

THISTLE FARMS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2021 and 2020

And Report of Independent Auditor

THISTLE FARMS, INC. AND SUBSIDIARIES

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Report of Independent Auditor

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

We have audited the accompanying consolidated financial statements of Thistle Farms, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020 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, 2021 and 2020, 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
October 29, 2021

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

JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,770,140	\$ 3,017,443
Unconditional promises to give, current	120,775	216,625
Accounts receivable, net	88,721	37,636
Inventories	706,741	551,920
Other current assets	162,131	112,107
Total Current Assets	3,848,508	3,935,731
Cash restricted for endowment	64,619	57,879
Beneficial interest in assets at Community Foundation of Middle Tennessee	114,221	96,765
Third mortgages receivable	20,000	20,000
Property and equipment, net	5,494,917	4,266,370
Total Assets	\$ 9,542,265	\$ 8,376,745
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 466,569	\$ 394,152
Deferred trade revenue	97,339	39,373
Deferred government grant revenue	695,578	695,500
Total Current Liabilities	1,259,486	1,129,025
Unearned revenue on third mortgages	20,000	20,000
Total Liabilities	1,279,486	1,149,025
Net Assets:		
Without donor restrictions	6,533,214	5,692,825
With donor restrictions	1,729,565	1,534,895
Total Net Assets	8,262,779	7,227,720
Total Liabilities and Net Assets	\$ 9,542,265	\$ 8,376,745

THISTLE FARMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support:			
Contributions	\$ 2,536,492	\$ 578,925	\$ 3,115,417
Product sales	3,143,039	-	3,143,039
Café sales	852,075	-	852,075
Government grants	778,160	-	778,160
Grants	458,250	-	458,250
In-kind	87,743	-	87,743
Other	71,214	-	71,214
Net assets released from restrictions	161,402	(161,402)	-
Total Operating Revenue and Support	<u>8,088,375</u>	<u>417,523</u>	<u>8,505,898</u>
Operating Expenses:			
Salaries, taxes, and benefits	3,356,126	-	3,356,126
Cost of sales	2,381,013	-	2,381,013
Other operating expenses	1,913,574	-	1,913,574
Total Operating Expenses before Depreciation	<u>7,650,713</u>	<u>-</u>	<u>7,650,713</u>
Change in net assets from operations before depreciation expense	437,662	417,523	855,185
Depreciation and amortization expense	672,313	-	672,313
Change in Net Assets from Operations	<u>(234,651)</u>	<u>417,523</u>	<u>182,872</u>
Nonoperating Revenue and Support:			
Contributions - capital	-	141,947	141,947
Contributions - endowment	-	6,740	6,740
Contributions - property and equipment	703,500	-	703,500
Net assets released from capital restrictions	371,540	(371,540)	-
Total Nonoperating Revenue and Support	<u>1,075,040</u>	<u>(222,853)</u>	<u>852,187</u>
Change in net assets	840,389	194,670	1,035,059
Net assets, beginning of year	5,692,825	1,534,895	7,227,720
Net assets, end of year	<u>\$ 6,533,214</u>	<u>\$ 1,729,565</u>	<u>\$ 8,262,779</u>

THISTLE FARMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support:			
Contributions	\$ 2,837,107	\$ 147,200	\$ 2,984,307
Product sales	2,991,618	-	2,991,618
Café sales	860,001	-	860,001
Grants	738,500	-	738,500
In-kind	64,209	-	64,209
Other	38,767	3,160	41,927
Net assets released from restrictions	53,981	(53,981)	-
Total Operating Revenue and Support	<u>7,584,183</u>	<u>96,379</u>	<u>7,680,562</u>
Operating Expenses:			
Salaries, taxes, and benefits	3,124,211	-	3,124,211
Cost of sales	2,235,895	-	2,235,895
Other operating expenses	1,653,126	-	1,653,126
Total Operating Expenses before Depreciation	<u>7,013,232</u>	<u>-</u>	<u>7,013,232</u>
Change in net assets from operations before depreciation expense	570,951	96,379	667,330
Depreciation and amortization expense	601,724	-	601,724
Change in Net Assets from Operations	<u>(30,773)</u>	<u>96,379</u>	<u>65,606</u>
Nonoperating Revenue and Support:			
Contributions - capital	100,003	1,290,000	1,390,003
In-kind - capital	7,500	-	7,500
Net assets released from capital restrictions	50,000	(50,000)	-
Total Nonoperating Revenue and Support	<u>157,503</u>	<u>1,240,000</u>	<u>1,397,503</u>
Change in net assets	126,730	1,336,379	1,463,109
Net assets, beginning of year	5,566,095	198,516	5,764,611
Net assets, end of year	<u>\$ 5,692,825</u>	<u>\$ 1,534,895</u>	<u>\$ 7,227,720</u>

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

YEAR ENDED JUNE 30, 2021

	Program Services				Total Program Services	Supporting Services			Total Expenses
	Social Enterprise	Residential Services	National Network	Global Program		Management and General	Fundraising	Total Supporting Services	
Salaries, taxes, and benefits	\$ 1,405,826	\$ 476,630	\$ 279,412	\$ 77,495	\$ 2,239,363	823,818	\$ 292,945	\$ 1,116,763	\$ 3,356,126
Cost of sales - materials	1,176,293	-	-	-	1,176,293	-	-	-	1,176,293
Cost of sales - labor	925,800	-	-	-	925,800	-	-	-	925,800
Other program expenses	8,690	170,893	1,638	46,155	227,376	2,273	9	2,282	229,658
Legal and professional	82,830	24,044	42,936	9,711	159,521	52,639	7,328	59,967	219,488
Equipment and computer software	99,083	11,291	2,206	-	112,580	74,096	28,531	102,627	215,207
Rent and occupancy	92,941	35,001	13	-	127,955	32,631	15	32,646	160,601
Utilities and telephone	33,341	62,632	75	-	96,048	55,810	-	55,810	151,858
Cost of sales - fees	145,786	-	-	-	145,786	-	-	-	145,786
Repairs and maintenance	45,296	70,009	870	-	116,175	18,420	2,661	21,081	137,256
Contract labor	67,969	15,038	16,127	2,043	101,177	20,691	12,841	33,532	134,709
Cost of sales - shipping	133,134	-	-	-	133,134	-	-	-	133,134
Advertising and promotion	79,167	1,585	6,862	306	87,920	7,522	14,377	21,899	109,819
Mental health	-	93,096	-	-	93,096	-	-	-	93,096
In-kind expenses	4,808	60	361	-	5,229	361	82,153	82,514	87,743
Printing and supplies	25,845	3,038	2,720	576	32,179	9,989	29,188	39,177	71,356
Insurance	-	1,797	-	-	1,797	67,185	-	67,185	68,982
Travel, meals and entertainment	13,806	27,186	8,829	472	50,293	10,737	1,196	11,933	62,226
Medical	-	41,305	-	-	41,305	429	-	429	41,734
Miscellaneous	6,533	2,449	9,327	3,000	21,309	4,341	11,559	15,900	37,209
Dues, licenses, and fees	12,322	8,574	4,597	-	25,493	7,733	2,003	9,736	35,229
Interest and fees	470	-	-	-	470	5,283	17,255	22,538	23,008
Stipends	-	22,121	-	-	22,121	-	-	-	22,121
Research and development	12,228	-	46	-	12,274	-	-	-	12,274
Total Expenses before Depreciation	4,372,168	1,066,749	376,019	139,758	5,954,694	1,193,958	502,061	1,696,019	7,650,713
Depreciation and amortization	295,276	142,484	-	-	437,760	204,082	30,471	234,553	672,313
Total Expenses	\$ 4,667,444	\$ 1,209,233	\$ 376,019	\$ 139,758	\$ 6,392,454	\$ 1,398,040	\$ 532,532	\$ 1,930,572	\$ 8,323,026

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, 2020

	Program Services				Total Program Services	Supporting Services			Total Expenses
	Social Enterprise	Residential Services	National Network	Global Program		Management and General	Fundraising	Total Supporting Services	
Salaries, taxes, and benefits	\$ 1,513,905	\$ 535,883	\$ 238,577	\$ 66,383	\$ 2,354,748	\$ 576,243	\$ 193,220	\$ 769,463	\$ 3,124,211
Cost of sales - materials	1,197,348	-	-	-	1,197,348	-	-	-	1,197,348
Cost of sales - labor	756,607	-	-	-	756,607	-	-	-	756,607
Program - other expenses	123,930	63,692	13,165	59,063	259,850	3,398	181	3,579	263,429
Professional and contract services	82,779	40,289	29,918	6,000	158,986	73,347	18,919	92,266	251,252
Advertising and marketing	116,140	4,189	27,692	1,245	149,266	9,189	19,961	29,150	178,416
General and administrative expenses	73,265	6,434	3,605	62	83,366	58,846	24,150	82,996	166,362
Cost of sales - fees and services	159,787	-	-	-	159,787	-	-	-	159,787
Cost of sales - shipping and freight	116,814	-	-	-	116,814	-	-	-	116,814
Repairs and maintenance	17,024	32,321	-	-	49,345	52,968	-	52,968	102,313
Travel, meals, and entertainment	17,760	15,863	18,545	19,284	71,452	13,375	4,744	18,119	89,571
Utilities	35,288	31,640	-	-	66,928	19,765	-	19,765	86,693
Program - mental health expenses	-	74,025	-	-	74,025	-	-	-	74,025
In-kind expenses	-	-	-	-	-	-	71,709	71,709	71,709
Insurance	-	-	-	-	-	62,500	-	62,500	62,500
Phone and internet	8,649	23,455	-	-	32,104	24,169	-	24,169	56,273
Program - medical expenses	46	40,344	-	-	40,390	104	23	127	40,517
Printing and copying	5,625	53	315	-	5,993	315	32,281	32,596	38,589
Miscellaneous	8,186	11,610	974	225	20,995	4,947	822	5,769	26,764
Dues, licenses, and fees	15,035	317	2,018	-	17,370	5,684	1,356	7,040	24,410
Professional development	4,849	11,049	2,306	-	18,204	2,400	900	3,300	21,504
Credit card and bank fees	1,889	-	-	-	1,889	1,678	14,901	16,579	18,468
Research and development	15,875	5	158	112	16,150	31	36	67	16,217
Program - graduate investment matching	-	14,727	-	-	14,727	-	-	-	14,727
Program - food and household supplies	-	13,837	-	-	13,837	-	-	-	13,837
Program - resident stipends	-	12,224	-	-	12,224	-	-	-	12,224
Taxes	6,493	-	-	-	6,493	1,709	-	1,709	8,202
Event fees	5,329	557	335	-	6,221	195	723	918	7,139
Bad debt expense	6,085	-	-	-	6,085	-	247	247	6,332
Cost of sales - printing	5,339	-	-	-	5,339	-	-	-	5,339
Interest	-	-	-	-	-	1,653	-	1,653	1,653
Total Expenses before Depreciation	4,294,047	932,514	337,608	152,374	5,716,543	912,516	384,173	1,296,689	7,013,232
Depreciation and amortization	283,025	106,184	-	-	389,209	181,592	30,923	212,515	601,724
Total Expenses	\$ 4,577,072	\$ 1,038,698	\$ 337,608	\$ 152,374	\$ 6,105,752	\$ 1,094,108	\$ 415,096	\$ 1,509,204	\$ 7,614,956

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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,035,059	\$ 1,463,109
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Noncash contribution of property and equipment	(703,500)	-
Contributions restricted for long-term purposes	(141,947)	(1,390,003)
Depreciation	672,313	601,724
Change in beneficial interest in assets	(17,456)	1,840
Provision for bad debts	-	6,332
Change in operating assets and liabilities:		
Accounts receivable	(51,085)	(1,840)
Unconditional promises to give	237,797	(49,768)
Inventories	(154,821)	55,732
Other current assets	(50,024)	(310)
Accounts payable and accrued expenses	72,417	192,165
Deferred trade revenue	57,966	-
Deferred government grant revenue	78	692,464
Net cash flows from operating activities	<u>956,797</u>	<u>1,571,445</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(1,197,360)</u>	<u>(269,331)</u>
Net cash flows from investing activities	<u>(1,197,360)</u>	<u>(269,331)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes	<u>-</u>	<u>1,240,003</u>
Net cash flows from financing activities	<u>-</u>	<u>1,240,003</u>
Change in cash and cash equivalents	(240,563)	2,542,117
Cash and cash equivalents, beginning of year	3,075,322	533,205
Cash and cash equivalents, end of year	<u>\$ 2,834,759</u>	<u>\$ 3,075,322</u>
Cash and cash equivalents consist of the following:		
Cash and cash equivalents	\$ 2,770,140	\$ 3,017,443
Cash restricted for endowment	64,619	57,879
	<u>\$ 2,834,759</u>	<u>\$ 3,075,322</u>
Supplemental disclosure of cash flow information:		
Noncash donation of property and equipment	<u>\$ 703,500</u>	<u>\$ -</u>

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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, 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 100 organizations throughout the country have programs based on Thistle Farms’ model of recovery; 64 of these organizations have residential programs to house women survivors, while the other half are in the early stages of development.

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Nature of organization and summary of significant accounting policies (continued)

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, 2021 and 2020.

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

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

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

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

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

Other Receivables – Other receivables represent amounts due from government grants and other miscellaneous balances owed to the Organization.

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

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Nature of organization and summary of significant accounting policies (continued)

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.

In-Kind Contributions – The Organization records various types of in-kind support. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are typically offset by like amounts included in expenses, except for contributions of property and equipment.

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.

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

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

Advertising Costs – The cost of advertising is expensed when incurred. Advertising and promotion expense amounted to \$146,104 and \$96,689 during the years ended June 30, 2021 and 2020, respectively.

Shipping and Handling Costs – Shipping billed to customers is considered an offset to the related cost of sales of shipping.

Endowment Funds – U.S. GAAP states that a nonprofit organization should classify the portion of a donor-restricted endowment fund that is not restricted in perpetuity by the donor or by law as net assets with donor restrictions (time restricted) until it is appropriated for expenditure and donor-imposed purpose restrictions, if any, are met. When the purpose restrictions, if any, on the portion of donor-restricted endowment funds are met and the appropriation has occurred, net assets with donor restrictions are reclassified to net assets without donor restrictions. The guidance also requires additional disclosures applicable to all nonprofit organizations.

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Nature of organization and summary of significant accounting policies (continued)

Those disclosures provide: a) a description of an organization's policies for making appropriations for expenditures from endowment funds (i.e., the organization's endowment spending policies), b) a description of an organization's investment policies for endowment funds, c) a description of an organization's endowment by net asset class at the end of the period in total and by type of endowment fund, d) a reconciliation of the beginning and ending balances of endowment funds in total and by net asset class, and e) a description of an organization's interpretation of the laws underlying the net asset classification of donor-restricted endowment funds.

New Accounting Pronouncements – In May 2014, the 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 U.S. 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. During the year ended June 30, 2021, the Organization adopted ASU 2014-09 using the modified retrospective approach and determined there was no cumulative effect adjustment. (See Note 2.)

Future Pronouncements – In February 2016, FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the fiscal year ending June 30, 2023. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

Note 2—Revenue recognition

Effective July 1, 2020, the Organization adopted Topic 606, which requires an entity to recognize revenue when it transfers the promised goods or services to a customer in an amount that reflects consideration to which the entity expects to be entitled to in exchange for those goods and services. As disclosed in Note 1, the Organization adopted Topic 606 using the modified retrospective method, which recognizes the cumulative effect of initial adoption as of the effective date to net assets. There was no impact to net assets as of July 1, 2020 as a result of the adoption of Topic 606.

The Organization recognizes revenue for services in accordance with the following five steps outlined in 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 \$28,043 and \$36,561 as of June 30, 2021 and 2020, respectively. Deferred revenue was \$97,339 and \$39,373 as of June 30, 2021 and 2020, respectively.

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Note 2—Revenue recognition (continued)

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 \$7,702 and \$11,310, respectively, at June 30, 2021 and 2020.

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.

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.

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

JUNE 30, 2021 AND 2020

Note 2—Revenue recognition (continued)

Disaggregation of Revenue – The table below depicts the disaggregation of revenue by product type for the years ended June 30, 2021 and 2020, and is consistent with how the Organization evaluates financial performance.

	<u>2021</u>	<u>2020</u>
Product sales:		
Body & Home	\$ 2,634,084	\$ 2,522,658
Global retail	508,955	468,960
Café sales	<u>852,075</u>	<u>860,001</u>
	<u>\$ 3,995,114</u>	<u>\$ 3,851,619</u>

Note 3—Liquidity

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of providing programs and services to help heal and employ women survivors as well as conduct of services undertaken to support those activities to be general expenditures. 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 at June 30:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 2,770,140	\$ 3,017,443
Unconditional promises to give, current	120,775	216,625
Accounts receivable, net	<u>88,721</u>	<u>37,636</u>
Total financial assets	<u>2,979,636</u>	<u>3,271,704</u>
Less amounts not available to be used for general expenditures within one year:		
Purpose and time restrictions	120,775	140,251
Capital Campaign Expansion Phase II	<u>1,010,832</u>	<u>1,240,000</u>
Financial assets not available to be used within one year	<u>1,131,607</u>	<u>1,380,251</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,848,029</u>	<u>\$ 1,891,453</u>

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

JUNE 30, 2021 AND 2020

Note 4—Property and equipment

Property and equipment consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Land and buildings	\$ 6,575,155	\$ 4,933,369
Leasehold improvements	805,177	795,896
Furniture, fixtures, and equipment	1,067,076	900,033
Vehicles	145,986	100,486
Capitalized software	120,615	111,165
Construction in progress	40,522	12,723
	<u>8,754,531</u>	<u>6,853,672</u>
Less accumulated depreciation	<u>(3,259,614)</u>	<u>(2,587,302)</u>
	<u>\$ 5,494,917</u>	<u>\$ 4,266,370</u>

Note 5—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 November 5, 2021. The line of credit is secured by certain real estate and bears interest at the prime rate. The line of credit requires monthly interest payments. No amounts were outstanding at June 30, 2021 and 2020.

Note 6—Net assets with donor restrictions

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

	<u>2021</u>	<u>2020</u>
Contributions received for Capital Campaign Expansion Phase II	\$ 1,010,832	\$ 1,090,000
Grants	419,118	73,626
Endowment	145,315	138,575
Unconditional promises to give		
due in future periods - operating and programmatic	120,775	66,625
Earnings on endowment funds	33,525	16,069
Unconditional promises to give due in future periods - capital	-	150,000
	<u>\$ 1,729,565</u>	<u>\$ 1,534,895</u>

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 7—Donated materials and services

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

	<u>2021</u>	<u>2020</u>
Capital campaign	\$ 703,500	\$ 7,500
Legal and professional	81,818	63,909
Other	5,925	300
	<u>\$ 791,243</u>	<u>\$ 71,709</u>

During the year ended June 30, 2021, the Organization received a donation consisting of land and building. The property was valued at \$655,000 based on local appraisals. This is included in the capital campaign amount above and in the contributions of property and equipment reflected on the consolidated statement of activities. The Organization intends to use this property for housing certain of its program participants in the near term. The donor made no stipulations regarding the use of this property.

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. Management believes the Organization is not exposed to any significant credit risk on cash. Uninsured balances at June 30, 2021 and 2020 totaled approximately \$2,512,000 and \$2,818,000, respectively. Management of the Organization deposits cash funds in quality financial institutions to mitigate the risk of exposure.

The Organization also receives a significant amount of its support from contributions and grants. During the years ended June 30, 2021 and 2020, contributions from one donor represented approximately 24% and 23%, respectively, of contributions from individuals, corporations, and capital campaign donors. This same donor contributed approximately 71% of the Organization's capital campaign funding during the year ended June 30, 2020. Similarly, pledges receivable from three and five donors represented approximately 92% of pledges receivable (unconditional promises to give) at June 30, 2020.

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

JUNE 30, 2021 AND 2020

Note 10—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 and \$138,575 at June 30, 2021 and 2020, respectively.

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, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds including unappropriated earnings	<u>\$ -</u>	<u>\$ 178,840</u>	<u>\$ 178,840</u>

Endowment net asset composition by type of fund at June 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds including unappropriated earnings	<u>\$ -</u>	<u>\$ 154,644</u>	<u>\$ 154,644</u>

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

JUNE 30, 2021 AND 2020

Note 10—Endowment (continued)

Changes in endowment net assets for the year ended June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 154,644	\$ 154,644
Contributions for endowment	-	6,740	6,740
Grant disbursement	-	(5,100)	(5,100)
Investment return	-	22,556	22,556
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 178,840</u>	<u>\$ 178,840</u>

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 155,909	\$ 155,909
Contributions for endowment	-	575	575
Grant disbursement	-	(5,000)	(5,000)
Investment return	-	3,160	3,160
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 154,644</u>	<u>\$ 154,644</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.

Note 11—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 12—Retirement plan

During 2019, the Organization created a retirement plan covering substantially all employees. The Organization makes matching contributions up to 4% of compensation for employees who have contributed to the plan. The Organization made a contribution of \$79,357 and \$73,838 to the plan during the years ended June 30, 2021 and 2020, respectively.

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 13—Lease commitments

The Organization leases certain warehouse space under noncancelable operating leases. Future minimum lease payments under noncancelable leases at June 30, 2021 are as follows:

Years Ending June 30,

2022	\$ 104,127
2023	81,213
2024	81,395
2025	81,152
2026	81,061
Thereafter	13,555
	<u>\$ 442,503</u>

Total rental expense for the years ended June 30, 2021 and 2020 was approximately \$138,000 and \$134,000, respectively.

During the year ended June 30, 2021, the Organization began leasing one of its properties to an unrelated third party for \$1,400 monthly. This leasing arrangement extends through August 2022.

Note 14—Capital campaign

During the year ended June 30, 2020, the Organization began a capital campaign in order to amplify the Organization's impact through several initiatives. Such initiatives include expanding the residential program by increasing housing for the women served, promoting national awareness and sales growth, and strengthening systems infrastructure. These goals indicated a need for the Organization to raise approximately \$2,000,000. As of June 30, 2021, this goal was substantially met.

Note 15—Deferred grant revenue

During the year ended June 30, 2020, the Organization received a loan under the Paycheck Protection Program ("PPP") in the amount of \$695,500, 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, 2020, because the conditions for forgiveness had not yet been substantially met. In December 2020, the PPP loan of \$695,500, plus accrued interest, was fully forgiven by the SBA and was recognized in government grants within the consolidated statement of activities for the year ended June 30, 2021.

Under the same terms and requirements, the Organization received a second PPP loan in the amount of \$695,578, which was established by the CARES Act and administered by the SBA. The Organization has deferred recognition of grant revenue for the year ended June 30, 2021, because the conditions for forgiveness have not yet been substantially met.

THISTLE FARMS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 16—Uncertainty

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in the financial markets. The coronavirus outbreak and government responses are creating disruptions and adversely impacting many industries. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material, adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Organization, its performance, and its financial results.

Note 17—Subsequent events

In accordance with U.S. GAAP related to subsequent events, the Organization has evaluated events subsequent to the statement of financial position date of June 30, 2021 through October 29, 2021, which is the date these financial statements were available to be issued and has determined there are no subsequent events that require disclosure other than as follows:

In August 2021, the Organization closed on the purchase of undeveloped property on which the Organization plans to construct affordable housing units for graduates of its programs. This property was purchased for \$190,000.

In August 2021, the Organization entered into a lease for 20,000 square feet of warehouse and office space. This lease term extends through July 2031 and stipulates monthly payments beginning at \$15,184 (\$182,200 annually) with 3% annual increases thereafter.