

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

LBMC

MAKE A GOOD
BUSINESS **BETTER**

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, 2015 and 2014, 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, 2015 and 2014, 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 20, 2016

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Financial Position

December 31, 2015 and 2014

	<u>Assets</u>	
	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 5,185,264	\$ 5,623,746
Accounts receivable and grants receivable, net	420,757	399,358
Inventory	2,182,367	2,118,566
Prepaid expenses	<u>383,023</u>	<u>278,045</u>
Total current assets	8,171,411	8,419,715
Cash and cash equivalents restricted for debt requirement	225,000	225,000
Investments - board designated	8,455,847	8,669,880
Investments - deferred compensation plan	965,243	881,035
Land, buildings and equipment, net of accumulated depreciation	44,085,124	46,225,505
Other assets	<u>132,599</u>	<u>140,991</u>
Total assets	\$ <u>62,035,224</u>	\$ <u>64,562,126</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,335,798	\$ 5,339,848
Deferred revenue	-	11,922
Current portion of deferred lease incentive	77,317	57,124
Current portion of notes payable	<u>2,186,089</u>	<u>2,117,895</u>
Total current liabilities	7,599,204	7,526,789
Deferred compensation plan liability	965,243	881,035
Deferred lease incentive, net of current portion	642,299	573,277
Deferred rent	413,256	319,556
Notes payable, net of current portion	<u>11,325,614</u>	<u>13,486,790</u>
Total liabilities	<u>20,945,616</u>	<u>22,787,447</u>
Net assets:		
Unrestricted net assets:		
Undesignated	32,601,983	32,997,144
Designated for long-term investments	<u>8,455,847</u>	<u>8,669,880</u>
Total unrestricted net assets	41,057,830	41,667,024
Temporarily restricted net assets	<u>31,778</u>	<u>107,655</u>
Total net assets	<u>41,089,608</u>	<u>41,774,679</u>
Total liabilities and net assets	\$ <u>62,035,224</u>	\$ <u>64,562,126</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Activities

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Changes in unrestricted net assets:		
Revenues, gains, and other support:		
Retail operations:		
Store sales, net of related discounts	\$ 47,501,527	\$ 45,806,107
Contributed value of donated merchandise	<u>26,988,548</u>	<u>25,717,137</u>
Total retail operations	<u>74,490,075</u>	<u>71,523,244</u>
Revenue, gains, and other support:		
Salvage sales	2,814,805	4,205,287
Grants and fees received	405,922	570,491
Investment income, net	(28,441)	246,661
Contributions	832,945	283,306
Other	26,406	81,679
United Way contributions	42,395	41,705
Administrative fees revenue	1,800	21,600
Net assets released from restrictions	<u>95,307</u>	<u>96,594</u>
Total revenues, gains and other support	<u>78,681,214</u>	<u>77,070,567</u>
Expenses:		
Program services	70,944,394	67,793,387
Management and general	7,241,856	7,167,279
Fundraising	<u>1,104,158</u>	<u>892,516</u>
Total expenses	<u>79,290,408</u>	<u>75,853,182</u>
Increase (decrease) in unrestricted net assets	<u>(609,194)</u>	<u>1,217,385</u>
Changes in temporarily restricted net assets:		
Revenues:		
Contributions	19,430	100,000
Net assets released from restrictions	<u>(95,307)</u>	<u>(96,594)</u>
Increase (decrease) in temporarily restricted assets	<u>(75,877)</u>	<u>3,406</u>
Increase (decrease) in net assets	(685,071)	1,220,791
Net assets at beginning of year	<u>41,774,679</u>	<u>40,553,888</u>
Net assets at end of year	\$ <u>41,089,608</u>	\$ <u>41,774,679</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Cash Flows

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ <u>(685,071)</u>	\$ <u>1,220,791</u>
Adjustments to reconcile increase (decrease) in net assets to cash flows provided by operating activities:		
Depreciation	3,566,878	3,349,578
Gain on disposal of land, buildings and equipment	(11,343)	(59,313)
Unrealized loss on investments	368,480	7,745
Decrease in investments, net - deferred compensation plan	8,292	122,747
(Increase) decrease in operating assets:		
Accounts and grants receivable, net	(21,399)	33,461
Inventory	(63,801)	100,423
Prepaid expenses	(104,978)	51,271
Other assets	8,392	23,468
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(4,050)	39,795
Deferred revenue	(11,922)	(28,130)
Deferred compensation plan liability	84,208	(8,622)
Deferred lease incentive	89,215	141,275
Deferred rent	<u>93,700</u>	<u>92,030</u>
Total adjustments	<u>4,001,672</u>	<u>3,865,728</u>
Net cash provided by operating activities	<u>3,316,601</u>	<u>5,086,519</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(1,433,874)	(4,584,120)
Proceeds from disposal of land, buildings and equipment	18,720	186,198
Purchases of investments	(2,505,988)	(7,244,910)
Proceeds from sale of investments	<u>2,259,041</u>	<u>2,631,825</u>
Net cash used by investing activities	<u>(1,662,101)</u>	<u>(9,011,007)</u>
Cash flows from financing activities:		
Principal payments on notes payable	(2,092,982)	(1,098,606)
Proceeds from issuance of notes payable	<u>-</u>	<u>1,382,944</u>
Net cash provided (used) by financing activities	<u>(2,092,982)</u>	<u>284,338</u>
Decrease in cash and cash equivalents	(438,482)	(3,640,150)
Cash and cash equivalents at beginning of year	<u>5,623,746</u>	<u>9,263,896</u>
Cash and cash equivalents at end of year	\$ <u>5,185,264</u>	\$ <u>5,623,746</u>
Supplemental cash flow information:		
Cash paid during the year for interest	\$ <u>443,925</u>	\$ <u>446,616</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statement of Functional Expenses

Year ended December 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 39,271,201	\$ 3,743,250	\$ 161,102	\$ 43,175,553
Occupancy	9,975,676	183,635	-	10,159,311
Employee benefits	5,663,893	447,993	16,336	6,128,222
Payroll taxes	3,992,556	315,962	14,979	4,323,497
Supplies	2,631,709	73,862	2,023	2,707,594
Advertising, printing and publications	660,598	170,052	889,227	1,719,877
Travel and vehicles	1,065,675	88,483	6,854	1,161,012
Equipment rent and maintenance	528,067	583,304	3,175	1,114,546
Postage	1,032,142	13,454	-	1,045,596
Credit card fees	904,771	4	-	904,775
Telephone	330,851	121,231	2,865	454,947
Professional fees	330,113	244,655	122	574,890
Ecommerce fees	447,535	-	-	447,535
Interest	425,337	15,545	-	440,882
Insurance	30,523	318,920	-	349,443
Noncapitalized purchases	130,629	39,700	-	170,329
Dues payment to affiliated organization	-	167,544	-	167,544
Cost of goods sold	206,780	-	-	206,780
Employee relations	62,208	27,912	-	90,120
Other	204,596	28,571	-	233,167
Bank service charges	33,475	62,263	-	95,738
Conferences and meetings	12,801	15,830	208	28,839
Dues	8,105	12,060	232	20,397
Awards and grants	<u>1,933</u>	<u>1,003</u>	<u>-</u>	<u>2,936</u>
Total expense before depreciation	67,951,174	6,675,233	1,097,123	75,723,530
Depreciation	<u>2,993,220</u>	<u>566,623</u>	<u>7,035</u>	<u>3,566,878</u>
Total expenses	\$ <u>70,944,394</u>	\$ <u>7,241,856</u>	\$ <u>1,104,158</u>	\$ <u>79,290,408</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 expenses 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.

Notes to the Financial Statements

December 31, 2015 and 2014

(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, 2015 or 2014.

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.

Notes to the Financial Statements

December 31, 2015 and 2014

(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 2015 and 2014, the Organization recognized contributed merchandise with an estimated fair value of \$26,988,548 and \$25,717,137, 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.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

(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

(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, 2012 through December 31, 2015.

Notes to the Financial Statements

December 31, 2015 and 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.

(l) Advertising and promotion costs

The Organization expenses advertising costs as incurred. Advertising costs charged to expense totaled \$1,445,617 in 2015 and \$1,349,502 in 2014.

(m) Reclassifications

Certain reclassifications have been made to the 2014 financial statements in order for them to conform to the 2015 presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

(n) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between December 31, 2015 and April 20, 2016 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

(3) Accounts and grants receivable

A summary of accounts and grants receivable as of December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Trade, contract services and other	\$ 410,221	\$ 369,291
Billings under grants and rehabilitation programs	<u>14,306</u>	<u>33,837</u>
	424,527	403,128
Less: allowance for uncollectibles	<u>(3,770)</u>	<u>(3,770)</u>
Accounts and grants receivable, net	<u>\$ 420,757</u>	<u>\$ 399,358</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 Organization does not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2015.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Investments - board designated:		
Money market funds	\$ 346,343	\$ 1,531,911
Certificate of deposit	200,000	200,000
Fixed income funds:		
Corporate bonds	164,631	-
Municipal bonds	592,526	881,218
High yield funds	60,714	174,443
Equities:		
Common stock	2,336,092	2,826,863
Large cap funds	471,570	652,381
Small cap fund	536,395	-
International funds	1,513,984	763,691
Alternatives:		
Multi strategy funds	1,834,697	1,552,997
Real estate funds	<u>398,895</u>	<u>86,376</u>
Total - board designated	\$ <u>8,455,847</u>	\$ <u>8,669,880</u>

	<u>2015</u>	<u>2014</u>
Investments - deferred compensation plan:		
Mutual funds:		
Growth stock fund	\$ 127,780	\$ 102,452
Midcap growth fund	372,767	326,647
Equity income fund	55,816	43,762
Capital appreciation fund	362,883	315,390
Spectrum income fund	<u>45,997</u>	<u>92,784</u>
Total - deferred compensation plan	\$ <u>965,243</u>	\$ <u>881,035</u>

The following schedule summarizes the investment income in the statements of activities for 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 184,183	\$ 158,088
Realizd gain on investments	155,856	96,318
Unrealized loss on investments	<u>(368,480)</u>	<u>(7,745)</u>
	\$ <u>(28,441)</u>	\$ <u>246,661</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 10,569,749	\$ 10,569,749
Land improvements	106,591	106,591
Buildings	30,112,684	30,112,684
Building improvements	3,559,576	3,550,691
Leasehold improvements	6,208,306	6,056,828
Plant equipment	3,505,536	3,471,334
Store equipment	4,458,476	4,194,348
Office equipment	4,246,905	3,924,055
Material collection vehicles and equipment	4,261,709	4,149,425
Construction in progress	<u>59,365</u>	<u>150,677</u>
	67,088,897	66,286,382
Less accumulated depreciation	<u>(23,003,773)</u>	<u>(20,060,877)</u>
	<u>\$ 44,085,124</u>	<u>\$ 46,225,505</u>

(6) Notes payable

A summary of notes payable as of December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</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 \$2,300,000. 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.	\$ 435,650	\$ 699,619

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

<p>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 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.</p>	2,150,064	2,630,081
<p>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.</p>	1,975,001	2,274,985
<p>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 \$110,964 with a final maturity of July 10, 2023. The note is collateralized by the Indian Lake, Murfreesboro II and Mt. Juliet buildings.</p>	<u>8,950,988</u>	<u>10,000,000</u>
Total	13,511,703	15,604,685
Less current installments	<u>2,186,089</u>	<u>2,117,895</u>
Notes payable, excluding current installments	<u>\$ 11,325,614</u>	<u>\$ 13,486,790</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

Each of the loan agreements above contain various financial and other covenants. The Organization was in compliance with such covenants at December 31, 2015 and 2014.

Required principal payments on the notes payable as of December 31, 2015 is as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 2,186,089
2017	2,095,069
2018	1,993,752
2019	2,051,901
2020	1,650,763
2021 and later years	<u>3,534,129</u>
	<u>\$ 13,511,703</u>

Interest expense associated with notes payable is reflected in the statements of activities for the years ended December 31, 2015 and 2014 as \$440,882 and \$453,589, 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.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

(8) Commitments

The annual rentals under lease contracts for the Organization's retail stores and other facilities totaled \$6,567,438 and \$5,991,343 for 2015 and 2014, 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, 2015 is as follows:

	<u>Amount</u>
2016	\$ 6,911,000
2017	6,481,000
2018	5,315,000
2019	4,155,000
2020	3,819,000
2021 and later years	<u>17,462,000</u>
	<u>\$ 44,143,000</u>

(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 \$321,481 over a three year period. This grant expired in May 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.

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 \$167,420 over a three year period. This grant expired in February 2015.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2015 and 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 expired in 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.

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.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

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.

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

	<u>2015</u>	<u>2014</u>
Training Fees/Private Pay/Community Work Sites	\$ 159,219	\$ 155,724
Beyond Jobs	72,600	166,200
DIDS Day Services/Follow Along	61,645	54,478
Clarksville Operation Defiance	-	30,055
Columbia Operation Reintegration	9,362	60,622
Regional Transit Authority	2,349	19,596
DHS Vocational Evaluation/Work Adjustment/JDP	19,894	19,580
MDHA - Youth Enrichment	12,500	12,500
TRAC training program	12,500	12,500
VITA	12,904	9,711
NCP Pilot Project	42,869	29,469
Other	<u>80</u>	<u>56</u>
	<u>\$ 405,922</u>	<u>\$ 570,491</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 2015 and 2014, the Organization matched 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 2015 and 2014 totaled \$360,965 and \$354,628, 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, 2015 and 2014 amounted to \$965,243 and \$881,035, respectively.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

(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 \$1,213,768 and \$1,158,068 at December 31, 2015 and 2014, 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.

(12) 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.

(13) Related party transactions

During the normal course of business, the Organization purchased advertising services in the amount of \$852,026 and \$871,963 in 2015 and 2014, respectively, from a company affiliated with a member of the board of directors.

During 2015 and 2014, the Organization purchased legal services in the amount of \$22,803 and \$46,434, 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 \$1,834 and \$21,600 in 2015 and 2014, respectively.

During 2014, the Organization paid certain expenses on behalf of GS. At December 31, 2015, there was no amount due from GS. At December 31, 2014, the Organization was due \$7,237 from GS. The 2014 year receivable is included in accounts and grants receivable in the accompanying statements of financial position for year ended December 31, 2014.

The Organization owes a note payable to a bank affiliated with a member of the board amounting to \$435,650 as of December 31, 2015. The note bears interest at 5.08 % and is due June 8, 2017.

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