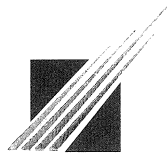


**GOODWILL INDUSTRIES OF  
MIDDLE TN, INC.**

**Financial Statements**

**December 31, 2014 and 2013**

**(With Independent Auditors' Report Thereon)**



**LATTIMORE BLACK MORGAN & CAIN, PC**  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

# **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 statement of financial position as of December 31, 2014, and the related statements of activities, cash flows and functional expenses for the year 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Prior Period Financial Statements*

The financial statements of Goodwill Industries of Middle TN, Inc. as of December 31, 2013, were audited by other auditors whose report dated March 18, 2014, expressed an unmodified opinion on those statements.

*Lattimore Black Morgan & Co., PC*

Brentwood, Tennessee  
April 30, 2015

**GOODWILL INDUSTRIES OF MIDDLE TN, INC.**

**Statements of Financial Position**

**December 31, 2014 and 2013**

**Assets**

	<u><b>2014</b></u>	<u><b>2013</b></u>
Cash and cash equivalents	\$ 5,623,746	\$ 9,263,896
Accounts receivable and grants receivable, net	399,358	432,819
Inventory	2,118,566	2,218,989
Prepaid expenses	<u>278,045</u>	<u>329,316</u>
<b>Total current assets</b>	<b>8,419,715</b>	<b>12,245,020</b>
Cash and cash equivalents restricted for debt requirement	225,000	225,000
Investments - board designated	8,669,880	4,178,665
Investments - deferred compensation plan	881,035	889,657
Land, buildings and equipment, net of accumulated depreciation	46,225,505	45,117,848
Other assets	<u>140,991</u>	<u>164,459</u>
<b>Total assets</b>	<b>\$ <u>64,562,126</u></b>	<b>\$ <u>62,820,649</u></b>

**Liabilities and Net Assets**

Accounts payable and accrued expenses	\$ 5,339,848	\$ 5,300,053
Deferred revenue	11,922	40,052
Current portion of deferred lease incentive	57,124	36,340
Current portion of notes payable	<u>2,117,895</u>	<u>1,124,519</u>
<b>Total current liabilities</b>	<b>7,526,789</b>	<b>6,500,964</b>
Deferred compensation plan liability	881,035	889,657
Deferred lease incentive, net of current portion	573,277	452,786
Deferred rent	319,556	227,526
Notes payable, net of current portion	<u>13,486,790</u>	<u>14,195,828</u>
<b>Total liabilities</b>	<b><u>22,787,447</u></b>	<b><u>22,266,761</u></b>
<b>Net assets:</b>		
<b>Unrestricted net assets:</b>		
Undesignated	32,997,144	36,270,974
Designated for long-term investments	<u>8,669,880</u>	<u>4,178,665</u>
<b>Total unrestricted net assets</b>	<b>41,667,024</b>	<b>40,449,639</b>
Temporarily restricted net assets	<u>107,655</u>	<u>104,249</u>
<b>Total net assets</b>	<b><u>41,774,679</u></b>	<b><u>40,553,888</u></b>
<b>Total liabilities and net assets</b>	<b>\$ <u>64,562,126</u></b>	<b>\$ <u>62,820,649</u></b>

See accompanying notes to the financial statements.

# GOODWILL INDUSTRIES OF MIDDLE TN, INC.

## Statements of Activities

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Changes in unrestricted net assets:</b>		
<b>Revenues, gains, and other support:</b>		
<b>Retail operations:</b>		
Store sales, net of related discounts	\$ 45,806,107	\$ 41,871,359
Contributed value of donated merchandise	<u>25,717,137</u>	<u>26,246,429</u>
<b>Total retail operations</b>	<u>71,523,244</u>	<u>68,117,788</u>
<b>Revenue, gains, and other support:</b>		
Salvage sales	4,205,287	4,370,366
Grants and fees received	570,491	509,849
Investment income, net	246,661	355,982
Contributions	283,306	116,446
Other	81,679	168,618
United Way contributions	41,705	40,740
Administrative fees revenue	21,600	21,600
Net assets released from restrictions	<u>96,594</u>	<u>31,419</u>
<b>Total revenues, gains and other support</b>	<u>77,070,567</u>	<u>73,732,808</u>
<b>Expenses:</b>		
Program services	67,793,387	61,502,282
Management and general	7,167,279	6,709,810
Fundraising	<u>892,516</u>	<u>733,842</u>
<b>Total expenses</b>	<u>75,853,182</u>	<u>68,945,934</u>
<b>Increase in unrestricted net assets</b>	<u>1,217,385</u>	<u>4,786,874</u>
<b>Changes in temporarily restricted net assets:</b>		
<b>Revenues:</b>		
Contributions	100,000	100,000
Net assets released from restrictions	<u>(96,594)</u>	<u>(31,419)</u>
<b>Increase in temporarily restricted assets</b>	<u>3,406</u>	<u>68,581</u>
<b>Increase in net assets</b>	1,220,791	4,855,455
Net assets at beginning of year	<u>40,553,888</u>	<u>35,698,433</u>
Net assets at end of year	<u>\$ 41,774,679</u>	<u>\$ 40,553,888</u>

See accompanying notes to the financial statements.

# GOODWILL INDUSTRIES OF MIDDLE TN, INC.

## Statements of Cash Flows

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ <u>1,220,791</u>	\$ <u>4,855,455</u>
Adjustments to reconcile increase (decrease) in net assets to cash flows provided (used) by operating activities:		
Depreciation	3,349,578	2,896,240
(Gain) loss on disposal of land, buildings and equipment	(59,313)	3,055
Net gain on investments	(88,573)	(209,903)
(Increase) decrease in investments, net - deferred compensation plan	122,747	(188,710)
(Increase) decrease in operating assets:		
Accounts and grants receivable, net	33,461	118,388
Inventory	100,423	(228,729)
Prepaid expenses	51,271	(64,907)
Other assets	23,468	(65,295)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	39,795	846,258
Deferred revenue	(28,130)	23,461
Deferred compensation plan liability	(8,622)	8,214
Deferred lease incentive	141,275	(47,924)
Deferred rent	<u>92,030</u>	<u>63,217</u>
Total adjustments	<u>3,769,410</u>	<u>3,153,365</u>
Net cash provided by operating activities	<u>4,990,201</u>	<u>8,008,820</u>
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of land, buildings and equipment	186,198	-
Purchases of investments	(7,148,592)	(740,340)
Proceeds from sale of investments	2,631,825	506,665
Purchases of land, buildings and equipment	<u>(4,584,120)</u>	<u>(13,679,127)</u>
Net cash used by investing activities	<u>(8,914,689)</u>	<u>(13,912,802)</u>
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	(1,098,606)	(1,237,141)
Proceeds from issuance of notes payable	<u>1,382,944</u>	<u>8,617,056</u>
Net cash provided by financing activities	<u>284,338</u>	<u>7,379,915</u>
Increase (decrease) in cash and cash equivalents	(3,640,150)	1,475,933
Cash and cash equivalents at beginning of year	<u>9,263,896</u>	<u>7,787,963</u>
Cash and cash equivalents at end of year	\$ <u>5,623,746</u>	\$ <u>9,263,896</u>
<b>Supplemental cash flow information:</b>		
Cash paid during the year for interest	\$ <u>446,616</u>	\$ <u>236,131</u>

See accompanying notes to the financial statements.

**GOODWILL INDUSTRIES OF MIDDLE TN, INC.**

**Statement of Functional Expenses**

**Year ended December 31, 2014**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 37,462,568	\$ 4,073,612	\$ 79,647	\$ 41,615,827
Occupancy	9,416,395	184,721	-	9,601,116
Employee benefits	5,246,890	407,959	8,504	5,663,353
Payroll taxes	3,802,253	300,872	5,955	4,109,080
Supplies	2,635,418	95,579	4,389	2,735,386
Advertising, printing and publications	722,921	94,729	789,382	1,607,032
Travel and vehicles	1,308,701	109,174	286	1,418,161
Equipment rent and maintenance	532,635	543,951	275	1,076,861
Postage	957,880	18,633	211	976,724
Credit card fees	821,273	166	-	821,439
Telephone	342,907	119,898	315	463,120
Professional fees	278,054	104,549	-	382,603
Ecommerce fees	400,975	-	-	400,975
Interest	433,711	19,878	-	453,589
Insurance	25,681	264,309	-	289,990
Noncapitalized purchases	139,390	35,024	-	174,414
Dues payment to affiliated organization	-	164,916	-	164,916
Cost of goods sold	171,295	-	-	171,295
Employee relations	57,117	33,921	-	91,038
Other	158,945	8,853	-	167,798
Bank service charges	21,037	29,598	-	50,635
Conferences and meetings	30,206	19,155	-	49,361
Dues	6,519	9,373	-	15,892
Awards and grants	<u>1,814</u>	<u>1,185</u>	<u>-</u>	<u>2,999</u>
Total expense before depreciation	64,974,585	6,640,055	888,964	72,503,604
Depreciation	<u>2,818,802</u>	<u>527,224</u>	<u>3,552</u>	<u>3,349,578</u>
Total expenses	\$ <u>67,793,387</u>	\$ <u>7,167,279</u>	\$ <u>892,516</u>	\$ <u>75,853,182</u>

See accompanying notes to the financial statements.



**GOODWILL INDUSTRIES OF MIDDLE TN, INC.**

**Statement of Functional Expenses**

**Year ended December 31, 2013**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 34,707,962	\$ 4,044,333	\$ 91,242	\$ 38,843,537
Occupancy	8,989,265	197,638	-	9,186,903
Employee benefits	3,619,929	322,611	9,619	3,952,159
Payroll taxes	3,591,662	313,341	6,884	3,911,887
Supplies	2,371,642	110,557	-	2,482,199
Advertising, printing and publications	779,589	130,167	623,279	1,533,035
Travel and vehicles	1,169,889	95,630	-	1,265,519
Equipment rent and maintenance	522,228	133,560	-	655,788
Postage	813,562	17,634	2,818	834,014
Credit card fees	722,223	818	-	723,041
Telephone	374,491	109,460	-	483,951
Professional fees	286,869	193,047	-	479,916
Ecommerce fees	337,251	45	-	337,296
Interest	240,660	23,985	-	264,645
Insurance	21,599	212,859	-	234,458
Noncapitalized purchases	139,140	65,334	-	204,474
Dues payment to affiliated organization	-	162,024	-	162,024
Cost of goods sold	142,368	-	-	142,368
Employee relations	46,287	30,848	-	77,135
Other	148,095	5,075	-	153,170
Bank service charges	27,818	44,682	-	72,500
Conferences and meetings	14,024	13,315	-	27,339
Dues	9,194	9,361	-	18,555
Awards and grants	<u>2,527</u>	<u>1,254</u>	<u>-</u>	<u>3,781</u>
Total expenses before depreciation	59,078,274	6,237,578	733,842	66,049,694
Depreciation	<u>2,424,008</u>	<u>472,232</u>	<u>-</u>	<u>2,896,240</u>
Total expenses	\$ <u>61,502,282</u>	\$ <u>6,709,810</u>	\$ <u>733,842</u>	\$ <u>68,945,934</u>

See accompanying notes to the financial statements.

# GOODWILL INDUSTRIES OF MIDDLE TN, INC.

## Notes to the Financial Statements

December 31, 2014 and 2013

(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) Basis of presentation

The Organization presents its financial statements in accordance with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows. Net assets of the Organization are presented as follows:

Unrestricted net assets

Undesignated - net assets not subject to donor-imposed restrictions or designated by the Organization.

Designated - net assets designated by the Organization for particular purposes.

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

Permanently restricted net assets - net assets subject to donor-imposed restrictions that require the assets be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. The Organization has no permanently restricted net assets at December 31, 2014 or 2013.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

(b) Recognition of restricted revenue

Revenue from restricted grants is recorded based on expenses incurred since these grants are generally on a cost-reimbursement basis.

# GOODWILL INDUSTRIES OF MIDDLE TN, INC.

## Notes to the Financial Statements

December 31, 2014 and 2013

(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. The Organization maintains \$225,000 in a separate account with a financial institution to meet debt requirements. The account is non-interest bearing. The debt restriction requires the cash account to remain with the financial institution until the debt is satisfied. The account is reflected in the statements of financial position as "cash and cash equivalents restricted for debt requirement."

(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 unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions.

(e) Inventory

The inventory of merchandise consists of items donated to the Organization. Accounting principles generally accepted in the United States of America require 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 captions "store sales, net of related discounts" and "contributed value of donated merchandise" represent the actual amounts received from retail store sales. "Store sales, net of related discounts" represents the proceeds received on retail sales up to actual processing and other costs. During 2014 and 2013, the Organization recognized contributed merchandise with an estimated fair value of \$25,717,137 and \$26,246,429, respectively, as contribution revenue. This merchandise requires additional processing accomplished through program related efforts by people with disabilities and other disadvantaging conditions before it reaches its point of sale.

(f) Land, buildings and equipment

Land, buildings and equipment are recorded 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	5 - 29 years
Equipment	3 - 7 years
Material collection vehicles	3 - 7 years

# GOODWILL INDUSTRIES OF MIDDLE TN, INC.

## Notes to the Financial Statements

December 31, 2014 and 2013

(g) Deferred rent

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) 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. Gifts to the Organization are tax deductible.

The Organization follows Financial Accounting Standards Board Accounting Standards Codification ("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. Federal tax years that remain open for examination include the years ended December 31, 2011 through December 31, 2014.

(i) Donated services

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) 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.

(k) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

# GOODWILL INDUSTRIES OF MIDDLE TN, INC.

## Notes to the Financial Statements

December 31, 2014 and 2013

(l) Advertising and promotion costs

The Organization expenses advertising costs as incurred. Advertising costs charged to expense totaled \$1,349,502 in 2014 and \$1,263,763 in 2013.

(m) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between December 31, 2014 and April 30, 2015 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Accounts and grants receivable

A summary of accounts and grants receivable as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Trade, contract services and other	\$ 369,291	\$ 396,049
Billings under grants and rehabilitation programs	<u>33,837</u>	<u>40,540</u>
	403,128	436,589
Less: allowance for uncollectibles	<u>(3,770)</u>	<u>(3,770)</u>
Accounts and grants receivable, net	<u>\$ 399,358</u>	<u>\$ 432,819</u>

(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 listed prices or quotes 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.

Accounting principles generally accepted in the United States of America establish 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 Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2014.

# GOODWILL INDUSTRIES OF MIDDLE TN, INC.

## Notes to the Financial Statements

December 31, 2014 and 2013

Investments are stated at fair value, with fair value determined based upon quoted prices in active markets for identical assets (Level 1), and consist of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
<b>Investments - board designated:</b>		
Money market funds	\$ 1,531,911	\$ 220,214
Certificate of deposit	200,000	-
<b>Fixed income funds:</b>		
Corporate bonds	-	75,692
Municipal bonds	881,218	556,893
Investment grade bond funds	-	521,100
High yield funds	174,443	207,494
<b>Equities:</b>		
Common stock	2,826,863	538,756
Multi-strategy funds	1,552,997	-
Large cap funds	652,381	598,552
Small cap fund	-	166,496
International funds	763,691	464,453
Emerging market funds	-	82,603
<b>Alternatives:</b>		
Multi strategy funds	-	585,477
Gold bullion funds	-	90,805
Real estate funds	<u>86,376</u>	<u>70,130</u>
<b>Total - board designated</b>	<b><u>\$ 8,669,880</u></b>	<b><u>\$ 4,178,665</u></b>
<b>Investments - deferred compensation plan:</b>		
Growth stock fund	\$ 102,452	\$ 83,437
Midcap growth fund	326,647	333,921
Equity income fund	43,762	28,654
Capital appreciation fund	315,390	309,219
U.S. treasury fund	-	63,972
Spectrum income fund	<u>92,784</u>	<u>70,454</u>
<b>Total - deferred compensation plan</b>	<b><u>\$ 881,035</u></b>	<b><u>\$ 889,657</u></b>

The following schedule summarizes the investment income in the statements of activities for 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 158,088	\$ 146,079
Net realized and unrealized investment gains	<u>88,573</u>	<u>209,903</u>
	<b><u>\$ 246,661</u></b>	<b><u>\$ 355,982</u></b>

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.

# GOODWILL INDUSTRIES OF MIDDLE TN, INC.

## Notes to the Financial Statements

December 31, 2014 and 2013

**(5) Land, buildings and equipment**

A summary of land, buildings and equipment as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 10,569,749	\$ 10,569,749
Land improvements	106,591	106,286
Buildings	30,112,684	26,623,559
Building improvements	3,550,691	3,056,194
Leasehold improvements	6,056,828	5,247,096
Plant equipment	3,471,334	3,932,259
Store equipment	4,194,348	4,067,578
Office equipment	3,924,055	2,724,596
Material collection vehicles and equipment	4,149,425	3,916,352
Construction in progress	<u>150,677</u>	<u>2,831,472</u>
	66,286,382	63,075,141
Less accumulated depreciation	<u>(20,060,877)</u>	<u>(17,957,293)</u>
	<u>\$ 46,225,505</u>	<u>\$ 45,117,848</u>

**(6) Notes payable**

A summary of notes payable as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Promissory note issued to the Industrial Development Board of the City of Berry Hill, Tennessee repaid during 2014.	\$ -	\$ 88,974
Promissory note issued to the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County. Total borrowings under this note amounted to \$2,300,000. The proceeds of the borrowing were used to purchase a warehouse facility for distribution operations. The note requires monthly payments of principal and interest (5.08% per annum) of \$24,485 with a final maturity of June 8, 2017. The note is collateralized by real estate which was financed by the debt.	699,619	950,364

# GOODWILL INDUSTRIES OF MIDDLE TN, INC.

## Notes to the Financial Statements

December 31, 2014 and 2013

Promissory note issued to the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County. Total borrowings under this note amounted to \$4,350,000. The proceeds of the borrowing were used to refinance the Career Solutions operations facility completed during 2010. The note provided for interest only payments at 2.80% per annum through February 2011. Thereafter, the note requires monthly payments of principal and interest (2.80% per annum) of \$45,612 with a final maturity of February 1, 2020. The note is collateralized by the Career Solutions building.

2,630,081                      3,096,681

Promissory note issued to the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County. Total initial borrowings under this note amounted to \$1,140,000. Additional borrowings continued as construction progressed and totaled \$2,900,000 when construction was completed. 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 provided for interest only payments through the construction period. Thereafter, 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.

2,274,985                      2,567,272

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 provides for interest only payments through December 31, 2014. Thereafter, the note requires monthly payments of principal and interest (2.95% per annum) of \$110,964 with a final maturity of July 10, 2023. The note is collateralized by the Indian Lake, Murfreesboro II and Mt. Juliet buildings.

10,000,000                      8,617,056

Total

15,604,685                      15,320,347

Less current installments

2,117,895                      1,124,519

Notes payable, excluding current installments

\$ 13,486,790                      \$ 14,195,828



# GOODWILL INDUSTRIES OF MIDDLE TN, INC.

## Notes to the Financial Statements

December 31, 2014 and 2013

Each of the loan agreements above contain various financial and other covenants. The Organization was in compliance with such covenants at December 31, 2014 and 2013.

Required principal payments on the notes payable as of December 31, 2014 is as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 2,117,895
2016	2,169,468
2017	2,087,281
2018	2,003,528
2019	2,016,291
2020 and later years	<u>5,210,222</u>
	<u>\$ 15,604,685</u>

Interest expense associated with notes payable is reflected in the statements of activities for the years ended December 31, 2014 and 2013 as \$453,589 and \$264,645, respectively.

### (7) 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.

### (8) Commitments

The annual rentals under lease contracts for the Organization's retail stores and other facilities totaled \$5,991,343 and \$5,694,066 for 2014 and 2013, 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, 2014 is as follows:

	<u>Amount</u>
2015	\$ 5,924,000
2016	5,141,000
2017	4,672,000
2018	3,459,000
2019	2,638,000
2020 and later years	<u>7,292,000</u>
	<u>\$ 29,126,000</u>

# **GOODWILL INDUSTRIES OF MIDDLE TN, INC.**

## **Notes to the Financial Statements**

**December 31, 2014 and 2013**

### **(9) Grants**

The Organization receives grants and awards from governmental agencies and private foundations that are used to fund various programs. A brief description of each grant and the related program(s) follows:

#### **Beyond Jobs**

Goodwill International is the primary grantee of a grant provided by the Walmart Foundation to provide at-risk women job services and financial literacy classes for a six month period. The grant reimbursement may not exceed \$226,400 over a three year period. This grant expired in December 2014 with final disbursements under the grant allowed through April 2015.

#### **Division of Intellectual Disabilities Services ("DIDS") Day Services**

Day Services assist individuals with developmental disabilities in learning appropriate work, social skills and habits within the Goodwill work environment.

#### **Clarksville Operation Defiance**

The City of Clarksville provided funding for a case manager to serve the residents of the New Providence neighborhood with job placement and supporting services. Neighborhood events are conducted in order to connect the residents with the police officers to encourage safety and to reduce crime. This grant expired September 2014.

#### **Columbia Operation Reintegration**

The City of Columbia provided funding for a case manager to provide job services and connect with clients to support services to reduce/eliminate recidivism. The clients served are ex-felons in certain categories referred by the parole/probation officers. The grant reimbursement will not exceed \$167,500 over a three year period. This grant expired in December 2014.

#### **Regional Transit Authority ("RTA")**

The Regional Transit Authority provided partial funding for an administrative assistant. A portion of this assistant's responsibilities includes providing bus passes to qualifying Goodwill clients. This program was extended through January 2015.

#### **Department of Human Services ("DHS") Vocational Evaluation/Work Adjustment**

The State of Tennessee Department of Human Services, Division of Vocational Rehabilitation provided fee reimbursement for work assessments and on-the-job work experiences for individuals with disabilities.

# **GOODWILL INDUSTRIES OF MIDDLE TN, INC.**

## **Notes to the Financial Statements**

**December 31, 2014 and 2013**

### **Bank of America Neighborhood Builders**

Bank of America provided this grant to assist our community. Goodwill used these funds to establish a Youth Program, providing targeted job training and job placement services to out-of-school youth, age 17-25, who are unemployed.

### **Bank of America Workforce Grant**

Goodwill is the fiscal agent on this grant. Funds provided assist the Nashville Workforce Network, a consortium of workforce providers in Davidson County. The funds have been used to pay for an intern who provides administrative support for the volunteers who lead the network as well as for events and material related to training and education programs for staff from the member agencies.

### **Metropolitan Development and Housing Agency ("MDHA") (Youth Enrichment Grant) (two programs: Summer Work Services and TRAC)**

Summer Work Services provides youth, age 16-18 with disabilities or who are considered disadvantaged, with paid work opportunities both within Goodwill and at community employers.

TRAC Training Program provides youth, age 14-18 with disabilities or who are considered disadvantaged, with customer service skills and job readiness training.

### **VITA**

Goodwill International is the primary grantee of a grant provided by Walmart through a partnership with Goodwill International and United Way. This grant provided funds for materials and supplies to train volunteers in the community to provide tax preparation services to Goodwill employees, clients and members of the Nashville community.

### **NCP Pilot Project**

The Center for Policy Research provided funding for job training and job placement services to non-custodial parents who are referred to Goodwill by the State of Tennessee.

The Organization also receives training fees from governmental agencies used to provide additional occupational skill training. Community-based organizations and some employers pay for their clients to participate in computer, forklift or security guard training.

# GOODWILL INDUSTRIES OF MIDDLE TN, INC.

## Notes to the Financial Statements

December 31, 2014 and 2013

A summary of fees and grants from governmental agencies as reported in the accompanying statements of activities follows:

	<u>2014</u>	<u>2013</u>
Training Fees/Private Pay/Community Work Sites	\$ 155,724	\$ 179,631
Beyond Jobs	166,200	60,200
DIDS Day Services/Follow Along	54,478	59,856
Clarksville Operation Defiance	30,055	50,550
Columbia Operation Reintegration	60,622	48,604
Regional Transit Authority	19,596	25,972
DHS Vocational Evaluation/Work Adjustment/JDP	19,580	28,670
Bank of America Summer Program	-	15,000
MDHA - Youth Enrichment	12,500	12,500
TRAC training program	12,500	12,500
VITA	9,711	10,479
NCP Pilot Project	29,469	5,871
Other	<u>56</u>	<u>16</u>
	<u>\$ 570,491</u>	<u>\$ 509,849</u>

### (10) 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 2014 and 2013, the Organization may match employee contributions up to 4% of employee wages. Contributions to the Plan are used to purchase annuities on behalf of the employees. Retirement plan expense for 2014 and 2013 totaled \$354,628 and \$328,528, 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, 2014 and 2013 amounted to \$881,035 and \$889,657, respectively.

### (11) 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 \$1,158,068 and \$834,131 at December 31, 2014 and 2013, respectively, and is included in accounts payable and accrued expenses in the accompanying statements of financial position. The Organization has stop loss insurance to cover catastrophic claims.

# **GOODWILL INDUSTRIES OF MIDDLE TN, INC.**

## **Notes to the Financial Statements**

**December 31, 2014 and 2013**

### **(12) Related party transactions**

During the normal course of business, the Organization purchased advertising services in the amount of \$871,963 and \$948,593 in 2014 and 2013, respectively, from a company affiliated with a member of the board of directors.

During 2014 and 2013, the Organization purchased legal services in the amount of \$46,434 and \$35,323, respectively, from firms affiliated with members of the board of directors.

The Organization has entered into an administrative agreement with Government Services, Inc. ("GS") to provide limited administrative and management services to GS. The total amount of management fees earned by the Organization was \$21,600 in 2014 and 2013.

During 2014 and previous years, the Organization paid certain expenses on behalf of GS. At December 31, 2014 and 2013, the Organization was due \$7,237 and \$2,795, respectively, from GS. This receivable is included in accounts and grants receivable in the accompanying statements of financial position.

During 2013, the Organization paid insurance brokerage fees in the amount of \$36,000 to a company affiliated with a member of the board of directors.

The Organization owes a note payable to a bank affiliated with a member of the board amounting to \$699,619 as of December 31, 2014. The note bears interest at 5.08 % and is due June 8, 2017.

During 2014 and 2013, the Organization purchased construction services in the amount of \$1,709,129 and \$7,718,231, respectively, from a company affiliated with a member of the board of directors.