

Thistle Farms, Inc. and Subsidiaries

Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Thistle Farms, Inc. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Thistle Farms, Inc. and its subsidiaries (the Organization), which comprise the consolidated statement of financial position as of June 30, 2022, 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 (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the Organization, as of and for the year ended June 30, 2021, were audited by other auditors, whose report, dated October 29, 2021, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts, and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Blankenship CPA Group, PLLC

Blankenship CPA Group, PLLC
Brentwood, Tennessee
June 15, 2023

Thistle Farms, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 1,461,714	\$ 1,759,308
Accounts receivable	104,021	88,721
Unconditional promises to give, current	209,608	120,775
Inventory	1,000,847	706,741
Other current assets	228,973	150,181
Total current assets	3,005,163	2,825,726
Property, plant, and equipment, net	7,304,095	5,494,917
Third mortgages receivable	20,000	20,000
Cash restricted for expansion	1,010,832	1,010,832
Cash restricted for endowment	64,619	64,619
Unconditional promises to give, net of current portion	30,000	-
Deposits	20,000	11,950
Beneficial interest in assets at Community Foundation of Middle Tennessee	108,470	114,221
Total assets	\$ 11,563,179	\$ 9,542,265
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 616,715	\$ 454,973
Deferred rent	159,918	11,596
Deferred revenue, trade	101,906	97,339
Deferred revenue, government grant	-	695,578
Total current liabilities	878,539	1,259,486
Unearned revenue on third mortgages	20,000	20,000
Total liabilities	898,539	1,279,486
Net assets		
Without donor restrictions	8,821,260	6,533,214
With donor restrictions	1,843,380	1,729,565
Total net assets	10,664,640	8,262,779
Total liabilities and net assets	\$ 11,563,179	\$ 9,542,265

Thistle Farms, Inc. and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2022

	Without donor restrictions	With donor restrictions	Total
Operating Support and Revenues			
Contributions of cash and other financial assets	\$ 6,558,172	\$ 118,833	\$ 6,677,005
Product sales	4,910,794	-	4,910,794
Grants, government	893,041	-	893,041
Grants, other	771,215	13,927	785,142
Other revenue	158,247	(13,194)	145,053
Contributions of nonfinancial assets	121,467	-	121,467
Net assets released from restrictions	5,751	(5,751)	-
Total operating support and revenues	<u>13,418,687</u>	<u>113,815</u>	<u>13,532,502</u>
Operating Expenses			
Salaries, taxes, and benefits	4,192,922	-	4,192,922
Cost of sales	2,862,709	-	2,862,709
Other operating expenses	<u>3,278,952</u>	<u>-</u>	<u>3,278,952</u>
Total operating expenses	10,334,583	-	10,334,583
Change in net assets from operations before depreciation expense	3,084,104	113,815	3,197,919
Depreciation and amortization expense	<u>796,058</u>	<u>-</u>	<u>796,058</u>
Change in net assets from operations	2,288,046	113,815	2,401,861
Nonoperating Support and Revenues			
Contributions of cash and other financial assets	-	-	-
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating support and revenues	-	-	-
Change in net assets	2,288,046	113,815	2,401,861
Net assets, beginning of year	<u>6,533,214</u>	<u>1,729,565</u>	<u>8,262,779</u>
Net assets, end of year	\$ 8,821,260	\$ 1,843,380	\$ 10,664,640

Thistle Farms, Inc. and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
Operating Support and Revenues			
Contributions of cash and other financial assets	\$ 2,536,492	\$ 578,925	\$ 3,115,417
Product sales	3,995,114	-	3,995,114
Grants, government	778,160	-	778,160
Grants, other	458,250	-	458,250
Other revenue	71,214	-	71,214
Contributions of nonfinancial assets	87,743	-	87,743
Net assets released from restrictions	161,402	(161,402)	-
Total operating support and revenues	<u>8,088,375</u>	<u>417,523</u>	<u>8,505,898</u>
Operating Expenses			
Salaries, taxes, and benefits	3,356,126	-	3,356,126
Cost of sales	2,381,013	-	2,381,013
Other operating expenses	1,913,574	-	1,913,574
Total operating expenses	<u>7,650,713</u>	<u>-</u>	<u>7,650,713</u>
Change in net assets from operations			
before depreciation expense	437,662	417,523	855,185
Depreciation and amortization expense	<u>672,313</u>	<u>-</u>	<u>672,313</u>
Change in net assets from operations	(234,651)	417,523	182,872
Nonoperating Support and Revenues			
Contributions of cash and other financial assets	-	148,687	148,687
Contributions of nonfinancial assets	703,500	-	703,500
Net assets released from restrictions	371,540	(371,540)	-
Total nonoperating support and revenues	<u>1,075,040</u>	<u>(222,853)</u>	<u>852,187</u>
Change in net assets	840,389	194,670	1,035,059
Net assets, beginning of year	<u>5,692,825</u>	<u>1,534,895</u>	<u>7,227,720</u>
Net assets, end of year	\$ 6,533,214	\$ 1,729,565	\$ 8,262,779

Thistle Farms, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022

	Program Services				Supporting Services			Total
	Social Enterprise	Residential Services	National Network	Global Program	Total program services	Management and general	Fundraising	
Salaries, taxes, and benefits	\$ 1,767,113	\$ 657,551	\$ 245,811	\$ 239,583	\$ 2,910,058	\$ 872,574	\$ 410,290	\$ 4,192,922
Advertising and promotion	109,872	1,442	156,608	3,029	270,951	24,823	111,229	407,003
Contract labor	209,882	6,373	36,745	34,182	287,182	300	1,200	288,682
Cost of sales - Fees	229,253	-	-	3,594	232,847	-	-	232,847
Cost of sales - labor	912,913	-	-	25,284	938,197	-	-	938,197
Cost of sales - materials	1,183,262	-	-	267,450	1,450,712	-	-	1,450,712
Cost of sales - shipping and freight	228,495	-	-	12,458	240,953	-	-	240,953
Donations/outreach	-	-	-	-	-	-	121,467	121,467
Dues, licenses, and fees	12,183	15,614	2,519	82	30,398	10,524	1,864	42,786
Equipment and computer software	118,570	15,497	(1,147)	2,039	134,959	102,144	27,651	264,754
Insurance	-	5,592	-	-	5,592	84,746	-	90,338
Interest and fees	719	-	-	-	719	891	25,536	27,146
Medical	330	33,719	-	-	34,049	2,172	-	36,221
Mental health	-	91,045	-	-	91,045	-	-	91,045
Miscellaneous expense	6,458	7,871	17,530	20,004	51,863	(15,957)	94	36,000
Other program expenses	1,571	318,987	10,966	77,372	408,896	850	2	409,748
Printing and supplies	27,161	4,907	9,336	5,071	46,475	14,918	43,548	104,941
Professional fees	94,876	9,988	30,989	22,940	158,793	102,805	2,302	263,900
Rent and occupancy	382,212	31,515	-	-	413,727	9,296	-	423,023
Repairs/maintenance	58,415	68,419	-	1,132	127,966	57,740	-	185,706
Research and development	55,651	-	-	449	56,100	-	-	56,100
Stipends	-	23,525	-	-	23,525	-	-	23,525
Travel, meals, and entertainment	33,823	34,579	48,643	30,254	147,299	22,435	7,309	177,043
Utilities and telephone	56,383	115,684	900	33	173,000	56,476	48	229,524
Total expenses before depreciation	5,489,142	1,442,308	558,900	744,956	8,235,306	1,346,737	752,540	10,334,583
Depreciation and amortization	349,624	168,709	-	-	518,333	241,645	36,080	796,058
	\$ 5,838,766	\$ 1,611,017	\$ 558,900	\$ 744,956	\$ 8,753,639	\$ 1,588,382	\$ 788,620	\$ 11,130,641

Thistle Farms, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2021

	Program Services				Supporting Services			Total
	Social Enterprise	Residential Services	National Network	Global Program	Total program services	Management and general	Fundraising	
Salaries, taxes, and benefits	\$ 1,405,826	\$ 476,630	\$ 279,412	\$ 77,495	\$ 2,239,363	\$ 823,818	\$ 292,945	\$ 3,356,126
Advertising and promotion	79,167	1,585	6,862	306	87,920	7,522	14,377	109,819
Contract labor	67,969	15,038	16,127	2,043	101,177	20,691	12,841	134,709
Cost of sales - Fees	145,786	-	-	-	145,786	-	-	145,786
Cost of sales - labor	925,800	-	-	-	925,800	-	-	925,800
Cost of sales - materials	1,176,293	-	-	-	1,176,293	-	-	1,176,293
Cost of sales - shipping and freight	133,134	-	-	-	133,134	-	-	133,134
Donations/outreach	4,808	60	361	-	5,229	361	82,153	87,743
Dues, licenses, and fees	12,322	8,574	4,597	-	25,493	7,733	2,003	35,229
Equipment and computer software	99,083	11,291	2,206	-	112,580	74,096	28,531	215,207
Insurance	-	1,797	-	-	1,797	67,185	-	68,982
Interest and fees	470	-	-	-	470	5,283	17,255	23,008
Medical	-	41,305	-	-	41,305	429	-	41,734
Mental health	-	93,096	-	-	93,096	-	-	93,096
Miscellaneous expense	6,533	2,449	9,327	3,000	21,309	4,341	11,559	37,209
Other program expenses	8,690	170,893	1,638	46,155	227,376	2,273	9	229,658
Printing and supplies	25,845	3,038	2,720	576	32,179	9,989	29,188	71,356
Professional fees	82,830	24,044	42,936	9,711	159,521	52,639	7,328	219,488
Rent and occupancy	92,941	35,001	13	-	127,955	32,631	15	160,601
Repairs/maintenance	45,296	70,009	870	-	116,175	18,420	2,661	137,256
Research and development	12,228	-	46	-	12,274	-	-	12,274
Stipends	-	22,121	-	-	22,121	-	-	22,121
Travel, meals, and entertainment	13,806	27,186	8,829	472	50,293	10,737	1,196	62,226
Utilities and telephone	33,341	62,632	75	-	96,048	55,810	-	151,858
Total expenses before depreciation	4,372,168	1,066,749	376,019	139,758	5,954,694	1,193,958	502,061	7,650,713
Depreciation and amortization	295,276	142,484	-	-	437,760	204,082	30,471	672,313
	\$ 4,667,444	\$ 1,209,233	\$ 376,019	\$ 139,758	\$ 6,392,454	\$ 1,398,040	\$ 532,532	\$ 8,323,026

Thistle Farms, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash and cash equivalents, beginning of year	\$ 2,834,759	\$ 3,075,322
Cash flows from operating activities		
Change in net assets	2,401,861	1,035,059
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Contributions restricted for long-term purposes	-	(141,947)
Noncash contribution of property and equipment	-	(703,500)
Depreciation and amortization	796,058	672,313
Gain on disposal of property and equipment	(9,466)	-
Change in beneficial interest in assets	5,751	(17,456)
Change in:		
Accounts receivable	(15,300)	(51,085)
Unconditional promises to give	(118,833)	237,797
Inventory	(294,106)	(154,821)
Other current assets	(78,792)	(50,024)
Deposits	(8,050)	-
Accounts payable and accrued expenses	161,742	72,417
Deferred rent	148,322	-
Deferred revenue, trade	4,567	57,966
Deferred revenue, government grant	(695,578)	78
Net cash provided (used) by operating activities	2,298,176	956,797
Cash flows from investing activities		
Purchase of property, plant, and equipment	(2,595,770)	(1,197,360)
Net change in cash and cash equivalents	(297,594)	(240,563)
Cash and cash equivalents, end of year	\$ 2,537,165	\$ 2,834,759
Cash and cash equivalents consist of the following		
Cash and cash equivalents	\$ 1,461,714	\$ 1,759,308
Cash restricted for expansion	1,010,832	1,010,832
Cash restricted for endowment	64,619	64,619
	\$ 2,537,165	\$ 2,834,759

Thistle Farms, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 1. Nature of Organization and 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, government grants, and fundraising events.

The following program services are provided by the Organization:

Social Enterprise: Residents and graduates of our residential program are often 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 sells a variety of product lines. Everything we produce is hand poured in small batches by women survivors, using pure essential oils to promote wellness and healing. 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 26 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 four to six 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 Thistle 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 residential homes. The new Safe House provides physical and emotional safety, while we work to find long-term housing and resources for women to continue their healing journey. We provide food, hygiene supplies, medical care, mental health services, and chemical dependency support with dignity and respect for the women.

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 90 organizations throughout the country have programs based on Thistle Farms' model of recovery; 57 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 Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

Global Program: Thistle Farms Global addresses trafficking, trauma, and extreme poverty through an aligned network of artisan survivor justice enterprises supporting women's dignity and economic freedom. This 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, business development, 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.

Principles of Consolidation

The consolidated financial statements include the accounts and activities of Thistle Farms, Inc. and Magdalene Homes, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Magdalene Homes, LLC was dormant during the years ended June 30, 2022 and 2021.

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 (US GAAP). 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.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, and the 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.

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.

Thistle Farms, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 1. Nature of Organization and Summary of Significant Accounting Policies

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.

Other Receivables

Other receivables represent amounts due from government grants and other miscellaneous balances owed to the Organization.

Inventory

Inventory consisting primarily of bath and home products and related raw materials are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method.

Property, Plant, and Equipment

Property, plant, 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 3 to 39 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 a not-for-profit organization that is exempt from federal income tax under IRC Section 501(c)(3) whereby only unrelated business income, as defined in Section 512(a)(1) of the IRC is subject to federal income tax. The Organization has evaluated its tax positions for all open tax years. Based on the evaluation of the Organization's tax positions, management believes all tax positions taken would be upheld under an examination; therefore, no provision for the effects of uncertain positions has been recorded for the years ended June 30, 2022 and 2021.

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.

Advertising Costs

The cost of advertising is expensed when incurred. Advertising and promotion expense amounted to \$407,003 and \$109,819 during 2022 and 2021, respectively.

Shipping and Handling Costs

Shipping billed to customers is considered an offset to the related cost of sales of shipping.

Thistle Farms, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Endowment Funds

US 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.

Recently Issued Accounting Pronouncements

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU was retroactively adopted by the Organization on July 1, 2021.

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 presentation.

Note 2. Revenue Recognition

The Organization recognizes revenue for services in accordance with the following five steps outlined in Accounting Standards Codification (ASC) 606:

- Identification of the contract or contracts with a customer.
- Identification of the performance obligations in the contract.
- Determination of the transaction prices.
- Allocation of the transaction price to the performance obligations in the contract.
- Recognition of revenue when or as the Organization satisfies a performance obligation.

The Organization has analyzed the provisions of Topic 606 and has concluded the following:

Contract Balances

Net accounts receivable related to exchange transactions were \$35,184 and \$28,043 as of June 30, 2022 and 2021, respectively. Deferred revenue was \$101,906 and \$97,339 as of June 30, 2022 and 2021, respectively.

Thistle Farms, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 2. Revenue Recognition

Contract Balances

Accounts receivable consist of amounts due from product sales to retailers and are presented net of an allowance for doubtful accounts. Management evaluates the collectability of accounts receivable based primarily on the length of time the receivables are past due, historical experience, and an individual customer's ability to meet their financial obligations. When it has been determined to be probable that an account is uncollectible, the Organization recognizes an allowance for doubtful accounts. However, actual accounts receivable write-offs might differ from management's estimate. The allowance for doubtful accounts included in accounts receivable, net totaled \$0 and \$7,702, respectively, at June 30, 2022 and 2021.

Deferred trade revenue represents cash received in advance of the fulfillment of sales orders. Such revenues will be recognized in the subsequent year. Also included in unearned revenue is an amount related to the future redemption of gift cards sold to customers. Such revenue will be recognized when redeemed by the customer.

Sales of Products

Sales of product and Café goods are recognized at the time of delivery to the customer and when collectability is reasonably assured. Such revenue is included in product and Café sales in the accompanying consolidated statements of activities. Revenue is recorded net of estimated and actual sales adjustments in the same period the related revenues are recorded or when current information indicates additional allowances are required. These estimates are based on the Organization's historical experience, specific customer information and current economic conditions.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under Topic 606. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Organization's contracts with customers do not typically include multiple performance obligations.

Variable Consideration

The Organization's contracts with customers do not result in contract modifications. The Organization offers immaterial discounts to its customers, which it nets with total sales in the accompanying consolidated statements of activities. The discounts offered by the Organization are fixed, and are recognized at the point in time that the sale occurs.

Payment Terms

The Organization's payment terms vary by the type of products offered. The time between invoicing and when payment is due is not significant. The Organization's contracts with customers do not generally result in significant obligations associated with returns, refunds, or warranties. Revenue is recognized net of taxes collected from customers, which are subsequently remitted to governmental authorities.

Thistle Farms, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 2. Revenue Recognition

Contract Costs

The Organization does not recognize any assets associated with the incremental costs of obtaining a contract with a customer (for example, a sales commission) that the Organization expects to recover. Most revenue is recognized at a point-in-time or over a period of one year or less, and the Organization uses the practical expedient that allows the Organization to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that would have otherwise been recognized is one year or less.

Practical Expedients and Exemptions

There are several practical expedients and exemptions allowed under Topic 606 that impact timing of revenue recognition and disclosures. The Organization applied a practical expedient in the adoption and application of ASC 606 allows the Organization to elect to treat similar contracts as part of a portfolio of contracts. The contracts have the same provision terms and management has the expectation that the result will not be materially different from the consideration of each individual contract.

Disaggregation of Revenue

The table below depicts the disaggregation of product sales revenue by product type and is consistent with how the Organization evaluates financial performance.

	2022	2021
Body and Home	\$ 2,873,449	\$ 2,634,084
Global retail	525,970	508,955
Café sales	<u>1,511,375</u>	<u>852,075</u>
	\$ 4,910,794	\$ 3,995,114

Contributions of Nonfinancial Assets

The Organization records various types of contributions of nonfinancial assets. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as contributions of nonfinancial assets are typically offset by like amounts included in expenses, except for contributions of property and equipment.

Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization receives contributed time from volunteers which does not meet this recognition criteria. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Note 3. Liquidity and Availability

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 5) with a financial institution that is drawn upon during the year to manage cash flow, if needed.

Thistle Farms, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 3. Liquidity and Availability

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 statements of financial position date, comprise the following:

	2022	2021
Financial assets		
Cash and cash equivalents	\$ 1,461,714	\$ 1,759,308
Accounts receivable	104,021	88,721
Unconditional promises to give, current	<u>209,608</u>	<u>120,775</u>
Total financial assets at year-end	1,775,343	1,968,804
Less amounts not available to be used within one year		
Purpose and time restrictions	<u>(209,608)</u>	<u>(120,775)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,565,735	\$ 1,848,029

Note 4. Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	2022	2021
Land and buildings	\$ 7,426,022	\$ 6,575,155
Leasehold improvements	1,276,033	805,177
Furniture, fixtures, and equipment	1,508,551	1,067,076
Vehicles	125,986	145,986
Capitalized software	123,627	120,615
Construction in progress	<u>877,801</u>	<u>40,522</u>
	11,338,020	8,754,531
Less: accumulated depreciation	<u>(4,033,925)</u>	<u>(3,259,614)</u>
	\$ 7,304,095	\$ 5,494,917

Note 5. 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 January 5, 2024. 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, 2022 and 2021.

Thistle Farms, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 6. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following:

	2022	2021
Contributions received for Capital Campaign Expansion Phase II	\$ 1,010,832	\$ 1,010,832
Grants	433,045	419,118
Endowment	145,315	145,315
Unconditional promises to give due in future periods, operating and programmatic	239,608	120,775
Earnings on endowment funds	<u>14,580</u>	<u>33,525</u>
	\$ 1,843,380	\$ 1,729,565

Note 7. Contributions of Nonfinancial Assets

The Organization received contributions of nonfinancial assets as follows:

	2022	2021
Capital campaign	\$ -	\$ 703,500
Legal and professional	80,825	81,818
Other	<u>40,642</u>	<u>5,925</u>
	\$ 121,467	\$ 791,243

Unless otherwise noted, the Organization did not recognize any contributions of nonfinancial assets with donor imposed restrictions.

Contributed legal and professional services comprise time spent or services received by individuals or organizations at little or no cost to the Organization. These services are valued and reported at their estimated fair value based on current rates for similar goods or services.

During the year ended June 30, 2021, the Organization received a donation consisting of land and building. The property was valued at \$655,000 based on local appraisals. This is included in the capital campaign amount above and in the contributions of property and equipment reflected on the consolidated statement of activities. The Organization intends to use this property for housing certain of its program participants in the near term. The donor made no stipulations regarding the use of this property.

Thistle Farms, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 8. 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 9. 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, 2022 and 2021 totaled approximately \$2,205,000 and \$2,512,000, respectively. Management of the Organization deposits cash funds in quality financial institutions to mitigate the risk of exposure.

The Organization also receives a significant amount of its support from contributions and grants. During the years ended June 30, 2022 and 2021, contributions from one donor represented approximately 17% and 24%, respectively, of contributions from individuals, corporations, and capital campaign donors. Similarly, pledges receivable from three donors represented approximately 93% of pledges receivable (unconditional promises to give) at June 30, 2022.

Note 10. 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 \$145,315 at June 30, 2022 and 2021.

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.

Thistle Farms, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 10. Endowment

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, 2022 is as follows:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds including unappropriated earnings	\$ -	\$ 159,895	\$ 159,895

Endowment net asset composition by type of fund at June 30, 2021 is as follows:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds including unappropriated earnings	\$ -	\$ 178,840	\$ 178,840

Changes in endowment net asset for the year ended June 30, 2022 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 178,840	\$ 178,840
Contributions for endowment	-	-	-
Grant disbursement	-	(5,751)	(5,751)
Investment return	-	(13,194)	(13,194)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 159,895</u>	<u>\$ 159,895</u>

Thistle Farms, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 10. Endowment

Changes in endowment net asset for the year ended June 30, 2021 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 154,644	\$ 154,644
Contributions for endowment	-	6,740	6,740
Grant disbursement	-	(5,100)	(5,100)
Investment return	-	<u>22,556</u>	<u>22,556</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 178,840</u>	<u>\$ 178,840</u>

The Organization has contributed approximately \$95,000 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 11. Related Party Transactions

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

Note 12. 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 a contribution of \$100,731 and \$79,357 to the plan during the years ended June 30, 2022 and 2021, respectively.

Note 13. Lease Commitments

The Organization leases certain office and warehouse space and equipment under noncancelable operating leases. Future minimum lease payments under noncancelable leases at June 30, 2022 are as follows:

Year ended December 31,	
2023	\$ 403,526
2024	336,740
2025	308,760
2026	306,304
2027	247,304
Thereafter	<u>961,642</u>
Total	<u>\$ 2,564,276</u>

Total rental expense for the years ended June 30, 2022 and 2021 was approximately \$423,000 and \$138,000, respectively. During the year ended June 30, 2021, the Organization began leasing one of its properties to an unrelated third party for \$1,400 monthly. This leasing arrangement extends through August 2022.

Thistle Farms, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 14. 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, 2021, this goal was substantially met.

Note 15. Deferred Grant Revenue

During the year ended June 30, 2020, the Organization received its first draw on a loan under the Paycheck Protection Program (PPP) in the amount of \$695,500, which was established under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) and administered by the Small Business Administration (SBA). 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 deferred recognition of grant revenue for the year ended June 30, 2020, because the conditions for forgiveness had not yet been substantially met. In December 2020, the PPP loan of \$695,500, plus accrued interest, was fully forgiven by the SBA and was recognized in government grants within the consolidated statement of activities for the year ended June 30, 2021.

Under the same terms and requirements, the Organization received a second draw on its PPP loan in the amount of \$695,578. The Organization deferred recognition of grant revenue for the year ended June 30, 2021, because the conditions for forgiveness have not yet been substantially met. The Organization received full forgiveness of the loan by the SBA during the year ended June 30, 2022, and recognized the income in government grants within the consolidated statement of activities for the year then ended.

Note 16. Subsequent Events

Management has evaluated subsequent events through June 15, 2023, the date on which the financial statements were available for issuance.