

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

June 30, 2008 and 2007

MAGDALENE, INC. AND SUBSIDIARY

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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, 2008 and 2007 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, 2008 and 2007, 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.

Frasier, Dean & Howard, PLLC

December 22, 2008

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

Assets	2008	2007
Current assets:		
Cash and cash equivalents	\$ 122,262	\$ 225,179
Unconditional promises to give, current	125,586	193,303
Other current assets	11,373	6,629
Total current assets	259,221	425,111
Cash restricted for endowment	57,304	57,304
Unconditional promises to give, net	126,753	88,261
Third mortgages receivable	20,000	-
Construction in progress	-	203,458
Property and equipment, net	991,256	802,279
Total assets	<u>\$ 1,454,534</u>	<u>\$ 1,576,413</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 44,228	\$ 25,962
Notes payable, current	4,833	151,845
Total current liabilities	49,061	177,807
Unearned revenue on third mortgages	20,000	-
Notes payable, net of current portion	51,563	56,324
Total liabilities	120,624	234,131
Net assets:		
Unrestricted	1,024,267	940,015
Temporarily restricted	252,339	344,963
Permanently restricted	57,304	57,304
Total net assets	1,333,910	1,342,282
Total liabilities and net assets	<u>\$ 1,454,534</u>	<u>\$ 1,576,413</u>

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and other support:				
Contributions	\$ 427,757	\$ 157,372	\$ -	\$ 585,129
Thistle Farms product sales	213,584	-	-	213,584
In-kind	183,583	-	-	183,583
Home sales	183,000	-	-	183,000
Men's rehabilitation program	32,800	-	-	32,800
Grants	23,000	-	-	23,000
Other	1,323	-	-	1,323
Net assets released from restrictions (transferred)	186,780	(186,780)	-	-
Total revenue and other support	<u>1,251,827</u>	<u>(29,408)</u>	<u>-</u>	<u>1,222,419</u>
Expenses:				
Program services:				
Women's sanctuary and rehabilitation	691,512	-	-	691,512
Thistle Farms	368,996	-	-	368,996
Total program services	<u>1,060,508</u>	<u>-</u>	<u>-</u>	<u>1,060,508</u>
Supporting services:				
Management and general	44,479	-	-	44,479
Fundraising	62,588	-	-	62,588
Total supporting services	<u>107,067</u>	<u>-</u>	<u>-</u>	<u>107,067</u>
Total expenses	<u>1,167,575</u>	<u>-</u>	<u>-</u>	<u>1,167,575</u>
Losses:				
Provision for loss on uncollectible contributions	-	63,216	-	63,216
Change in net assets	84,252	(92,624)	-	(8,372)
Net assets, beginning of year	<u>940,015</u>	<u>344,963</u>	<u>57,304</u>	<u>1,342,282</u>
Net assets, end of year	<u>\$ 1,024,267</u>	<u>\$ 252,339</u>	<u>\$ 57,304</u>	<u>\$ 1,333,910</u>

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:				
Contributions	\$ 474,394	\$ 166,968	\$ -	\$ 641,362
Thistle Farms product sales	162,828	-	-	162,828
Grants	44,101	63,399	-	107,500
In-kind	56,108	-	-	56,108
Men's rehabilitation program	23,600	-	-	23,600
Other	12,227	-	-	12,227
Net assets released from restrictions (transferred)	156,419	(148,723)	(7,696)	-
Total revenue and other support	929,677	81,644	(7,696)	1,003,625
Expenses:				
Program services:				
Women's sanctuary and rehabilitation	426,509	-	-	426,509
Thistle Farms	271,689	-	-	271,689
Total program services	698,198	-	-	698,198
Supporting services:				
Management and general	72,076	-	-	72,076
Fundraising	49,168	-	-	49,168
Total supporting services	121,244	-	-	121,244
Total expenses	819,442	-	-	819,442
Losses:				
Provision for loss on uncollectible contributions	-	12,525	-	12,525
Change in net assets	110,235	69,119	(7,696)	171,658
Net assets, beginning of year	829,780	275,844	65,000	1,170,624
Net assets, end of year	\$ 940,015	\$ 344,963	\$ 57,304	\$ 1,342,282

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2008

	Program Services			Supporting Services			Total
	Women's Sanctuary and Rehabilitation	Thistle Farms	Program Services	Management and General	Fundraising	Supporting Services	Total Expenses
Salaries	\$ 218,166	\$ 147,399	\$ 365,565	\$ 13,361	\$ 31,875	\$ 45,236	\$ 410,801
Cost of homes constructed	202,973	-	202,973	-	-	-	202,973
Cost of sales - materials	-	51,886	51,886	-	-	-	51,886
Cost of sales - labor	-	45,593	45,593	-	-	-	45,593
Depreciation	44,101	-	44,101	-	-	-	44,101
Cost of sales - printing	-	39,342	39,342	-	-	-	39,342
Utilities	32,180	2,719	34,899	-	-	-	34,899
Payroll tax	12,902	16,388	29,290	2,092	3,487	5,579	34,869
Legal and professional	-	14,584	14,584	16,510	-	16,510	31,094
Miscellaneous	427	-	427	4,761	23,034	27,795	28,222
Medical	24,792	-	24,792	-	-	-	24,792
Outreach ministry	20,577	1,823	22,400	1,279	-	1,279	23,679
Other program expenses	9,571	9,077	18,648	-	-	-	18,648
Insurance	17,037	-	17,037	-	-	-	17,037
Reimbursement - St. Augustine's	13,419	-	13,419	746	746	1,492	14,911
Transportation	13,381	-	13,381	-	-	-	13,381
Stipends	12,545	-	12,545	-	-	-	12,545
Supplies	-	10,941	10,941	-	-	-	10,941
Telephone	8,020	-	8,020	943	472	1,415	9,435
Food and household supplies	9,418	-	9,418	-	-	-	9,418
Repairs and maintenance	8,218	907	9,125	-	-	-	9,125
Employee benefits	3,364	4,273	7,637	545	909	1,454	9,091
Credit card and bank fees	-	8,358	8,358	-	-	-	8,358
Travel	-	8,313	8,313	-	-	-	8,313
Printing and supplies	4,075	-	4,075	2,798	1,244	4,042	8,117
Clothing and grooming	7,814	-	7,814	-	-	-	7,814
Contract labor	7,750	-	7,750	-	-	-	7,750
Mental health	6,625	-	6,625	-	-	-	6,625
Advertising and promotion	-	5,755	5,755	-	-	-	5,755
Interest	4,344	-	4,344	-	-	-	4,344
Property taxes	3,823	-	3,823	-	-	-	3,823
Newsletter	1,644	-	1,644	959	821	1,780	3,424
Half Step House	2,449	-	2,449	-	-	-	2,449
Individual Development Account	1,897	-	1,897	-	-	-	1,897
Meals and events	-	1,638	1,638	-	-	-	1,638
Community Foundation	-	-	-	485	-	485	485
	\$ 691,512	\$ 368,996	\$ 1,060,508	\$ 44,479	\$ 62,588	\$ 107,067	\$ 1,167,575

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2007

	Program Services			Supporting Services			Total Expenses
	Women's Sanctuary and Rehabilitation	Thistle Farms	Program Services	Management and General	Fundraising	Supporting Services	
	\$	\$	\$	\$	\$	\$	\$
Salaries	121,308	132,304	253,612	31,425	32,545	63,970	317,582
Cost of sales - materials	-	43,270	43,270	-	-	-	43,270
Contract labor	42,907	-	42,907	-	-	-	42,907
Depreciation	37,113	-	37,113	-	-	-	37,113
Legal and professional	-	13,563	13,563	17,988	-	17,988	31,551
Utilities	27,398	2,602	30,000	-	-	-	30,000
Cost of sales - labor	-	28,846	28,846	-	-	-	28,846
Reimbursement - St. Augustine's	22,298	-	22,298	1,239	1,239	2,478	24,776
Payroll tax	8,240	10,579	18,819	1,404	2,210	3,614	22,433
Employee benefits	7,981	10,138	18,119	1,294	2,157	3,451	21,570
Medical	19,262	-	19,262	-	-	-	19,262
Individual Development Account	19,199	-	19,199	-	-	-	19,199
Insurance	14,698	-	14,698	-	-	-	14,698
Repairs and maintenance	13,726	833	14,559	-	-	-	14,559
Stipends	13,185	-	13,185	-	-	-	13,185
Outreach ministry	11,254	997	12,251	699	-	699	12,950
Miscellaneous	-	-	-	6,161	6,174	12,335	12,335
Other program expenses	10,021	1,943	11,964	-	-	-	11,964
Food and household supplies	11,522	-	11,522	-	-	-	11,522
Cost of sales - printing	-	11,081	11,081	-	-	-	11,081
Transportation	10,250	-	10,250	-	-	-	10,250
Building rent	10,200	-	10,200	-	-	-	10,200
Telephone	7,528	-	7,528	886	443	1,329	8,857
Printing and supplies	-	1,985	1,985	2,535	3,852	6,387	8,372
Community Foundation	-	-	-	7,806	-	7,806	7,806
Property taxes	5,851	-	5,851	-	-	-	5,851
Interest	5,785	-	5,785	-	-	-	5,785
Supplies	-	4,831	4,831	-	-	-	4,831
Advertising and promotion	-	3,841	3,841	-	-	-	3,841
Clothing and grooming	3,247	-	3,247	-	-	-	3,247
Travel	-	2,735	2,735	-	-	-	2,735
Crew house	2,440	-	2,440	-	-	-	2,440
Newsletter	1,096	-	1,096	639	548	1,187	2,283
Credit card fees	-	1,803	1,803	-	-	-	1,803
Meals and events	-	338	338	-	-	-	338
	\$	\$	\$	\$	\$	\$	\$
	426,509	271,689	698,198	72,076	49,168	121,244	819,442

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Change in net assets	\$ (8,372)	\$ 171,658
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	44,101	37,113
Provision for loss on uncollectible contributions	63,216	12,525
Land portion of costs of homes constructed	19,973	-
Transfer of permanently restricted endowment funds	-	7,696
In-kind contributions	(183,583)	(56,108)
Change in operating assets and liabilities:		
Unconditional promises to give	(33,991)	(35,696)
Other current assets	(4,744)	5,738
Accounts payable and accrued expenses	18,266	18,653
Net cash (used in) provided by operating activities	<u>(85,134)</u>	<u>161,579</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(13,360)</u>	<u>-</u>
Net cash used in investing activities	<u>(13,360)</u>	<u>-</u>
Cash flows from financing activities:		
Principal payments on note payable	<u>(4,423)</u>	<u>(1,048)</u>
Net cash used in financing activities	<u>(4,423)</u>	<u>(1,048)</u>
Net (decrease) increase in cash and cash equivalents	(102,917)	160,531
Cash and cash equivalents, beginning of year	<u>225,179</u>	<u>64,648</u>
Cash and cash equivalents, end of year	<u><u>\$ 122,262</u></u>	<u><u>\$ 225,179</u></u>
Supplemental schedule of cash flow information:		
Interest paid	<u><u>\$ 7,750</u></u>	<u><u>\$ 5,785</u></u>
Supplemental schedule of non cash financing and investing activities:		
Construction in progress financed by notes payable	<u><u>\$ 32,329</u></u>	<u><u>\$ 147,350</u></u>
Construction in progress from in-kind activities	<u><u>\$ 18,183</u></u>	<u><u>\$ 56,108</u></u>
Repayment of loan and interest through sale of property	<u><u>\$ 181,577</u></u>	<u><u>\$ -</u></u>
Land included in costs of homes constructed	<u><u>\$ 19,973</u></u>	<u><u>\$ -</u></u>
Donation of land and buildings	<u><u>\$ 165,400</u></u>	<u><u>\$ -</u></u>

See accompanying notes to consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008 and 2007

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, therapeutic and education 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.

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 entity, Magdalene Homes, LLC, to construct residential housing for graduates of its program (see note 9).

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.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. 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:

MAGDALENE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

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.

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 federal income taxes is included in the accompanying consolidated financial statements.

MAGDALENE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Concentration of Credit Risk

The Organization maintains cash balances with banks and other financial institutions which at times may exceed federally insured limits. Credit risk is managed by maintaining all deposits in high quality financial institutions.

Reclassifications

Certain reclassifications have been made to 2007 balances in order to conform with the 2008 presentation.

MAGDALENE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

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

	<u>2008</u>	<u>2007</u>
Unconditional promises to give	\$ 316,103	\$ 329,320
Less: allowance for uncollectible contributions	(53,861)	(32,000)
Less: discount to net present value	<u>(9,903)</u>	<u>(15,756)</u>
Net unconditional promises to give	252,339	281,564
Less: amounts receivable in less than one year, net	<u>125,586</u>	<u>193,303</u>
Receivable in one to five years, net	<u>\$ 126,753</u>	<u>\$ 88,261</u>

NOTE 3 – CONSTRUCTION IN PROGRESS

Construction in progress consists of renovation and construction efforts on three residences that will be used for the benefit of graduates of the Organization. Construction in progress totaled \$203,458 at June 30, 2007, including \$56,108 of in-kind activities. Construction projects were completed during the year ended June 30, 2008 and either sold or capitalized as property and equipment.

NOTE 4 – PROPERTY AND EQUIPMENT

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

	<u>2008</u>	<u>2007</u>
Land and buildings	\$ 1,086,425	\$ 889,498
Furniture, fixtures and equipment	49,884	21,337
Vehicle	20,247	20,247
Leasehold improvements	<u>10,236</u>	<u>10,236</u>
	1,166,792	941,318
Less: accumulated depreciation	<u>(175,536)</u>	<u>(139,039)</u>
	<u>\$ 991,256</u>	<u>\$ 802,279</u>

NOTE 5 – 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 \$56,396 and \$60,819 at June 30, 2008 and 2007, respectively.

MAGDALENE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 5 – NOTES PAYABLE (Continued)

In addition, the Organization entered into two note agreements with a lender in connection with the construction of two residences for Magdalene Homes, LLC (see Note 9). The note agreements provided for interest at 5%. Amounts outstanding under each loan totaled \$73,675 at June 30, 2007. The notes were paid in full during September 2007.

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

2009	\$ 4,833
2010	5,196
2011	5,586
2012	6,006
2013	6,458
Thereafter	<u>28,317</u>
	<u>\$ 56,396</u>

NOTE 6 – NET ASSETS

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

	<u>2008</u>	<u>2007</u>
Unconditional promises to give due in future periods	\$ 252,339	\$ 281,564
Contributions restricted for Thistle Farms	<u>-</u>	<u>63,399</u>
	<u>\$ 252,339</u>	<u>\$ 344,963</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, 2008 and 2007.

NOTE 7 – LEASES

In conjunction with its community outreach program, during 2007 the Campus for Human Development (a nonprofit organization) (“Campus”), leased two homes in Nashville to the Organization, which uses these houses to provide safe residences for women in the program. Both houses were leased annually for one dollar (\$1) per year with the Organization paying all utilities. Insurance and minor repairs were paid for by Campus as part of the lease agreement. Management estimated the fair market rental value of the combined annual leases to be \$10,200 which was recorded as rent expense and as contribution revenue for 2007. During the year ended June 30, 2008, the two properties were donated to the Organization. The estimated fair value of the properties, \$165,400, was recorded as an in-kind contribution in the accompanying 2008 consolidated statement of activities.

MAGDALENE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 8 – 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 \$14,911 and \$24,775 for the years ended June 30, 2008 and 2007, respectively.

The Treasurer maintains the internal bookkeeping records of the Organization and was compensated \$3,500 and \$5,780 for these services in the years ended June 30, 2008 and 2007, respectively.

NOTE 9 – 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. As of June 30, 2007, Magdalene Homes, LLC had purchased two parcels of property in Nashville, Tennessee for the purpose of building residential homes for graduates of its program.

During the year ended June 30, 2007, construction activity began on the two parcels purchased. At June 30, 2007, \$147,350 was included in construction-in-progress. The Organization entered into note agreements to finance this construction.

During the year ended June 30, 2008, the construction of the 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. Magdalene 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 10 – 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 permanently restricted endowment funds totaling \$7,696 during the year ended June 30, 2007. 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 \$53,000 and \$52,000 at June 30, 2008 and 2007, respectively.