THISTLE FARMS, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2018 and 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

THISTLE FARMS, INC. AND SUBSIDIARIES

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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 statements of financial position as of June 30, 2018 and 2017, 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 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 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 Subsidiaries as of June 30, 2018 and 2017, 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.

Cherry Bekaert LLP

Nashville, Tennessee
December 5, 2018

THISTLE FARMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 579,672	$ 650,042
Unconditional promises to give, current	4,400	316,653
Accounts receivable, net	59,723	53,579
Inventories	411,273	264,491
Other current assets	51,464	7,538
Total Current Assets	1,106,532	1,292,303
Cash restricted for endowment	57,304	57,304
Beneficial interest in assets at Community Foundation of Middle Tennessee	98,326	96,589
Unconditional promises to give, net of current portion	-	500,000
Third mortgages receivable	20,000	20,000
Property and equipment, net	4,918,109	4,534,868
Total Assets	$ 6,200,271	$ 6,501,064
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	$ 229,205	$ 377,527
Total Current Liabilities	229,205	377,527
Unearned revenue on third mortgages	20,000	20,000
Total Liabilities	249,205	397,527
Net Assets:		
Unrestricted	5,604,125	5,093,358
Temporarily restricted	208,941	872,179
Permanently restricted	138,000	138,000
Total Net Assets	5,951,066	6,103,537
Total Liabilities and Net Assets	$ 6,200,271	$ 6,501,064

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

THISTLE FARMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support:				
Contributions	$ 1,801,673	$ 228,695	$ -	$ 2,030,368
Thistle Farms product sales	2,688,859	-	-	2,688,859
Thistle Stop Café sales	684,537	-	-	684,537
Grants	655,055	-	-	655,055
In-kind	159,553	-	-	159,553
Other	46,306	1,737	-	48,043
Men's rehabilitation program	10,960	-	-	10,960
Gain on disposal of fixed assets	649	-	-	649
Net assets released from restrictions	893,670	(893,670)	-	-
Total Revenue and Support	6,941,262	(663,238)	-	6,278,024
Expenses:				
Program Services:				
Thistle Farms	3,339,243	-	-	3,339,243
Women's sanctuary and rehabilitation	1,031,766	-	-	1,031,766
Thistle Stop Café	1,009,939	-	-	1,009,939
Total Program Services	5,380,948	-	-	5,380,948
Supporting Services:				
Management and general	817,809	-	-	817,809
Fundraising	231,738	-	-	231,738
Total Supporting Services	1,049,547	-	-	1,049,547
Total Expenses	6,430,495	-	-	6,430,495
Change in net assets	510,767	(663,238)	-	(152,471)
Net assets, beginning of year	5,093,358	872,179	138,000	6,103,537
Net assets, end of year	$ 5,604,125	$ 208,941	$ 138,000	$ 5,951,066

THISTLE FARMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support:				
Contributions	$ 2,816,220	$ 1,465,904	$ -	$ 4,282,124
Thistle Farms product sales	2,079,112	-	-	2,079,112
Thistle Stop Café sales	237,378	-	-	237,378
In-kind	190,566	-	-	190,566
Other	126,618	5,088	-	131,706
Grants	70,000	-	-	70,000
Men's rehabilitation program	33,450	-	-	33,450
Loss on disposal of fixed assets	(176,697)	-	-	(176,697)
Net assets released from restrictions	2,031,086	(2,031,086)	-	-
Total Revenue and Support	7,407,733	(560,094)	-	6,847,639
Expenses:				
Program Services:				
Thistle Farms	2,982,310	-	-	2,982,310
Women's sanctuary and rehabilitation	1,010,961	-	-	1,010,961
Thistle Stop Café	463,051	-	-	463,051
Total Program Services	4,456,322	-	-	4,456,322
Supporting Services:				
Management and general	612,103	-	-	612,103
Fundraising	200,433	-	-	200,433
Total Supporting Services	812,536	-	-	812,536
Total Expenses	5,268,858	-	-	5,268,858
Change in net assets	2,138,875	(560,094)	-	1,578,781
Net assets, beginning of year	2,954,483	1,432,273	138,000	4,524,756
Net assets, end of year	$ 5,093,358	$ 872,179	$ 138,000	$ 6,103,537

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

THISTLE FARMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	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	$ 920,581	$ 573,922	$ 140,872	$ 1,635,375	$ 357,845	$ 80,789	$ 438,634	$ 2,074,009
Cost of sales - materials	877,748	-	241,041	1,118,789	-	-	-	1,118,789
Cost of sales - labor	508,087	-	364,162	872,249	-	-	-	872,249
Depreciation	90,353	93,279	132,524	316,156	144,365	26,960	171,325	487,481
Advertising and promotion	225,704	3,770	5,269	234,743	3,755	7,074	10,829	245,572
Legal and professional	66,759	24,000	668	91,427	119,377	2,713	122,090	213,517
Other program expenses	175,140	21,850	483	197,473	-	-	-	197,473
Rent and occupancy	84,962	29,022	-	113,984	25,724	6,431	32,155	146,139
Travel, meals and entertainment	45,807	80,357	69	126,233	15,323	3,733	19,056	145,289
Contract labor	52,913	4,958	800	58,671	30,503	40,434	70,937	129,608
Utilities and telephone	1,684	45,324	34,132	81,140	28,736	14,368	43,104	124,244
Cost of sales - shipping	112,179	-	-	112,179	-	-	-	112,179
Interest and fees	57,492	1,443	20,693	79,628	8,338	10,646	18,984	98,612
Equipment and computer software	45,503	4,622	16,811	66,936	14,473	7,229	21,702	88,638
Insurance	10,238	10,238	10,238	30,714	32,482	10,238	42,720	73,434
Repairs and maintenance	14,045	32,172	8,024	54,241	3,912	4,141	8,053	62,294
Printing and supplies	17,769	3,417	1,117	22,303	13,175	10,559	23,734	46,037
Dues, licenses, and fees	13,904	1,584	5,372	20,860	13,024	-	13,024	33,884
Mental health	-	33,016	-	33,016	-	-	-	33,016
Event expenses	6,965	5,003	10,617	22,585	5,084	4,979	10,063	32,648
Stipends	-	22,684	-	22,684	-	-	-	22,684
Clothing and grooming	10	4,508	17,047	21,565	-	-	-	21,565
Medical	-	18,517	-	18,517	-	-	-	18,517
Food and household supplies	-	13,555	-	13,555	-	-	-	13,555
Bad debt expense	9,722	-	-	9,722	-	900	900	10,622
Miscellaneous	1,678	4,525	-	6,203	1,693	544	2,237	8,440
	$ 3,339,243	$ 1,031,766	$ 1,009,939	$ 5,380,948	$ 817,809	$ 231,738	$ 1,049,547	$ 6,430,495

THISTLE FARMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	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	$ 706,601	$ 584,311	$ 297,942	$ 1,588,854	$ 293,507	$ 121,270	$ 414,777	$ 2,003,631
Cost of sales - materials	760,772	-	88,396	849,168	-	-	-	849,168
Cost of sales - labor	490,448	-	-	490,448	-	-	-	490,448
Legal and professional	184,892	1,877	6,146	192,915	110,754	4,086	114,840	307,755
Advertising and promotion	160,097	498	1,729	162,324	3,946	16,449	20,395	182,719
Depreciation	39,647	74,262	24,397	138,306	8,446	6,997	15,443	153,749
Cost of sales - shipping	143,274	-	-	143,274	-	-	-	143,274
Travel, meals and entertainment	51,219	62,993	145	114,357	7,286	8,000	15,286	129,643
Contract labor	62,109	2,899	-	65,008	11,559	27,184	38,743	103,751
Utilities and telephone	42,721	42,131	9,067	93,919	3,336	2,383	5,719	99,638
Repairs and maintenance	16,224	66,794	11,931	94,949	2,792	-	2,792	97,741
Rent and occupancy	72,990	7,644	-	80,634	16,290	-	16,290	96,924
Equipment and computer software	62,992	5,629	846	69,467	14,985	10,650	25,635	95,102
Insurance	14,155	4,273	5,662	24,090	41,413	-	41,413	65,503
Interest and fees	48,644	150	8,308	57,102	3,845	-	3,845	60,947
Event expenses	20,522	29,180	-	49,702	1,188	-	1,188	50,890
Bad debt expense	9,149	-	-	9,149	38,675	-	38,675	47,824
Miscellaneous	1,540	16,388	308	18,236	29,266	-	29,266	47,502
Cost of sales - printing	44,687	-	2,405	47,092	-	-	-	47,092
Other program expenses	36,762	6,091	331	43,184	-	-	-	43,184
Printing and supplies	6,030	3,082	535	9,647	16,326	3,164	19,490	29,137
Medical	-	28,068	-	28,068	-	-	-	28,068
Clothing and grooming	-	24,239	966	25,205	-	-	-	25,205
Dues, licenses, and fees	6,835	990	3,937	11,762	8,489	250	8,739	20,501
Mental health	-	18,141	-	18,141	-	-	-	18,141
Stipends	-	17,825	-	17,825	-	-	-	17,825
Food and household supplies	-	13,496	-	13,496	-	-	-	13,496
	$ 2,982,310	$ 1,010,961	$ 463,051	$ 4,456,322	$ 612,103	$ 200,433	$ 812,536	$ 5,268,858

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

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

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (152,471)	$ 1,578,781
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Inventories	-	(1,465,904)
Noncash contribution of property and equipment	-	(16,000)
Depreciation	487,481	153,749
Change in beneficial interest in assets	(1,737)	(5,088)
(Gain) loss on disposal of fixed assets	(649)	176,697
Provision for bad debts	10,622	47,824
Change in operating assets and liabilities:		
Accounts receivable	(16,766)	(23,133)
Unconditional promises to give	775,920	(753,192)
Inventories	(146,782)	(45,218)
Other current assets	(43,926)	(6,791)
Accounts payable and accrued expenses	(148,322)	241,377
Net cash provided by (used in) operating activities	763,370	(116,898)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	3,100	-
Purchases of property and equipment	(873,173)	(2,339,658)
Net cash used in investing activities	(870,073)	(2,339,658)
Cash flows from financing activities:		
Proceeds from contributions restricted for capital improvements	36,333	1,764,405
Principal payments on note payable	-	(500,000)
Net cash provided by financing activities	36,333	1,264,405
Net decrease in cash and cash equivalents	(70,370)	(1,192,151)
Cash and cash equivalents, beginning of year	650,042	1,842,193
Cash and cash equivalents, end of year	$ 579,672	$ 650,042
Supplemental schedule of cash flow information:		
Interest paid	$ 6,910	$ 20,501
Noncash contribution of property and equipment	$ -	$ 16,000

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, 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.
>
> *The Café at Thistle Farms* – 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. During 2018, the Organization established a wholly-owned subsidiary, Love Welcomes, LLC, to facilitate the welcome mat project.

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 years ended June 30, 2018 and 2017, and Love Welcomes, LLC had no activity in the year of incorporation.

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:

> *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.

Note 1—Summary of significant accounting policies (continued)

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. The Organization uses the allowance method to determine uncollectible accounts receivable. At June 30, 2018 and 2017, the allowance for doubtful accounts amounted to $16,430 and $27,212, respectively.

Inventories – Inventories 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. 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.

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.

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.

Note 1—Summary of significant accounting policies (continued)

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 $245,572 and $182,719 during the years ended June 30, 2018 and 2017, respectively.

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 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 December 5, 2018, 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.

Future Pronouncements – In May 2014, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the statements of activities. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU will be effective for the Organization on July 1, 2018. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

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 July 1, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

Note 2—Unconditional promises to give

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

	2018	2017
Unconditional promises to give	$ 4,400	$ 855,328
Less allowance for uncollectible contributions	-	(38,675)
Net unconditional promises to give	4,400	816,653
Less amounts receivable in less than one year, net	(4,400)	(316,653)
Receivable in one to five years, net	$ -	$ 500,000

Note 3—Property and equipment

Property and equipment consist of the following at June 30:

	2018	2017
Land and buildings	$ 4,689,259	$ 2,880,577
Leasehold improvements	795,896	578,488
Furniture, fixtures and equipment	740,049	444,260
Vehicle	77,920	45,410
Capitalized software	22,500	-
Construction in progress	-	1,532,804
	6,325,624	5,481,539
Less accumulated depreciation	(1,407,515)	(946,671)
	$ 4,918,109	$ 4,534,868

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 and matures August 5, 2019, when all principal and accrued interest is due. 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, 2018.

Note 5—Net assets

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

	2018	2017
Welcome project	$ 152,828	$ 22,133
Grants	34,083	17,500
Earnings on endowment funds	17,630	15,893
Unconditional promises to give due in future periods	4,400	780,320
Donations for capital improvements	-	36,333
	$ 208,941	$ 872,179

Note 6—Donated materials and services

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

	2018	2017
Legal and professional	$ 156,553	$ 147,266
Other	3,000	27,300
Equipment	-	16,000
	$ 159,553	$ 190,566

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, 2018 and 2017, totaled approximately $385,000 and $-0-, respectively.

For the year ended June 30, 2017, approximately 23% of contributions were received from one donor and approximately 92% of unconditional promises to give was due from this donor. No such concentrations existed as of or for the year ended June 30, 2018.

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 at June 30, 2018 and 2017.

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, 2018, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 17,630	$ 138,000	$ 155,630

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 15,893	$ 138,000	$ 153,893
Investment return	-	1,737	-	1,737
Endowment net assets, end of year	$ -	$ 17,630	$ 138,000	$ 155,630

Note 9—Endowment (continued)

Endowment net asset composition by type of fund at June 30, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 15,893	$ 138,000	$ 153,893

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 10,805	$ 138,000	$ 148,805
Investment return	-	5,088	-	5,088
Endowment net assets, end of year	$ -	$ 15,893	$ 138,000	$ 153,893

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, 2018, the Organization's endowment was comprised of approximately 37% cash and cash equivalents, 35% equity funds, 18% fixed income funds, and 10% in alternative investments.

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—Lease commitments

The Organization leases certain warehouse space under noncancellable operating leases. Future minimum lease payments under noncancellable leases at June 30, 2018 are as follows:

<u>Years Ending June 30,</u>	
2019	$ 98,700
2020	99,880
2021	101,320
2022	98,138
2023	76,386
Thereafter	252,000
	$ 726,424

Total rental expense for the years ended June 30, 2018 and 2017, was $122,710 and $91,297, respectively.