Thistle Farms, Inc. and Subsidiaries

Consolidated Financial Statements
For the Years Ended June 30, 2023 and 2022

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Contents

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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 statements of financial position as of June 30, 2023 and 2022, 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 (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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits 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.

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
Nashville, Tennessee
December 19, 2023

Thistle Farms, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	$ 2,711,107	$ 1,461,714
Investments	1,516,089	-
Accounts receivable	114,215	104,021
Unconditional promises to give, current	-	209,608
Inventory	1,169,948	1,000,847
Other current assets	277,872	228,973
Total current assets	5,789,231	3,005,163
Third mortgages receivable	20,000	20,000
Cash restricted for expansion	-	1,010,832
Cash restricted for endowment	64,619	64,619
Unconditional promises to give, net of current portion	7,500	30,000
Deposits	20,000	20,000
Operating lease right-of-use assets	2,298,135	-
Property, plant, and equipment, net	6,567,154	7,304,095
Beneficial interest in assets at Community Foundation of Middle Tennessee	103,076	108,470
Total assets	**$ 14,869,715**	**$ 11,563,179**
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 873,256	$ 616,715
Operating lease liabilities, current portion	326,792	-
Deferred rent	-	159,918
Deferred revenue, trade	154,476	101,906
Total current liabilities	1,354,524	878,539
Operating lease liabilities, net of current portion	2,000,299	-
Unearned revenue on third mortgages	20,000	20,000
Total liabilities	3,374,823	898,539
Net assets		
Without donor restrictions	9,778,521	8,821,260
With donor restrictions	1,716,371	1,843,380
Total net assets	11,494,892	10,664,640
Total liabilities and net assets	**$ 14,869,715**	**$ 11,563,179**

Thistle Farms, Inc. and Subsidiaries

Consolidated Statement of Activities

For the Year Ended June 30, 2023

	Without donor restrictions	With donor restrictions	Total
Operating Support and Revenues			
Contributions of cash and other financial assets			
General contributions	$ 5,150,534	$ 1,286,176	$ 6,436,710
Grants, government	406,600	-	406,600
Grants, other	422,750	205,000	627,750
Product sales	5,311,980	-	5,311,980
Other revenue	610,365	-	610,365
Contributions of nonfinancial assets	85,988	-	85,988
Net assets released from restrictions	1,618,185	(1,618,185)	-
Total operating support and revenues	13,606,402	(127,009)	13,479,393
Operating Expenses			
Salaries, taxes, and benefits	5,367,858	-	5,367,858
Cost of sales	3,393,119	-	3,393,119
Other operating expenses	3,239,324	-	3,239,324
Total operating expenses	12,000,301	-	12,000,301
Change in net assets before depreciation and amortization expense	1,606,101	(127,009)	1,479,092
Depreciation and amortization expense	808,758	-	808,758
Change in net assets	797,343	(127,009)	670,334
ASC 842 implementation adjustment	159,918	-	159,918
Net assets, beginning of year	8,821,260	1,843,380	10,664,640
Net assets, end of year	**$ 9,778,521**	**$ 1,716,371**	**$ 11,494,892**

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			
General contributions	$ 6,558,172	$ 118,833	$ 6,677,005
Grants, government	893,041	-	893,041
Grants, other	771,215	13,927	785,142
Product sales	4,910,794	-	4,910,794
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	13,418,687	113,815	13,532,502
Operating Expenses			
Salaries, taxes, and benefits	4,192,922	-	4,192,922
Cost of sales	2,862,709	-	2,862,709
Other operating expenses	3,278,952	-	3,278,952
Total operating expenses	10,334,583	-	10,334,583
Change in net assets before depreciation and amortization expense	3,084,104	113,815	3,197,919
Depreciation and amortization expense	796,058	-	796,058
Change in net assets	2,288,046	113,815	2,401,861
Net assets, beginning of year	6,533,214	1,729,565	8,262,779
Net assets, end of year	**$ 8,821,260**	**$ 1,843,380**	**$ 10,664,640**

Thistle Farms, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program Services					Supporting Services		
	Social Enterprise	**Residential Services**	**National Network**	**Global Program**	**Total program services**	**Management and general**	**Fundraising**	**Total**
Salaries, taxes, and benefits	$ 2,512,869	$ 826,637	$ 92,309	$ 390,946	$ 3,822,761	$ 1,117,814	$ 427,283	$ 5,367,858
Advertising and promotion	277,680	2,890	8,730	15,547	304,847	4,638	19,064	328,549
Contract labor	118,453	6,700	-	21,591	146,744	26,868	-	173,612
Cost of sales - fees	140,440	-	-	-	140,440	30	-	140,470
Cost of sales - labor	1,146,150	-	-	3,082	1,149,232	-	-	1,149,232
Cost of sales - materials	1,327,457	-	-	359,010	1,686,467	77	-	1,686,544
Cost of sales - printing and supplies	152,036	62	-	2,429	154,527	1,119	-	155,646
Cost of sales - shipping and freight	247,587	-	-	13,571	261,158	38	31	261,227
Donations/outreach	-	-	-	-	-	-	85,988	85,988
Dues, licenses, and fees	19,029	2,272	1,000	188	22,489	39,048	2,482	64,019
Equipment and computer software	151,827	11,379	628	7,943	171,777	93,825	28,695	294,297
Insurance	44,925	22,825	5,284	10,419	83,453	21,343	5,385	110,181
Interest and fees	758	-	-	73	831	(4,264)	10,565	7,132
Miscellaneous expense	10,064	12	-	20,004	30,080	(18,170)	-	11,910
Other program expenses	1,903	580,822	949	134,357	718,031	1,514	84	719,629
Printing and supplies	52,398	5,007	770	4,636	62,811	23,008	46,714	132,533
Professional fees	107,212	9,785	-	5,049	122,046	101,907	32,890	256,843
Rent and occupancy	283,636	35,535	-	388	319,559	97,048	-	416,607
Repairs/maintenance	89,171	71,340	-	61	160,572	59,754	121	220,447
Research and development	12,514	-	-	5,116	17,630	-	-	17,630
Travel, meals, and entertainment	85,524	46,998	(903)	18,140	149,759	22,181	7,581	179,521
Utilities and telephone	91,257	94,715	75	701	186,748	33,465	213	220,426
Total expenses before depreciation	6,872,890	1,716,979	108,842	1,013,251	9,711,962	1,621,243	667,096	12,000,301
Depreciation and amortization	355,202	171,401	-	-	526,603	245,499	36,656	808,758
	$ 7,228,092	**$ 1,888,380**	**$ 108,842**	**$ 1,013,251**	**$ 10,238,565**	**$ 1,866,742**	**$ 703,752**	**$ 12,809,059**

Thistle Farms, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022

	Program Services					Supporting Services		
	Social Enterprise	**Residential Services**	**National Network**	**Global Program**	**Total program services**	**Management and general**	**Fundraising**	**Total**
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	147,800	8,022	173,614	18,998	348,434	49,260	114,548	512,242
Contract labor	209,882	6,373	36,745	34,182	287,182	300	1,200	288,682
Cost of sales - fees	144,753	-	-	-	144,753	-	-	144,753
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 - printing and supplies	84,500	-	-	3,594	88,094	-	-	88,094
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	105,386	14,594	(1,121)	1,707	120,566	95,580	23,622	239,768
Insurance	-	5,592	-	-	5,592	84,746	-	90,338
Interest and fees	719	-	-	-	719	891	25,536	27,146
Miscellaneous expense	3,560	4,339	9,663	11,027	28,589	(8,796)	52	19,845
Other program expenses	1,901	467,276	10,966	77,372	557,515	3,022	2	560,539
Printing and supplies	27,161	4,907	9,336	5,071	46,475	14,918	43,548	104,941
Professional fees	66,896	7,042	21,850	16,175	111,963	72,487	1,623	186,073
Rent and occupancy	382,212	31,515	-	-	413,727	9,296	-	423,023
Repairs/maintenance	61,814	68,863	-	1,190	131,867	60,668	793	193,328
Research and development	55,651	-	-	449	56,100	-	-	56,100
Travel, meals, and entertainment	33,823	34,579	48,643	30,254	147,299	22,435	7,309	177,043
Utilities and telephone	59,118	116,041	874	80	176,113	58,832	686	235,631
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 Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash and cash equivalents, beginning of year	$ 2,537,165	$ 2,834,759
Cash flows from operating activities		
Change in net assets	670,334	2,401,861
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	808,758	796,058
Gain on disposal of property and equipment	(334,083)	(9,466)
Change in beneficial interest in assets	5,394	5,751
Noncash lease expense	28,956	-
Change in:		
Accounts receivable	(10,194)	(15,300)
Unconditional promises to give	232,108	(118,833)
Inventory	(169,101)	(294,106)
Other current assets	(48,899)	(78,792)
Deposits	-	(8,050)
Accounts payable and accrued expenses	256,541	161,742
Deferred rent	-	148,322
Deferred revenue, trade	52,570	4,567
Deferred revenue, government grant	-	(695,578)
Net cash provided (used) by operating activities	1,492,384	2,298,176
Cash flows from investing activities		
Purchase of investments	(1,516,089)	-
Purchase of property, plant, and equipment	(707,734)	(2,595,770)
Proceeds from the sale of property, plant, and equipment	970,000	-
Net cash provided (used) by investing activities	(1,253,823)	(2,595,770)
Net change in cash and cash equivalents	238,561	(297,594)
Cash and cash equivalents, end of year	**$ 2,775,726**	**$ 2,537,165**
Cash and cash equivalents consist of the following		
Cash and cash equivalents	$ 2,711,107	$ 1,461,714
Cash restricted for expansion	-	1,010,832
Cash restricted for endowment	64,619	64,619
	$ 2,775,726	**$ 2,537,165**

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, private and 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.

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, 2023 and 2022.

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.

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

Investments
Investments are stated at their readily determinable fair market value in accordance with the *Certain Investments Held by Not-for-Profit Organizations* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Fair Value Measurements
The Organization determines the fair market value of financial assets and liabilities that are required to be carried at such amounts in accordance with the *Fair Value Measurements and Disclosures* topic of the FASB ASC. Fair value is required to be evaluated and adjusted according to the following valuation techniques.

Level 1 – Fair value is determined using quoted market prices in active markets for identical assets and liabilities.

Level 2 – Fair value is determined using quoted market prices in active markets for similar assets and liabilities.

Level 3 – Fair value is determined using unobservable market prices in a market that is typically inactive.

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.

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.

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

Contributions of Nonfinancial Assets

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.

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, 2023 and 2022.

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 $328,549 and $512,242 during 2023 and 2022, respectively.

Shipping and Handling Costs

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

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.

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

Leases (New Accounting Standard Adopted in 2023)
In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statement of net assets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. The Organization adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Organization's historical accounting treatment under ASC Topic 840, *Leases*.

The Organization elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on July 1, 2022.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is the rate of a zero coupon US Treasury instrument aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

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

Leases (New Accounting Standard Adopted in 2023)
Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Organization's operating leases of approximately $2,641,000, at July 1, 2022. The adoption of the new lease standard resulted in a cumulative-effect adjustment to the opening balance of net assets of $159,918.

Reclassifications
Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 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 $69,685 and $35,184 as of June 30, 2023 and 2022, respectively. Deferred revenue was $154,476 and $101,906 as of June 30, 2023 and 2022, respectively.

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 at June 30, 2023 and 2022.

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.

Note 2. **Revenue Recognition**

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.

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.

	2023	2022
Body and Home	$ 2,926,828	$ 2,873,449
Global retail	675,956	525,970
Café sales	1,709,196	1,511,375
	$ 5,311,980	**$ 4,910,794**

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.

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:

	2023	2022
Financial assets		
Cash and cash equivalents	$ 2,711,107	$ 1,461,714
Investments	1,516,089	-
Accounts receivable	114,215	104,021
Unconditional promises to give, current	-	209,608
Total financial assets at year-end	4,341,411	1,775,343
Less amounts not available to be used within one year		
Purpose and time restrictions	-	(209,608)
Financial assets available to meet cash needs for general expenditures within one year	**$ 4,341,411**	**$ 1,565,735**

Note 4. **Investments**

Investments held by the Organization and carried at fair value, using quoted market prices (Level 1), are listed below:

	2023	2022
Certificate of deposit	$ 1,516,089	$ -

Investment income consists of the following and is reflected within the other revenue category on the statement of activities:

	2023	2022
Interest income	$ 16,089	$ -

Note 5. **Property, Plant, and Equipment**

Property, plant, and equipment consist of the following:

	2023	2022
Land and buildings	$ 7,752,118	$ 7,426,022
Leasehold improvements	1,288,583	1,276,033
Furniture, fixtures, and equipment	1,902,966	1,508,551
Vehicles	208,490	125,986
Capitalized software	156,875	123,627
Construction in progress	36,220	877,801
	11,345,252	11,338,020
Less: accumulated depreciation	(4,778,098)	(4,033,925)
	$ 6,567,154	**$ 7,304,095**

Note 6. **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, 2023 and 2022.

Note 7. **Net Assets with Donor Restrictions**

Net assets with donor restrictions consist of the following:

	2023	2022
Contributions received for Capital Campaign Expansion Phase II	$ -	$ 1,010,832
Grants	1,546,633	433,045
Endowment	145,315	145,315
Unconditional promises to give due in future periods, operating and programmatic	7,500	239,608
Earnings on endowment funds	16,923	14,580
	$ 1,716,371	**$ 1,843,380**

Note 8. **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, 2023 and 2022.

Note 8. **Endowment**

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, 2023 is as follows:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds including unappropriated earnings	$ -	$ 162,238	$ 162,238

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

Changes in endowment net asset for the year ended June 30, 2023 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ -	$ 159,895	$ 159,895
Investment return	-	2,343	2,343
Endowment net assets, end of year	**$ -**	**$ 162,238**	**$ 162,238**

Note 8. **Endowment**

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
Grant disbursement	-	(5,751)	(5,751)
Investment return	-	(13,194)	(13,194)
Endowment net assets, end of year	**$ -**	**$ 159,895**	**$ 159,895**

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 9. **Contributions of Nonfinancial Assets**

The Organization received contributions of nonfinancial assets as follows:

	2023	2022
Advertising support	$ 51,606	$ 80,825
Other	34,382	40,642
	$ 85,988	**$ 121,467**

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

Advertising support is provided to expand the reach of the Organization and its programs 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.

Note 10. **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 11. **Concentrations**

The Organization maintains its cash in bank accounts that at times may exceed standard federally insured limits. Management has instituted a sweep account to mitigate this risk by distributing the cash among multiple Federally Deposit Insured Banks.

The Organization also receives a significant amount of its support from contributions and grants. During the years ended June 30, 2023 and 2022, contributions from one donor represented approximately 51% and 17%, respectively, of contributions from individuals, corporations, and foundations. Similarly, pledges receivable from three donors represented approximately 93% of pledges receivable (unconditional promises to give) at June 30, 2022. Pledges receivable were not material at year end June 30, 2023.

Note 12. **Related Party Transactions**

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

Note 13. **Leases**

Lessee

The Organization leases real estate under operating lease agreements that have initial terms ranging from 4 to 10 years. Some leases include one or more options to renew, generally at the Organization's sole discretion, with renewal terms that can extend the lease term up to 10 years. These options to extend a lease are included in the lease terms when it is reasonably certain that the Organization will exercise that option. The Organization's operating leases generally do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term. The components of lease expense are as follows for the year ended June 30, 2023:

Operating lease cost	$	373,800
Sublease income, gross		(75,732)
Total lease cost	$	298,068

Supplemental cash flow information related to leases is as follows for the year ended June 30, 2023:

Cash paid for amounts included in measurement of lease liabilities:		
Operating cash outflows – payments on operating leases	$	324,619

Supplemental statement of financial position information related to operating leases is as follows as of June 30, 2023:

Operating lease right-of-use assets	$	2,298,135
Operating lease liabilities, current portion	$	350,791
Operating lease liabilities, net of current portion		1,976,300
Total operating lease liabilities	**$**	**2,327,091**

Note 13. **Leases**

Lessee

Weighted-average remaining lease term	7.45 years
Weighted-average discount rate	1.22%

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the operating lease liabilities recognized on the statement of financial position are as follows as of June 30, 2023:

Years ending June 30,	**Operating Leases**
2024	$ 350,791
2025	332,540
2026	338,929
2027	272,244
2028	273,431
Thereafter	870,503
Total lease payments	2,438,438
Less imputed interest	(111,347)
Total present value of lease liabilities	**$ 2,327,091**

Future minimum lease commitments, as determined under Topic 840, for all noncancelable leases at June 30, 2022 are as follows:

Years ending June 30,	
2023	$ 403,526
2024	336,740
2025	308,760
2026	306,304
2027	247,304
Thereafter	961,642
Total lease payments	**$ 2,564,276**

Total rental expense for the year ended June 30, 2022 was approximately $423,000.

Lessor

The Organization subleases warehouse space to a tenant under an operating lease with a rolling 12-month term. Minimum future rentals required under the operating lease agreements in effect at June 30, 2023 are as follows:

Year ending June 30,	
2024	$ 78,000

Note 14. **Retirement Plan**

The Organization provides 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 $120,915 and $100,731 to the plan during the years ended June 30, 2023 and 2022, respectively.

Note 15. **Deferred Grant Revenue**

During the year ended June 30, 2021, the Organization received its second draw on a loan under the Paycheck Protection Program (PPP) in the amount of $695,578, 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, 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. **Contingencies**

On June 30, 2023 a charge of discrimination was dual filed with the EEOC and the Tennessee Human Rights Commission against the Organization. Mediation for the matter is scheduled and the Organization plans to provide continued vigorous defense against this complaint should the charge not be resolved in mediation.

On November 7, 2023 a letter from an attorney representing a former employee was received alleging termination in retaliation of FMLA leave. The Organization is in the process of responding to the letter with the intent to deny the claims. The Organization plans to defend this matter vigorously.

Note 17. **Subsequent Events**

Management has evaluated subsequent events through December 19, 2023, the date on which the financial statements were available for issuance.