repairs and maintenance	11,583	12,722	5,886	30,191	-	-	-	30,191
Prining and supplies	3,491	19,271	3,234	25,996	1,253	1,993	3,246	29,242
Transportation	14,520	13,947	-	28,467	-	-	-	28,467
Cost of sales - printing	-	26,746	-	26,746	-	-	-	26,746
Event costs	-	-	-	-	-	21,908	21,908	21,908
Medical	20,479	-	-	20,479	-	-	-	20,479
Stipends	19,825	-	-	19,825	-	-	-	19,825
Cost of sales - shipping	-	17,650	-	17,650	-	-	-	17,650
Credit card and bank fees	131	16,103	156	16,390	-	-	-	16,390
Education and outreach	13,830	1,406	-	15,236	857	-	857	16,093
Bad debt expense	-	-	-	-	15,269	-	15,269	15,269
Clothing and grooming	8,083	-	-	8,083	-	-	-	8,083
Newsletter	3,408	-	-	3,408	1,988	1,704	3,692	7,100
Food and household supplies	6,407	-	-	6,407	-	-	-	6,407
Dues, licenses and fees	1,896	3,098	210	5,204	-	-	-	5,204
Interest	2,360	784	-	3,144	-	-	-	3,144
	$ 557,308	$ 1,015,642	$ 108,284	$ 1,681,234	$ 172,000	$ 88,105	$ 260,105	$ 1,941,339

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 118,720	$ 251,527
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	122,573	106,741
Change in beneficial interest in assets	(5,328)	(5,059)
Gain on disposal of fixed assets	(44,932)	-
Provision for bad debts	9,399	15,269
Change in operating assets and liabilities:		
Accounts receivable	(8,320)	(14,875)
Unconditional promises to give	46,641	(113,742)
Inventory	(24,920)	(9,743)
Other current assets	(1,793)	6,758
Accounts payable and accrued expenses	21,970	44,661
Nurse practitioner payable	(17,774)	(22,992)
Net cash provided by operating activities	216,236	258,545
Cash flows from investing activities:		
Purchases of property and equipment	(262,745)	(203,599)
Proceeds from disposal of fixed assets	124,043	-
Net cash used in investing activities	(138,702)	(203,599)
Cash flows from financing activities:		
Principal payments on note payable	(15,641)	(12,950)
Net cash used in financing activities	(15,641)	(12,950)
Net increase in cash and cash equivalents	61,893	41,996
Cash and cash equivalents, beginning of year	420,164	378,168
Cash and cash equivalents, end of year	$ 482,057	$ 420,164
Supplemental schedule of cash flow information:		
Interest paid	$ 1,548	$ 3,144

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

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. Magdalene Homes, LLC was dormant at June 30, 2014 and 2013.

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, which range from three to thirty-nine years. 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, 2011 through June 30, 2014. The Organization had no uncertain tax positions at June 30, 2014 or 2013.

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 $70,117 and $69,351 during the years ended June 30, 2014 and 2013, 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 2013 consolidated financial statements to conform to the 2014 presentation.

Subsequent Events

The Organization evaluated subsequent events through December 26, 2014 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:

	2014	2013
Unconditional promises to give	$ 307,656	$ 354,196
Less: allowance for uncollectible contributions	(58,303)	(48,904)
Less: discount to net present value	(554)	(453)
Net unconditional promises to give	248,799	304,839
Less: amounts receivable in less than one year, net	(117,247)	(180,181)
Receivable in one to five years, net	$ 131,552	$ 124,658

NOTE 3 – PROPERTY AND EQUIPMENT

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

	2014	2013
Land and buildings	$ 2,557,888	$ 2,420,834
Furniture, fixtures and equipment	149,178	122,088
Vehicle	17,490	17,490
Leasehold improvements	8,853	10,235
	2,733,409	2,570,647
Less: accumulated depreciation	(640,191)	(538,490)
	$ 2,093,218	$ 2,032,157

NOTE 4 – NOTES PAYABLE

	2014	2013
Note payable to bank secured by a first deed of trust on certain property with a net book value of $28,949, bearing interest at 7.27%, payable in monthly installments of $731, maturing March 2017.	$ 21,709	$ 28,603
Note payable to retailer, secured by certain equipment with a net book value of $4,673, bearing interest at 5%, payable in monthly installments of $648, maturing September 2014.	1,288	10,035
	$ 22,997	$ 38,638

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

2015	$ 8,755
2016	8,028
2017	6,214
	$ 22,997

NOTE 5 – NET ASSETS

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

	2014	2013
Unconditional promises to give due in future periods	$ 248,799	$ 304,839
Earnings on endowment funds	14,713	9,385
Donations for women's healthcare and nurse practitioner	3,709	11,245
	$ 267,221	$ 325,469

NOTE 6 – DONATED MATERIALS AND SERVICES

The Organization received in-kind contributions as follows during the years ended June 30:

	2014	2013
Legal and professional	$ 73,500	$ 70,000
Other	23,000	9,617
Contract labor	10,000	-
Advertising and promotion	4,500	-
Event costs	4,000	3,750
	$ 115,000	$ 83,367

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 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 8 – 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 9 – 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, 2014 and June 30, 2013.

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 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, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 14,713	$ 100,000	$ 114,713
Total funds	$ -	$ 14,713	$ 100,000	$ 114,713

NOTE 9 – ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 9,385	$ 100,000	$ 109,385
Investment return	$ -	5,328	-	5,328
Endowment net assets, end of year	$ -	$ 14,713	$ 100,000	$ 114,713

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

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, 2014, the Organization's endowment was comprised of approximately 50% cash and cash equivalents, 28% equity funds, 16% fixed income funds, and 6% in alternative investments.

NOTE 10 – PNP COLLABORATIVE

The Organization serves as the fiscal agent for a Psychiatric Nurse Practitioner (PNP) Collaborative (the "Collaborative") which consisted of three agencies as of June 30, 2014. 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 approximately 24% of the benefits during the year ended June 30, 2014. The Organization maintains an escrow account in which grant awards are deposited and from which expenditures are paid.