

THISTLE FARMS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

As of and for the Year Ended June 30, 2019

And Report of Independent Auditor

THISTLE FARMS, INC. AND SUBSIDIARIES

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Report of Independent Auditor

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

We have audited the accompanying consolidated financial statements of Thistle Farms, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thistle Farms, Inc. and Subsidiaries as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Financial Statement Presentation

As discussed in Note 1 of the consolidated financial statements, Thistle Farms, Inc. and Subsidiaries adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 15 to 16 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Cheryl Beckett LLP

Nashville, Tennessee
December 4, 2019

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

JUNE 30, 2019

ASSETS

Current Assets:

Cash and cash equivalents	\$ 475,901
Unconditional promises to give, current	16,857
Accounts receivable, net	42,128
Inventories	607,652
Other current assets	111,797
Total Current Assets	<u>1,254,335</u>

Cash restricted for endowment	57,304
Beneficial interest in assets at Community Foundation of Middle Tennessee	98,605
Third mortgages receivable	20,000
Property and equipment, net	4,598,763
Total Assets	<u>\$ 6,029,007</u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses	\$ 241,360
Deferred revenue	3,036
Total Current Liabilities	<u>244,396</u>

Unearned revenue on third mortgages	20,000
Total Liabilities	<u>264,396</u>

Net Assets:

Without donor restrictions	5,566,095
With donor restrictions	198,516
Total Net Assets	<u>5,764,611</u>
Total Liabilities and Net Assets	<u>\$ 6,029,007</u>

THISTLE FARMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Contributions	\$ 1,745,793	\$ 42,607	\$ 1,788,400
Product sales	2,875,744	-	2,875,744
Café sales	1,004,302	-	1,004,302
Grants	686,000	-	686,000
In-kind	163,631	-	163,631
Fundraising event	171,775	-	171,775
Other	76,642	5,179	81,821
Net assets released from restrictions	196,211	(196,211)	-
Total Revenue and Support	<u>6,920,098</u>	<u>(148,425)</u>	<u>6,771,673</u>
Expenses:			
Salaries, taxes, and benefits	2,568,143	-	2,568,143
Cost of sales	1,868,458	-	1,868,458
Other operating expenses	1,943,464	-	1,943,464
Total Expenses before Depreciation	<u>6,380,065</u>	<u>-</u>	<u>6,380,065</u>
Change in net assets before depreciation expense	540,033	(148,425)	391,608
Depreciation expense	578,063	-	578,063
Change in net assets	(38,030)	(148,425)	(186,455)
Net assets, beginning of year	5,604,125	346,941	5,951,066
Net assets, end of year	<u>\$ 5,566,095</u>	<u>\$ 198,516</u>	<u>\$ 5,764,611</u>

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

YEAR ENDED JUNE 30, 2019

	Program Services				Supporting Services				
	Social Enterprise	Residential Services	National Network	Love Welcomes	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries, taxes, and benefits	\$ 1,364,836	\$ 463,812	\$ 224,014	\$ -	\$ 2,052,662	\$ 428,995	\$ 86,486	\$ 515,481	\$ 2,568,143
Cost of sales - materials	1,098,722	-	-	-	1,098,722	-	-	-	1,098,722
Cost of sales - labor	678,886	-	-	-	678,886	-	-	-	678,886
Contribution expense	-	-	-	204,913	204,913	-	-	-	204,913
Legal and professional	66,419	-	11,238	-	77,657	120,696	-	120,696	198,353
In-kind expenses	126,374	8,107	29,150	-	163,631	-	-	-	163,631
Rent and occupancy	99,937	30,907	2,466	-	133,310	15,948	2,466	18,414	151,724
Other program expenses	35,575	73,919	4,596	-	114,090	3,353	-	3,353	117,443
Utilities and telephone	46,505	49,400	1,967	-	97,872	27,893	7,867	35,760	133,632
Travel, meals, and entertainment	35,687	12,385	58,627	-	106,699	18,636	4,659	23,295	129,994
Contract labor	50,151	2,900	14,500	-	67,551	27,776	18,716	46,492	114,043
Interest and fees	99,486	-	308	-	99,794	867	11,380	12,247	112,041
Event expenses	2,899	-	57,777	-	60,676	-	39,469	39,469	100,145
Cost of sales - shipping	90,850	-	-	-	90,850	-	-	-	90,850
Advertising and promotion	69,870	-	-	-	69,870	1,237	11,818	13,055	82,925
Equipment and computer software	54,767	11,396	996	-	67,159	7,453	7,014	14,467	81,626
Dues, licenses, and fees	34,510	1,016	1,462	-	36,988	26,367	-	26,367	63,355
Repairs and maintenance	16,243	25,783	1,997	-	44,023	11,515	1,997	13,512	57,535
Printing and supplies	29,238	1,819	3,610	-	34,667	16,052	5,351	21,403	56,070
Mental health	-	50,237	-	-	50,237	-	-	-	50,237
Insurance	19,601	6,534	6,534	-	32,669	9,433	6,534	15,967	48,636
Medical	58	26,463	-	-	26,521	160	-	160	26,681
Stipends	-	25,159	-	-	25,159	-	-	-	25,159
Miscellaneous	4,538	2,600	1,714	-	8,852	2,301	2,245	4,546	13,398
Clothing and grooming	3,791	6,473	-	-	10,264	-	-	-	10,264
Bad debt expense	1,159	-	-	-	1,159	-	500	500	1,659
Total Expenses before Depreciation	4,030,102	798,910	420,956	204,913	5,454,881	718,682	206,502	925,184	6,380,065
Depreciation	264,344	113,948	1,477	-	379,769	166,203	32,091	198,294	578,063
Total Expenses	\$ 4,294,446	\$ 912,858	\$ 422,433	\$ 204,913	\$ 5,834,650	\$ 884,885	\$ 238,593	\$ 1,123,478	\$ 6,958,128

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

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

YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:

Change in net assets	\$ (186,455)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	578,063
Change in beneficial interest in assets	(279)
Provision for bad debts	1,659
Change in operating assets and liabilities:	
Accounts receivable	15,936
Unconditional promises to give	(12,457)
Inventories	(196,379)
Other current assets	(60,333)
Accounts payable and accrued expenses	12,155
Deferred revenue	3,036
Net cash provided by operating activities	<u>154,946</u>

Cash flows from investing activities:

Purchases of property and equipment	<u>(258,717)</u>
Net cash used in investing activities	<u>(258,717)</u>

Net decrease in cash and cash equivalents	(103,771)
Cash and cash equivalents, beginning of year	<u>579,672</u>
Cash and cash equivalents, end of year	<u>\$ 475,901</u>

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1—Summary of significant accounting policies

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

The Organization operates from facilities located in Nashville, Tennessee and attracts its participants and its support primarily from the Middle Tennessee area. The Organization is supported primarily by contributions from the general public, Thistle Farms product sales, Café sales, and fundraising events.

The following program services are provided by the Organization:

Social Enterprise – Residents and graduates of our residential program are employed in one of our social enterprises. Here the women can learn new job skills and make a living wage to support themselves. Body & Home, Thistle Farms’ largest nonprofit social enterprise, creates natural bath and body products and has grown into a national brand that produces more than 20 different product lines. Everything we produce is hand poured in small batches by women survivors, using pure essential oils to promote wellness and healing. Our products are free of synthetic fragrances, parabens, or petroleum based ingredients. The Café at Thistle Farms is a restaurant and special event space located at the heart of the Thistle Farms campus. With a produce-driven, full-service menu, the Café serves locally-sourced breakfast, lunch, and Nashville’s only daily tea service. In addition, the Café at Thistle Farms offers an array of options and services for special events. Thistle Farms Global creates economic freedom for women survivors worldwide by helping to launch new social enterprises, incorporating existing enterprises into our supply chain, and connecting women producers directly with our customers. With the support and sales generated through Thistle Farms Global, partner enterprises can hire more women, increase wages, and reinvest in their communities.

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

National Network – The Thistle Farms National Network is comprised of like-minded organizations committed to connecting survivors of prostitution, trafficking, and addiction to hope, healing, and empowerment. To date, over 50 organizations throughout the country have programs based on Thistle Farms’ model of recovery; 25 of these organizations have residential programs to house women survivors, while the other half are in the early stages of development.

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

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1—Summary of significant accounting policies (continued)

Principles of Consolidation – The consolidated financial statements include the accounts and activities of Thistle Farms, Inc., Magdalene Homes, LLC, and Love Welcomes, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Magdalene Homes, LLC was dormant during the year ended June 30, 2019.

Basis of Presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

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

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

Cash and Cash Equivalents – For purposes of the consolidated statements of cash flows, the Organization considers all cash and related short-term investments with original maturities of three months or less to be cash equivalents.

Unconditional Promises to Give – Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restrictions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. The Organization uses the allowance method to determine uncollectible unconditional promises to give.

Accounts Receivable – Accounts receivable represent amounts due for sales of products to retailers. The Organization uses the allowance method to determine uncollectible accounts receivable. At June 30, 2019 the allowance for doubtful accounts amounted to \$13,394.

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

Property and Equipment – Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets, which range from three to thirty-nine years. Expenditures for repairs and maintenance are charged to expense as incurred. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Income Taxes – The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Therefore, no provision for income taxes has been made.

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1—Summary of significant accounting policies (continued)

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

Use of Estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs – The cost of advertising is expensed when incurred. Advertising expense amounted to \$82,925 during the year ended June 30, 2019.

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

Endowment Funds – U.S. GAAP states that a nonprofit organization should classify the portion of a donor-restricted endowment fund that is not restricted in perpetuity by the donor or by law as net assets with donor restrictions (time restricted) until it is appropriated for expenditure and donor-imposed purpose restrictions, if any, are met. When the purpose restrictions, if any, on the portion of donor-restricted endowment funds are met and the appropriation has occurred, net assets with donor restrictions are reclassified to net assets without donor restrictions. The guidance also requires additional disclosures applicable to all nonprofit organizations. Those disclosures provide: a) a description of an organization's policies for making appropriations for expenditures from endowment funds (i.e., the organization's endowment spending policies), b) a description of an organization's investment policies for endowment funds, c) a description of an organization's endowment by net asset class at the end of the period in total and by type of endowment fund, d) a reconciliation of the beginning and ending balances of endowment funds in total and by net asset class, and e) a description of an organization's interpretation of the laws underlying the net asset classification of donor-restricted endowment funds.

New Accounting Pronouncement – On August 18, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adopted these new accounting requirements retrospectively to all periods presented in these consolidated financial statements.

Future Pronouncements – In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for the Organization on July 1, 2019. The Organization is currently evaluating the effect of the implementation of this new standard.

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1—Summary of significant accounting policies (continued)

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*, requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard will be effective for the Organization on June 30, 2020. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The standard will be effective for the fiscal year ending June 30, 2020. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the fiscal year ending June 30, 2022. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

Note 2—Liquidity

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of providing programs and services to help heal and employ women survivors as well as conduct of services undertaken to support those activities to be general expenditures.

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

JUNE 30, 2019

Note 2—Liquidity (continued)

As a part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2019:

Financial assets at year-end:	
Cash and cash equivalents	\$ 475,901
Unconditional promises to give, current	16,857
Accounts receivable, net	<u>42,128</u>
Total financial assets	<u>534,886</u>
Less amounts not available to be used for general expenditures within one year:	
Purpose and time restrictions	<u>25,750</u>
Financial assets not available to be used within one year	<u>25,750</u>
Financial assets available to meet general expenditures within one year	<u>\$ 509,136</u>

Note 3—Property and equipment

Property and equipment consist of the following at June 30, 2019:

Land and buildings	\$ 4,883,447
Leasehold improvements	795,896
Furniture, fixtures, and equipment	774,843
Vehicle	77,920
Capitalized software	<u>52,235</u>
	6,584,341
Less accumulated depreciation	<u>(1,985,578)</u>
	<u>\$ 4,598,763</u>

Note 4—Line of credit

The Organization has a line of credit agreement with a financial institution that allows for maximum borrowings of \$600,000. The line of credit agreement was originally scheduled to mature on August 5, 2019. Subsequent to June 30, 2019, the line of credit was extended to November 5, 2021. The line of credit is secured by certain real estate and bears interest at the prime rate. The line of credit requires monthly interest payments. No amounts were outstanding at June 30, 2019.

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

JUNE 30, 2019

Note 5—Net assets with donor restrictions

Net assets with donor restrictions consist of the following at June 30, 2019:

Endowment	\$ 138,000
Grants	25,750
Earnings on endowment funds	17,909
Unconditional promises to give due in future periods	16,857
	<u>\$ 198,516</u>

Note 6—Donated materials and services

The Organization received in-kind contributions as follows during the years ended June 30, 2019:

Legal and professional	\$ 141,455
Other	22,176
	<u>\$ 163,631</u>

Note 7—Magdalene Homes, LLC

Magdalene Homes, LLC, was organized on April 1, 2004, as a Tennessee limited liability company and is owned 100% by Thistle Farms, Inc. for the purpose of purchasing real estate and building residential homes for graduates of its program. During the year ended June 30, 2008, the construction of two homes was completed and the homes were sold to former Magdalene residents. The sales price of the two homes included unearned revenue for third mortgages of \$20,000. Unearned revenue on third mortgages represents the non-interest bearing third mortgage loans held by the Organization related to these homes. The homeowners were required to sign a third mortgage for the difference between the estimated fair market value of the home, and the balance of other mortgages at the transfer date. The Organization does not foresee collection of the third mortgage loans except in the event of sale, refinance, or other transfer of the home by the owner.

Note 8—Concentrations

The Organization maintains its cash in bank accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Deposits are insured by the Federal Deposit Insurance Corporation. Management believes the Organization is not exposed to any significant credit risk on cash. Uninsured balances at June 30, 2019 totaled approximately \$314,000.

Note 9—Endowment

Net assets with donor restrictions consist of contributions whose principal is to be held in perpetuity in accordance with terms prescribed by the donors. The income from contributions to be held in perpetuity is expendable to provide maintenance on a resident home. Net assets to be held in perpetuity totaled \$138,000 at June 30, 2019.

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

JUNE 30, 2019

Note 9—Endowment (continued)

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring that the Organization classify as net assets with donor restrictions: a) the original value of donor-restricted gifts to the endowment, b) the original value of subsequent donor-restricted gifts to the endowment, and c) accumulations (interest, dividends, and capital gain/loss) to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund is classified as net assets with donor restrictions until those amounts are approved for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Endowment net asset composition by type of fund at June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds including unappropriated earnings	\$ -	\$ 155,909	\$ 155,909

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 155,630	\$ 155,630
Grant disbursement	-	(4,900)	(4,900)
Investment return	-	5,179	5,179
Endowment net assets, end of year	\$ -	\$ 155,909	\$ 155,909

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.

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

JUNE 30, 2019

Note 10—Related party transactions

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

Note 11—Retirement plan

During 2019 the Organization created a retirement plan covering substantially all employees. The Organization makes matching contributions up to 4% of compensation for employees who have contributed to the plan. The Organization made a contribution of \$18,382 to the plan during the year ended June 30, 2019.

Note 12—Lease commitments

The Organization leases certain warehouse space under noncancelable operating leases. Future minimum lease payments under noncancelable leases at June 30, 2019 are as follows:

<u>Years Ending June 30,</u>	
2020	\$ 100,113
2021	102,715
2022	99,300
2023	76,386
2024	77,913
Thereafter	174,087
	<u>\$ 630,514</u>

Total rental expense for the year ended June 30, 2019 was approximately \$133,000.

Note 13—Subsequent events

In accordance with U.S. GAAP, the Company has evaluated all events subsequent to the consolidated statement of financial position date as of June 30, 2019 through December 4, 2019, which is the date these financial statements were available to be issued, and has determined the following subsequent events require disclosure.

In September 2019, the Organization filed to dissolve Love Welcomes, LLC. There is no impact to Thistle Farms, Inc. as the dissolved entity did not have any assets or liabilities as of June 30, 2019.

SUPPLEMENTARY INFORMATION

THISTLE FARMS, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE – STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

	<u>Thistle Farms, Inc.</u>	<u>Love Welcomes, LLC</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 475,901	\$ -	\$ -	\$ 475,901
Unconditional promises to give, current	16,857	-	-	16,857
Accounts receivable, net	42,128	-	-	42,128
Inventories	607,652	-	-	607,652
Other current assets	111,797	-	-	111,797
Total Current Assets	1,254,335	-	-	1,254,335
Cash restricted for endowment	57,304	-	-	57,304
Beneficial interest in assets at Community Foundation of Middle Tennessee	98,605	-	-	98,605
Third mortgages receivable	20,000	-	-	20,000
Property and equipment, net	4,598,763	-	-	4,598,763
Total Assets	\$ 6,029,007	\$ -	\$ -	\$ 6,029,007
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 241,360	\$ -	\$ -	\$ 241,360
Deferred revenue	3,036	-	-	3,036
Total Current Liabilities	244,396	-	-	244,396
Unearned revenue on third mortgages	20,000	-	-	20,000
Total Liabilities	264,396	-	-	264,396
Net Assets:				
Without donor restrictions	5,566,095	-	-	5,566,095
With donor restrictions	198,516	-	-	198,516
Total Net Assets	5,764,611	-	-	5,764,611
Total Liabilities and Net Assets	\$ 6,029,007	\$ -	\$ -	\$ 6,029,007

THISTLE FARMS, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE – STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Thistle Farms, Inc.			Love Welcomes, LLC			Eliminations	Consolidated Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total		
Revenue and Support:								
Contributions	\$ 1,665,794	\$ 42,607	\$ 1,708,401	\$ 109,999	\$ -	\$ 109,999	\$ (30,000)	\$ 1,788,400
Product sales	2,861,525	-	2,861,525	38,849	-	38,849	(24,630)	2,875,744
Café sales	1,004,302	-	1,004,302	-	-	-	-	1,004,302
Grants	686,000	-	686,000	80,695	-	80,695	(80,695)	686,000
In-kind	163,631	-	163,631	-	-	-	-	163,631
Fundraising event	171,775	-	171,775	-	-	-	-	171,775
Other	76,642	5,179	81,821	-	-	-	-	81,821
Net assets released from restrictions	196,211	(196,211)	-	-	-	-	-	-
Total Revenue and Support	6,825,880	(148,425)	6,677,455	229,543	-	229,543	(135,325)	6,771,673
Expenses:								
Salaries, taxes, and benefits	2,568,143	-	2,568,143	-	-	-	-	2,568,143
Cost of sales	1,868,458	-	1,868,458	24,630	-	24,630	(24,630)	1,868,458
Other operating expenses	1,849,246	-	1,849,246	204,913	-	204,913	(110,695)	1,943,464
Total Expenses Before Depreciation	6,285,847	-	6,285,847	229,543	-	229,543	(135,325)	6,380,065
Change in net assets before depreciation expense	540,033	(148,425)	391,608	-	-	-	-	391,608
Depreciation expense	578,063	-	578,063	-	-	-	-	578,063
Change in net assets	(38,030)	(148,425)	(186,455)	-	-	-	-	(186,455)
Net assets, beginning of year	5,604,125	346,941	5,951,066	-	-	-	-	5,951,066
Net assets, end of year	\$ 5,566,095	\$ 198,516	\$ 5,764,611	\$ -	\$ -	\$ -	\$ -	\$ 5,764,611