

THISTLE FARMS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2020

And Report of Independent Auditor

Preliminary Draft
for discussion purposes only

THISTLE FARMS, INC. AND SUBSIDIARIES

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Report of Independent Auditor

To the Board of Directors
Thistle Farms, Inc. and Subsidiaries
Nashville, Tennessee

We have audited the accompanying consolidated financial statements of Thistle Farms, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2020 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thistle Farms, Inc. and Subsidiaries as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the consolidated financial statements, toward the end of December 2019, an outbreak of a novel strain of coronavirus (“COVID-19”) emerged globally. During 2020, there have been various mandates and/or requests from federal, state, and local authorities resulting in closures of non-essential businesses, which could negatively impact Thistle Farms, Inc. and Subsidiaries’ operations. Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, any significant reduction in revenue could have adverse effects to the Organization. Our opinion is not modified with respect to this matter.

Nashville, Tennessee

REPORT DATE

Preliminary Draft
for discussion purposes only

THISTLE FARMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

ASSETS

Current Assets:

Cash and cash equivalents	\$ 3,017,443
Unconditional promises to give, current	216,625
Accounts receivable, net	37,636
Inventories	551,920
Other current assets	112,107
Total Current Assets	<u>3,935,731</u>

Cash restricted for endowment	57,879
Beneficial interest in assets at Community Foundation of Middle Tennessee	96,765
Third mortgages receivable	20,000
Property and equipment, net	4,266,370
Total Assets	<u><u>\$ 8,376,745</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses	\$ 433,525
Deferred grant revenue	695,500
Total Current Liabilities	<u>1,129,025</u>

Unearned revenue on third mortgages	20,000
Total Liabilities	<u>1,149,025</u>

Net Assets:

Without donor restrictions	5,692,825
With donor restrictions	1,534,895
Total Net Assets	<u>7,227,720</u>
Total Liabilities and Net Assets	<u><u>\$ 8,376,745</u></u>

THISTLE FARMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support:			
Contributions	\$ 2,837,107	\$ 147,200	\$ 2,984,307
Product sales	2,991,618	-	2,991,618
Café sales	860,001	-	860,001
Grants	738,500	-	738,500
In-kind	64,209	-	64,209
Other	38,767	3,160	41,927
Net assets released from restrictions	53,981	(53,981)	-
Total Operating Revenue and Support	<u>7,584,183</u>	<u>96,379</u>	<u>7,680,562</u>
Operating Expenses:			
Salaries, taxes, and benefits	3,124,211	-	3,124,211
Cost of sales	2,235,895	-	2,235,895
Other operating expenses	1,653,126	-	1,653,126
Total Operating Expenses before Depreciation	<u>7,013,232</u>	<u>-</u>	<u>7,013,232</u>
Change in net assets from operations before depreciation expense	570,951	96,379	667,330
Depreciation and amortization expense	601,724	-	601,724
Change in net assets from operations	(30,773)	96,379	65,606
Nonoperating Revenue and Support:			
Contributions - capital	100,003	1,290,000	1,390,003
In-kind - capital	7,500	-	7,500
Net assets released from capital restrictions	50,000	(50,000)	-
Total Nonoperating Revenue and Support	<u>157,503</u>	<u>1,240,000</u>	<u>1,397,503</u>
Change in net assets	126,730	1,336,379	1,463,109
Net assets, beginning of year	5,566,095	198,516	5,764,611
Net assets, end of year	<u>\$ 5,692,825</u>	<u>\$ 1,534,895</u>	<u>\$ 7,227,720</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

THISTLE FARMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services				Supporting Services				Total Expenses
	Social Enterprise	Residential Services	National Network	Global Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries, taxes, and benefits	\$ 1,513,905	\$ 535,883	\$ 238,577	\$ 66,383	\$ 2,354,748	\$ 576,243	\$ 193,220	\$ 769,463	\$ 3,124,211
Cost of sales - materials	1,197,348	-	-	-	1,197,348	-	-	-	1,197,348
Cost of sales - labor	756,607	-	-	-	756,607	-	-	-	756,607
Program - other expenses	123,930	63,692	13,165	59,063	259,850	3,398	181	3,579	263,429
Professional and contract services	82,779	40,289	29,918	6,000	158,986	73,347	18,919	92,266	251,252
Advertising and marketing	116,140	4,189	27,692	1,245	149,266	9,189	19,961	29,150	178,416
General and administrative expenses	73,265	6,434	3,605	62	83,366	58,846	24,150	82,996	166,362
Cost of sales - fees and services	159,787	-	-	-	159,787	-	-	-	159,787
Cost of sales - shipping and freight	116,814	-	-	-	116,814	-	-	-	116,814
Repairs and maintenance	17,024	32,321	-	-	49,345	52,968	-	52,968	102,313
Travel, meals and entertainment	17,760	15,863	18,545	19,284	71,452	13,375	4,744	18,119	89,571
Utilities	35,288	31,640	-	-	66,928	19,765	-	19,765	86,693
Program - mental health expenses	-	74,025	-	-	74,025	-	-	-	74,025
In-kind expenses	-	-	-	-	-	-	71,709	71,709	71,709
Insurance	-	-	-	-	-	62,500	-	62,500	62,500
Phone and internet	8,649	23,455	-	-	32,104	24,169	-	24,169	56,273
Program - medical expenses	46	40,344	-	-	40,390	104	23	127	40,517
Printing and copying	5,625	53	315	-	5,993	315	32,281	32,596	38,589
Miscellaneous	8,186	11,610	974	225	20,995	4,947	822	5,769	26,764
Dues, licenses, and fees	15,035	317	2,018	-	17,370	5,684	1,356	7,040	24,410
Professional development	4,849	11,049	2,306	-	18,204	2,400	900	3,300	21,504
Credit card and bank fees	1,889	-	-	-	1,889	1,678	14,901	16,579	18,468
Research & Development	15,875	5	158	112	16,150	31	36	67	16,217
Program - graduate investment matching	-	14,727	-	-	14,727	-	-	-	14,727
Program - food and household supplies	-	13,837	-	-	13,837	-	-	-	13,837
Program - resident stipends	-	12,224	-	-	12,224	-	-	-	12,224
Taxes	6,493	-	-	-	6,493	1,709	-	1,709	8,202
Event fees	5,329	557	335	-	6,221	195	723	918	7,139
Bad debt expense	6,085	-	-	-	6,085	-	247	247	6,332
Cost of sales - printing	5,339	-	-	-	5,339	-	-	-	5,339
Interest	-	-	-	-	-	1,653	-	1,653	1,653
Total Expenses before Depreciation	4,294,047	932,514	337,608	152,374	5,716,543	912,516	384,173	1,296,689	7,013,232
Depreciation and amortization	283,025	106,184	-	-	389,209	181,592	30,923	212,515	601,724
Total Expenses	\$ 4,577,072	\$ 1,038,698	\$ 337,608	\$ 152,374	\$ 6,105,752	\$ 1,094,108	\$ 415,096	\$ 1,509,204	\$ 7,614,956

The accompanying notes to the consolidated financial statements are an integral part of this statement.

THISTLE FARMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

Cash flows from operating activities:

Change in net assets	\$ 1,463,109
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Contributions restricted for long-term purposes	(1,390,003)
Depreciation	601,724
Change in beneficial interest in assets	1,840
Provision for bad debts	6,332
Change in operating assets and liabilities:	
Accounts receivable	(1,840)
Unconditional promises to give	(49,768)
Inventories	55,732
Other current assets	(310)
Accounts payable and accrued expenses	192,165
Deferred revenue	692,464
Net cash provided by operating activities	<u>1,571,445</u>

Cash flows from investing activities:

Purchases of property and equipment	<u>(269,331)</u>
Net cash used in investing activities	<u>(269,331)</u>

Cash flows from financing activities:

Contributions restricted for long-term purposes	<u>1,240,003</u>
Net cash provided by investing activities	<u>1,240,003</u>

Net increase in cash and cash equivalents	2,542,117
Cash and cash equivalents, beginning of year	<u>533,205</u>
Cash and cash equivalents, end of year	<u>\$ 3,075,322</u>

Cash and cash equivalents consist of the following:

Cash and cash equivalents	\$ 3,017,443
Cash restricted for endowment	<u>57,879</u>
	<u>\$ 3,075,322</u>

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Summary of significant accounting policies

Nature of Organization – Thistle Farms, Inc. and Subsidiaries (the “Organization”) is a nonprofit corporation, organized in the state of Tennessee in 1993. Its mission is to heal, empower, and employ women survivors of trafficking, prostitution, and addiction by providing safe and supportive housing, the opportunity for economic independence, and a strong community of advocates and partners.

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, and fundraising events.

The following program services are provided by the Organization:

Social Enterprise – Residents and graduates of our residential program are employed in one of our social enterprises. Here the women can learn new job skills and make a living wage to support themselves. Body & Home, Thistle Farms’ largest nonprofit social enterprise, creates natural bath and body products and has grown into a national brand that produces numerous product lines. Everything we produce is hand poured in small batches by women survivors, using pure essential oils to promote wellness and healing. Our products are free of synthetic fragrances, parabens, or petroleum-based ingredients. The Café at Thistle Farms is a restaurant and special event space located at the heart of the Thistle Farms campus. With a produce-driven, full-service menu, the Café serves locally-sourced breakfast, lunch, and Nashville’s only daily tea service. In addition, the Café at Thistle Farms offers an array of options and services for special events.

Residential Services – Our two-year residential program is based in Nashville, Tennessee. We are able to house up to 28 residents at a time in a therapeutic setting that offers women survivors a peaceful place where they can experience transformative, sustainable recovery through two years of rent-free housing, healthcare, counseling, employment, and community building. When entering the program, our residents help create their own personalized plan for their healthcare and therapeutic needs. For the first 4 to 6 months, residents focus on recovery, attending group meetings, medical appointments, individual therapy, and other educational courses. While in the program, women are also eligible for our savings program that provides a match of resident’s savings per year. After two years in the residential program, women become candidates for graduation, a celebratory event that takes place each spring. And after graduation, many women continue working in Thistle Farms’ social enterprises and often move into full-time and supervisory positions. Others take the skills they have acquired and find work in the community. We also offer a program within the Tennessee Prison for Women called Magdalene on the Inside, that allows women to begin their healing journey within prison walls. Women in this program receive education and group therapy that, upon release, eases their transition into one of our Magdalene homes.

National Network – The Thistle Farms National Network is comprised of like-minded organizations committed to connecting survivors of prostitution, trafficking, and addiction to hope, healing, and empowerment. To date, over 70 organizations throughout the country have programs based on Thistle Farms’ model of recovery; 26 of these organizations have residential programs to house women survivors, while the other half are in the early stages of development.

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Summary of significant accounting policies (continued)

Global Program –Thistle Farms Global addresses sexual exploitation, trafficking, and extreme poverty through an aligned network of artisan survivor social enterprises supporting women’s dignity and economic freedom. Our model is designed to increase the value of artisans in the market chain through increased percentage of sales and access to a global community of support including mentoring, workshops, consultations, as well as product and brand development. With the support and sales generated through Thistle Farms Global, partner enterprises can hire more women, increase wages, and reinvest in their communities.

The Organization has established a wholly-owned subsidiary, Magdalene Homes, LLC, to construct residential housing for graduates of its program. During 2018, the Organization established a wholly-owned subsidiary, Love Welcomes, LLC, which was dissolved in August 2019.

Principles of Consolidation – The consolidated financial statements include the accounts and activities of Thistle Farms, Inc., Magdalene Homes, LLC, and Love Welcomes, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Magdalene Homes, LLC was dormant during the year ended June 30, 2020. Love Welcomes, LLC was dissolved and had no activity during the year ended June 30, 2020.

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 (“U.S. GAAP”). The accompanying consolidated financial statements are presented for the year ended June 30, 2020 without comparative balances for the year ended June 30, 2019 due to changes in statement of functional expenses related to the marketing efforts and certain programmatic changes. Additionally, the 2020 financial statements present capital campaign contributions as a non-operating activity in the consolidated statement of activities. 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:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions – 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 and net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Organization. Generally, the donors of assets to be held in perpetuity permit the Organization to use all or part of the income earned and any related investments for general or specific purposes. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restrictions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. The Organization uses the allowance method to determine uncollectible unconditional promises to give.

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Summary of significant accounting policies (continued)

Accounts Receivable – Accounts receivable represent amounts due for sales of products to retailers. The Organization uses the allowance method to determine uncollectible accounts receivable. At June 30, 2020 the allowance for doubtful accounts amounted to \$11,310.

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

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. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

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.

Functional Allocation of Expenses – The costs of providing programs and supporting services have been summarized on a functional basis in the consolidated statement of functional expenses. Expenses that relate to more than one function are allocated among applicable functions on the basis of objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management. Expenses that have been allocated consist primarily of salaries and related expenses and depreciation.

Use of Estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP 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 is expensed when incurred. Advertising and promotion expense amounted to \$96,689 during the year ended June 30, 2020.

Shipping and Handling Costs – Shipping billed to customers is considered sales revenue and the related shipping costs as a cost of sales.

Endowment Funds – U.S. GAAP states that a nonprofit organization should classify the portion of a donor-restricted endowment fund that is not restricted in perpetuity by the donor or by law as net assets with donor restrictions (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, net assets with donor restrictions are reclassified to net assets without donor restrictions. The guidance also requires additional disclosures applicable to all nonprofit organizations. Those disclosures provide: a) a description of an organization's policies for making appropriations for expenditures from endowment funds (i.e., the organization's endowment spending policies), b) a description of an organization's investment policies for endowment funds, c) a description of an 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 an organization's interpretation of the laws underlying the net asset classification of donor-restricted endowment funds.

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Summary of significant accounting policies (continued)

New Accounting Pronouncements – In November 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Organization implemented this standard during the year ended June 30, 2020.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provides guidance on determining whether a transaction should be accounted for as a contribution (nonreciprocal transaction) within the scope of *Topic 958, Not-for-Profit Entities*, or as an exchange (reciprocal) transaction subject to other guidance. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The Organization adopted this standard during the year ended June 30, 2020. The Organization determined that the accounting standard did not require a change to its practices for recording contributions.

Future Pronouncements – In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for the Organization on July 1, 2020. The Organization is currently evaluating the effect of the implementation of this new standard.

In February 2016, FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the fiscal year ending June 30, 2023. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

Subsequent Events – The Organization has evaluated subsequent events through **REPORT DATE**, when these consolidated financial statements were available to be issued. Other than as described in Note 14, 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—Liquidity

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of providing programs and services to help heal and employ women survivors as well as conduct of services undertaken to support those activities to be general expenditures. The Organization maintains a line of credit with maximum borrowings of \$600,000 (see Note 4) with a financial institution that is drawn upon during the year to manage cash flow, if needed.

THISTLE FARMS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Liquidity (continued)

As a part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2020:

Financial assets at year-end:	
Cash and cash equivalents	\$ 3,017,443
Unconditional promises to give, current	216,625
Accounts receivable, net	<u>37,636</u>
Total financial assets	<u>3,271,704</u>
Less amounts not available to be used for general expenditures within one year:	
Purpose and time restrictions	140,251
Capital Campaign Expansion Phase II	<u>1,240,000</u>
Financial assets not available to be used within one year	<u>1,380,251</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,891,453</u>

Note 3—Property and equipment

Property and equipment consist of the following at June 30, 2020:

Land and buildings	\$ 4,933,369
Leasehold improvements	795,896
Furniture, fixtures, and equipment	900,033
Vehicles	100,486
Capitalized software	111,165
Construction in progress	<u>12,723</u>
	6,853,672
Less accumulated depreciation	<u>(2,587,302)</u>
	<u>\$ 4,266,370</u>

Note 4—Line of credit

The Organization has a line of credit agreement with a financial institution that allows for maximum borrowings of \$600,000. The line of credit agreement matures on November 5, 2021. The line of credit is secured by certain real estate and bears interest at the prime rate. The line of credit requires monthly interest payments. No amounts were outstanding at June 30, 2020.

THISTLE FARMS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

Note 5—Net assets with donor restrictions

Net assets with donor restrictions consist of the following at June 30, 2020:

Contributions received for Capital Campaign Expansion Phase II	\$ 1,090,000
Unconditional promises to give due in future periods - capital campaign	150,000
Endowment	138,575
Grants	73,626
Unconditional promises to give due in future periods - operating and programmatic	66,625
Earnings on endowment funds	16,069
	<u>\$ 1,534,895</u>

Note 6—Donated materials and services

The Organization received in-kind contributions as follows during the years ended June 30, 2020:

Legal and professional	\$ 63,909
Vehicle	7,500
Other	300
	<u>\$ 71,709</u>

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 Thistle Farms, 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. Management believes the Organization is not exposed to any significant credit risk on cash. Uninsured balances at June 30, 2020 totaled approximately \$2,818,000. Management of the Organization deposits cash funds in quality financial institutions to mitigate the risk of exposure.

THISTLE FARMS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

Note 8—Concentrations (continued)

The Organization also receives a significant amount of its support from contributions and grants. During the year ended June 30, 2020, contributions from one donor represented approximately 23% of contributions from individuals, corporations, and capital campaign donors. This same donor contributed approximately 71% of the Organization's capital campaign funding during the year ended June 30, 2020. Similarly, pledges receivable from five donors represented approximately 92% of pledges receivable at June 30, 2020.

Note 9—Endowment

Net assets with donor restrictions consist of contributions whose principal is to be held in perpetuity in accordance with terms prescribed by the donors. The income from contributions to be held in perpetuity is expendable to provide maintenance on a resident home. Net assets to be held in perpetuity totaled \$138,575 at June 30, 2020.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring that the Organization classify as net assets with donor restrictions: a) the original value of donor-restricted gifts to the endowment, b) the original value of subsequent donor-restricted gifts to the endowment, and c) accumulations (interest, dividends, and capital gain/loss) to the 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 is classified as net assets with donor restrictions 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, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds including unappropriated earnings	\$ -	\$ 154,644	\$ 154,644

THISTLE FARMS, INC. AND SUBSIDIARIES
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Note 9—Endowment (continued)

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 155,909	\$ 155,909
Contributions for endowment	-	575	575
Grant disbursement	-	(5,000)	(5,000)
Investment return	-	3,160	3,160
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 154,644</u>	<u>\$ 154,644</u>

The Organization has contributed approximately \$81,000 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.

Note 10—Related party transactions

The Organization receives voluntary contributions, gift-in-kind donations, and volunteer labor from various board members and their companies throughout the year.

Note 11—Retirement plan

During 2019, the Organization created a retirement plan covering substantially all employees. The Organization makes matching contributions up to 4% of compensation for employees who have contributed to the plan. The Organization made contributions of \$73,838 to the plan during the year ended June 30, 2020.

Note 12—Lease commitments

The Organization leases certain warehouse space under noncancelable operating leases. Future minimum lease payments under noncancelable leases at June 30, 2020 are as follows:

<u>Years Ending June 30,</u>	
2021	\$ 105,022
2022	101,607
2023	78,693
2024	78,875
2025	79,472
Thereafter	<u>94,615</u>
	<u>\$ 538,284</u>

Total rental expense for the year ended June 30, 2020 was approximately \$134,000.

THISTLE FARMS, INC. AND SUBSIDIARIES

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Note 13—Capital campaign

During the year ended June 30, 2020, the Organization began a capital campaign in order to amplify the Organization's impact through several initiatives. Such initiatives include: expanding the residential program by increasing housing for the women served, promoting national awareness and sales growth, and strengthening systems infrastructure. These goals indicated a need for the Organization to raise approximately \$2,000,000. As of June 30, 2020, contributions received and pledges receivable totaled approximately \$1,390,000.

Note 14—Deferred grant revenue

During the year ended June 30, 2020, the Organization received a Paycheck Protection Program loan ("PPP Loan") in the amount of \$695,500. The PPP Loan is granted by the Small Business Administration under the Coronavirus Aid Relief, and Economic Security Act ("CARES Act"). PPP loans are considered conditional contributions under ASC 958-605, *Not-for Profit Entities - Revenue Recognition*. The loan must be repaid if the Organization does not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount, spend up to 60% of the loan proceeds on certain payroll and employee benefits, and restricts other loan proceeds to be used for other qualifying expenses such as mortgage interest, rent, and utilities. The Organization has deferred recognition of grant revenue for the year ended June 30, 2020, because the conditions for forgiveness have not yet been substantially met. The PPP loan was forgiven in full in December 2020.

Note 15—Uncertainty

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic which continues to spread throughout the world and has adversely impacted global commercial activity. The coronavirus outbreak and government responses are creating disruptions and adversely impacting many industries and economic conditions. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material, adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Organization, its performance, and its financial results.