

THISTLE FARMS, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

THISTLE FARMS, INC. AND SUBSIDIARY

TABLE OF CONTENTS

Independent Auditor's Report.....	2 – 3
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities.....	5 – 6
Consolidated Statements of Functional Expenses	7 – 8
Consolidated Statements of Cash Flows.....	9
Notes to Consolidated Financial Statements.....	10 – 18



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Thistle Farms, Inc. and subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 audits. We conducted our audits 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 subsidiary as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fraser, Orr & Hunt, PLLC

Nashville, Tennessee
January 23, 2017

THISTLE FARMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

Assets	2016	2015
Current assets:		
Cash and cash equivalents	\$ 1,842,193	\$ 841,736
Unconditional promises to give, current	350,796	169,984
Accounts receivable	39,595	54,187
Inventory	219,273	158,698
Other current assets	747	1,547
Total current assets	2,452,604	1,226,152
Cash restricted for endowment	57,304	57,304
Beneficial interest in assets at Community		
Foundation of Middle Tennessee	91,501	55,585
Unconditional promises to give, net of current portion	49,841	86,377
Third mortgages receivable	20,000	20,000
Property and equipment, net	2,509,656	2,490,503
Total assets	<u>\$ 5,180,906</u>	<u>\$ 3,935,921</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 136,150	\$ 159,465
Nurse practitioner payable	-	32,084
Notes payable, current	500,000	508,028
Total current liabilities	636,150	699,577
Unearned revenue on third mortgages	20,000	20,000
Notes payable, net of current portion	-	6,262
Total liabilities	656,150	725,839
Net assets:		
Unrestricted	2,954,483	2,834,115
Temporarily restricted	1,432,273	275,967
Permanently restricted	138,000	100,000
Total net assets	4,524,756	3,210,082
Total liabilities and net assets	<u>\$ 5,180,906</u>	<u>\$ 3,935,921</u>

See accompanying notes to consolidated financial statements.

THISTLE FARMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and support:				
Contributions	\$ 1,610,698	\$ 1,448,000	\$ 38,000	\$ 3,096,698
Thistle Farms product sales	1,663,185	-	-	1,663,185
Thistle Stop Café sales	383,263	-	-	383,263
In-kind	113,200	-	-	113,200
Men's rehabilitation program	52,350	-	-	52,350
Grants	105,000	-	-	105,000
Other	6,254	(2,084)	-	4,170
Net assets released from restrictions	289,610	(289,610)	-	-
Total revenue and support	<u>4,223,560</u>	<u>1,156,306</u>	<u>38,000</u>	<u>5,417,866</u>
Expenses:				
Program services:				
Thistle Farms	2,499,594	-	-	2,499,594
Women's sanctuary and rehabilitation	654,304	-	-	654,304
Thistle Stop Café	486,470	-	-	486,470
Total program services	<u>3,640,368</u>	<u>-</u>	<u>-</u>	<u>3,640,368</u>
Supporting services:				
Management and general	323,851	-	-	323,851
Fundraising	138,973	-	-	138,973
Total supporting services	<u>462,824</u>	<u>-</u>	<u>-</u>	<u>462,824</u>
Total expenses	<u>4,103,192</u>	<u>-</u>	<u>-</u>	<u>4,103,192</u>
Change in net assets	120,368	1,156,306	38,000	1,314,674
Net assets, beginning of year	<u>2,834,115</u>	<u>275,967</u>	<u>100,000</u>	<u>3,210,082</u>
Net assets, end of year	<u>\$ 2,954,483</u>	<u>\$ 1,432,273</u>	<u>\$ 138,000</u>	<u>\$ 4,524,756</u>

See accompanying notes to consolidated financial statements.

THISTLE FARMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and support:				
Contributions	\$ 1,659,593	\$ 176,815	\$ -	\$ 1,836,408
Thistle Farms product sales	1,367,305	-	-	1,367,305
Thistle Stop Café sales	353,418	-	-	353,418
In-kind	107,000	-	-	107,000
Men's rehabilitation program	79,700	-	-	79,700
Grants	51,000	-	-	51,000
Other	36,233	(1,824)	-	34,409
Net assets released from restrictions	166,245	(166,245)	-	-
Total revenue and support	<u>3,820,494</u>	<u>8,746</u>	<u>-</u>	<u>3,829,240</u>
Expenses:				
Program services:				
Thistle Farms	2,008,211	-	-	2,008,211
Women's sanctuary and rehabilitation	660,652	-	-	660,652
Thistle Stop Café	436,893	-	-	436,893
Total program services	<u>3,105,756</u>	<u>-</u>	<u>-</u>	<u>3,105,756</u>
Supporting services:				
Management and general	258,892	-	-	258,892
Fundraising	134,530	-	-	134,530
Total supporting services	<u>393,422</u>	<u>-</u>	<u>-</u>	<u>393,422</u>
Total expenses	<u>3,499,178</u>	<u>-</u>	<u>-</u>	<u>3,499,178</u>
Change in net assets	321,316	8,746	-	330,062
Net assets, beginning of year	<u>2,512,799</u>	<u>267,221</u>	<u>100,000</u>	<u>2,880,020</u>
Net assets, end of year	<u>\$ 2,834,115</u>	<u>\$ 275,967</u>	<u>\$ 100,000</u>	<u>\$ 3,210,082</u>

See accompanying notes to consolidated financial statements.

THISTLE FARMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services				Supporting Services			
	Thistle Farms	Women's Sanctuary and Rehabilitation	Thistle Stop Café	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries, taxes and benefits	\$ 857,320	\$ 301,972	\$ 239,361	\$ 1,398,653	\$ 207,797	\$ 72,616	\$ 280,413	\$ 1,679,066
Cost of sales - materials	614,478	-	169,704	784,182	-	-	-	784,182
Cost of sales - labor	258,083	-	-	258,083	-	-	-	258,083
Legal and professional	154,055	25,645	9,478	189,178	19,452	10,981	30,433	219,611
Depreciation	27,750	59,313	25,036	112,099	7,840	6,997	14,837	126,936
Contract labor	67,017	33,230	-	100,247	5,907	11,980	17,887	118,134
Advertising and promotion	101,693	12,652	1,263	115,608	-	-	-	115,608
Travel, meals and entertainment	84,129	13,646	932	98,707	7,852	5,608	13,460	112,167
Cost of sales - shipping	104,700	-	-	104,700	-	-	-	104,700
Utilities and telephone	33,914	34,701	11,039	79,654	6,656	4,206	10,862	90,516
Printing and supplies	39,288	7,066	3,394	49,748	4,554	2,621	7,175	56,923
Insurance	25,971	25,234	-	51,205	3,854	-	3,854	55,059
Repairs and maintenance	32,355	13,513	7,316	53,184	-	-	-	53,184
Credit card and bank fees	39,223	-	13,095	52,318	-	-	-	52,318
Miscellaneous	8,286	17,629	-	25,915	20,921	-	20,921	46,836
Medical	-	28,552	-	28,552	-	-	-	28,552
Mental health	-	26,213	-	26,213	-	-	-	26,213
Stipends	-	26,115	-	26,115	-	-	-	26,115
Education and outreach	23,963	1,142	458	25,563	-	-	-	25,563
Capital campaign	-	-	-	-	-	23,964	23,964	23,964
Bad debt expense	-	-	-	-	23,330	-	23,330	23,330
Interest	35	428	77	540	14,331	-	14,331	14,871
Cost of sales - printing	14,027	-	-	14,027	-	-	-	14,027
Dues, licenses and fees	4,066	3,200	4,947	12,213	1,357	-	1,357	13,570
Clothing and grooming	-	11,456	-	11,456	-	-	-	11,456
Other program expenses	9,241	1,834	370	11,445	-	-	-	11,445
Food and household supplies	-	10,763	-	10,763	-	-	-	10,763
	<u>\$ 2,499,594</u>	<u>\$ 654,304</u>	<u>\$ 486,470</u>	<u>\$ 3,640,368</u>	<u>\$ 323,851</u>	<u>\$ 138,973</u>	<u>\$ 462,824</u>	<u>\$ 4,103,192</u>

See accompanying notes to consolidated financial statements.

THISTLE FARMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015

	Program Services				Supporting Services			Total Expenses
	Thistle Farms	Women's Sanctuary and Rehabilitation	Thistle Stop Café	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries, taxes and benefits	\$ 770,935	\$ 313,004	\$ 224,026	\$ 1,307,965	\$ 126,487	\$ 62,385	\$ 188,872	\$ 1,496,837
Cost of sales - materials	478,304	-	126,595	604,899	-	-	-	604,899
Cost of sales - labor	168,557	-	-	168,557	-	-	-	168,557
Depreciation	28,098	57,432	24,286	109,816	7,227	6,997	14,224	124,040
Legal and professional	40,046	4,635	9,760	54,441	62,283	-	62,283	116,724
Advertising and promotion	101,712	-	873	102,585	-	-	-	102,585
Utilities and telephone	16,511	36,391	11,391	64,293	3,457	5,875	9,332	73,625
Miscellaneous	42,632	4,000	6,131	52,763	13,169	5,105	18,274	71,037
Contract labor	32,822	13,680	555	47,057	15,765	6,482	22,247	69,304
Travel, meals and entertainment	48,418	14,391	-	62,809	-	-	-	62,809
Other program expenses	30,160	25,501	4,267	59,928	-	-	-	59,928
Insurance	27,444	26,113	-	53,557	1,536	3,072	4,608	58,165
Cost of sales - printing	55,323	-	-	55,323	-	-	-	55,323
Repairs and maintenance	17,417	29,481	6,210	53,108	-	-	-	53,108
Printing and supplies	23,950	4,892	9,599	38,441	2,671	7,425	10,096	48,537
Cost of sales - shipping	45,625	-	-	45,625	-	-	-	45,625
Conference expenses	38,473	-	-	38,473	-	-	-	38,473
Medical	-	38,375	-	38,375	-	-	-	38,375
Event costs	-	-	-	-	-	37,189	37,189	37,189
Credit card and bank fees	28,481	-	8,605	37,086	-	-	-	37,086
Mental health	-	29,723	-	29,723	-	-	-	29,723
Stipends	-	28,650	-	28,650	-	-	-	28,650
Bad debt expense	-	-	-	-	26,022	-	26,022	26,022
Dues, licenses and fees	12,550	2,232	4,462	19,244	-	-	-	19,244
Food and household supplies	-	13,293	-	13,293	-	-	-	13,293
Clothing and grooming	-	9,776	-	9,776	-	-	-	9,776
Education and outreach	753	4,477	133	5,363	275	-	275	5,638
Loss on fixed asset disposal	-	3,258	-	3,258	-	-	-	3,258
Interest	-	1,348	-	1,348	-	-	-	1,348
	<u>\$ 2,008,211</u>	<u>\$ 660,652</u>	<u>\$ 436,893</u>	<u>\$ 3,105,756</u>	<u>\$ 258,892</u>	<u>\$ 134,530</u>	<u>\$ 393,422</u>	<u>\$ 3,499,178</u>

See accompanying notes to consolidated financial statements.

THISTLE FARMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,314,674	\$ 330,062
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term purposes	(1,486,000)	-
Depreciation	126,936	124,040
Change in beneficial interest in assets	2,084	1,824
Loss on disposal of fixed assets	-	3,258
Provision for bad debts	23,330	26,022
Change in operating assets and liabilities:		
Accounts receivable	14,592	(16,736)
Unconditional promises to give	203,561	(33,584)
Inventory	(60,575)	(87,777)
Other current assets	800	3,146
Accounts payable and accrued expenses	(23,315)	37,836
Nurse practitioner payable	(32,084)	4,878
Net cash provided by operating activities	<u>84,003</u>	<u>392,969</u>
Cash flows from investing activities:		
Transfer to endowment	(38,000)	-
Purchases of property and equipment	(146,089)	(524,583)
Net cash used in investing activities	<u>(184,089)</u>	<u>(524,583)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for capital improvements	1,076,833	-
Proceeds from contributions restricted for the endowment	38,000	-
Proceeds from issuance of notes payable	-	500,000
Principal payments on note payable	(14,290)	(8,707)
Net cash provided by financing activities	<u>1,100,543</u>	<u>491,293</u>
Net increase in cash and cash equivalents	1,000,457	359,679
Cash and cash equivalents, beginning of year	841,736	482,057
Cash and cash equivalents, end of year	<u>\$ 1,842,193</u>	<u>\$ 841,736</u>
Supplemental schedule of cash flow information:		
Interest paid	<u>\$ 14,871</u>	<u>\$ 1,348</u>

See accompanying notes to consolidated financial statements.

THISTLE FARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Thistle Farms, Inc. and subsidiary (the “Organization”) is a nonprofit corporation, organized in the state of Tennessee in 1993. Its mission is to provide sanctuary, instruction, treatment and employment for women with a history of prostitution and addiction.

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, fees for rehabilitation services provided for the men who are arrested for first offense soliciting in conjunction with the local court system, and fundraising events.

The following program services are provided by the Organization:

Thistle Farms – A program that requires all participants to assist in manufacturing and selling selected domestic home items, such as candles, skin and lip balms and bath salts under the brand name of Thistle Farms. The program assists the participants in acquiring and developing life skills needed to assimilate into the workplace at the completion of the program. Thistle Farms includes an international marketplace that connects women producers directly to customers by distributing and selling their products.

Women’s sanctuary and rehabilitation – A two-year residential community that provides housing and education for women with a criminal history of addiction and prostitution.

Thistle Stop Café – Program graduates and residents sell Nashville-based and fair-trade coffees, teas and healthy catered foods.

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, 2016 and 2015.

THISTLE FARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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:

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 consolidated statements of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned and any related investments for general or specific purposes.

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 unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restrictions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization uses the allowance method to determine uncollectible unconditional promises to give.

Accounts Receivable

Accounts receivable represent amounts due for sales of products to retailers. Management believes accounts receivable are fully collectible. Accordingly, no allowance for doubtful accounts is considered necessary.

THISTLE FARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory consisting of bath and home products and related raw materials is 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.

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.

The Organization follows guidance that clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying consolidated financial statements. Tax years that remain open for examination include the years ended June 30, 2013 through June 30, 2016. The Organization had no uncertain tax positions at June 30, 2016 or 2015.

Functional Allocation of Expenses

The costs of providing programs and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon management's estimate.

THISTLE FARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 expenditures is expensed when incurred. Advertising expense amounted to \$115,608 and \$102,585 during the years ended June 30, 2016 and 2015, respectively.

Endowment Funds

Accounting principles generally accepted in the United States of America state that a nonprofit organization should classify the portion of a donor-restricted endowment fund that is not permanently restricted by the donor or by law as temporarily restricted net assets (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, temporarily restricted net assets are reclassified to unrestricted net assets. The guidance also requires additional disclosures applicable to all nonprofit organizations. Those disclosures provide: a) a description of the organization's policies for making appropriations for expenditures from endowment funds (i.e. the organization's endowment spending policies), b) a description of the organization's investment policies for endowment funds, c) a description of the 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 the organization's interpretation of the laws underlying the net asset classification of donor-restricted endowment funds.

Subsequent Events

The Organization evaluated subsequent events through January 23, 2017 when these consolidated financial statements were available to be issued. 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.

Reclassifications

Certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in the 2016 consolidated financial statements.

THISTLE FARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2016 and 2015

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Unconditional promises to give	\$ 468,512	\$ 320,333
Less: allowance for uncollectible contributions	(67,875)	(63,545)
Less: discount to net present value	-	(427)
Net unconditional promises to give	400,637	256,361
Less: amounts receivable in less than one year, net	<u>(350,796)</u>	<u>(169,984)</u>
Receivable in one to five years, net	<u>\$ 49,841</u>	<u>\$ 86,377</u>

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, consists of the following:

	<u>2016</u>	<u>2015</u>
Land and buildings	\$ 3,108,853	\$ 3,072,303
Furniture, fixtures and equipment	225,988	145,619
Vehicle	45,410	17,490
Leasehold improvements	-	-
	3,380,251	3,235,412
Less: accumulated depreciation	<u>(870,595)</u>	<u>(744,909)</u>
	<u>\$ 2,509,656</u>	<u>\$ 2,490,503</u>

NOTE 4 – NOTES PAYABLE

	<u>2016</u>	<u>2015</u>
Note payable to bank secured by a first deed of trust on certain property with a net book value of \$22,207 at June 30, 2016, bearing interest at 7.27%, paid in full during the year ended June 30, 2016	\$ -	\$ 14,290
Note payable to bank, secured by a first deed of trust on certain property with a net book value of \$505,745 at June 30, 2016, bearing interest at prime (3.50% at June 30, 2016), principal and interest due August 2016. Subsequent to June 30, 2016, the note was paid in full.	500,000	500,000
	<u>\$ 500,000</u>	<u>\$ 514,290</u>

THISTLE FARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2016 and 2015

NOTE 5 – NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Donations for capital improvements	\$ 1,391,998	\$ -
Unconditional promises to give due in future periods	29,470	256,361
Earnings on endowment funds	10,805	12,889
Donations for women’s healthcare and nurse practitioner	<u>-</u>	<u>6,717</u>
	<u>\$ 1,432,273</u>	<u>\$ 275,967</u>

NOTE 6 – DONATED MATERIALS AND SERVICES

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

	<u>2016</u>	<u>2015</u>
Legal and professional	\$ 106,800	\$ 93,000
Event costs	2,000	6,500
Other	4,400	5,000
Advertising and promotion	<u>-</u>	<u>2,500</u>
	<u>\$ 113,200</u>	<u>\$ 107,000</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.

THISTLE FARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2016 and 2015

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 (“FDIC”). Management believes the Organization is not exposed to any significant credit risk on cash. Uninsured balances at June 30, 2016 and 2015 totaled \$914,413 and \$362,389, respectively.

NOTE 9 – ENDOWMENT

Permanently restricted net assets consist of contributions whose principal is to be held in perpetuity in accordance with terms prescribed by the donors. The income from permanently restricted contributions is expendable to provide maintenance on a resident home. Permanently restricted net assets totaled \$138,000 and \$100,000 at June 30, 2016 and 2015, respectively.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring that the Organization classify as permanently restricted net assets: a) the original value of donor-restricted gifts to the permanent endowment, b) the original value of subsequent donor-restricted gifts to the permanent endowment, and c) accumulations (interest, dividends, capital gain/loss) to the permanent 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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 10,805	\$ 138,000	\$ 148,805
Total funds	<u>\$ -</u>	<u>\$ 10,805</u>	<u>\$ 138,000</u>	<u>\$ 148,805</u>

THISTLE FARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2016 and 2015

NOTE 9 – ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 12,889	\$ 100,000	\$ 112,889
Contributions	-	-	38,000	38,000
Investment return	-	(2,084)	-	(2,084)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 10,805</u>	<u>\$ 138,000</u>	<u>\$ 148,805</u>

Endowment net asset composition by type of fund at June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 12,889	\$ 100,000	\$ 112,889
Total funds	<u>\$ -</u>	<u>\$ 12,889</u>	<u>\$ 100,000</u>	<u>\$ 112,889</u>

Changes in endowment net assets for the year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 14,713	\$ 100,000	\$ 114,713
Investment return	-	(1,824)	-	(1,824)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 12,889</u>	<u>\$ 100,000</u>	<u>\$ 112,889</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. At June 30, 2016, the Organization's endowment was comprised of approximately 38% cash and cash equivalents, 31% equity funds, 22% fixed income funds, and 9% in alternative investments.

THISTLE FARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2016 and 2015

NOTE 10 – NURSE PRACTITIONER COLLABORATIVE

The Organization served as the fiscal agent for a Psychiatric Nurse Practitioner (PNP) Collaborative (the “Collaborative”) which consisted of four agencies as of June 30, 2015. The Collaborative provided assessment, medication management and treatment for residents in its programs and for staff consultation at each agency. The Collaborative was funded by grants and allocated amongst the agencies, with the Organization receiving approximately 24% of the benefits during the year ended June 30, 2015. The Organization maintained an escrow account in which grant awards were deposited and from which expenditures were paid. The Collaborative was discontinued during the year ended June 30, 2016 and remaining funds were returned to the donor agency.

NOTE 11 – RELATED PARTY TRANSACTIONS

At June 30, 2016 and 2015, the Organization owed notes payable totaling \$500,000 and \$514,290 respectively, to a financial institution associated with a member of the Organization’s board of directors.

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