

MAGDALENE, INC. AND SUBSIDIARY

Consolidated Financial Statements

June 30, 2005

(With Independent Auditors' Report Thereon)

MAGDALENE, INC. AND SUBSIDIARY

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities	3
Consolidated Statement of Functional Expenses	4 - 5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 14

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Magdalene, Inc. And Subsidiary
Nashville, Tennessee

We have audited the accompanying consolidated statement of financial position of Magdalene, Inc. (a nonprofit organization) and subsidiary as of June 30, 2005, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion of these consolidated financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 audit provides 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. as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Lewis, Smith, Smiley & Associates, P.C.

January 31, 2006

MAGDALENE, INC. AND SUBSIDIARY

Consolidated Statement of Financial Position June 30, 2005

ASSETS

Current assets:	
Cash and cash equivalents	\$ 136,550
Grants receivable	13,609
Unconditional promises to give, current	10,175
Other current assets	3,593
Total current assets	<u>163,927</u>
Cash restricted to long-term purposes:	
Restricted cash - maintenance endowment	<u>34,380</u>
Total cash restricted for long-term purposes	<u>34,380</u>
Unconditional promises to give, long-term:	
Due in more than one year, restricted only by time period	4,858
Restricted for investment in property and equipment	64,232
Restricted for maintenance endowment	<u>115,620</u>
Total unconditional promises to give, long-term	<u>184,710</u>
Property and equipment:	
Land	39,700
Land for development	19,973
Residential property	811,825
Furniture, fixtures and equipment	18,083
Vehicles	20,247
Leasehold improvements	<u>9,906</u>
	919,734
Less accumulated depreciation	<u>61,622</u>
Total property and equipment	<u>858,112</u>
Total assets	<u>\$1,241,129</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Mortgage note payable	\$ 100,000
Accounts payable and accrued expenses	<u>7,453</u>
Total current liabilities	<u>107,453</u>
Net assets:	
Unrestricted	900,977
Temporarily restricted	82,699
Permanently restricted	<u>150,000</u>
Total net assets	<u>1,133,676</u>
Total liabilities and net assets	<u>\$1,241,129</u>

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY

Consolidated Statement of Activities Year Ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions and grants:				
Individuals	\$207,638	-	-	207,638
Organizations	119,271	-	-	119,271
United Way - Outcome Based				
Investments	-	13,609	-	13,609
Capital improvements campaign	-	205,610	-	205,610
Men's rehabilitation program	23,000	-	-	23,000
Interest income	1,254	100	-	1,354
Thistle Farms	111,107	-	-	111,107
Special events	5,801	-	-	5,801
Other revenue	8,059	-	-	8,059
Net assets released from restrictions:				
Satisfaction of time restrictions	78,325	(78,325)	-	-
Satisfaction of program restrictions	<u>396,539</u>	<u>(396,539)</u>	-	-
Total revenues and other support	<u>950,994</u>	<u>(255,545)</u>	-	<u>695,449</u>
Expenses:				
Program services:				
Women's sanctuary and rehabilitation	455,561	-	-	455,561
Men's rehabilitation	3,800	-	-	3,800
Thistle Farms	<u>135,798</u>	-	-	<u>135,798</u>
	595,159	-	-	595,159
Supporting services:				
Management and general	41,380	-	-	41,380
Fundraising	<u>52,870</u>	-	-	<u>52,870</u>
Total expenses	<u>689,409</u>	-	-	<u>689,409</u>
Change in net assets	261,585	(255,545)	-	6,040
Net assets at beginning of year	<u>639,392</u>	<u>338,244</u>	<u>150,000</u>	<u>1,127,636</u>
Net assets at end of year	<u>\$900,977</u>	<u>82,699</u>	<u>150,000</u>	<u>1,133,676</u>

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses Year Ended June 30, 2005

	Women's Sanctuary and Rehabilitation	Men's Rehabilitation	Thistle Farms	Total Program	Management and General	Fund- raising	Total
Building rent	\$ 10,200	-	-	10,200	-	-	10,200
Clothing & grooming	6,930	-	-	6,930	-	-	6,930
Contract labor	14,800	-	-	14,800	-	-	14,800
Cost of sales - labor	-	-	78,432	78,432	-	-	78,432
Cost of sales - materials	-	-	26,769	26,769	-	-	26,769
Cost of sales - printing	-	-	3,929	3,929	-	-	3,929
Credit cards fees	-	-	1,546	1,546	-	-	1,546
Depreciation	33,322	-	-	33,322	-	-	33,322
Outreach ministry	30,000	-	-	30,000	4,512	-	34,512
Education	4,866	-	-	4,866	-	-	4,866
Employee benefits	10,648	-	2,809	13,457	1,267	3,635	18,359
Food & household supplies	11,852	-	-	11,852	-	-	11,852
Fund-raising	-	-	-	-	-	12,716	12,716
General & administrative	-	-	-	-	3,711	-	3,711
Insurance	18,252	-	-	18,252	-	-	18,252
Interest	3,902	-	-	3,902	-	-	3,902
Legal & professional	420	-	2,700	3,120	6,490	300	9,910
Meals	5,990	-	1,121	7,111	-	-	7,111
Medical	9,071	-	-	9,071	-	-	9,071
Newsletter	1,000	-	-	1,000	585	500	2,085
Other program expenses	5,063	-	5,371	10,434	-	-	10,434
Payroll tax	11,976	-	6,004	17,980	2,115	1,057	21,152
Printing & supplies	-	-	690	690	1,314	1,313	3,317
Subtotal, to next page	<u>\$178,292</u>	<u>-</u>	<u>129,371</u>	<u>307,663</u>	<u>19,994</u>	<u>19,521</u>	<u>347,178</u>

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses, Continued Year Ended June 30, 2005

	Women's Sanctuary and <u>Rehabilitation</u>	Men's <u>Rehabilitation</u>	Thistle <u>Farms</u>	Total <u>Program</u>	Management and General	Fund-raising	<u>Total</u>
Subtotal, from previous page	\$178,292	-	129,371	307,663	19,994	19,521	347,178
Program staff fees	161,273	-	-	161,273	18,973	9,487	189,733
Property taxes	1,992	-	-	1,992	-	-	1,992
Advertising & promotion	-	-	3,864	3,864	-	-	3,864
Reimbursement - St. Augustine's	23,575	-	-	23,575	1,310	1,310	26,195
Repairs & maintenance	13,085	-	385	13,470	-	-	13,470
Stipends	15,742	-	-	15,742	-	-	15,742
Supplies	-	-	2,158	2,158	-	-	2,158
Telephone	9,380	-	-	9,380	1,103	552	11,035
Transportation	25,601	-	-	25,601	-	-	25,601
Travel	-	-	20	20	-	-	20
Utilities	20,641	-	-	20,641	-	-	20,641
IDA	5,980	-	-	5,980	-	-	5,980
Capital campaign for new residence (Sanctuary)	-	-	-	-	-	22,000	22,000
Therapy seminars	<u>-</u>	<u>3,800</u>	<u>-</u>	<u>3,800</u>	<u>-</u>	<u>-</u>	<u>3,800</u>
Total	<u>\$455,561</u>	<u>3,800</u>	<u>135,798</u>	<u>595,159</u>	<u>41,380</u>	<u>52,870</u>	<u>689,409</u>

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY

Consolidated Statement of Cash Flows Year Ended June 30, 2005

Change in net assets	\$ 6,040
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	33,322
Decrease (increase) in assets:	
Grants receivable	(427)
Unconditional promises to give	(2,430)
Other current assets	5,121
Decrease in accounts payable and accrued expense	<u>(11,829)</u>
Net cash provided by operating activities	<u>29,797</u>
Cash flows from investing activities:	
Additions to residential property	<u>(436,151)</u>
Net cash used by investing activities	<u>(436,151)</u>
Cash flows from financing activities:	
Decrease in cash restricted for investment in property and equipment	259,591
Proceeds from mortgage note payable	100,000
Payments of principal of mortgage note payable	<u>(29,917)</u>
Net cash provided by financing activities	<u>329,674</u>
Net increase in cash and cash equivalents	(76,680)
Cash and cash equivalents at beginning of year	<u>213,230</u>
Cash and cash equivalents at end of year	<u><u>136,550</u></u>
Supplemental Information:	
Cash paid for interest	\$ <u><u>7,106</u></u>

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements Year Ended June 30, 2005

(1) Organization and Operations

Magdalene, Inc., is a nonprofit corporation, exempt from income taxes under IRC Section 501(c)(3), organized in the state of Tennessee in 1993 that conducts a mission to provide sanctuary, therapeutic and educational programs for women with a history of prostitution who are motivated to seek a healthy lifestyle in a secure and compassionate environment.

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.

During the fiscal year ended June 30, 2005, the Organization established a wholly owned entity, Magdalene Homes, LLC, to construct residential housing for graduates of its program (see note 16).

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of Magdalene, Inc. and its wholly owned subsidiary, Magdalene Homes, LLC. All material intercompany transactions have been eliminated in consolidation.

Financial statement presentation follows the recommendations of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets 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 statement of activities as net assets released from restrictions. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the statement of activities as unrestricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they may 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.

The Organization accounts for contributions in accordance with the recommendations of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions, and are recorded as described in note (2)(d).

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Certain reclassifications have been made in the current year financial statement presentation when compared to that of the prior year.

MAGDALENE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued
Year Ended June 30, 2005

(2) Summary of Significant Accounting Policies, Continued

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments with an initial maturity of three months or less. Cash restricted for internal or external designations are generally maintained in separate accounts

(c) Unconditional Promises to Give

Unconditional promises to give represent contributions which supporters have promised to give in subsequent years. These contributions are recorded as increases in temporarily restricted net assets at their fair value, considering their estimated collectibility, when pledged by the donors. Contributions expected to be collected in more than one year are discounted to present value, if materially different from the gross amount pledged.

(d) Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted revenues depending on the existence and nature of any donor restrictions. All donor-restricted contributions are reported as increases in temporarily restricted 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.

Grants and bequests, primarily from private foundations or the United Way, may require the fulfillment of certain conditions as set forth in the grant or bequest documents. Failure to fulfill any such conditions could result in the return of the funds to the grantors. Although such a circumstance is a possibility, management deems the contingency remote because the Organization has historically complied with donor provisions. By accepting the gifts and their terms, the Organization has demonstrated its intent and its policy to accommodate the provisions of the gifts and to coordinate them with the objectives of the Organization.

(e) Property and Equipment

Property and equipment are carried at cost. Donated equipment is recorded at market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally twenty-eight (28) to thirty-nine (39) years for buildings and five to ten years for other depreciable property. Expenditures for maintenance and repairs are charged to expense as incurred; expenditures for improvements, renewals and extraordinary repairs that extend the useful life of an asset are capitalized.

(f) Donated Services

Unpaid volunteers make contributions of time in various administrative, fund-raising and program functions. The value of contributed time is not reflected in the financial statements as it is not susceptible to objective measurement or valuation.

MAGDALENE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued
Year Ended June 30, 2005

(2) Summary of Significant Accounting Policies, Continued

(g) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, costs have been allocated among the programs and supporting services benefitted based upon management's analysis and estimates.

(h) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(i) Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (an Organization other than a private foundation) and therefore has made no provision for federal income taxes in the accompanying financial statements. Historically, the Organization has not received any unrelated business income on which income taxes would be payable.

(j) Compensated Absences

Employees of the Organization are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the cost of compensated absences when actually paid to employees.

(k) Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred.

(3) Cash and Cash Equivalents

At June 30, 2005, cash and cash equivalents included the following:

Cash on hand	\$ 84
Non-interest bearing demand deposits	2,105
Interest bearing accounts	<u>168,741</u>
	170,930
Less cash restricted for long-term purposes:	
Permanently restricted for maintenance endowment of newly constructed residence	<u>34,380</u>
Cash and cash equivalents	<u>\$136,550</u>

MAGDALENE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued Year Ended June 30, 2005

(4) Grants Receivable

Grants receivable of \$13,609 at June 30, 2005 consisted of support promised by United Way of Metropolitan Nashville to be provided in equal monthly installments through June 2006 (temporarily restricted by time period). The support is from the Outcome Based Investment allocation program. Management intends to continue to apply for the annual United Way grant.

(5) Unconditional Promises to Give

Unconditional promises to give at June 30, 2005, were as follows:

	<u>Receivable in Less than One Year</u>	<u>Receivable in One to Five Years</u>	<u>Total</u>
Total amount promised	\$10,175	194,710	204,885
Estimated uncollectible	-	(4,700)	(4,700)
Discount to present value	-	(5,300)	(5,300)
Net unconditional promises to give	<u>\$10,175</u>	<u>184,710</u>	<u>194,885</u>
Temporarily restricted for capital improvements	\$10,175	64,232	74,407
Temporarily restricted by time period	-	4,858	4,858
Total temporarily restricted	<u>10,175</u>	<u>69,090</u>	<u>79,265</u>
Permanently restricted	-	115,620	115,620
Totals above	<u>\$10,175</u>	<u>184,710</u>	<u>194,885</u>

Of the \$204,885 total promised, \$70,642, or 34.48%, was represented by 8 separate promises over \$5,000 each. The \$115,620 of permanently restricted promises were for an endowment, the income from which will be used for maintenance of the new residence. The discount rate used on long-term promises to give was 3.00% in 2005.

(6) Other Current Assets

Other current assets at June 30, 2005 consisted of the following:

Inventory – Thistle Farms	\$3,178
Advances to employees	<u>415</u>
	<u>\$3,593</u>

The inventory consisted of items produced for sale under the Thistle Farms program (see note 12), and has been recorded at direct cost. The items generally consist of candles, skin and lip balms, bath salts and similar items either packaged separately or in gift baskets containing various combinations of these items.

MAGDALENE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued
Year Ended June 30, 2005

(7) Mortgage Notes Payable

On November 19, 2003, the Organization entered into a construction mortgage loan agreement with Capital Bank and Trust Company of Nashville, TN, to provide interim financing for a new residence. Under this agreement, the Organization could have borrowed up to \$300,000. The total outstanding balance was paid at the maturity date of November 19, 2004, following the completion of the construction in October 2004. Total interest paid during the fiscal year was \$7,106, of which \$3,204 was capitalized as cost of the new residence.

On November 20, 2004, the Organization entered into a mortgage loan agreement related to the newly constructed residential building and borrowed \$100,000, payable at maturity on July 8, 2005, with interest payable monthly at 6.25%. Borrowings under this agreement are secured by a first deed of trust on the new residence. The loan document contains certain restrictive covenants requiring the Organization to maintain adequate insurance coverage on the secured property, and to meet various financial, maintenance and operating requirements.

(8) Restricted Net Assets

Restricted net assets as of June 30, 2005 were as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>
Capital campaign	\$64,232	-
New residence maintenance	-	150,000
Time period	<u>18,467</u>	<u>-</u>
	<u>\$82,699</u>	<u>150,000</u>

(9) Grants and Contributions

During the year ended June 30, 2005, the Organization's revenue included contributions of \$5,000 or more from foundations and trusts, organizations, and individuals as follows:

Foundations and trusts	\$184,500
Organizations	39,260
United Way	55,895
Individuals	<u>88,745</u>
	<u>\$368,400</u>

Of the contributions received, certain funds were restricted to particular programs and time periods (see notes 3 and 4). The Organization receives a substantial amount of its support from the community - certain foundations, churches, organizations and individuals. Any significant reduction in the levels of this support from any of these sources, if this were to occur, could have an adverse effect on the Organization's programs and activities. However, based on the upcoming fiscal year's budget and operations through January 31, 2006, management expects appropriate levels of support for its mission to continue for the year ended June 30, 2006.

MAGDALENE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued Year Ended June 30, 2005

(10) Men's Rehabilitation Program

The Organization had historically received a significant portion of its annual revenue from the Prostitution Solicitation School, which the Organization administers under the supervision of the court system of the Metropolitan Government of Davidson County, Tennessee. As a condition of probation, first time offenders are required to attend this school within 90 days following their court date and must pay a fee plus other costs of approximately \$250. During the year ended June 30, 2005, the Organization received \$23,000 from offenders, which was a decrease of approximately \$26,000 from the previous fiscal year. The program fees are subject to the enforcement programs and policies of the Metropolitan police force and court system and may be subject to future significant fluctuations.

(11) Individual Development Account (IDA) Program

During the year ended June 30, 2005, the Organization, with cooperation from a local bank, offered to its residents, affiliates, graduates, and Thistle Farm employees (see note 12) a program designed to encourage savings and the development of personal financial management skills. Program participants are required to attend classes in personal financial management and to make regular monthly deposits of \$50 or \$100 into personal savings accounts at the bank for a period of 12 to 18 months, during which time withdrawals from the account are prohibited. In return, the Organization matches the participants' deposits with \$2 for every \$1 up to \$1000, plus \$1 for every \$1 above \$1,000, up to a maximum amount of \$2,800 per participant.

As of June 30, 2005, six (6) residents or graduates were participating in the program. For the year then ended, the Organization incurred \$5,980 of expense for matching contributions. The majority of the funding for the program was received in the previous year from donations restricted to this purpose. Funds previously donated by a third party to support the IDA program have been disbursed; accordingly, the IDA is now funded by unrestricted operating funds.

(12) Thistle Farm Activities

As an outgrowth of the women's rehabilitation program, the Organization operates 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 back into the workplace at the completion of the program. Revenues from Thistle Farm activities for the year ended June 30, 2005 were \$111,107. Related costs of sales, including labor, materials and shipping, and other expenses were \$135,798, for a net cost of \$24,691. The cost of advertising and promotion which the Organization expenses as it is incurred, was \$3,864.

(13) Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts at Capital Bank & Trust, Company, a local financial institution located in Nashville, Tennessee. The balances, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents. The Bank's President is a member of the Organization's Board of Directors (see note 15 + 16 for other related parties).

MAGDALENE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued Year Ended June 30, 2005

(14) Rent

In conjunction with its community outreach program, the Campus for Human Development (The Campus), leases two homes in Nashville to the Organization, which uses these houses to provide safe residence for the women in the program. Both houses are leased annually for one dollar (\$1) per year with the Organization paying all utilities. Insurance and minor repairs are paid for by The Campus as part of the lease agreement. The leases are renewable at the discretion of The Campus. Management has estimated the fair market rental value of the combined annual leases to be \$10,200; accordingly, the difference between this estimate and the payments, or \$10,199 (\$10,200 minus \$1), has been recorded as additional rent expense and as contribution revenue.

(15) 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 \$26,195 for the year ended June 30, 2005.

The Treasurer also maintains the internal bookkeeping records of the Organization and was paid \$3,420 for these services in the year ended June 30, 2005.

(16) Magdalene Homes, LLC

The Organization has committed to support a project that assists graduates of its program to purchase residential housing. A wholly owned nonprofit exempt organization, purchases and owns real estate on which Hopeworks, an entity controlled by a local church congregation, and other community volunteers will construct a personal residence. Upon completion, the land and house will be purchased by a Magdalene graduate who will have been pre-approved for financing before construction begins and for whom the home will be built as a custom house. This project is made possible by a Housing and Urban Development program through US Bank. When a home is purchased, the Organization will recover some or all of its investment in the real estate. Half of the money for the real estate will be raised and contributed by Magdalene, Inc; the other half by efforts of the congregation of St. George's Episcopal Church, Nashville, Tennessee. By January 20, 2004, the Organization had raised the approximately \$20,000 that it had committed to raise to initiate the LLC plans. As a beginning, two (2) homes were included in the conceptual plans in this residential housing project.

Magdalene Homes, LLC, was organized on April 1, 2004 as a Tennessee limited liability company and is owned 100% by Magdalene, Inc. At June 30, 2005 Magdalene Homes LLC has purchased two parcels of property in Nashville, TN and had formalized the development plans for the three bedroom homes to be built by a licensed contractor within the next fiscal year. The present plan is to build five such homes and that the estimated construction time for each home is ninety days.

MAGDALENE, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued
Year Ended June 30, 2005

(17) Commitments and Contingencies

In the prior year, the Organization had received and disbursed \$67,500 which was related to an independent documentary about the Organization. Although the Organization has been granted the right to use the documentary when it is finished for any purpose approved by its Board, it does not have any ownership or control rights over its production or context. Also, the funds received were specified for use to pay costs of the documentary. Accordingly, the funds received and disbursed under these circumstances, was recorded as agency funds and no revenue or expense was recorded. The documentary has been completed and management plans to use it primarily for public relations and fundraising purposes.

Exempt organizations which have similar programs modeled after Magdalene, Inc. have been established in Chattanooga, TN and Charlotte, NC. The Organization has donated \$5,000 to the program in Chattanooga, TN, and the Board has made a nonbinding commitment to help these organizations with advisory and other nonfinancial assistance, when practical, and with financial assistance, when future funds are available; however, there are no plans to formalize any affiliation relationships.

In 2005, an outreach program entitled "Magdalene Arms", was started by a Magdalene Inc. graduate and employee, specifically to provide additional assistance, primarily food and shelter, in Nashville, TN. Additional funding has been proposed and is anticipated to be approved for this "outreach ministry" program in 2006.

For 2006, the Board is also considering a program to expand the Thistle Farms retail concept by creating a national brand name for its Thistle Farms products and increasing its marketing efforts to increase revenues.

Also, in June 2005, the Organization donated \$25,000 to the Community Foundation of Middle Tennessee to set up an agency endowment fund. Interest income from this fund has been restricted to use for maintenance of the new residence.