

MAGDALENE, INC.

Financial Statements

June 30, 2004

(With Independent Auditors' Report Thereon)

MAGDALENE, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Magdalene, Inc. (a nonprofit organization) as of June 30, 2004, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion of these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of Magdalene, Inc. as of June 30, 2004, 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.

As discussed in Note 17 to the financial statements, certain errors resulting in overstatement of previously reported revenues and expenses of equal amounts as of September 19, 2004, were discovered by management of the Company during the current year. Accordingly, an adjustment has been made to the revenues and expenses of June 30, 2004, to correct the error; however, the effect on the change in net assets for the year ended June 30, 2004 and on the balance of the net assets as of June 30, 2004 was zero.

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

September 19, 2004, except for Note 17 as to which the date is September 20, 2005.

MAGDALENE, INC.

Statement of Financial Position June 30, 2004

ASSETS

Current assets:	
Cash and cash equivalents	\$ 213,230
Grants receivable	13,182
Unconditional promises to give, current	63,400
Other current assets	<u>8,714</u>
Total current assets	<u>298,526</u>
Cash restricted to long-term purposes:	
Restricted for investment in property and equipment	168,971
Restricted cash - maintenance endowment	<u>125,000</u>
Total cash restricted for long-term purposes	<u>293,971</u>
Unconditional promises to give, long-term:	
Due in more than one year, restricted only by time period	26,218
Restricted for investment in property and equipment	77,837
Restricted for endowment	<u>25,000</u>
Total unconditional promises to give, long-term	<u>129,055</u>
Property and equipment:	
Land	39,700
Construction in progress	347,501
Residential property	54,204
Furniture, fixtures and equipment	12,025
Vehicles	20,247
Leasehold improvements	<u>9,906</u>
	483,583
Less accumulated depreciation	<u>28,300</u>
Total property and equipment	<u>455,283</u>
Total assets	<u>\$1,176,835</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Mortgage note payable	\$ 29,917
Accounts payable and accrued expenses	6,918
Contract retention payable	<u>12,364</u>
Total current liabilities	<u>49,199</u>
Net assets:	
Unrestricted	639,392
Temporarily restricted	338,244
Permanently restricted	<u>150,000</u>
Total net assets	<u>1,127,636</u>
Total liabilities and net assets	<u>\$1,176,835</u>

See accompanying notes to the financial statements.

MAGDALENE, INC.

Statement of Activities Year Ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions and grants:				
United Way - Individuals	\$ 37,949	-	-	37,949
United Way-Outcome Based				
Investments	-	13,182	-	13,182
Other organizations	354,232	-	-	354,232
Individuals	35,500	-	-	35,500
Capital improvements campaign	-	4,682	-	4,682
Men's rehabilitation program	49,000	-	-	49,000
Interest income	286	4,611	-	4,897
Thistle Farms	113,539	-	-	113,539
Other revenue	11,659	-	-	11,659
Net assets released from restrictions:				
Satisfaction of time restrictions	112,534	(112,534)	-	-
Satisfaction of program restrictions	<u>392,418</u>	<u>(392,418)</u>	-	-
Total revenues and other support	<u>1,107,117</u>	<u>(482,477)</u>	-	<u>624,640</u>
Expenses:				
Program services:				
Women's sanctuary and rehabilitation	342,379	-	-	342,379
Men's rehabilitation	5,808	-	-	5,808
Thistle Farms	<u>162,676</u>	-	-	<u>162,676</u>
	510,863	-	-	510,863
Supporting services:				
Management and general	43,157	-	-	43,157
Fundraising	<u>69,449</u>	-	-	<u>69,449</u>
Total expenses	<u>623,469</u>	-	-	<u>623,469</u>
Change in net assets	483,648	(482,477)	-	1,171
Net assets at beginning of year	<u>155,744</u>	<u>820,721</u>	<u>150,000</u>	<u>1,126,465</u>
Net assets at end of year	<u>\$ 639,392</u>	<u>338,244</u>	<u>150,000</u>	<u>1,127,636</u>

See accompanying notes to the financial statements.

MAGDALENE, INC.

Statement of Functional Expenses Year Ended June 30, 2004

	Women's Sanctuary and <u>Rehabilitation</u>	Men's <u>Rehabilitation</u>	Thistle <u>Farms</u>	Total <u>Program</u>	Management <u>and General</u>	Fund- <u>raising</u>	<u>Total</u>
Building rent	\$ 10,200	-	-	10,200	-	-	10,200
Clothing & grooming	17,522	-	-	17,522	-	-	17,522
Contract labor	10,751	-	-	10,751	-	-	10,751
Cost of sales - labor	-	-	58,790	58,790	-	-	58,790
Cost of sales - shipping	-	-	237	237	-	-	237
Cost of sales - materials	-	-	26,889	26,889	-	-	26,889
Cost of sales - printing	-	-	9,001	9,001	-	-	9,001
Credit cards fees	-	-	867	867	-	-	867
Depreciation	8,252	-	-	8,252	-	-	8,252
Education	11,286	-	-	11,286	-	-	11,286
Employee benefits	11,874	-	7,905	19,779	1,394	2,068	23,241
Food & household supplies	7,838	-	-	7,838	-	-	7,838
Fund-raising	-	-	-	-	-	6,685	6,685
General & administrative	-	-	-	-	5,822	-	5,822
Insurance	5,890	-	-	5,890	-	-	5,890
Interest	-	-	-	-	2,305	-	2,305
Legal & professional	-	-	-	-	8,002	-	8,002
Meals	5,455	-	1,085	6,540	-	-	6,540
Medical	6,857	-	-	6,857	-	-	6,857
Newsletter	-	-	-	-	1,801	-	1,801
Other program expenses	11,281	-	1,787	13,068	-	-	13,068
Payroll tax	10,863	-	7,235	18,098	1,277	1,895	21,270
Printing & supplies	-	-	1,893	1,893	4,458	4,459	10,810
Subtotal, to next page	<u>\$118,069</u>	<u>-</u>	<u>115,689</u>	<u>233,758</u>	<u>25,059</u>	<u>15,107</u>	<u>273,924</u>

See accompanying notes to the financial statements.

MAGDALENE, INC.

Statement of Functional Expenses, Continued Year Ended June 30, 2004

	Women's Sanctuary and <u>Rehabilitation</u>	Men's <u>Rehabilitation</u>	Thistle Farms	Total <u>Program</u>	Management <u>and General</u>	Fund-raising	Total
Subtotal, from previous page	\$118,069	-	115,689	233,758	25,059	15,107	273,924
Other labor costs	-	-	22,606	22,606	-	-	22,606
Program director salary	-	-	13,177	13,177	-	-	13,177
Program staff fees	142,055	-	-	142,055	16,712	8,356	167,123
Advertising & promotion	-	-	7,032	7,032	-	-	7,032
Reimbursement - St. Augustine's	13,541	-	-	13,541	752	752	15,045
Repairs & maintenance	13,701	-	-	13,701	-	-	13,701
Stipends	16,837	-	-	16,837	-	-	16,837
Supplies	-	-	3,576	3,576	-	-	3,576
Telephone	5,391	-	-	5,391	634	317	6,342
Transportation	11,459	-	-	11,459	-	-	11,459
Travel	-	-	596	596	-	-	596
Utilities	12,596	-	-	12,596	-	-	12,596
IDA	8,730	-	-	8,730	-	-	8,730
Capital campaign for new residence (Sanctuary)	-	-	-	-	-	44,917	44,917
Therapy seminars	-	<u>5,808</u>	-	<u>5,808</u>	-	-	<u>5,808</u>
Total	<u>\$342,379</u>	<u>5,808</u>	<u>162,676</u>	<u>510,863</u>	<u>43,157</u>	<u>69,449</u>	<u>623,469</u>

See accompanying notes to the financial statements.

MAGDALENE, INC.

Statement of Cash Flows Year Ended June 30, 2004

Change in net assets	\$ 1,171
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,252
Decrease (increase):	
Grants receivable	2,455
Unconditional promises to give	92,215
Other current assets	(1,957)
Decrease in accounts payable and accrued expense	(7,775)
Net cash provided by operating activities	<u>94,361</u>
Cash flows from investing activities:	
Additions to residential property	<u>(336,187)</u>
Net cash used by investing activities	<u>(336,187)</u>
Cash flows from financing activities:	
Decrease in cash restricted for investment in property and equipment	329,343
Cash contributions restricted for investment in property and equipment	47,100
Payments of principal of mortgage note payable	(3,409)
Net cash provided by financing activities	<u>373,034</u>
Net increase in cash and cash equivalents	131,208
Cash and cash equivalents at beginning of year	<u>82,022</u>
Cash and cash equivalents at end of year	<u>\$ 213,230</u>
Supplemental Information:	
Cash paid for interest	<u>\$ 2,305</u>
Cash paid for income taxes	<u>\$ -</u>

See accompanying notes to the financial statements.

MAGDALENE, INC.

Notes to Financial Statements
Year Ended June 30, 2004

(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.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets based upon the existence or absence of donor-imposed restrictions.

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.

(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.

MAGDALENE, INC.

Notes to Financial Statements, Continued
Year Ended June 30, 2004

(2) Summary of Significant Accounting Policies, Continued

(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.

(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.

MAGDALENE, INC.

Notes to Financial Statements, Continued
Year Ended June 30, 2004

(2) Summary of Significant Accounting Policies, Continued

(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.

(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 Costs

Advertising costs are expensed as incurred.

(3) Cash and Cash Equivalents

At June 30, 2004, cash and cash equivalents included the following:

Cash on hand	\$ 84
Non-interest bearing demand deposits	3,657
Interest bearing accounts	<u>503,460</u>
	<u>507,201</u>
Less cash restricted for long-term purposes:	
Temporarily restricted for capital improvements	168,971
Permanently restricted for maintenance endowment	<u>125,000</u>
	<u>293,971</u>
Cash and cash equivalents	<u>\$213,230</u>

Cash and cash equivalents, including Board designations and donor-imposed restrictions, were as follows:

Temporarily restricted:	
Individual Development Account (IDA) program (see note 10)	\$ 6,020
Maintenance of new residence	<u>1,000</u>
Total temporarily restricted	<u>7,020</u>
Unrestricted	<u>206,210</u>
Cash and cash equivalents	<u>\$213,230</u>

Cash restricted for capital improvements was donated in connection with a capital campaign for the construction of a new residence, i.e. its new "Sanctuary", for program participants with a total projected cost of approximately \$700,000, which has been negotiated with a local contractor. Related construction in progress at June 30, 2004 was \$347,501.

MAGDALENE, INC.

Notes to Financial Statements, Continued Year Ended June 30, 2004

(4) Grants Receivable

Grants receivable of \$13,182 at June 30, 2004 consisted of support promised by United Way of Metropolitan Nashville to be provided in equal monthly installments through June 2005 (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, 2004, were as follows:

	Receivable in <u>Less than One Year</u>	Receivable in <u>One to Five Years</u>	<u>Total</u>
Total amount promised	\$158,955	60,461	219,416
Estimated uncollectible	(12,555)	(6,953)	(19,508)
Discount to present value	-	(7,453)	(7,453)
Net unconditional promises to give	<u>\$146,400</u>	<u>46,055</u>	<u>192,455</u>
Temporarily restricted for capital improvements	\$ 58,000	19,837	77,837
Temporarily restricted by time period	<u>63,400</u>	<u>26,218</u>	<u>89,618</u>
Total temporarily restricted	121,400	46,055	167,455
Permanently restricted	<u>25,000</u>	-	<u>25,000</u>
Totals above	146,400	46,055	192,455
Restricted to long-term purposes	<u>(83,000)</u>	<u>83,000</u>	<u>-</u>
	<u>\$ 63,400</u>	<u>129,055</u>	<u>192,455</u>

Of the \$219,416 total promised, \$95,000, or 43%, was represented by 6 separate promises ranging from \$10,000 to \$25,000 each. The \$77,837 temporarily restricted for capital improvements was related to the construction of the new residence. The \$25,000 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 2004.

(6) Other Current Assets

Other current assets at June 30, 2004 consisted of the following:

Inventory – Thistle Farms	\$4,886
Advances to residents	3,438
Advances to employees	<u>390</u>
	<u>\$8,714</u>

The inventory consisted of items produced for sale under the Thistle Farms program (see note 11), and has been recorded at average cost. The items generally consist of candles, skin and lip balms or bath salts.

MAGDALENE, INC.

Notes to Financial Statements, Continued Year Ended June 30, 2004

(7) Mortgage Notes Payable

Mortgage note payable at June 30, 2004 totaled \$29,917 payable to Capital Bank and Trust in Nashville, Tennessee in monthly installments of \$438, with the remaining principal and unpaid interest due on November 30, 2005. The rate of interest varies with the Bank's base rate and was 7.0% at June 30, 2004. The note is secured by a first deed of trust on residential property owned by the Organization with a book value of approximately \$67,000.

The loan document contains certain restrictive covenants requiring the Organization to maintain insurance coverage on the secured property.

On November 19, 2003, the Organization entered into a construction mortgage loan agreement with Capital Bank and Trust to provide interim financing for the new residence. Under this agreement, the Organization may borrow up to \$300,000; the total balance will be payable at the maturity date of November 19, 2004, with interest due monthly in arrears at the prime rate as published in *The Wall Street Journal*. Borrowings under this agreement are secured by a first deed of trust on the new residence. The Organization had received no principal advances under this agreement as of June 30, 2004.

(8) Restricted Net Assets

Restricted net assets as of June 30, 2004 were as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>
New residence construction	\$234,444	-
New residence maintenance	1,000	150,000
Time period	<u>102,800</u>	<u>-</u>
	<u>\$338,244</u>	<u>150,000</u>

(9) Grants and Contributions

During the year ended June 30, 2004, the Organization's revenue included contributions of \$10,000 or more from foundations and trusts, organizations, and individuals as follows:

Foundations and trusts	\$353,750
Organizations	13,182
Individuals	<u>10,000</u>
	<u>\$376,932</u>

Of these 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 August 31, 2004, management expects appropriate levels of support to continue for the year ended June 30, 2005, especially support for continuing operations.

MAGDALENE, INC.

Notes to Financial Statements, Continued
Year Ended June 30, 2004

(10) Men's Rehabilitation Program

The Organization receives 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, 2004, the Organization received \$49,000 from offenders. Related direct expenses totaled \$5,808, netting \$43,192 to the Organization.

(11) Individual Development Account (IDA) Program

During the year ended June 30, 2004, the Organization, with cooperation from a local bank, offered to its residents, affiliates, graduates, and Thistle Farm employees (see note 11) 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.

Through June 30, 2004, five (5) residents were participating in the program, depositing a total of \$2,400. Matching contributions to be paid by the Organization of \$6,020 were accrued but not paid as of June 30, 2004. For the year then ended, the Organization incurred \$6,930 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. As of June 30, 2004, cash in the amount of \$6,020 was restricted to fund this program's expense (see note 3).

(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, 2004 were \$113,539. Related costs of sales, including labor, materials and shipping, and other expenses were \$162,676, for a net cost of \$49,137. The cost of advertising, which the Organization expenses as it is incurred, was \$7,032.

(13) Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts at a high credit quality 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 14 for other related parties).

MAGDALENE, INC.

Notes to Financial Statements, Continued
Year Ended June 30, 2004

(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 \$15,045 for the year ended June 30, 2004.

(16) Commitments

The Organization has committed to support a project that assists graduates of its program to purchase residential housing. Magdalene Homes LLC, an unrelated nonprofit organization, will contribute and own real estate on which Hopewoods, an entity controlled by a local church congregation, will construct a home. 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 the 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; the other half by efforts of St. George's Episcopal Church, Nashville, Tennessee. By its January 20, 2004 Board meeting, the Organization had raised the \$25,000 that it committed to raise.

(17) Correction of Error Regarding Agency or Intermediary Transactions

Subsequent to September 19, 2004, the date of the original issued audit report, management discovered that \$67,500 of funding received and disbursed was related to an independent documentary about the Organization and had been recorded as revenues and as management and general expenses in the Statement of Activities for the year ended June 30, 2004. 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. Management has determined that, under these circumstances, the funds received and disbursed should have been recorded as agency funds on its balance sheet and that no revenue or expense should have been recorded. Accordingly, revenues and expenses for the year ended June 30, 2004 have been reduced by the \$67,500 with a net effect of zero on the change in net assets on the Statement of Activities and also on the ending balance of net assets on the Balance Sheet.