

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Financial Statements

December 31, 2017 and 2016

(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, 2017 and 2016, 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, 2017 and 2016, 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 17, 2018

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Financial Position

December 31, 2017 and 2016

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 3,120,960	\$ 3,129,541
Investments	6,075,640	-
Accounts receivable and grants receivable, net	642,634	492,750
Inventory	1,799,645	1,588,369
Prepaid expenses	<u>511,873</u>	<u>351,772</u>
Total current assets	12,150,752	5,562,432
Investments - board designated	4,914,398	8,589,161
Investments - deferred compensation plan	290,944	213,640
Land, buildings and equipment, net of accumulated depreciation	38,535,312	41,397,204
Other assets	<u>106,900</u>	<u>114,744</u>
Total assets	\$ <u>55,998,306</u>	\$ <u>55,877,181</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,716,676	\$ 6,109,306
Deferred revenue	56,876	18,079
Current portion of deferred lease incentive	114,482	77,539
Current portion of notes payable	<u>2,001,968</u>	<u>2,103,069</u>
Total current liabilities	7,890,002	8,307,993
Deferred compensation plan liability	290,944	213,640
Deferred lease incentive, net of current portion	794,584	566,143
Deferred rent	591,860	532,567
Notes payable, net of current portion	<u>7,254,413</u>	<u>9,248,380</u>
Total liabilities	<u>16,821,803</u>	<u>18,868,723</u>
Net assets:		
Unrestricted net assets:		
Undesignated	34,088,341	27,780,247
Board designated for long-term investments	<u>4,914,398</u>	<u>8,589,161</u>
Total unrestricted net assets	39,002,739	36,369,408
Temporarily restricted net assets	<u>173,764</u>	<u>639,050</u>
Total net assets	<u>39,176,503</u>	<u>37,008,458</u>
Total liabilities and net assets	\$ <u>55,998,306</u>	\$ <u>55,877,181</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Activities

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Changes in unrestricted net assets:		
Revenues, gains, and other support:		
Retail operations:		
Store sales, net of related discounts	\$ 36,367,983	\$ 46,818,558
Contributed value of donated merchandise	<u>23,285,659</u>	<u>21,768,200</u>
Total retail operations	<u>59,653,642</u>	<u>68,586,758</u>
Revenue, gains, and other support:		
Salvage sales	4,635,995	3,283,921
Grants and fees received	411,329	411,845
Investment income, net	909,249	219,490
Contributions	852,145	982,447
Other	53,340	7,941
United Way contributions	40,886	41,970
Gain (loss) on disposal of land, buildings and equipment	5,303,108	(18,082)
Net assets released from restrictions	<u>767,876</u>	<u>144,991</u>
Total revenues, gains and other support	<u>72,627,570</u>	<u>73,661,281</u>
Expenses:		
Program services	62,516,160	70,077,201
Management and general	6,798,726	7,485,538
Fundraising	<u>679,353</u>	<u>786,964</u>
Total expenses	<u>69,994,239</u>	<u>78,349,703</u>
Increase (decrease) in unrestricted net assets	<u>2,633,331</u>	<u>(4,688,422)</u>
Changes in temporarily restricted net assets:		
Revenues:		
Contributions	302,590	752,263
Net assets released from restrictions	<u>(767,876)</u>	<u>(144,991)</u>
(Decrease) increase in temporarily restricted assets	<u>(465,286)</u>	<u>607,272</u>
Increase (decrease) in net assets	2,168,045	(4,081,150)
Net assets at beginning of year	<u>37,008,458</u>	<u>41,089,608</u>
Net assets at end of year	\$ <u>39,176,503</u>	\$ <u>37,008,458</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,168,045	\$ (4,081,150)
Adjustments to reconcile change in net assets to cash flows provided (used) by operating activities:		
Depreciation	3,130,875	3,460,149
Amortization of prepaid rent	37,980	-
(Gain) loss on disposal of land, buildings and equipment	(5,303,108)	18,082
Unrealized gain on investments	(529,455)	(123,712)
Unrealized gain on investments - deferred compensation plan	(27,144)	(54,805)
(Increase) decrease in operating assets:		
Accounts and grants receivable, net	(149,884)	(71,993)
Inventory	(211,276)	593,998
Prepaid expenses	92,194	31,251
Cash and cash equivalent restricted for debt requirements	-	225,000
Other assets	7,844	17,855
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(392,630)	773,508
Deferred revenue	38,797	18,079
Deferred compensation plan liability	77,306	(751,603)
Deferred lease incentive	265,384	(75,934)
Deferred rent	<u>59,293</u>	<u>119,311</u>
Total adjustments	<u>(2,903,824)</u>	<u>4,179,186</u>
Net cash (used) provided by operating activities	<u>(735,779)</u>	<u>98,036</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(1,620,069)	(794,512)
Proceeds from disposal of land, buildings and equipment	6,363,917	4,200
Purchases of investments	(13,524,526)	(2,195,093)
Proceeds from sale of investments	<u>11,602,944</u>	<u>2,991,899</u>
Net cash provided by investing activities	<u>2,822,266</u>	<u>6,494</u>
Cash flows from financing activities:		
Principal payments on notes payable	<u>(2,095,068)</u>	<u>(2,160,253)</u>
Decrease in cash and cash equivalents	(8,581)	(2,055,723)
Cash and cash equivalents at beginning of year	<u>3,129,541</u>	<u>5,185,264</u>
Cash and cash equivalents at end of year	\$ <u>3,120,960</u>	\$ <u>3,129,541</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statement of Functional Expenses

Year ended December 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 33,524,340	\$ 3,643,448	\$ 169,968	\$ 37,337,756
Occupancy	11,175,674	173,308	-	11,348,982
Employee benefits	4,369,908	411,358	21,823	4,803,089
Payroll taxes	2,945,515	273,454	14,078	3,233,047
Supplies	2,164,631	43,312	67	2,208,010
Advertising, printing and publications	755,397	147,582	380,238	1,283,217
Travel and vehicles	1,154,254	57,456	85,421	1,297,131
Equipment rent and maintenance	670,612	544,722	5,665	1,220,999
Postage	533,342	15,636	-	548,978
Credit card fees	848,689	62	-	848,751
Telephone	293,655	117,978	1,741	413,374
Professional fees	161,211	223,208	-	384,419
Ecommerce fees	369,111	-	-	369,111
Interest	300,648	6,306	-	306,954
Insurance	24,182	370,903	352	395,437
Noncapitalized purchases	47,437	9,059	-	56,496
Dues payment to affiliated organization	-	169,368	-	169,368
Cost of goods sold	190,851	-	-	190,851
Employee relations	71,907	25,379	-	97,286
Other	240,777	9,895	-	250,672
Bank service charges	20,884	48,731	-	69,615
Conferences and meetings	6,387	5,168	-	11,555
Dues	3,854	12,855	-	16,709
Awards and grants	<u>-</u>	<u>1,557</u>	<u>-</u>	<u>1,557</u>
Total expense before depreciation	59,873,266	6,310,745	679,353	66,863,364
Depreciation	<u>2,642,894</u>	<u>487,981</u>	<u>-</u>	<u>3,130,875</u>
Total expenses	\$ <u>62,516,160</u>	\$ <u>6,798,726</u>	\$ <u>679,353</u>	\$ <u>69,994,239</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statement of Functional Expenses

Year ended December 31, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 37,671,317	\$ 3,982,880	\$ 167,068	\$ 41,821,265
Occupancy	10,931,456	169,253	-	11,100,709
Employee benefits	6,781,395	570,383	31,422	7,383,200
Payroll taxes	3,671,111	317,198	15,595	4,003,904
Supplies	1,654,565	77,772	317	1,732,654
Advertising, printing and publications	649,762	174,551	489,043	1,313,356
Travel and vehicles	1,087,957	64,326	54,563	1,206,846
Equipment rent and maintenance	595,903	536,866	5,190	1,137,959
Postage	764,447	11,652	464	776,563
Credit card fees	925,472	248	-	925,720
Telephone	331,196	132,866	2,664	466,726
Professional fees	407,057	211,890	39	618,986
Ecommerce fees	343,429	-	-	343,429
Interest	362,852	11,165	-	374,017
Insurance	25,988	384,171	352	410,511
Noncapitalized purchases	42,436	11,251	1,845	55,532
Dues payment to affiliated organization	-	167,544	-	167,544
Cost of goods sold	556,673	-	-	556,673
Employee relations	76,890	30,900	-	107,790
Other	225,740	7,758	18,402	251,900
Bank service charges	21,547	66,032	-	87,579
Conferences and meetings	16,681	5,247	-	21,928
Dues	7,412	13,780	-	21,192
Awards and grants	<u>226</u>	<u>3,345</u>	<u>-</u>	<u>3,571</u>
Total expenses before depreciation	67,151,512	6,951,078	786,964	74,889,554
Depreciation	<u>2,925,689</u>	<u>534,460</u>	<u>-</u>	<u>3,460,149</u>
Total expenses	\$ <u>70,077,201</u>	\$ <u>7,485,538</u>	\$ <u>786,964</u>	\$ <u>78,349,703</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

(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.

Board designated - net assets designated by the Organization's board of directors 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, 2017 or 2016.

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. 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, 2017 and 2016

(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.

(c) Inventory and contributed merchandise

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 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 by people with disabilities and other disadvantaging conditions before it reaches its point of sale.

(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) 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

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

(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.

(g) 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 ("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.

(h) 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.

(i) 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.

(j) 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, 2017 and 2016

(k) Advertising and promotion costs

The Organization expenses advertising costs as incurred. Advertising costs charged to expense totaled \$1,074,905 in 2017 and \$1,078,543 in 2016.

(l) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between December 31, 2017 and April 17, 2018 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) 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, 2017.

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Investments:		
Money market funds	\$ 3,148,110	\$ 482,896
Certificate of deposit	100,000	100,000
Mutual funds	5,138,848	4,843,515
Municipal bonds	302,748	485,862
Equities - Domestic	1,147,039	1,581,963
Equities - Foreign	<u>1,444,237</u>	<u>1,308,565</u>
Total investments	<u>\$ 11,280,982</u>	<u>\$ 8,802,801</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

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

	<u>2017</u>	<u>2016</u>
Investments - current	\$ 6,075,640	\$ -
Investments - board designated as long-term investments	4,914,398	8,589,161
Investments - deferred compensation plan	<u>290,944</u>	<u>213,640</u>
Total investments	\$ <u>11,280,982</u>	\$ <u>8,802,801</u>

The following schedule summarizes the investment income in the statements of activities for 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 140,913	\$ 173,429
Realized gain (loss) on investments	238,881	(77,651)
Unrealized gain on investments	<u>529,455</u>	<u>123,712</u>
	\$ <u>909,249</u>	\$ <u>219,490</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.

(4) Land, buildings and equipment

A summary of land, buildings and equipment as of December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 9,974,449	\$ 10,569,749
Land improvements	106,591	106,591
Buildings	29,333,325	30,112,684
Building improvements	3,343,585	3,590,671
Leasehold improvements	6,898,130	6,250,189
Plant equipment	4,324,150	3,536,338
Store equipment	4,388,530	4,403,780
Office equipment	4,387,657	4,335,995
Material collection vehicles and equipment	4,409,432	4,377,273
Construction in progress	<u>163,762</u>	<u>285,677</u>
	67,329,611	67,568,947
Less accumulated depreciation	<u>(28,794,299)</u>	<u>(26,171,743)</u>
	\$ <u>38,535,312</u>	\$ <u>41,397,204</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

(5) Accounts payable and accrued expenses

A summary of accounts payable and accrued expenses as of December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Accounts payable	\$ 535,315	\$ 405,427
Accrued payroll and related liabilities	1,925,096	1,716,685
Accrued vacation	737,352	817,419
Gift card liability, net of reserve of \$75,332 and \$56,361 in 2017 and 2016, respectively	257,625	293,277
Accrued non-income related taxes	589,947	530,256
Accrued medical expenses (Note 12)	1,264,726	1,987,696
Other current liabilities	<u>406,615</u>	<u>358,546</u>
	<u>\$ 5,716,676</u>	<u>\$ 6,109,306</u>

(6) Notes payable

A summary of notes payable as of December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</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 \$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.	\$ 1,149,367	\$ 1,656,805
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.	1,350,444	1,666,663

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

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

6,756,570	7,870,165
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Promissory note issued to the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County repaid during 2017.

<u>-</u>	<u>157,816</u>
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Total	9,256,381	11,351,449
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Less current installments	<u>2,001,968</u>	<u>2,103,069</u>
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Notes payable, excluding current installments	\$ <u>7,254,413</u>	\$ <u>9,248,380</u>
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Each of the loan agreements above contain various financial and other covenants. The Organization was in compliance with a debt service ratio financial covenant at December 31, 2017.

Required principal payments on the notes payable as of December 31, 2017 is as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 2,001,968
2019	2,051,901
2020	1,650,763
2021	1,605,852
2022	1,292,989
2023	<u>652,908</u>
	\$ <u>9,256,381</u>

Interest expense associated with notes payable is reflected in the statements of activities for the years ended December 31, 2017 and 2016 as \$306,954 and \$374,017, respectively.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

(7) Net assets

Temporarily restricted net assets as of December 31, 2017 and 2016 are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Veteran training	\$ 2,640	\$ 5,077
Governance and operating initiatives	171,124	598,796
Community specific operations	<u>-</u>	<u>35,177</u>
	<u>\$ 173,764</u>	<u>\$ 639,050</u>

(8) 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.

(9) Leases

The annual rentals under lease contracts for the Organization's retail stores, facilities and equipment totaled \$7,934,267 and \$7,431,693 for 2017 and 2016, 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, 2017 is as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 6,859,000
2019	5,268,000
2020	4,473,000
2021	4,116,000
2022	3,681,000
2023 and later years	<u>13,736,000</u>
	<u>\$ 38,133,000</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

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(10) Sale-leaseback transaction

On November 1, 2017, the Organization entered into a sale-leaseback transaction agreement under which a building, building improvements, and land were sold to a third party for approximately \$6,045,000, net of related closing costs, and subsequently leased back pursuant to an eighteen-month operating lease. Contractual monthly rental payments under the lease are \$10. Additionally, the Organization deferred approximately \$290,275 of the sale proceeds representing prepaid rent for the fair value of rent over the lease term which is included with prepaid expenses in the 2017 accompanying statement of financial position. The prepaid rent is reduced and rent expense is recognized for approximately \$16,700 per month. The remaining gain on the sale of the property totaling approximately \$5,019,000 was recognized in 2017 as the lease represents only a minor portion of the property sold.

(11) 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 2017 and 2016, 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 2017 and 2016 totaled \$195,428 and \$384,606, 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, 2017 and 2016 amounted to \$290,944 and \$213,640, respectively.

(12) 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 \$1,264,726 and \$1,987,696 at December 31, 2017 and 2016, 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.

(13) 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.

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(14) Related party transactions

During 2017, the Organization purchased legal services in the amount of \$19,550 from firms affiliated with members of the board of directors.

The Organization owes a note payable to a bank affiliated with a member of the board. The note payable has an outstanding balance of \$1,350,444 and \$1,666,663 as of December 31, 2017 and 2016, respectively, bears interest at a rate of 2.57% and matures in December 2021.

The Organization owed a note payable to a bank affiliated with a member of the board. The note payable had an outstanding balance of \$157,816 as of December 31, 2016, bears interest at a rate of 5.08% and matured in June 2017.

(15) Supplemental disclosures of cash flow statement information

	<u>2017</u>	<u>2016</u>
Interest paid	\$ <u>311,655</u>	\$ <u>378,998</u>

During 2017, the Organization recognized \$290,275 of fair market value rent in conjunction with the sale-leaseback transaction (Note 10).