Goodwill Industries of Middle Tennessee, Inc.

Financial Statements
For the Years Ended December 31, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Goodwill Industries of Middle Tennessee, Inc.

Opinion

We have audited the financial statements of Goodwill Industries of Middle Tennessee, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2022, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the Organization, as of and for the year ended December 31, 2021, were audited by other auditors, whose report, dated April 20, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Blankenship CPA Group, pllc

Blankenship CPA Group, PLLC
Nashville, Tennessee
April 5, 2023

Goodwill Industries of Middle Tennessee, Inc.

Statements of Financial Position

December 31, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 17,056,141	$ 5,848,816
Investments	-	44,628,144
Accounts receivable, net	1,641,497	913,255
Inventory	3,313,576	2,425,609
Prepaid expenses	417,676	820,807
Total current assets	22,428,890	54,636,631
Investments, board designated	73,104,689	38,454,665
Investments, deferred compensation plan	536,058	489,037
Prepaid rent, net of current portion	-	396,280
Operating lease right-of-use assets, net	35,404,778	-
Land, buildings, and equipment, net	30,651,607	25,733,892
Other assets	92,428	71,783
Total assets	**$ 162,218,450**	**$ 119,782,288**
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 4,758,923	$ 4,193,974
Deferred revenues	220,571	205,592
Deferred lease incentive, current portion	-	135,622
Deferred gain from sale-leaseback, current portion	-	477,127
Operating lease liabilities, current portion	5,771,724	-
Notes payable, current portion	1,127,053	1,287,510
Total current liabilities	11,878,271	6,299,825
Deferred compensation plan liability	538,921	493,181
Deferred rent	-	949,401
Deferred lease incentive, net of current portion	-	511,802
Deferred gain on sale-leaseback, net of current portion	-	396,280
Operating lease liabilities, net of current portion	30,784,942	-
Notes payable, net of current portion	2,186,915	1,139,767
Total liabilities	45,389,049	9,790,256
Net assets		
Without donor restrictions		
Undesignated	43,578,985	71,448,459
Board designated for long-term investments	73,104,689	38,454,665
	116,683,674	109,903,124
With donor restrictions	145,727	88,908
Total net assets	116,829,401	109,992,032
Total liabilities and net assets	**$ 162,218,450**	**$ 119,782,288**

Goodwill Industries of Middle Tennessee, Inc.
Statements of Activities
For the Years Ended December 31, 2022 and 2021

	2022	2021
Changes in net assets without donor restrictions		
Revenues, gains, and other support		
Retail operations		
Store sales, net of related discounts	$ 34,027,406	$ 37,770,768
Contributions of nonfinancial assets, donated merchandise	42,698,710	31,276,127
Total retail operations	76,726,116	69,046,895
Salvage sales	6,603,925	5,419,958
Grants and fees received	831,709	618,290
Investment return (loss)	(10,924,787)	5,826,789
Contributions of cash and other financial assets	1,213,462	859,388
Contributions of nonfinancial assets	48,745	-
Gain on disposal of land, buildings, and equipment	53,434	620,097
Other	90,927	30,765
Net assets released from restrictions	63,181	224,105
Total revenue, gains, and other support	74,706,712	82,646,287
Operating expenses		
Program services	59,823,425	53,466,783
Supporting services		
Management and general	8,534,593	7,690,563
Fundraising	395,848	353,284
Total expenses	68,753,866	61,510,630
Change in net assets without donor restrictions	5,952,846	21,135,657
Change in net assets with donor restrictions		
Revenues		
Contributions of cash and other financial assets	120,000	290,020
Net assets released from restrictions	(63,181)	(224,105)
Change in net assets with donor restrictions	56,819	65,915
Change in net assets	6,009,665	21,201,572
ASC 842 implementation adjustment	827,704	-
Net assets, beginning of year	109,992,032	88,790,460
Net assets, end of year	**$ 116,829,401**	**$ 109,992,032**

Goodwill Industries of Middle Tennessee, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Salaries and wages	$ 32,117,649	$ 4,240,753	$ 225,553	$ 36,583,955
Occupancy	11,729,027	474,548	14,882	12,218,457
Employee benefits	4,307,071	542,460	25,422	4,874,953
Office and related	3,534,456	197,803	32,356	3,764,615
Payroll taxes	2,225,491	304,198	17,555	2,547,244
Other	1,174,752	829,617	64,031	2,068,400
Credit card and other service fees	1,754,935	4,223	811	1,759,969
Insurance	154,974	952,438	-	1,107,412
Professional fees	151,202	524,979	-	676,181
Advertising and promotion	336,607	18,252	13,748	368,607
Travel	270,918	35,516	653	307,087
Cost of goods sold	210,275	-	-	210,275
Payments to affiliated organization	-	187,356	-	187,356
Interest and fees	115,090	5,480	126	120,696
Conferences and meetings	7,580	3,897	96	11,573
Total expenses before depreciation	58,090,027	8,321,520	395,233	66,806,780
Depreciation	1,733,398	213,073	615	1,947,086
Total expenses	**$ 59,823,425**	**$ 8,534,593**	**$ 395,848**	**$ 68,753,866**

Goodwill Industries of Middle Tennessee, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Salaries and wages	$ 27,716,520	$ 4,006,061	$ 210,691	$ 31,933,272
Occupancy	11,068,743	432,109	14,887	11,515,739
Employee benefits	4,496,871	515,502	25,364	5,037,737
Office and related	3,156,263	160,934	25,596	3,342,793
Payroll taxes	1,901,208	270,704	16,108	2,188,020
Other	936,452	762,744	40,180	1,739,376
Credit card and other service fees	1,630,652	3,653	427	1,634,732
Insurance	148,831	784,352	-	933,183
Professional fees	31,272	404,439	-	435,711
Advertising and promotion	280,402	63,270	19,323	362,995
Travel	189,058	20,708	-	209,766
Cost of goods sold	181,728	-	-	181,728
Payments to affiliated organization	-	178,896	-	178,896
Interest and fees	132,143	6,415	-	138,558
Conferences and meetings	100	1,255	-	1,355
Total expenses before depreciation	51,870,243	7,611,042	352,576	59,833,861
Depreciation	1,596,540	79,521	708	1,676,769
Total expenses	**$ 53,466,783**	**$ 7,690,563**	**$ 353,284**	**$ 61,510,630**

Goodwill Industries of Middle Tennessee, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash and cash equivalents, beginning of year	$ 5,848,816	$ 9,375,355
Cash flows from operating activities		
Change in net assets	6,009,665	21,201,572
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,947,086	1,676,769
Noncash lease expense	355,862	-
Amortization of prepaid rent	-	468,263
Bad debt expense (recovery)	43,483	(30,742)
Gain on disposal of land, buildings, and equipment	(53,434)	(620,097)
Unrealized (gain) loss on investments	12,445,380	(3,223,183)
Unrealized gain on investments, deferred compensation plan	(47,021)	(65,401)
Change in:		
Contributions and grants receivable	-	10,444,306
Accounts receivable	(771,725)	(105,893)
Inventory	(887,967)	(525,767)
Prepaid expenses	(47,091)	221,511
Other assets	(20,645)	7,490
Accounts payable and accrued expenses	564,949	(1,636,149)
Deferred revenues	14,979	48,403
Deferred compensation plan liability	45,740	195,175
Deferred lease incentive	-	(97,914)
Deferred rent	-	(100,079)
Net cash provided (used) by operating activities	19,599,261	27,858,264
Cash flows from investing activities		
Purchases of land, buildings, and equipment	(6,872,750)	(2,535,219)
Proceeds from disposal of land, buildings, and equipment	61,383	137,497
Purchases of investments	(95,828,900)	(69,208,403)
Proceeds from sale of investments	93,361,640	41,921,481
Net cash provided (used) by investing activities	(9,278,627)	(29,684,644)
Cash flows from financing activities		
Principal payments on notes payable	(1,513,309)	(1,700,159)
Proceeds from issuance of notes payable	2,400,000	-
Net cash provided (used) by financing activities	886,691	(1,700,159)
Net change in cash and cash equivalents	11,207,325	(3,526,539)
Cash and cash equivalents, end of year	**$ 17,056,141**	**$ 5,848,816**

Note 1. **Organization and Nature of Activities**

Goodwill Industries of Middle Tennessee, Inc. (the Organization) was incorporated in 1958 as a Tennessee nonprofit corporation. The primary purpose of the Organization is to provide transformative employment and training programs and opportunities to individuals in the communities served by the Organization who have barriers to employment, including individuals with disabilities and others who have trouble finding and keeping jobs, such as formerly incarcerated, veterans, immigrants, seniors, and youth who dropped out of high school. These services are funded by and through the collection and sale of donated goods and financial contributions.

Note 2. **Summary of Significant Accounting Policies**

Basis of Presentation
The Organization presents its financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions. The governing board has designated, from net assets without donor restrictions, net assets for particular purposes.

Net assets with donor restrictions – Net assets subject to donor- (or certain 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. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Use of Estimates
The preparation of financial statements in conformity with US 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
For purposes of reporting the statements of cash flows, the Organization considers all cash accounts which are not subject to withdrawal restrictions or penalties and all highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash equivalents.

Note 2. **Summary of Significant Accounting Policies**

Investments

Investments in marketable securities with readily determinable fair values are reported 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 recognized as increases or decreases in net assets without donor restrictions unless a donor or the law restricts their use.

Inventory and Contributed Nonfinancial Assets

The inventory of merchandise consists of nonfinancial assets contributed to the Organization. US GAAP requires that contributions be recognized as revenue when received.

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
Software	3 years
Material collection vehicles	2 – 7 years

Leases (New Accounting Standard Adopted in 2022)

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statements of activities and functional expenses. The Organization adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Organization's historical accounting treatment under ASC Topic 840, *Leases*.

Note 2. **Summary of Significant Accounting Policies**

The Organization elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to nonpublic companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Organization has made an accounting policy election to use the risk-free rate as the discount rate if the rate implicit in the lease is not readily determinable. The risk-free rate is the rate of a zero coupon US Treasury instrument for the same period of time as the lease term.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Organization's operating leases of approximately $40,571,305 and $39,743,601, respectively, at Organization. The adoption of the new lease standard did not materially impact changes in net assets or cash flows and resulted in a cumulative-effect adjustment to the opening balance of net assets of $827,704.

Note 2. **Summary of Significant Accounting Policies**

2021 Deferred Rent and Lease Incentives

Deferred rent and 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.

Revenue Recognition

Sales

The Organization recognizes sales revenue, net of sales taxes and estimated sales return, at the time it sells merchandise to the customer. The sales return reserve and estimation process is evaluated and adjustments are made when appropriate.

Store-value Cards

The Organization defers revenues from store-value cards, which include gift cards and returned merchandise credits, and recognizes sales revenue when the cards are redeemed. The liability associated with outstanding store-value cards was $220,571 and $205,592 at December 31, 2022 and 2021, respectively, and these amounts are included in deferred revenue on the statements of financial position. The Organization recognizes income from unredeemed store-value cards based upon historical redemption patterns. Amounts recognized as breakage were insignificant for 2022 and 2021.

Contributions of Financial Assets 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 the 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 recorded 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 the initial recognition. Revenue from grants with donor conditions is recorded based on expenses incurred since these grants generally must be used for allowable and reasonable qualifying expenses (or costs).

Contributions of Nonfinancial Assets (New Accounting Standard Adopted in 2022)

The Organization adopted ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, retroactive to January 1, 2021. Accordingly, amounts are segregated on the statements of activities between contributions of cash and other financial assets and contributions of nonfinancial assets. Additional required disclosures have been added to note 11.

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.

Note 2. **Summary of Significant Accounting Policies**

Income Taxes

The Organization follows the FASB ASC guidance for uncertainty in income taxes recognized in an entity's financial statements. The 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 50% 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 US Federal information tax return.

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 related, and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits and travel cost, which are allocated on the basis of estimates of time and effort.

Advertising and Promotion Cost

The Organization expenses advertising costs as incurred. Such costs totaled $368,607 and $362,995 in 2022 and 2021, respectively.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Note 3. **Liquidity and Availability**

A summary of the Organization's financial assets, 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:

	2022	**2021**
Financial assets		
Cash and cash equivalents	$ 17,056,141	$ 5,848,816
Investments	-	44,628,144
Accounts receivable	1,641,497	913,255
Total financial assets at year-end	18,697,638	51,390,215
Less amounts not available to be used within one year		
Restricted by donors for specific purposes	(145,727)	(88,908)
Financial assets available to meet cash needs for general expenditures within one year	**$ 18,551,911**	**$ 51,301,307**

Note 3. **Liquidity and Availability**

Board designated investments of $73,104,689 and $38,454,665 as of December 31, 2022 and 2021, 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.

The Organization also holds a $2,500,000 line of credit which could be used to support operations if necessary (see note 9).

Note 4. **Investments**

The Organization's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives the highest priority to fair values determined using unadjusted quoted prices in active markets for identical asset or liabilities (Level 1) and the lowest priority to fair values determined using unobservable inputs (Level 3). An asset's classification is determined based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 – Quoted market prices (unadjusted) in active markets for identical assets.

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

Investments stated at fair value consist of money market funds, mutual funds, and exchange traded funds. These fair values are determined based on Level 1 inputs.

The Organization uses net asset value (NAV) per share, or its equivalent, as a practical expedient to estimate the fair values of investments common trust funds that hold investments in a variety of investment instruments including domestic government and corporate debt and equity securities, mutual funds, limited partnerships, and foreign equity securities, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy. The net asset value is determined by the funds' manager at the end of each month. Units are issued and redeemed only at the month-end asset value.

Investments consist of the following:

	2022	**2021**
Investments at fair value		
Cash equivalents mutual funds	$ 7,065,519	$ 3,467,955
Other mutual funds	21,070,666	29,229,476
	28,136,185	32,697,431
Investments at NAV		
Common trust funds	45,504,562	50,874,415
Total investments	**$ 73,640,747**	**$ 83,571,846**

Note 4. **Investments**

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

	2022	2021
Investments, current	$ -	$ 44,628,144
Investments, board designated	73,104,689	38,454,665
Investments, deferred compensation plan	536,058	489,037
Total investments	**$ 73,640,747**	**$ 83,571,846**

The following schedule summarizes the investment return (loss) in the statements of activities:

	2022	2021
Interest and dividend income	$ 714,104	$ 439,808
Realized gain on investments	806,489	2,163,798
Unrealized gain (loss) on investments	(12,445,380)	3,223,183
	$ (10,924,787)	**$ 5,826,789**

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

Note 5. **Funds Functioning as Endowment**

The Organization's endowment consists of amounts that have been designated by the board of directors to be invested to provide income for generally a long but not necessarily specified period.

Changes in endowment assets are as follows:

	2022	2021
Balance, beginning of year	$ 38,454,665	$ 34,561,490
Investment return, net	(6,971,680)	3,893,175
Designations	41,621,704	-
Balance, end of year	**$ 73,104,689**	**$ 38,454,665**

Note 6. **Land, Buildings, and Equipment**

A summary of land, buildings, and equipment is as follows:

	2022	2021
Land	$ 8,784,409	$ 8,216,734
Land improvements	3,105	3,105
Buildings	19,775,217	17,963,516
Building improvements	1,660,288	1,089,671
Leasehold improvements	5,958,419	5,794,005
Plant and store equipment	8,021,109	7,377,584
Software	1,654,980	1,560,672
Computer equipment	1,217,381	1,143,724
Office equipment	897,736	897,736
Material collection vehicles and equipment	3,706,676	3,308,525
Construction in progress	2,430,290	395,425
	54,109,610	47,750,697
Less: accumulated depreciation	(23,458,003)	(22,016,805)
	$ 30,651,607	**$ 25,733,892**

Note 7. **Leases**

The Organization leases real estate, including store locations, and equipment under operating lease agreements that have initial terms ranging from 3 to 15 years. Some leases include one or more options to renew, generally at the Organization's sole discretion, with renewal terms that can extend the lease term up to 10 years. In addition, certain leases contain termination options, where the rights to terminate are held by either the Organization, the lessor, or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Organization will exercise that option. The Organization's operating leases generally do not contain any material restrictive covenants or residual value guarantees. The Organization is also a sub-lessor in a real estate lease with initial term of 5 years.

Note 7. **Leases**

Operating lease cost and sublease income is recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term. The components of lease expense are as follows for the year ended December 31, 2022:

Operating lease cost	$	6,172,340
Variable lease cost		1,145,822
Sublease income, gross		(61,897)
Total lease cost	**$**	**7,256,265**

Total rent expense for operating leases was $8,498,520 for 2021.

Supplemental balance sheet information related to leases is as follows as of December 31, 2022:

Operating leases:		
Operating lease right-of-use assets	$	35,404,778
Operating lease liabilities, current portion	$	5,771,724
Operating lease liabilities, net of current portion		30,784,942
Total operating lease liabilities	**$**	**36,556,666**
Weighted-average remaining lease term		7.52 years
Weighted-average discount rate		1.70%

Note 7. **Leases**

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the operating lease liabilities recognized on the statement of financial position are as follows as of December 31, 2022:

Year ended December 31,	
2023	$ 6,336,840
2024	5,873,090
2025	5,384,108
2026	4,802,635
2027	4,141,615
Thereafter	12,425,605
Total lease payments	38,963,893
Less imputed interest	(2,407,227)
Present value of lease liabilities	**$ 36,556,666**

Future minimum lease commitments, as determined under Topic 840, for all noncancelable operating leases were as follows as of December 31, 2021:

Year ended December 31,	
2023	$ 5,341,000
2024	4,690,000
2025	4,253,000
2026	3,536,000
2027	2,862,000
Thereafter	9,079,000
Total minimum lease payments	**$ 29,761,000**

Note 7. **Leases**

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 cash, net of related closing costs, and subsequently leased back pursuant to an operating lease agreement of five years. Contractual monthly rental payments under the lease is $10. The Organization deferred a portion of the sale proceeds representing prepaid rent for the fair value of rent over the lease term, which was included with prepaid expenses in the 2021 statement of financial position. The related deferred gain was recognized on a monthly basis in the amount of $40,000 as rent expense and reduction of the prepaid rent under Topic 840 through December 2021. On adoption of Topic 842 on January 1, 2022, the remaining deferred gain was recognized.

The Organization has no leases that have not yet commenced as of December 31, 2022 that create significant rights and obligations for the Organization.

Note 8. **Accounts Payable and Accrued Expenses**

A summary of accounts payable and accrued expenses is as follows:

	2022	**2021**
Accounts payable	$ 515,745	$ 405,876
Accrued payroll and related liabilities	1,481,733	1,388,117
Accrued vacation	941,611	767,797
Accrued non-income related taxes	934,730	801,625
Accrued medical expenses (note 13)	273,512	361,300
Other current liabilities	611,592	469,259
	$ 4,758,923	**$ 4,193,974**

During 2020, the Organization deferred payment of certain eligible employer Social Security taxes allowed by the Coronavirus, Aid, Relief, and Economic Security Act (CARES Act). Under the CARES Act, 50% of the deferred tax liabilities were due December 31, 2021 with the remaining portion due by December 31, 2022.

Note 9. **Notes Payable**

A summary of notes payable is as follows:

	2022	2021
Promissory note issued to 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 Hendersonville, Murfreesboro II, and Mt. Juliet buildings.	$ 991,538	$ 2,275,486
Note payable issued to the US Small Business Administration. Total borrowings under this note amounted to $150,000. The note required 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 was collateralized by substantially all assets of the Organization and included accrued paid-in-kind interest of $1,791 at December 31, 2021. The Organization repaid this note in full in 2022.	-	151,791
Note payable to Tennessee Rural Development Fund, LLC (TNRDF) pursuant to a term loan facility. Total borrowings under this note amounted to $2,400,000. The proceeds of the borrowing are for the purchase of a specific property and building. The note requires monthly payments of principal and interest (fixed rate of 2.5% per annum) of $16,002 with a final maturity on May 2, 2037. The note is not collateralized, but is subject to a negative pledge agreement related to security interest against the Crossville property.	2,322,430	-
Total	3,313,968	2,427,277
Less: current portion	(1,127,053)	(1,287,510)
Notes payable, net of current portion	**$ 2,186,915**	**$ 1,139,767**

Each of the above notes payable contain various financial and other covenants, including maintaining a debt service coverage ratio and a minimum liquidity requirement. The Organization was in compliance with these requirements at December 31, 2022. The TNRDF loan agreement stipulates that a bank, as a party to the transaction, is entitled to certain tax credits. Should the bank fail to receive the tax credits, the Organization's interest rate on the loan is subject to increase to the agreed rate at the bank's sole discretion.

Note 9. **Notes Payable**

Required principal payments on the notes payable are as follows:

Year ended December 31,		
2023	$	1,127,053
2024		138,942
2025		142,455
2026		146,058
2027		149,752
Thereafter		1,609,708
Total	**$**	**3,313,968**

The Organization has a line-of-credit agreement with a bank that expires May 25, 2023. There were no draws on the line at December 31, 2022. The line allows for borrowings up to $2,500,000. Borrowings bear interest at a variable rate based on the 1 month CME Term Secured Overnight Financing Rate (Term SOFR) plus 1.15% (2.21% at December 31, 2022). Interest is payable monthly, and payment of principal and any outstanding interest is due upon maturity. The line is secured by substantially all assets of the Organization.

Interest expense associated with notes payable is reflected in the statements of functional expenses for the years ended December 31, 2022 and 2021 as $105,238 and $111,510, respectively.

Note 10. **Net Assets With Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods:

	2022	**2021**
Subject to expenditure for specified purpose:		
Governance and operating initiatives	$ 145,727	$ 88,908

Note 11. **Contributed Nonfinancial Assets**

At December 31, contributed nonfinancial assets recognized within the statements of financial position included:

	2022	2021
Donated merchandise in inventory	$ 3,313,576	$ 2,425,609

For the years ended December 31, contributed nonfinancial assets recognized within the statements of activities included:

	2022	2021
Donated merchandise in retail operations revenue	$ 42,698,710	$ 31,276,127
Other	48,745	-
	$ 42,747,455	**$ 31,276,127**

Contributed nonfinancial assets are monetized through sales at the Organization's retail establishments or through salvage and recycling programs and are, as such utilized in program services.

Donated Merchandise in Inventory
The Organization considers the fair value of contributed merchandise to be the excess of selling price over processing cost. The combined captions "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.

Donated Merchandise in Retail Operations Revenue
The Organization receives donated nonfinancial assets which it then processes and sells through various channels. Nonfinancial assets are processed to determine if they can be sold, salvaged, or recycled or if they must be disposed. The nonfinancial assets sold are reflected in the statements of activities as "Contributions of nonfinancial assets, donated merchandise." The fair value noted is calculated as the retail gross sale price as highest and best use, less costs to bring the merchandise to market. Donated nonfinancial assets which are not sold are not recognized in the financial statements as costs to process out the assets exceeds the revenue earned as a whole. Unless otherwise noted, contributed nonfinancial assets did not have donor restrictions.

Other
Other contributed nonfinancial assets are not material.

Contributed Services
Contributed services are reflected in the financial statements at the estimated fair value of the services received only when those services either (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Though the Organization receives donated services from a variety of unpaid volunteers, no amounts have been recognized because the criteria for recognition of such volunteer effort has not been satisfied.

Note 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. 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 2022 and 2021, 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 expenses for 2022 and 2021 totaled $280,174 and $254,061, 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 Internal Revenue Code Section 457. The 457 Plan provides for pre-tax salary deferrals for key employees. "Investments, deferred compensation plan" on the accompanying statements of financial position include investments held at December 31, 2022 and 2021 totaling $536,058 and $489,037, respectively, and are designated to service the related deferred compensation plan liabilities.

Note 13. **Self-funded Health Insurance**

The Organization is self-funded for health benefits for eligible employees and their dependents. Health insurance expenses are 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 $273,512 and $361,300 at December 2022 and 2021, respectively, and is included in accounts payable and accrued expenses in the accompanying statements of financial position. The liability at December 31, 2022 and 2021 was determined on the report of a consulting actuary. The Organization has stop loss insurance to cover catastrophic claims.

Note 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.

Note 15. **Concentrations**

The Organization generally maintains cash and cash equivalents on deposit at banks in excess of federally insured amount. 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 statements of financial position.

Note 16. **Supplemental Disclosures of Cash Flow Statement Information**

Interest for the year is as follows:

	2022	2021
Interest paid	$ 103,730	$ 113,191

Supplemental cash flow information related to leases is as follows for the year ended December 31, 2022:

Cash paid for amounts included in measurement of lease liabilities:	
Operating cash outflows – payments on operating leases	$ 6,250,808
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	$ 81,872

In 2022, the Organization disposed of fully depreciated equipment in the amount of $505,888.

The Organization recognized amortization of prepaid rent associated with the sales-lease back transaction discussed in the note 7 of approximately $480,000 on implementation of ASC Topic 842, *Leases*, effective January 1, 2022.

Note 17. **Subsequent Events**

Management has evaluated subsequent events through April 5, 2023, the date on which the financial statements were available for issuance.

The Organization formed Goodwill Industries of Middle TN Elsine Katz Foundation (the Foundation) in July 2022 and received notice of its tax exemption from the Internal Revenue Service in February 2023. The Foundation was formed as a supporting organization to manage any assets contributed to it by the Organization, to maintain and manage any real property contributed to it, and to provide financial support to the Organization.

In November 2022 the Organization purchased real estate in Lebanon, Tennessee for $1,500,000 upon which it intends to construct and equip a new retail store and donation site. In connection with the project, in March 2023 the Organization entered into a bond purchase and loan agreement with The Industrial Development Board of Wilson County and a financial institution for financing in the form of The Industrial Development Board of Wilson County Revenue Bond (Goodwill Industries of Middle Tennessee, Inc.), Series 2023, in the amount of $5,534,000.