

**THISTLE FARMS, INC. AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

*As of and for the Years Ended June 30, 2017 and 2016*

*And Report of Independent Auditor*

**THISTLE FARMS, INC. AND SUBSIDIARY**  
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## Report of Independent Auditor

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

We have audited the accompanying consolidated financial statements of Thistle Farms, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2017, 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 Subsidiary as of June 30, 2017, 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.

**Prior Period Consolidated Financial Statements**

The consolidated financial statements as of and for the year ended June 30, 2016, were audited by other auditors whose report dated January 23, 2017 expressed an unmodified opinion on those statements.

*Cherry Bekant LLP*

Nashville, Tennessee  
December 28, 2017

**THISTLE FARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 650,042	\$ 1,842,193
Unconditional promises to give, current	316,653	350,796
Accounts receivable, net	53,579	39,595
Inventory	264,491	219,273
Other current assets	7,538	747
Total current assets	1,292,303	2,452,604
Cash restricted for endowment	57,304	57,304
Beneficial interest in assets at Community Foundation of Middle Tennessee	96,589	91,501
Unconditional promises to give, net of current portion	500,000	49,841
Third mortgages receivable	20,000	20,000
Property and equipment, net	4,534,868	2,509,656
Total assets	\$ 6,501,064	\$ 5,180,906
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 377,527	\$ 136,150
Note payable	-	500,000
Total current liabilities	377,527	636,150
Unearned revenue on third mortgages	20,000	20,000
Total liabilities	397,527	656,150
Net assets:		
Unrestricted	5,093,358	2,954,483
Temporarily restricted	872,179	1,432,273
Permanently restricted	138,000	138,000
Total net assets	6,103,537	4,524,756
Total liabilities and net assets	\$ 6,501,064	\$ 5,180,906

See accompanying notes to consolidated financial statements.

**THISTLE FARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and support:				
Contributions (net of special event costs of \$42,796)	\$ 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)	-	-
<b>Total revenue and support</b>	<b>7,407,733</b>	<b>(560,094)</b>	<b>-</b>	<b>6,847,639</b>
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
<b>Total program services</b>	<b>4,456,322</b>	<b>-</b>	<b>-</b>	<b>4,456,322</b>
Supporting services:				
Management and general	612,103	-	-	612,103
Fundraising	200,433	-	-	200,433
<b>Total supporting services</b>	<b>812,536</b>	<b>-</b>	<b>-</b>	<b>812,536</b>
<b>Total expenses</b>	<b>5,268,858</b>	<b>-</b>	<b>-</b>	<b>5,268,858</b>
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	<u>\$ 5,093,358</u>	<u>\$ 872,179</u>	<u>\$ 138,000</u>	<u>\$ 6,103,537</u>

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

**THISTLE FARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2017**

	Program Services			Supporting Services			Total Expenses	
	Thistle Farms	Women's Sanctuary and Rehabilitation	Thistle Stop Café	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries, taxes and benefits	\$ 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
	<u>\$ 2,982,310</u>	<u>\$ 1,010,961</u>	<u>\$ 463,051</u>	<u>\$ 4,456,322</u>	<u>\$ 612,103</u>	<u>\$ 200,433</u>	<u>\$ 812,536</u>	<u>\$ 5,268,858</u>

See accompanying notes to consolidated financial statements.



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

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

See accompanying notes to consolidated financial statements.

**THISTLE FARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Change in net assets	\$ 1,578,781	\$ 1,314,674
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Contributions restricted for long-term purposes	(1,465,904)	(1,486,000)
Noncash contribution of property and equipment	(16,000)	-
Depreciation	153,749	126,936
Change in beneficial interest in assets	(5,088)	2,084
Loss on disposal of fixed assets	176,697	-
Provision for bad debts	47,824	23,330
Change in operating assets and liabilities:		
Accounts receivable	(23,133)	14,592
Unconditional promises to give	(753,192)	203,561
Inventory	(45,218)	(60,575)
Other current assets	(6,791)	800
Accounts payable and accrued expenses	241,377	(23,315)
Nurse practitioner payable	-	(32,084)
	<b>(116,898)</b>	<b>84,003</b>
Cash flows from investing activities:		
Transfer to endowment	-	(38,000)
Purchases of property and equipment	(2,339,658)	(146,089)
	<b>(2,339,658)</b>	<b>(184,089)</b>
Cash flows from financing activities:		
Proceeds from contributions restricted for capital improvements	1,764,405	1,076,833
Proceeds from contributions restricted for the endowment	-	38,000
Principal payments on note payable	(500,000)	(14,290)
	<b>1,264,405</b>	<b>1,100,543</b>
Net (decrease) increase in cash and cash equivalents	(1,192,151)	1,000,457
Cash and cash equivalents, beginning of year	1,842,193	841,736
Cash and cash equivalents, end of year	\$ 650,042	\$ 1,842,193
Supplemental schedule of cash flow information:		
Interest paid	\$ 20,501	\$ 14,871
Noncash contribution of property and equipment	\$ 16,000	\$ -

See accompanying notes to consolidated financial statements.

**THISTLE FARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

Thistle Farms, Inc. and Subsidiary (the “Organization”) is a nonprofit corporation, organized in the state of Tennessee in 1993. Its mission is to 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, Thistle Stop Café sales, fees for rehabilitation services provided for the men who are arrested for first offense soliciting in conjunction with the local court system, and fundraising events.

The following program services are provided by the Organization:

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

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

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

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

**Principles of Consolidation**

The consolidated financial statements include the accounts and activities of Thistle Farms, Inc. and Magdalene Homes, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Magdalene Homes, LLC was dormant during the years ended June 30, 2017 and 2016.

**THISTLE FARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017 and 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation**

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

*Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

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

**Cash and Cash Equivalents**

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

**Unconditional Promises to Give**

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

**Accounts Receivable**

Accounts receivable represent amounts due for sales of products to retailers. The Organization uses the allowance method to determine uncollectible accounts receivable. At June 30, 2017 and 2016, the allowance for doubtful accounts amounted to \$27,212 and \$0, respectively.

**THISTLE FARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017 and 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Inventory**

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

**Property and Equipment**

Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets, which range from three to thirty-nine years. Expenditures for repairs and maintenance are charged to expense as incurred. 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. The Organization had no uncertain tax positions at June 30, 2017 or 2016.

**Functional Allocation of Expenses**

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

**THISTLE FARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017 and 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Advertising Costs**

The cost of advertising expenditures is expensed when incurred. Advertising expense amounted to \$182,719 and \$115,608 during the years ended June 30, 2017 and 2016, 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**

Accounting principles generally accepted in the United States of America state that a nonprofit organization should classify the portion of a donor-restricted endowment fund that is not permanently restricted by the donor or by law as temporarily restricted net assets (time restricted) until it is appropriated for expenditure and donor-imposed purpose restrictions, if any, are met. When the purpose restrictions, if any, on the portion of donor-restricted endowment funds are met and the appropriation has occurred, temporarily restricted net assets are reclassified to unrestricted net assets. The guidance also requires additional disclosures applicable to all nonprofit organizations. Those disclosures provide: a) a description of the organization's policies for making appropriations for expenditures from endowment funds (i.e. the organization's endowment spending policies), b) a description of the organization's investment policies for endowment funds, c) a description of the organization's endowment by net asset class at the end of the period in total and by type of endowment fund, d) a reconciliation of the beginning and ending balances of endowment funds in total and by net asset class, and e) a description of the organization's interpretation of the laws underlying the net asset classification of donor-restricted endowment funds.

**Subsequent Events**

The Organization evaluated subsequent events through December 28, 2017 when these consolidated financial statements were available to be issued. Except for the matter discussed in Note 5, 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.

**THISTLE FARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017 and 2016**

**NOTE 2 – UNCONDITIONAL PROMISES TO GIVE**

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

	<u>2017</u>	<u>2016</u>
Unconditional promises to give	\$ 855,328	\$ 468,512
Less: allowance for uncollectible contributions	<u>(38,675)</u>	<u>(67,875)</u>
Net unconditional promises to give	816,653	400,637
Less: amounts receivable in less than one year, net	<u>(316,653)</u>	<u>(350,796)</u>
Receivable in one to five years, net	<u>\$ 500,000</u>	<u>\$ 49,841</u>

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Land and buildings	\$ 2,880,577	\$ 3,108,853
Furniture, fixtures and equipment	444,260	225,988
Vehicle	45,410	45,410
Leasehold improvements	578,488	-
Construction in progress	<u>1,532,804</u>	<u>-</u>
	5,481,539	3,380,251
Less: accumulated depreciation	<u>(946,671)</u>	<u>(870,595)</u>
	<u>\$ 4,534,868</u>	<u>\$ 2,509,656</u>

**NOTE 4 – NOTE PAYABLE**

	<u>2017</u>	<u>2016</u>
Note payable to bank, secured by a first deed of trust on certain property with a net book value of \$505,745 at June 30, 2016, bearing interest at prime (3.50% at June 30, 2016), principal and interest was repaid in August 2016.	<u>\$ -</u>	<u>\$ 500,000</u>

**NOTE 5 – LINE OF CREDIT**

Subsequent to June 30, 2017, the Organization obtained 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. Monthly interest payments are required beginning September 5, 2017.

**THISTLE FARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017 and 2016**

**NOTE 6 – NET ASSETS**

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

	<u>2017</u>	<u>2016</u>
Unconditional promises to give due in future periods	\$ 780,320	\$ 29,470
Other	39,633	-
Donations for capital improvements	36,333	1,391,998
Earnings on endowment funds	<u>15,893</u>	<u>10,805</u>
	<u>\$ 872,179</u>	<u>\$ 1,432,273</u>

**NOTE 7 – DONATED MATERIALS AND SERVICES**

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

	<u>2017</u>	<u>2016</u>
Legal and professional	\$ 147,266	\$ 106,800
Other	27,300	6,400
Equipment	<u>16,000</u>	<u>-</u>
	<u>\$ 190,566</u>	<u>\$ 113,200</u>

**NOTE 8 – 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 9 – CONCENTRATIONS**

The Organization maintains its cash in bank accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”). Management believes the Organization is not exposed to any significant credit risk on cash. Uninsured balances at June 30, 2017 and 2016 totaled \$0 and \$914,413, respectively.



**THISTLE FARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017 and 2016**

**NOTE 9 – CONCENTRATIONS (Continued)**

For the year ended June 30, 2017, approximately 23% of contributions were received from one donor. At June 30, 2017, approximately 92% of unconditional promises to give was due from this donor. At June 30, 2016, approximately 92% of unconditional promises to give was due from four donors.

**NOTE 10 – 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, 2017 and 2016.

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, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 15,893	\$ 138,000	\$ 153,893

**THISTLE FARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017 and 2016**

**NOTE 10 – ENDOWMENT (Continued)**

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

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

Endowment net asset composition by type of fund at June 30, 2016 is as follows:

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

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

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

The Organization has contributed approximately \$81,000 of its endowment assets to be held at the Community Foundation of Middle Tennessee. The remainder of the endowment assets is comprised of cash held by the Organization. The Organization does not have a formal investment and spending policy for its endowment assets. At June 30, 2017, the Organization's endowment was comprised of approximately 37% cash and cash equivalents, 33% equity funds, 20% fixed income funds, and 10% in alternative investments.

**THISTLE FARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**June 30, 2017 and 2016**

**NOTE 11 – NURSE PRACTITIONER COLLABORATIVE**

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

**NOTE 12 – RELATED PARTY TRANSACTIONS**

At June 30, 2016, the Organization owed a note payable totaling \$500,000 to a financial institution associated with a member of the Organization’s board of directors. The Organization receives voluntary contributions, gift-in-kind donations, and volunteer labor from various board members and their companies throughout the year.

**NOTE 13 – LEASE COMMITMENTS**

The Organization leases certain warehouse space under noncancelable operating leases. Future minimum lease payments under noncancelable leases at June 30, 2017 are as follows:

<b>Year Ending</b>	
<b><u>June 30</u></b>	
2018	\$ 91,050
2019	70,800
2020	71,980
2021	73,419
2022	74,888
Thereafter	<u>328,387</u>
	<u>\$ 710,524</u>

Total rental expense for the years ended June 30, 2017 and 2016 was \$91,297 and \$6,056, respectively.