

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)



GOODWILL INDUSTRIES OF MIDDLE TN, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Goodwill Industries of Middle TN, Inc.:

We have audited the accompanying financial statements of Goodwill Industries of Middle TN, Inc., which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Middle TN, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

LBMC, PC

Brentwood, Tennessee

April 29, 2020

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Financial Position

December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 3,506,955	\$ 3,830,544
Investments	19,251,843	39,463,438
Accounts receivable and grants receivable, less reserve for doubtful accounts of \$11,866 and \$3,770 in 2019 and 2018, respectively	1,233,354	741,909
Inventory	2,026,408	1,769,330
Prepaid expenses	503,420	309,302
Current portion of prepaid rent	<u>524,231</u>	<u>1,401,318</u>
Total current assets	27,046,211	47,515,841
Investments - board designated	30,836,411	4,566,272
Investments - deferred compensation plan	156,378	311,056
Land, buildings and equipment, net of accumulated depreciation	24,716,608	25,844,488
Prepaid rent, net of current portion	1,350,533	1,827,660
Other assets	<u>86,763</u>	<u>86,305</u>
Total assets	\$ <u>84,192,904</u>	\$ <u>80,151,622</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued expenses	\$ 5,297,352	\$ 4,591,431
Deferred revenue	434,522	275,403
Current portion of notes payable	1,568,521	1,523,709
Current portion of deferred lease incentive	140,619	133,494
Current portion of deferred gain from sale-leaseback	<u>477,127</u>	<u>477,127</u>
Total current liabilities	7,918,141	7,001,164
Deferred compensation plan liability	156,378	311,056
Notes payable, net of current portion	3,551,301	5,111,384
Deferred rent	585,296	575,881
Deferred lease incentive, net of current portion	745,338	840,958
Deferred gain on sale-leaseback, net of current portion	<u>1,350,533</u>	<u>1,827,660</u>
Total liabilities	<u>14,306,987</u>	<u>15,668,103</u>
Net assets:		
Without donor restrictions		
Undesignated	38,919,085	59,820,376
Board designated for long-term investments	<u>30,836,411</u>	<u>4,566,272</u>
	69,755,496	64,386,648
With donor restrictions	<u>130,421</u>	<u>96,871</u>
Total net assets	<u>69,885,917</u>	<u>64,483,519</u>
Total liabilities and net assets	\$ <u>84,192,904</u>	\$ <u>80,151,622</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Activities

Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Changes in net assets without donor restrictions:		
Revenues, gains, and other support:		
Retail operations:		
Store sales, net of related discounts	\$ 30,619,933	\$ 34,076,427
Contributed value of donated merchandise	<u>26,077,620</u>	<u>22,749,662</u>
Total retail operations	<u>56,697,553</u>	<u>56,826,089</u>
Revenue, gains, and other support:		
Salvage sales	4,206,599	4,828,167
Grants and fees received	818,894	645,939
Investment income (loss), net	3,168,179	(153,401)
Contributions	588,722	728,385
Other	843	42,161
United Way contributions	35,596	37,693
Gain on disposal of land, buildings and equipment	449,467	27,647,525
Net assets released from restrictions	<u>3,950</u>	<u>79,421</u>
Total revenue, gains, and other support	<u>65,969,803</u>	<u>90,681,979</u>
Expenses:		
Program services	53,346,531	58,158,368
Management and general	7,101,590	6,780,427
Fundraising	<u>152,834</u>	<u>359,275</u>
Total expenses	<u>60,600,955</u>	<u>65,298,070</u>
Increase in net assets without donor restrictions	<u>5,368,848</u>	<u>25,383,909</u>
Changes in net assets with donor restrictions:		
Revenues:		
Contributions	37,500	2,528
Net assets released from restrictions	<u>(3,950)</u>	<u>(79,421)</u>
(Decrease) increase in net assets with donor restrictions	<u>33,550</u>	<u>(76,893)</u>
Increase in net assets	5,402,398	25,307,016
Net assets at beginning of year	<u>64,483,519</u>	<u>39,176,503</u>
Net assets at end of year	\$ <u>69,885,917</u>	\$ <u>64,483,519</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Cash Flows

Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,402,398	\$ 25,307,016
Adjustments to reconcile change in net assets to cash flows provided (used) by operating activities:		
Depreciation	1,736,034	2,708,800
Amortization of prepaid rent	1,354,214	-
Bad debt expense	24,636	5,757
Gain on disposal of land, buildings and equipment	(449,467)	(27,647,525)
Unrealized (gain) loss on investments	(1,264,314)	521,433
(Increase) decrease in operating assets:		
Accounts and grants receivable	(516,081)	(105,032)
Inventory	(257,078)	30,315
Prepaid expenses	(194,118)	418,830
Other assets	(458)	20,595
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	705,921	(844,696)
Deferred revenue	159,119	(33,331)
Deferred compensation plan liability	(154,677)	20,113
Deferred lease incentive	(88,495)	65,386
Deferred rent	<u>9,415</u>	<u>(15,979)</u>
Total adjustments	<u>1,064,651</u>	<u>(24,855,334)</u>
Net cash provided by operating activities	<u>6,467,049</u>	<u>451,682</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(670,340)	(468,232)
Proceeds from disposal of land, buildings and equipment	34,525	36,928,640
Purchases of investments	(123,752,526)	(76,900,466)
Proceeds from sale of investments	<u>119,112,974</u>	<u>43,319,248</u>
Net cash provided (used) by investing activities	<u>(5,275,367)</u>	<u>2,879,190</u>
Cash flows from financing activities:		
Principal payments on notes payable	<u>(1,515,271)</u>	<u>(2,621,288)</u>
Increase (decrease) in cash and cash equivalents	(323,589)	709,584
Cash and cash equivalents at beginning of year	<u>3,830,544</u>	<u>3,120,960</u>
Cash and cash equivalents at end of year	\$ <u>3,506,955</u>	\$ <u>3,830,544</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statement of Functional Expenses

Year ended December 31, 2019

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 27,011,557	\$ 3,479,376	\$ 41,136	\$ 30,532,069
Occupancy	12,234,987	615,019	-	12,850,006
Employee benefits	3,755,806	398,990	7,556	4,162,352
Payroll taxes	2,337,643	284,869	4,082	2,626,594
Supplies	950,431	28,438	23	978,892
Advertising, printing and publications	340,307	123,942	42,964	507,213
Travel and vehicles	1,392,567	104,090	53,321	1,549,978
Equipment rent and maintenance	724,392	558,117	1,800	1,284,309
Postage	541,099	10,077	-	551,176
Credit card fees	851,144	194	-	851,338
Telephone	227,063	51,608	1,723	280,394
Professional fees	113,905	432,895	217	547,017
Ecommerce fees	476,001	-	-	476,001
Interest	178,741	-	-	178,741
Insurance	10,237	710,934	-	721,171
Noncapitalized purchases	29,887	9,850	-	39,737
Dues payment to affiliated organization	-	175,212	-	175,212
Cost of goods sold	202,295	-	-	202,295
Employee relations	69,463	25,082	-	94,545
Other	177,555	7,394	-	184,949
Bank service charges	31,432	13,804	-	45,236
Conferences and meetings	9,609	5,325	-	14,934
Dues	700	9,375	-	10,075
Awards and grants	<u>-</u>	<u>688</u>	<u>-</u>	<u>688</u>
Total expenses before depreciation	51,666,821	7,045,279	152,822	58,864,922
Depreciation	<u>1,679,710</u>	<u>56,311</u>	<u>12</u>	<u>1,736,033</u>
Total expenses	\$ <u>53,346,531</u>	\$ <u>7,101,590</u>	\$ <u>152,834</u>	\$ <u>60,600,955</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statement of Functional Expenses

Year ended December 31, 2018

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 31,055,039	\$ 3,697,574	\$ 59,863	\$ 34,812,476
Occupancy	11,514,821	232,386	-	11,747,207
Employee benefits	3,965,044	415,527	2,986	4,383,557
Payroll taxes	3,014,920	306,785	6,532	3,328,237
Supplies	1,190,527	35,135	15	1,225,677
Advertising, printing and publications	413,097	128,896	185,950	727,943
Travel and vehicles	1,387,083	59,183	99,376	1,545,642
Equipment rent and maintenance	509,763	543,912	2,250	1,055,925
Postage	404,407	13,100	-	417,507
Credit card fees	834,785	328	-	835,113
Telephone	261,466	48,851	1,767	312,084
Professional fees	227,120	274,074	135	501,329
Ecommerce fees	283,758	-	-	283,758
Interest	243,007	3,520	-	246,527
Insurance	11,606	365,376	352	377,334
Noncapitalized purchases	33,176	13,479	-	46,655
Dues payment to affiliated organization	-	169,368	-	169,368
Cost of goods sold	194,226	-	-	194,226
Employee relations	83,170	27,965	7	111,142
Other	206,975	3,906	-	210,881
Bank service charges	25,038	10,777	-	35,815
Conferences and meetings	6,599	4,006	42	10,647
Dues	3,601	3,844	-	7,445
Awards and grants	<u>-</u>	<u>2,775</u>	<u>-</u>	<u>2,775</u>
Total expenses before depreciation	55,869,228	6,360,767	359,275	62,589,270
Depreciation	<u>2,289,140</u>	<u>419,660</u>	<u>-</u>	<u>2,708,800</u>
Total expenses	\$ <u>58,158,368</u>	\$ <u>6,780,427</u>	\$ <u>359,275</u>	\$ <u>65,298,070</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2019 and 2018

(1) Nature of activities

Goodwill Industries of Middle TN, Inc. (the "Organization"), was incorporated in 1958 as a Tennessee nonprofit corporation. The primary purposes of the Organization are to provide rehabilitation services, training, and employment for individuals who have a disability and for people who are economically disadvantaged as a step to their employment in the labor market.

(2) Summary of significant accounting policies

(a) Adopted accounting pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), ("ASU 2014-09") which provides a single comprehensive model for accounting for revenue from contracts with customers and supersedes nearly all previously existing revenue recognition guidance. The core principle of Topic 606 is that an entity should recognize revenue when it transfers 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.

The five step model defined by ASU 2014-09 requires the Company to: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 additionally enhances the required disclosures surrounding the nature, amount, timing and uncertainty of revenues and the associated cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments and assets recognized from the costs to obtain or fulfill a contract.

The Organization adopted this guidance on January 1, 2019, using the modified retrospective method. There was no cumulative effect adjustment to the opening balance of beginning net assets, as the adoption did not result in a material change to the Organization's revenue recognition. Periods presented prior to January 1, 2019 are presented in accordance with prior revenue recognition guidance, Accounting Standards Guidance Topic 605, *Revenue Recognition*.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2019 and 2018

Stored-value products

In May 2016, the FASB issued ASU 2016-04, *Liabilities – Extinguishment of Liabilities* ("Topic 405"), which specifies when prepaid stored-value product liabilities (like gift-cards) should be derecognized. Under this guidance, if an entity expects to be entitled to a breakage amount for a liability, the entity shall derecognize the amount related to the expected breakage in proportion to the pattern of rights expected to be exercised by the card holder only to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. If an entity does not expect to be entitled to a breakage amount for a gift card, an entity shall derecognize the amount related to breakage when the likelihood of the card holder exercising its remaining rights becomes remote.

The Organization adopted the new guidance on January 1, 2019 using the modified retrospective method. There was no cumulative-effect adjustment to the opening balance of net assets as the effect was determined by management to be immaterial to the financial statements. Under the previous guidance, the Company determined breakage when the likelihood of redemption of a gift card by a customer was remote. The Company continues to record gift card breakage as a component of revenue.

(b) Basis of presentation

The Organization presents its financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Organization reports information regarding its financial position and activities based on the existence or absence of donor or grantor imposed restrictions. Net assets of the Organization are presented as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor or grantor imposed restrictions. The Organization's board of directors has designated, from net assets without donor restrictions, net assets for particular purposes.

Net Assets With Donor Restrictions - Net assets subject to donor or grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization has no net assets subject to donor-imposed restrictions that are perpetual in nature at December 31, 2019 or 2018.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2019 and 2018

Contributions received are recorded as without donor restrictions or with donor restrictions support depending on the existence and/or nature of any donor restrictions. 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. Revenue from grants with donor restrictions is recorded based on expenses incurred since these grants are generally on a cost-reimbursement basis.

(c) Cash and cash equivalents

The Organization considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

(d) Investments

Investments are shown at their fair values in the statements of financial position. Investment income shown in the statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income is reported in the period earned as an increase in net assets without donor restrictions unless the use of the assets received is limited by donor-imposed restrictions.

The Board designates only a portion of the Organization's investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The Organization utilizes a spending rate policy to determine the amount of investment return available to support current operations. Investment return from short and intermediate term investments is also used to support current operations.

(e) Inventory and contributed merchandise

The inventory of merchandise consists of items donated to the Organization. GAAP requires that contributions be recognized as revenue when received. The Organization considers the fair value of contributed merchandise to be the excess of selling price over processing costs. The combined captions "store sales, net of related discounts" and "contributed value of donated merchandise" represent the actual amounts received from retail stores and online sales. "Store sales, net of related discounts" represents the proceeds received on retail sales up to actual processing and other costs. This merchandise requires additional processing accomplished through program related efforts primarily by people with disabilities and barriers to employment before it reaches its point of sale.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2019 and 2018

(f) Land, buildings and equipment

Land, buildings and equipment are recorded at cost. Expenditures for ordinary maintenance and repairs are charged to operations. Renewals and betterments that materially extend the life of the asset are capitalized. Depreciation is provided in amounts necessary to allocate the cost of the various classes of assets over their estimated useful lives using the straight-line method. Leasehold improvements are charged to expense over the life of the related lease or the useful life of the asset, whichever is shorter.

Estimated useful lives of all major classes of assets are as follows:

Buildings	15 - 39 years
Building improvements	15 - 39 years
Leasehold improvements	2 - 29 years
Equipment	2 - 7 years
Material collection vehicles	2 - 7 years

(g) Deferred rent and lease incentives

Deferred rent and deferred lease incentives represent the cumulative excess of rent expense recognized on the straight-line basis over actual payments made resulting from scheduled rent increases, rent abatements, or construction allowances.

(h) Revenue recognition

The Organization recognizes sales revenue, net of sales taxes and estimated sales returns, at the time it sells merchandise to the customer. The sales return reserve and estimation process is evaluated and adjustments are made when appropriate. In addition, the Organization defers revenues from stored-value cards, which include gift cards and returned merchandise credits, and recognizes revenue into sales when the cards are redeemed. The liability associated with outstanding stored-value cards was \$241,252 and \$251,858 at December 31, 2019 and 2018, respectively, and these amounts are included in deferred revenue on the statements of financial position. The Organization recognizes income from unredeemed stored-value cards based upon historical redemption patterns. Amounts recognized as breakage were insignificant for the years ended December 31, 2019 and 2018.

The Organization maintains a rewards program whereby customers earn rewards based on their spending. The rewards are in the form of dollar-off discounts which can be used on future purchases. This program creates performance obligations which require us to defer a portion of the original sale until the rewards are redeemed. At the end of each reporting period, we record a reserve based on historical return rates and patterns which reverses sales that we expect to be returned in the following period.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2019 and 2018

(i) Contributions and support

Cash contributions are recognized as revenues when received.

The Organization receives donated services from a variety of unpaid volunteers. No amounts have been recognized in the accompanying statements of activities because the criteria for recognition of such volunteer effort has not been satisfied.

(j) Income taxes

The Organization has qualified for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Contributions to the Organization are tax deductible.

The Organization follows FASB ASC guidance for uncertainty in income taxes recognized in an entity'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 fifty percent likely of being realized upon ultimate settlement. The Organization has not recognized any tax related interest or penalties in the accompanying financial statements. The Organization files a U.S. Federal information tax return.

(k) Allocated expenses

For purposes of the statements of functional expenses, certain expenses have been allocated between program and supporting services based on estimates made by management. The expenses that are allocated include depreciation, interest, office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits and travel costs, which are allocated on the basis of estimates of time and effort.

(l) Use of estimates

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

(m) Advertising and promotion costs

The Organization expenses advertising costs as incurred. Advertising costs charged to expense totaled \$315,630 in 2019 and \$539,574 in 2018.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2019 and 2018

(n) New accounting standards

The FASB's new lease accounting standard, ASU No. 2016-02, *Leases*, which was issued in February 2016, will generally require on-balance sheet recognition for all leases with terms that exceed twelve months. The new lease accounting model will continue to reflect two types of leases. Under the new rules, a lessee would account for most existing capital leases as finance leases (that is, recognizing amortization of the right-of-use ("ROU") asset, as well as separately recognizing interest on the lease liability in the statement of operations). Most existing operating leases will remain as operating leases (that is, recognizing a single total lease expense). Both finance leases and operating leases will result in the lessee recognizing a ROU asset and a lease liability. The guidance is effective for the Organization beginning January 1, 2021. The Organization continues to evaluate the impact the standard will have on its financial statements.

(o) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between December 31, 2019 and April 29, 2020, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic, which continues to spread throughout the United States. As a result, the Organization temporarily closed all of its retail stores and career solutions centers and furloughed a large portion of its employee base on March 23, 2020. The Organization's e-commerce site remains open. Donation sites remain open with limited hours and Career Solutions continues to assist clients through remote access. These temporary closures have and will continue to have a negative impact to the Organization's sales. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Management of the Organization will continue to evaluate the timing of reopening its stores and Career Solutions centers. Therefore, while we expect this matter to negatively impact our business, results of operations, cash flows and financial position, including the Organization's investment portfolio, the related financial impact cannot be reasonably estimated at this time. However, management of the Organization believes, its current operations, available cash and investments and ability to leverage its balance sheet if necessary will provide the adequate cash flows required for at least a one-year period from the date of the financial statements.

Subsequent to December 31, 2019, the Company amended its loan agreements with its lenders to defer the principal payments on its outstanding promissory notes for the months of April, May and June 2020 until the maturity date of the respective notes.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2019 and 2018

(3) Liquidity

A summary of the Organization's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general use because of donor-imposed restrictions, within one year of the statement of financial position date is as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,506,955	\$ 3,830,544
Undesignated current investments	19,251,843	39,463,438
Accounts receivable and grants receivable	<u>1,233,354</u>	<u>741,909</u>
Financial assets at end of year	23,992,152	44,035,891
Less: assets unavailable for general expenditures within one year:		
Restricted by donors with purpose restrictions	<u>(130,421)</u>	<u>(96,871)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>23,861,731</u>	\$ <u>43,939,020</u>

Board designated investments of \$30,836,411 and \$4,566,272 as of December 31, 2019 and 2018, respectively, are designated for long-term purposes. The Organization does not intend to use these investments for operating purposes and has excluded these investments from financial assets available in the table above. However, these amounts could be made available for operations, if necessary.

(4) Investments and fair value measurements

The Organization has an established process for determining fair values. Fair values are based upon quoted market prices, where available. If quotes or market prices are not available, fair values are based upon market-based or independently-sourced market data. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Organization does not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2019 or 2018.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2019 and 2018

Investments stated at fair value consist of money market funds, mutual funds, common stocks and bonds. These fair values are determined based upon quoted prices in active markets for identical assets (Level 1).

Investments valued at Net Asset value ("NAV") consist of common trust funds that hold investments in a variety of investment instruments, including domestic governmental and corporate debt and equity securities, mutual funds, limited partnerships and foreign equity securities. The funds are valued at the net asset value of shares held at the end of the year and excluded from the fair value hierarchy. The net asset value is determined by the funds' manager, Diversified Trust Company, Inc., at the end of each month. Units are issued and redeemed only at the month-end net asset value.

Investments consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Investments at fair value:		
Money market funds	\$ 9,855,009	\$ 39,726,954
Mutual funds	15,140,658	1,647,071
Municipal bonds	-	199,359
Equities - Domestic	-	1,540,550
Equities - Foreign	<u>-</u>	<u>1,226,832</u>
Total investments at fair value	24,995,667	44,340,766
Investments at NAV:		
Common trust funds	<u>25,248,965</u>	<u>-</u>
Total investments	\$ <u>50,244,632</u>	\$ <u>44,340,766</u>

Investments are classified in the accompanying statements of financial position as follows:

	<u>2019</u>	<u>2018</u>
Investments - current	\$ 19,251,843	\$ 39,463,438
Investments -board designated and otherwise held for long-term purposes	30,836,411	4,566,272
Investments - deferred compensation plan	<u>156,378</u>	<u>311,056</u>
Total investments	\$ <u>50,244,632</u>	\$ <u>44,340,766</u>

As of December 31, 2019, current investments include \$8,078,864 of short-term investment funds held to provide cash support for current operating objectives as well as \$11,172,979 of intermediate investment funds to achieve the Organization's funding objectives for capital investment and special project needs for intermediate time horizons. All current investments are undesignated and available for current operations as determined by management of the Organization.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

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The following schedule summarizes the investment income (loss) in the statements of activities for 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 678,586	\$ 269,254
Realized gain on investments	1,225,279	81,406
Unrealized gain (loss) on investments	<u>1,264,314</u>	<u>(504,061)</u>
	<u>\$ 3,168,179</u>	<u>\$ (153,401)</u>

Investment income earned from investments held for the deferred compensation plan is excluded from the amounts noted above and reported in the statement of activities net of the change in the deferred compensation plan liability resulting from changes in the related investments.

(5) Land, buildings and equipment

A summary of land, buildings and equipment as of December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 8,216,734	\$ 8,216,734
Land improvements	3,105	3,105
Buildings	16,999,031	16,999,031
Building improvements	798,809	760,180
Leasehold improvements	6,511,473	6,416,354
Plant equipment	3,854,336	4,458,754
Store equipment	3,807,022	3,894,918
Office equipment	3,264,281	3,874,505
Material collection vehicles and equipment	4,403,517	4,436,076
Construction in progress	<u>10,828</u>	<u>32,243</u>
	47,869,136	49,091,900
Less accumulated depreciation	<u>(23,152,528)</u>	<u>(23,247,412)</u>
	<u>\$ 24,716,608</u>	<u>\$ 25,844,488</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2019 and 2018

(6) Accounts payable and accrued expenses

A summary of accounts payable and accrued expenses as of December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Accounts payable	\$ 785,980	\$ 553,871
Accrued payroll and related liabilities	1,598,852	1,486,267
Accrued vacation	712,474	729,795
Accrued non-income related taxes	904,049	568,243
Accrued medical expenses (Note 13)	793,850	922,527
Other current liabilities	<u>502,147</u>	<u>330,728</u>
	<u>\$ 5,297,352</u>	<u>\$ 4,591,431</u>

(7) Notes payable

A summary of notes payable as of December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Promissory note issued to the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County. Total borrowings under this note amounted to \$2,900,000. The proceeds of the borrowing were used to construct a facility that contains a retail store, attended donation center, and Career Solutions center. The note requires monthly payments of principal and interest (2.57% per annum) of \$29,657 with a final maturity of December 21, 2021. The note is collateralized by the Mill Creek building.	\$ 692,771	\$ 1,025,887

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

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Promissory note issued to the Industrial Development Board of Rutherford County, Tennessee. Total borrowings under this note amounted to \$10,000,000. The proceeds of the borrowing are for the construction of three facilities, each of which contain a retail store, attended donation center, and Career Solutions center. The note requires monthly payments of principal and interest (2.95% per annum) of \$111,151 with a final maturity of July 10, 2023. The note is collateralized by the Indian Lake, Murfreesboro II and Mt. Juliet buildings.

	<u>4,427,051</u>	<u>5,609,206</u>
Total	5,119,822	6,635,093
Less current portion	<u>1,568,521</u>	<u>1,523,709</u>
Notes payable, net of current portion	\$ <u>3,551,301</u>	\$ <u>5,111,384</u>

Each of the loan agreements above contain various financial and other covenants, including maintaining a financial liquidity ratio. The Organization was in compliance with these requirements at December 31, 2019.

Required principal payments on the notes payable as of December 31, 2019 is as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 1,559,856
2021	1,605,852
2022	1,292,989
2023	<u>661,125</u>
	\$ <u>5,119,822</u>

Interest expense associated with notes payable is reflected in the statements of activities for the years ended December 31, 2019 and 2018 as \$178,741 and \$246,527, respectively.

(8) Net assets with donor restrictions

Net assets with donor restrictions subject to expenditure for the following specified purposes as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Governance and operating initiatives	\$ <u>130,421</u>	\$ <u>96,871</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2019 and 2018

(9) Concentrations

The Organization generally maintains cash and cash equivalents on deposit at banks in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash and cash equivalents.

The Organization utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

(10) Leases

The annual rentals under lease contracts for the Organization's retail stores, facilities and equipment totaled \$9,472,536 and \$8,452,115 for 2019 and 2018, respectively. A summary of approximate future minimum payments under these leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2019 is as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 6,595,043
2021	6,159,981
2022	5,211,568
2023	3,722,485
2024	2,655,305
2025 and later years	<u>9,159,078</u>
	<u>\$ 33,503,460</u>

(11) Sale-leaseback transactions

On October 16, 2018, the Organization entered into a sale-leaseback transaction agreement under which buildings, building improvements, land, and land improvements were sold to a third party for approximately \$36,930,000 cash, net of related closing costs, and subsequently leased back pursuant to operating lease agreements between one and five years. Contractual monthly rental payments under the leases are \$10. The Organization deferred approximately \$3,445,000 of the sale proceeds representing prepaid rent for the fair value of rent over the lease terms of two leases, which is included with prepaid expenses in the accompanying statements of financial position. The prepaid rent is reduced and rent expense is recognized for amounts ranging from approximately \$40,000 and \$123,000 per month. One of the two lease contracts with associated prepaid rent expired during 2019. Additionally, due to the lease of one building being more than a minor portion of the property sold, approximately \$2,400,000 of the gain was deferred during 2018 and is being recognized over the five-year term of the lease at approximately \$40,000 per month. The remaining gain on the sale of the property totaling approximately \$27,549,000 was recognized in 2018.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2019 and 2018

(12) Retirement plans

The Organization sponsors the Goodwill Industries of Middle Tennessee Retirement Plan (the "Plan") pursuant to Section 403(b) of the Internal Revenue Code of 1986 (the "Code"), as amended. Under the terms of the Plan, each eligible employee may contribute a percentage of wages subject to certain limitations. The Organization may match employee contributions at its discretion. For 2019 and 2018, the Organization matched 50% of employee contributions up to 6% of an employee's compensation. Contributions to the Plan are used to purchase annuities on behalf of the employees. Retirement plan expense for 2019 and 2018 totaled \$172,802 and \$204,796, respectively, and is included in employee benefits in the accompanying statements of functional expenses.

The Organization sponsors a deferred compensation plan (the "457 Plan") pursuant to Code Section 457. The 457 Plan provides for pre-tax salary deferrals for key employees. Amounts held at December 31, 2019 and 2018 amounted to \$156,378 and \$311,056, respectively.

(13) Self-funded health insurance

The Organization is self-funded for health benefits for eligible employees and their dependents. Health insurance expense is recorded on an accrual basis. An accrued liability is recorded at year-end, which estimates the incurred but not reported claims. The liability amounted to \$793,850 and \$922,527 at December 31, 2019 and 2018, respectively, and is included in accounts payable and accrued expenses in the accompanying statements of financial position. The liability at December 31, 2019 and 2018 was determined based on the report of a consulting actuary. The Organization has stop loss insurance to cover catastrophic claims.

(14) Contingent liabilities

The Organization is involved in various legal actions arising in the normal course of its activities. In the opinion of management, such matters will not have a material adverse effect on the Organization's financial position. As these matters develop, it is reasonably possible management's estimate of their effect could change and an accrual for additional liabilities could be required.

(15) Related party transactions

During the normal course of business, the Organization purchased advertising services of approximately \$102,000 and \$273,000 in 2019 and 2018, respectively, from a company affiliated with a member of the board of directors.

During 2019 and 2018, the Organization purchased legal services of approximately \$127,000 and \$73,000, respectively, from firms affiliated with members of the board of directors.

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(16) Supplemental disclosures of cash flow statement information

	<u>2019</u>	<u>2018</u>
Interest paid	\$ <u>181,909</u>	\$ <u>252,283</u>

During 2018, the Organization received non-cash proceeds from sale-leaseback transactions for certain land and buildings totaling approximately \$3,450,000 representing the present value of rentals to be received over the terms of lease agreements which is recorded as prepaid rent in the accompanying statements of financial position. Amortization of such prepaid rent during 2019 and 2018 was approximately \$1,306,000 and \$493,000, respectively.