

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Financial Statements

December 31, 2020 and 2019

(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, 2020 and 2019, and the related statements of activities and changes in net assets, 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, 2020 and 2019, 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 22, 2021

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Financial Position

December 31, 2020 and 2019

Assets

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 9,375,355	\$ 3,506,955
Investments	18,138,643	19,251,843
Contributions and grants receivable	10,444,306	-
Accounts receivable, less reserve for doubtful accounts of \$52,556 and \$11,866 in 2020 and 2019, respectively	776,620	1,233,354
Inventory	1,899,842	2,026,408
Prepaid expenses	510,558	503,420
Current portion of prepaid rent	<u>522,896</u>	<u>524,231</u>
Total current assets	41,668,220	27,046,211
Investments - board designated	34,561,490	30,836,411
Investments - deferred compensation plan	296,207	156,378
Land, buildings and equipment, net of accumulated depreciation	24,869,971	24,716,608
Prepaid rent, net of current portion	873,407	1,350,533
Other assets	<u>79,273</u>	<u>86,763</u>
Total assets	\$ <u>102,348,568</u>	\$ <u>84,192,904</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued expenses	\$ 5,593,349	\$ 5,297,352
Deferred revenue	157,189	434,522
Current portion of notes payable	1,702,201	1,568,521
Current portion of deferred lease incentive	139,390	140,619
Current portion of deferred gain from sale-leaseback	<u>477,127</u>	<u>477,127</u>
Total current liabilities	8,069,256	7,918,141
Deferred compensation plan liability	298,007	156,378
Notes payable, net of current portion	2,425,235	3,551,301
Deferred rent	1,049,480	585,296
Deferred lease incentive, net of current portion	605,948	745,338
Deferred gain on sale-leaseback, net of current portion	873,407	1,350,533
Deferred payroll taxes payable	<u>236,775</u>	<u>-</u>
Total liabilities	<u>13,558,108</u>	<u>14,306,987</u>
Net assets:		
Without donor restrictions		
Undesignated	54,205,977	38,919,085
Board designated for long-term investments	<u>34,561,490</u>	<u>30,836,411</u>
	88,767,467	69,755,496
With donor restrictions	<u>22,993</u>	<u>130,421</u>
Total net assets	<u>88,790,460</u>	<u>69,885,917</u>
Total liabilities and net assets	\$ <u>102,348,568</u>	\$ <u>84,192,904</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Activities and Changes in Net Assets

Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Changes in net assets without donor restrictions:		
Revenues, gains, and other support:		
Retail operations:		
Store sales, net of related discounts	\$ 28,056,993	\$ 30,619,933
Contributed value of donated merchandise	<u>24,320,708</u>	<u>26,077,620</u>
Total retail operations	<u>52,377,701</u>	<u>56,697,553</u>
Revenue, gains, and other support:		
Salvage sales	3,261,729	4,206,599
Grants and fees received	1,299,525	818,894
Investment return	4,788,281	3,168,179
Contributions	11,019,732	624,318
Gain on disposal of land, buildings and equipment	516,655	449,467
Other	8,028	843
Net assets released from restrictions	<u>107,428</u>	<u>3,950</u>
Total revenue, gains, and other support	<u>73,379,079</u>	<u>65,969,803</u>
Expenses:		
Program services	47,180,839	53,346,531
Management and general	6,916,022	7,101,590
Fundraising	<u>270,247</u>	<u>152,834</u>
Total expenses	<u>54,367,108</u>	<u>60,600,955</u>
Increase in net assets without donor restrictions	<u>19,011,971</u>	<u>5,368,848</u>
Changes in net assets with donor restrictions:		
Revenues:		
Contributions	-	37,500
Net assets released from restrictions	<u>(107,428)</u>	<u>(3,950)</u>
(Decrease) increase in net assets with donor restrictions	<u>(107,428)</u>	<u>33,550</u>
Increase in net assets	18,904,543	5,402,398
Net assets at beginning of year	<u>69,885,917</u>	<u>64,483,519</u>
Net assets at end of year	\$ <u>88,790,460</u>	\$ <u>69,885,917</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Cash Flows

Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 18,904,543	\$ 5,402,398
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation	1,483,441	1,736,034
Amortization of prepaid rent	478,461	1,354,214
Bad debt expense	92,180	24,636
Gain on disposal of land, buildings and equipment	(516,655)	(449,467)
Unrealized gain on investments	(3,077,529)	(1,264,314)
Unrealized gain on investments - deferred compensation plan	(34,007)	-
(Increase) decrease in operating assets:		
Contributions and grants receivable	(10,444,306)	-
Accounts and grants receivable	364,554	(516,081)
Inventory	126,566	(257,078)
Prepaid expenses	(7,138)	(194,118)
Other assets	7,490	(458)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	295,997	705,921
Deferred revenue	(277,333)	159,119
Deferred compensation plan liability	141,629	(154,677)
Deferred lease incentive	(140,619)	(88,495)
Payroll taxes payable	236,775	-
Deferred rent	<u>464,184</u>	<u>9,415</u>
Total adjustments	<u>(10,806,310)</u>	<u>1,064,651</u>
Net cash provided by operating activities	<u>8,098,233</u>	<u>6,467,049</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(1,651,016)	(670,340)
Proceeds from disposal of land, buildings and equipment	53,741	34,525
Purchases of investments	(26,537,904)	(123,752,526)
Proceeds from sale of investments	<u>26,897,732</u>	<u>119,112,974</u>
Net cash used by investing activities	<u>(1,237,447)</u>	<u>(5,275,367)</u>
Cash flows from financing activities:		
Principal payments on notes payable	(1,142,386)	(1,515,271)
Proceeds from issuance of notes payable	<u>150,000</u>	<u>-</u>
Net cash used by financing activities	<u>(992,386)</u>	<u>(1,515,271)</u>
Increase (decrease) in cash and cash equivalents	5,868,400	(323,589)
Cash and cash equivalents at beginning of year	<u>3,506,955</u>	<u>3,830,544</u>
Cash and cash equivalents at end of year	\$ <u>9,375,355</u>	\$ <u>3,506,955</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statement of Functional Expenses

Year ended December 31, 2020

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 23,381,740	\$ 3,535,073	\$ 189,839	\$ 27,106,652
Occupancy	11,022,150	374,068	14,142	11,410,360
Employee benefits	2,963,801	317,851	17,872	3,299,524
Payroll taxes	2,377,377	273,737	15,017	2,666,131
Supplies	1,084,887	32,558	205	1,117,650
Advertising, printing and publications	200,644	67,103	26,476	294,223
Travel and vehicles	1,190,961	94,625	-	1,285,586
Equipment rent and maintenance	555,747	629,254	30	1,185,031
Postage	581,926	7,388	991	590,305
Credit card fees	734,485	266	-	734,751
Telephone	231,433	41,755	174	273,362
Professional fees	114,139	510,566	266	624,971
Ecommerce fees	568,823	-	-	568,823
Interest	172,474	-	-	172,474
Insurance	15,158	688,056	-	703,214
Noncapitalized purchases	162,924	8,322	-	171,246
Dues payment to affiliated organization	-	176,940	-	176,940
Cost of goods sold	139,488	-	-	139,488
Employee relations	92,661	13,964	2,151	108,776
Other	144,331	20,595	-	164,926
Bank service charges	18,954	16,397	-	35,351
Conferences and meetings	5,735	40,352	967	47,054
Dues	2,227	2,696	1,450	6,373
Awards and grants	<u>-</u>	<u>456</u>	<u>-</u>	<u>456</u>
Total expenses before depreciation	45,762,065	6,852,022	269,580	52,883,667
Depreciation	<u>1,418,774</u>	<u>64,000</u>	<u>667</u>	<u>1,483,441</u>
Total expenses	\$ <u>47,180,839</u>	\$ <u>6,916,022</u>	\$ <u>270,247</u>	\$ <u>54,367,108</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.

Notes to the Financial Statements

December 31, 2020 and 2019

(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 ("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, 2020 or 2019.

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.

(b) 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.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2020 and 2019

(c) Investments

Investments are shown at their fair values in the statements of financial position. Investment return shown in the statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment return 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.

(d) 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.

(e) 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

(f) 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.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2020 and 2019

(g) 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 \$145,069 and \$241,252 at December 31, 2020 and 2019, 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, 2020 and 2019.

Through June 2020, the Organization maintained a rewards program whereby customers earned rewards based on their spending. The rewards were in the form of dollar-off discounts which could be used on future purchases. This program created performance obligations which required the deferral of a portion of the original sale until the reward was redeemed. Effective June 30, 2020, the Organization terminated the rewards program.

(h) Contributions and contributions receivable

Cash contributions are recognized as revenues when received. Unconditional promises to give (contributions receivable) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition.

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.

(i) 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.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2020 and 2019

The Organization follows the Financial Accounting Standard's Board ("FASB") Accounting Standards Codification ("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.

(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. 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.

(k) 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.

(l) Advertising and promotion costs

The Organization expenses advertising costs as incurred. Advertising costs charged to expense totaled \$177,619 in 2020 and \$315,630 in 2019.

(m) 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, as amended, is effective for the Organization beginning January 1, 2022. The Organization continues to evaluate the impact the standard will have on its financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2020 and 2019

(n) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between December 31, 2020 and April 22, 2021, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Liquidity

A summary of the Organization's financial assets as of December 31, 2020 and 2019, 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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 9,375,355	\$ 3,506,955
Undesignated current investments	18,138,643	19,251,843
Contributions and grants receivable	10,444,306	-
Accounts receivable	<u>776,620</u>	<u>1,233,354</u>
Financial assets at end of year	38,734,924	23,992,152
Less: assets unavailable for general expenditures within one year:		
Restricted by donors with purpose restrictions	<u>(22,993)</u>	<u>(130,421)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>38,711,931</u>	\$ <u>23,861,731</u>

Board designated investments of \$34,561,490 and \$30,836,411 as of December 31, 2020 and 2019, 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.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2020 and 2019

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, 2020 or 2019.

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 are 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Investments at fair value:		
Money market funds	\$ 1,965,801	\$ 9,855,009
Mutual funds	<u>17,338,399</u>	<u>15,140,658</u>
Total investments at fair value	19,304,200	24,995,667
Investments at NAV:		
Common trust funds	<u>33,692,140</u>	<u>25,248,965</u>
Total investments	<u>\$ 52,996,340</u>	<u>\$ 50,244,632</u>

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

	<u>2020</u>	<u>2019</u>
Investments - current	\$ 18,138,643	\$ 19,251,843
Investments - board designated	34,561,490	30,836,411
Investments - deferred compensation plan	<u>296,207</u>	<u>156,378</u>
Total investments	<u>\$ 52,996,340</u>	<u>\$ 50,244,632</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2020 and 2019

The following schedule summarizes the investment return in the statements of activities for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 284,621	\$ 678,586
Realized gain on investments	1,426,131	1,225,279
Unrealized gain on investments	<u>3,077,529</u>	<u>1,264,314</u>
	<u>\$ 4,788,281</u>	<u>\$ 3,168,179</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, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 8,216,734	\$ 8,216,734
Land improvements	3,105	3,105
Buildings	16,999,031	16,999,031
Building improvements	800,764	798,809
Leasehold improvements	6,251,070	6,511,473
Plant equipment	3,956,262	3,854,336
Store equipment	3,384,446	3,807,022
Office equipment	4,067,481	3,264,281
Material collection vehicles and equipment	3,705,868	4,403,517
Construction in progress	<u>203,713</u>	<u>10,828</u>
	47,588,474	47,869,136
Less accumulated depreciation	<u>(22,718,503)</u>	<u>(23,152,528)</u>
	<u>\$ 24,869,971</u>	<u>\$ 24,716,608</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2020 and 2019

(6) Accounts payable and accrued expenses

A summary of accounts payable and accrued expenses as of December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Accounts payable	\$ 1,198,395	\$ 785,980
Accrued payroll and related liabilities	1,966,558	1,598,852
Accrued vacation	737,083	712,474
Accrued non-income related taxes	660,818	904,049
Accrued medical expenses (Note 13)	372,700	793,850
Other current liabilities	<u>657,795</u>	<u>502,147</u>
	<u>\$ 5,593,349</u>	<u>\$ 5,297,352</u>

During 2020, the Organization deferred payment of certain eligible employer Social Security taxes as allowed by the Coronavirus, Aid, Relief and Economic Security Act (CARES Act). Under the CARES Act, 50% of the deferred tax liabilities are due by December 31, 2021 with the remaining portion due by December 31, 2022. The current portion of the Organization's deferred payroll taxes are included with accrued payroll and related liabilities above. The non-current portion is included in the accompanying 2020 statement of financial position as deferred payroll taxes payable with non-current liabilities.

(7) Notes payable

A summary of notes payable as of December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</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 (fixed rate of 3.12% per annum) of \$29,657 with a final maturity on December 21, 2021. The note is collateralized by the Mill Creek building.	\$ 453,207	\$ 692,771

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2020 and 2019

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 (fixed rate of 2.95% per annum) of \$111,151 with a final maturity on July 10, 2023. The note is collateralized by the Indian Lake, Murfreesboro II and Mt. Juliet buildings.

3,522,155	4,427,051
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Note Payable issued from the US Small Business Administration ("SBA"). Total borrowings under this note amounted to \$150,000. The note requires monthly payments of principal and interest (fixed rate of 2.75% per annum) of \$641 with a final maturity on June 15, 2050. The note is collateralized by substantially all assets of the Organization and includes accrued interest of \$2,074 at December 31, 2020).

<u>152,074</u>	<u>-</u>
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Total	4,127,436	5,119,822
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Less current portion	<u>1,702,201</u>	<u>1,568,521</u>
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Notes payable, net of current portion	\$ <u>2,425,235</u>	\$ <u>3,551,301</u>
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Each of the promissory note 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, 2020.

Required principal payments on the notes payable as of December 31, 2020 is as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 1,702,201
2022	1,287,510
2023	995,200
2024	3,764
2025	3,868
2026 and thereafter	<u>134,893</u>
	\$ <u>4,127,436</u>

Interest expense associated with notes payable is reflected in the statements of activities for the years ended December 31, 2020 and 2019 as \$172,474 and \$178,741, respectively.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2020 and 2019

(8) Net assets with donor restrictions

Net assets with donor restrictions subject to expenditure for the following specified purposes as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Governance and operating initiatives	\$ <u>22,993</u>	\$ <u>130,421</u>

(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.

At December 31, 2020, one donor receivable of \$10,000,000 makes up the majority of the Organization's contributions and grants receivable. The donor receivable was collected in January 2021.

(10) Leases

The annual rentals under lease contracts for the Organization's retail stores, facilities and equipment totaled \$8,886,251 and \$9,472,536 for 2020 and 2019, 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, 2020 is as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 6,599,000
2022	5,745,000
2023	4,861,000
2024	3,915,000
2025	3,465,000
2026 and later years	<u>13,040,000</u>
	\$ <u>37,625,000</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2020 and 2019

(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. One of the two lease contracts with associated prepaid rent expired during 2019 in which \$27,549,000 of the property's sales value was fully recognized. The remaining deferred gain will be recognized on a monthly basis in the amount of \$40,000 through October 2023 as rent expense and reduction of the prepaid rent.

(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 2020 and 2019, 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 2020 and 2019 totaled \$114,358 and \$172,802, 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. "Investments - deferred compensation plan" on the accompany statements of financial position include investments held at December 31, 2020 and 2019 totaling \$298,007 and \$156,378, respectively, and are designated to service the related deferred compensation plan liabilities.

(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 \$372,700 and \$793,850 at December 31, 2020 and 2019, respectively, and is included in accounts payable and accrued expenses in the accompanying statements of financial position. The liability at December 31, 2020 and 2019 was determined based on the report of a consulting actuary. The Organization has stop loss insurance to cover catastrophic claims.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2020 and 2019

(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 engages in legal, financial, and advertising services from affiliated members of the board of directors. Services received were approximately \$400,000 and \$229,000 during 2020 and 2019, respectively.

(16) Supplemental disclosures of cash flow statement information

	<u>2020</u>	<u>2019</u>
Interest paid	\$ <u>174,796</u>	\$ <u>181,909</u>

During 2020 and 2019, the Organization recognized amortization of prepaid rent associated with the sales-lease back transaction discussed in footnote 11 of approximately \$480,000 and \$493,000, respectively.

During 2020, the Organization received certain contributions of free rent from a lessor. The rent was estimated at its fair value totaling approximately \$225,000 and is included with unrestricted contributions and rent expense in the accompanying financial statements.

(17) Current economic environment

In March 2020 the World Health Organization declared the outbreak of COVID-19 as a pandemic significantly impacting global and United State economies. As the pandemic accelerated, various state municipalities issued "Safer at Home" orders requiring several of the Organization's retail stores and career solutions centers to temporarily close along with a large portion of its employee base being furloughed. The Organization's e-commerce and donation sites remained open but at limited capacity. Additionally, Career Solutions continued to assist clients through remote access. Accordingly, the impact of the pandemic resulted in a decline in revenue for the Organization. In response to the negative financial impact, management of the Company received certain governmental support, including receiving a SBA loan (Note 7) and deferring certain payroll taxes, and the Organization negotiated deferrals of certain required long-term debt principal payments and negotiated rent deferrals for certain retail leases. Management of the Organization believes its current operations and available cash and investments will provide the adequate cash flows required for at least a one-year period from the date of the financial statements. Management continues to monitor the economic environment and mitigate potential negative effects on the Organization in the future resulting from the pandemic.