THE THRIFT ALLIANCE
d/b/a THRIFTSMART
(A Tennessee Not-For-Profit Organization)

Independent Auditors' Report
And
Audited Financial Statements
June 30, 2016

THE THRIFT ALLIANCE
d/b/a THRIFTSMART
(A Tennessee Not-For-Profit Organization)

Contents

TERRY PAGE & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

8118A SAWYER BROWN ROAD * NASHVILLE, TENNESSEE 37221 * (615) 673-1120 * (615) 673-0989 (F)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Thrift Alliance
d/b/a Thriftsmart
4890 Nolensville Road
Nashville, TN 37211

We have audited the accompanying financial statements of The Thrift Alliance d/b/a Thriftsmart (a Tennessee nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Thrift Alliance d/b/a Thriftsmart as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Terry Page & Associates

Terry Page & Associates

Nashville, Tennessee
October 20, 2016

THE THRIFT ALLIANCE
d/b/a THRIFTSMART
Statement of Financial Position
June 30, 2016

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 38,547
Prepaid rent deposits	22,500
Total current assets	61,047
FIXED ASSETS	
Property and equipment	454,873
Less: accumulated depreciation	(276,518)
Total fixed assets	178,355
OTHER ASSETS	
Other assets	18,766
Total other assets	18,766
TOTAL ASSETS	$ 258,168

The accompanying notes are an integral part of these financial statements.

THE THRIFT ALLIANCE
d/b/a THRIFTSMART
Statement of Financial Position
June 30, 2016

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	72,455
Accrued expenses		18,264
Accrued payroll		17,944
Sales tax payable		5,372
Notes payable - current portion		66,209
Total current liabilities		180,244
LONG-TERM LIABILITIES		
Notes payable		370,096
Total long-term liabilities		370,096
Total liabilities		550,340
EQUITY		
Unrestricted net assets (deficit)		(292,172)
Total equity		(292,172)
TOTAL LIABILTIES AND NET ASSETS	$	258,168

The accompanying notes are an integral part of these financial statements.

THE THRIFT ALLIANCE
d/b/a THRIFTSMART
Statement of Activities and Change in Net Assets
For the Year Ended June 30, 2016

SUPPORT AND REVENUE	
Contributions	$ 6,657
Other income	1,500
Thrift store sales	1,892,627
Total support and revenue	1,900,784
PROGRAM EXPENSES	
Grants	151,352
Officer compensation	74,011
Salaries and wages	722,578
Employee benefits	36,188
Payroll taxes	52,620
Advertising	58,754
Office expenses	7,813
Information technology	36,471
Occupancy and facilities	485,902
Interest expense - general	21,744
Depreciation and amortization	39,924
Insurance	20,840
Retail operations	133,078
Dues and subscriptions	4,239
Personal property taxes	2,163
Total program expenses	1,847,677

The accompanying notes are an integral part of the financial statements.

THE THRIFT ALLIANCE
d/b/a THRIFTSMART
Statement of Activities and Change in Net Assets
For the Year Ended June 30, 2016

MANAGEMENT AND GENERAL EXPENSES	
Management	51,783
Accounting	16,733
Dues and subscriptions	4,239
Payroll administration	9,087
Legal	235
Penalties	1,563
Office expense	9,666
Travel	5,060
Entertainment	519
Total management and general expenses	98,885
Total expenses	1,946,562
CHANGE IN NET ASSETS	(45,778)
Net assets (deficit) - beginning of year, unrestricted	(246,394)
Net assets (deficit) - end of year, unrestricted	$ (292,172)

The accompanying notes are an integral part of the financial statements.

THE THRIFT ALLIANCE
d/b/a THRIFTSMART
Statement of Cash Flows
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$	(45,778)
Adjustments to reconcile change in net assets to cash provided by operating activities		
Amortization		1,454
Depreciation		38,470
Changes in operating assets and liabilities		
Accounts payable		68,045
Accrued expenses		6,134
Accrued payroll		(17,274)
Sales tax payable		(1,091)
Notes payable - current portion		66,209
Net cash provided by operating activities		116,169
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets		(44,476)
Net cash provided by investing activities		(44,476)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of Bancorp notes payable		(76,272)
Repayment of Cisco notes payable		(36,027)
Repayment of truck notes payable		(17,620)
Net cash provided by financing activities		(129,919)
NET INCREASE (DECREASE) IN CASH FOR YEAR		(58,226)
CASH AT BEGINNING OF YEAR		96,773
CASH AT END OF YEAR	$	38,547

The accompanying notes are an integral part of the financial statements.

THE THRIFT ALLIANCE
d/b/a THRIFTSMART
Schedule of Functional Expenses
For the Year Ended June 30, 2016

		Support Services			
	Program Services	Management and General	Fundraising	Total Support Services	Total Expenses
Compensation of officers	$ 74,011	$ -	$ -	$ -	$ 74,011
Other salaries and wages	758,766	-	-	-	758,766
Payroll taxes	52,620	-	-	-	52,620
Payroll service	-	9,087	-	9,087	9,087
Management fees	-	51,783	-	51,783	51,783
Legal	-	235	-	235	235
Accounting	-	16,733	-	16,733	16,733
Advertising	58,754	-	-	-	58,754
Office expenses	7,813	9,666	-	9,666	17,479
Information technology	36,471	-	-	-	36,471
Occupancy	485,902	-	-	-	485,902
Travel	-	5,060	-	5,060	5,060
Interest	21,744	-	-	-	21,744
Depreciation	38,470	-	-	-	38,470
Amortization	1,454	-	-	-	1,454
Insurance	20,840	-	-	-	20,840
Penalties	-	1,563	-	1,563	1,563
Retail operations	133,078	-	-	-	133,078
Personalty tax	2,163	-	-	-	2,163
Dues and subscriptions	4,239	4,239	-	4,239	8,478
Entertainment	-	519	-	519	519
Donations	151,352	-	-	-	151,352
	$ 1,847,677	$ 98,885	$ -	$ 98,885	$ 1,946,562

The accompanying notes are an integral part of the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities
The Thrift Alliance d/b/a ThriftSmart was incorporated on September 1, 2004, in accordance with the Tennessee General Corporation Act. The Organization is a 501(c)(3) corporation organized to create a chain of thrift stores in Middle Tennessee for the purpose of generating profits to benefit community development ministries and create jobs. The stores are operated under the name: ThriftSmart.

Basis of Accounting
The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation
Following Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidance, 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.

Contributions
In accordance with accounting principles generally accepted in the United States of America for nonprofit organizations, unconditional contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.
>
> Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization had no temporarily restricted net assets at June 30, 2016.
>
> Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, donors of these assets permit the Organization to use all or part of the income earned for general or specific purposes. The Organization had no permanently restricted net assets at June 30, 2016.

THE THRIFT ALLIANCE
d/b/a THRIFTSMART
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash and Cash Equivalents
For purposes of the Statements of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of one year or less to be cash equivalents.

Income Taxes
The Organization is a not-for-profit organization that is exempt from Federal and state income taxes under Internal Revenue Code Section 501(c)(3).

The Organization follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes.* There was no effect on the financial positions or cumulative adjustment to beginning net assets as a result of the implementation. Management has evaluated its tax positions taken and believes that the total amount of unrecognized tax benefits is not material to the financial statements as a whole. Therefore, no tax liability has been recorded.

The Organization has not recognized any tax related interest and penalties in the accompanying financial statements. Federal tax years that remain open for examination include the years ended June 30, 2012 through June 30, 2016.

Advertising Expenses
Costs related to advertising are expensed as incurred. The Organization incurred advertising costs amounting to $58,754 for the fiscal year ended June 30, 2016.

Property and Equipment

Property and equipment are recorded at cost when purchased or, if received as in-kind contributions, at fair market value at the date of the donation, if readily determinable. Management has adopted a policy to capitalize items over $500. Depreciation of property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 5 to 15 years.

Donated Services and Merchandise

Donated services and merchandise are recognized as contributions in accordance with SFAS No. 116, Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance non-financial assets or (b) require the specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. No values of in-kind amount for such services have been included in the financial statements since the recognition criteria under SFAS No. 116 have not been met. The donations are provided for sale by the stores to generate funds for the mission points supported by the Organization.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – INVENTORY

The Organization receives contributions of goods and materials (inventory) and processes these contributions as merchandise available for sale in its retail thrift stores. Financial accounting standards require that contributions received be recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received, and that they be measured at their fair value.

The Organization believes that the inventory of contributed goods and materials does not possess an attribute that is easily measurable or verifiable with sufficient reliability to determine an inventory value at the time of donation. It is only through the value-added processes that prepare the donated inventory for sale that the donated inventory has value. Accordingly, while the Organization maintains a vast inventory, its cost is valued at zero prior to being offered for sale and is therefore not reflected on the financial statements in accordance with generally accepted accounting principles. Some inventory is purchased and that inventory is represented in the period cost of sales, but there is no segregation of purchased inventory that would allow accountability in the population of total inventory to accommodate an inventory value.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2016:

Machinery and equipment	$	287,106
Furnitures and fixtures		57,528
Vehicles		69,855
Leasehold improvements		40,384
		454,873
Less accumulated depreciation		(276,518)
	$	178,355

NOTE D – OPERATING LEASES

The Organization has entered into 10 year operating leases for its retail stores. The rent for the Nolensville location is $17,550 per month and the rent for the Franklin location is $11,750 per month. The leases are renewable for 10 years as follows with incremental increases for common area maintenance and regular lease percentage increases. The total lease obligations for the next 5 years are:

FYE June 30, 2017	$ 351,600
FYE June 30, 2018	351,600
FYE June 30, 2019	351,600
FYE June 30, 2020	355,575
FYE June 30, 2021	367,500
Thereafter	1,329,000
	$ 3,106,875

NOTE E – NOTE PAYABLES

At June 30, 2016, long-term debt consisted of the following:

Promissory note payable to BancorpSouth Bank bearing interest at 5% per annum with monthly installments of $4,795 principal and interest. The note is amortized over 10 years maturing July 2019	$ 344,815
Promissory note payable to Isuzu Finance bearing interest at 3.29% per annum with monthly installments of $768 principal and interest. The note is amortized over 60 months maturing June 2019	$ 17,551
Note payable with Cisco Equipment Lease with monthly installments of $1,533 principal and interest The lease is for 36 months, maturing November 2017	$ 7,730

Future maturities of long-term liabilities:

FYE June 30, 2017	$ 57,658
FYE June 30, 2018	51,551
FYE June 30, 2019	45,278
FYE June 30, 2020	47,642
FYE June 30, 2021	50,130
Thereafter	117,837
	$ 370,096

NOTE F – SUBSEQENT EVENTS

The Organization evaluated subsequent events through October 20, 2016, when these financial statements were available to be issued. The Organization's management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE G – GOING CONCERN

Management is aware of the technical insolvency created by liabilities exceeding assets. Management has taken steps to drastically reduce overhead costs and improve operational performance. Management believes the costs of startup and the additional assets required to open the Franklin location will begin to produce increased revenues and increase net assets in future years.