Thrift Alliance D/B/A ThriftSmart
Audited Financial Statements
for the fiscal year ended
June 30, 2014

Wilson & Wilson, PC, CPA, CFE
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Certified Fraud Examiners
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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Thrift Alliance is a community partnership
d/b/a **ThriftSmart**
Nashville, Tennessee 37211

We have audited the accompanying financial statements of The Thrift Alliance: a community partnership d/b/a **ThriftSmart** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the fiscal 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. The financial statements are prepared using modified cash basis, which is an Other Basis of Accounting other than 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: a community partnership d/b/a **ThriftSmart** as of June 30, 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

James C. Wilson Jr, CPA

Wilson & Wilson, PC
Bellevue, Tennessee 37221-1411
October 27, 2014

Thrift Alliance d/b/a ThriftSmart
Statement of Financial Position
June 30, 2014

ASSETS		
Current Assets		
Cash on hand and in banks	$45,770	
Prepaid rent deposits	22,500	
Total Current Assets		$68,270
Property and Equipment	263,988	
Less: Accumulated Depreciation	(199,686)	64,302
Other Assets		21,820
TOTAL ASSETS		$154,392
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$6,783	
Accrued expenses payable	7,000	
Sales taxes payable	4,391	
Other payables	7,304	
Total Current Liabilities		25,478
Long-term Liabilities		
Interest payable	98,755	
Notes payable	182,605	
Bank notes payable	83,931	
Total Long-term Liabilities		365,291
Net Assets (deficit) Unrestricted		(236,377)
TOTAL LIABILITIES AND NET ASSETS		$154,392

See independent auditors' audit report and notes to the financial statements.

Thrift Alliance d/b/a ThriftSmart
Statement of Activities
for the fiscal year ended June 30, 2014

Total Support and Revenues	
Program Income (Sales and contributions)	$1,401,712
Cost of Goods Sold	
Merchandise Pickup/Transport	19,753
Merchandise Purchases	8,335
Merchant Account Fees	24,019
Total COGS	52,107
Gross Margin	$1,349,605
Program Expenses	
Business Expenses	70,090
Contract Labor	300
Contract Services	21,641
Entertainment	889
Facilities and Equipment	304,733
Groupon	7,139
Operations	105,889
Payroll Expenses	582,100
Royalties	168
Travel and Meetings	904
Total Expense	1,093,852
Net Total Support and Revenues	255,753
Other Income/Expense	
Other Income	
Gift Income	14,718
Interest Income	5
Total Other Income	14,723
Other Expense	
Depreciation and Amortization	21,178
Donations-Grants paid out	126,000
Interest Expense - General	20,289
Property Taxes	659
Total Other Expense	168,126
Other Income (Expense)	(153,403)
Change in Net Assets	**$102,351**

See independent auditors' audit report and notes to the financial statements.

Thrift Alliance d/b/a ThriftSmart
Statement of Cash Flows
for the fiscal year ended June 30, 2014

OPERATING ACTIVITIES	
Change in Net Assets	$102,351
Adjustments to reconcile change in Net Assets to net cash provided by activities:	
(Increase) Decrease Prepaid Expense: Rent Deposit	(10,000)
(Decrease) Increase Accounts Payable	(16,613)
Increase (Decrease) Audit & Tax Return Exp Accrual	1,000
(Decrease) Increase Payroll Liabilities: Payroll Accrued	(18,136)
Increase (Decrease) Sales Tax Payable	322
Increase (Decrease) Sew for Hope	4,114
Increase (Decrease) Depreciation Expense	21,178
(Decrease) Increase Store Credits	(1,701)
Net cash provided by Operating Activities	82,515
INVESTING ACTIVITIES	
Equipment: Computers and Electrical	(4,649)
Equipment: Donation Bins	(19,600)
Start Up Costs	(21,820)
Net cash provided by Investing Activities	(46,069)
FINANCING ACTIVITIES	
Interest Payable	12,543
Notes Payable: Bank Loan- Firstbank	(50,202)
Notes Payable: Bank Loan- Pinnacle	(28,936)
Net cash provided by Financing Activities	(66,595)
Net cash increase for period (includes Petty Cash)	(30,109)
Cash at beginning of period	75,879
Cash on hand at end of period	**$45,770**

See independent auditors' audit report and notes to the financial statements.

NOTE 1 – 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 using the accrual method [modified cash basis], which is a comprehensive basis of accounting other than generally accepted accounting principles, but generally accepted and employed by not-for-profit organizations. Modifications to the cash basis of accounting include recording depreciation on equipment and recording receivables and payables. Revenues and Expenses are recorded in accordance with disclosure in IRC Form 990 (Tax Return for Non-profit Organizations).

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Unrestricted Net Assets
Net assets that are not subject to imposed stipulations.

Temporarily Restricted Net Assets
Net assets are subject to 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. There are no temporarily restricted assets at June 30, 2014.

Permanently Restricted Net Assets
Net assets subject to imposed stipulations that they be maintained permanently by the Organization. Generally, these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Organization had no permanently restricted net assets at June 30, 2014.

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 Tax Status

ThriftSmart, in accordance with the Department of the Treasury, Internal Revenue Service is recognized as exempt from federal income tax. ThriftSmart is exempt under section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal income taxes has been recorded.

Advertising Expenses

Costs related to advertising are expensed as incurred. The Organization incurred advertising costs amounting to $16,259 for the fiscal year ended June 30, 2014.

NOTE 2 – 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. There is no stated policy regarding capitalization of items costing in excess of $500. Policy is pending on that and other issues.

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.

A summary of property and equipment at June 30, 2014, is presented in the Statement of Financial Position.

The organization leases the building at its Nolensville Road location. The rent is $17,550 per month. The lease is renewable and is renewable for 5 years as follows with incremental increases for common area maintenance and regular lease percentage increases. The total lease obligations for the next five years are:
2014-2015-$210,600, 2015-2016-$210,600, 2016-2017-$210,600,
2017-2018-$210,600 and 2018-2019 $210,600.

NOTE 3 – 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 4 – ESTIMATES

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, and reported revenue and expenses. Actual results could differ from these estimates.

NOTE 5 – INVENTORY

Principles of accounting impose an ultra-conservative valuation of inventory. By principle, all purchased inventory is valued at cost or market, whichever is lower. This organization maintains a vast inventory which, by conventional rules can not be stated on the books in accordance with accounting theory. However, the inventory of this organization is indeed an asset, even though the theoretical cost basis would be considered to be zero, since most of the inventory is donated. 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. We were not present when the inventory count was performed. Management has estimated the inventory value at $190,000 to $240,000.

NOTE 6 – LEGAL MATTERS AND SUBSEQENT EVENTS

The Organization's retains Cameron Worley, P.C. and their legal counsel when necessary. According to the Executive Director, there are no pending lawsuits or other subsequent events of a legal substance at October 27, 2014. Accordingly, no letter has been provided regarding legal matters for the company.

Subsequent to the date of this audit, the organization opened a second store outlet in Franklin, Tennessee. The organization has recorded $10,000 as a prepaid expense indicated on the statement of financial position as Rent Deposit. The organization paid start-up costs for the new location and those expenses are

recorded as Other Assets-Start Up Costs in the amount of $21,820.49. The start up costs will be allocated to the new location in the 2014-2015 fiscal year.
The organization indicates Interest payable in the amount of $98,755.37 as of June 30, 2014. Also Notes Payable-Other in the amount of $182,604.59. These amounts were paid in the 2014-2015 fiscal period.

Subsequent to the date of these financial statements, the Organization refinanced its Notes payable and Bank Notes payable in the amount of $450,000. The term of the loan is 10 years at a fixed rate of 5% for the initial five years. Upon maturity of the fixed rate loan, the rate for the remainder of the of the Loan Term will be fixed at a rate equal to the United States Treasury Five Year Yield plus 3%. Provided that the rate for the remainder of the Loan Term shall not be set at less than 5% nor greater than 12%. The loan payment, with interest at 5% per annum, is $4,773 per month for the first five years beginning August, 2014.

NOTE 7 – GOING CONCERN CONCEPT

Management is aware of the technical insolvency created by liabilities exceeding assets. Management has taken steps to drastically reduce overhead costs as evidence by the gain in net assets for the current fiscal year. Noting the current fiscal year's improvement and positive income, management is making progress regarding the negative net asset balance.