

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Financial Statements

December 31, 2021 and 2020

(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.:

Opinion

We have audited the accompanying financial statements of Goodwill Industries of Middle TN, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 matters that we identified during the audit.

LBMC, PC

Brentwood, Tennessee

April 20, 2022

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Financial Position

December 31, 2021 and 2020

Assets

	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 5,848,816	\$ 9,375,355
Investments	44,628,144	18,138,643
Contributions and grants receivable	-	10,444,306
Accounts receivable, less reserve for doubtful accounts of \$3,770 and \$52,556 in 2021 and 2020, respectively	913,255	776,620
Inventory	2,425,609	1,899,842
Prepaid expenses	289,047	510,558
Current portion of prepaid rent	<u>531,760</u>	<u>522,896</u>
Total current assets	54,636,631	41,668,220
Investments - board designated	38,454,665	34,561,490
Investments - deferred compensation plan	489,037	296,207
Land, buildings and equipment, net of accumulated depreciation	25,733,892	24,869,971
Prepaid rent, net of current portion	396,280	873,407
Other assets	<u>71,783</u>	<u>79,273</u>
Total assets	\$ <u>119,782,288</u>	\$ <u>102,348,568</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued expenses	\$ 4,294,515	\$ 5,593,349
Deferred revenue	105,051	157,189
Current portion of notes payable	1,287,510	1,702,201
Current portion of deferred lease incentive	135,622	139,390
Current portion of deferred gain from sale-leaseback	<u>477,127</u>	<u>477,127</u>
Total current liabilities	6,299,825	8,069,256
Deferred compensation plan liability	493,181	298,007
Notes payable, net of current portion	1,139,767	2,425,235
Deferred rent	949,401	1,049,480
Deferred lease incentive, net of current portion	511,802	605,948
Deferred gain on sale-leaseback, net of current portion	396,280	873,407
Deferred payroll taxes payable	<u>-</u>	<u>236,775</u>
Total liabilities	<u>9,790,256</u>	<u>13,558,108</u>
Net assets:		
Without donor restrictions		
Undesignated	71,448,459	54,205,977
Board designated for long-term investments	<u>38,454,665</u>	<u>34,561,490</u>
	109,903,124	88,767,467
With donor restrictions	<u>88,908</u>	<u>22,993</u>
Total net assets	<u>109,992,032</u>	<u>88,790,460</u>
Total liabilities and net assets	\$ <u>119,782,288</u>	\$ <u>102,348,568</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Changes in net assets without donor restrictions:		
Revenues, gains, and other support:		
Retail operations:		
Store sales, net of related discounts	\$ 37,770,768	\$ 28,056,993
Contributed value of donated merchandise	<u>31,276,127</u>	<u>24,320,708</u>
Total retail operations	<u>69,046,895</u>	<u>52,377,701</u>
Revenue, gains, and other support:		
Salvage sales	5,264,619	3,261,729
Grants and fees received	618,290	1,299,525
Investment return	5,826,789	4,788,281
Contributions	1,014,727	11,019,732
Gain on disposal of land, buildings and equipment	620,097	516,655
Other	30,765	8,028
Net assets released from restrictions	<u>224,105</u>	<u>107,428</u>
Total revenue, gains, and other support	<u>82,646,287</u>	<u>73,379,079</u>
Expenses:		
Program services	53,466,785	47,180,839
Management and general	7,690,562	6,916,022
Fundraising	<u>353,283</u>	<u>270,247</u>
Total expenses	<u>61,510,630</u>	<u>54,367,108</u>
Increase in net assets without donor restrictions	<u>21,135,657</u>	<u>19,011,971</u>
Changes in net assets with donor restrictions:		
Revenues:		
Contributions	290,020	-
Net assets released from restrictions	<u>(224,105)</u>	<u>(107,428)</u>
(Decrease) increase in net assets with donor restrictions	<u>65,915</u>	<u>(107,428)</u>
Increase in net assets	21,201,572	18,904,543
Net assets at beginning of year	<u>88,790,460</u>	<u>69,885,917</u>
Net assets at end of year	\$ <u>109,992,032</u>	\$ <u>88,790,460</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Cash Flows

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 21,201,572	\$ 18,904,543
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation expense	1,676,769	1,483,441
Amortization of prepaid rent	468,263	478,461
Bad debt expense (recoveries)	(30,742)	92,180
Gain on disposal of land, buildings and equipment	(620,097)	(516,655)
Unrealized gain on investments	(3,223,183)	(3,077,529)
Unrealized gain on investments - deferred compensation plan	(65,401)	(34,007)
(Increase) decrease in operating assets:		
Contributions and grants receivable	10,444,306	(10,444,306)
Accounts and grants receivable	(105,893)	364,554
Inventory	(525,767)	126,566
Prepaid expenses	221,511	(7,138)
Other assets	7,490	7,490
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(1,535,608)	295,997
Deferred revenue	(52,138)	(277,333)
Deferred compensation plan liability	195,175	141,629
Deferred lease incentive	(97,914)	(140,619)
Payroll taxes payable	-	236,775
Deferred rent	<u>(100,079)</u>	<u>464,184</u>
Total adjustments	<u>6,656,692</u>	<u>(10,806,310)</u>
Net cash provided by operating activities	<u>27,858,264</u>	<u>8,098,233</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(2,535,219)	(1,651,016)
Proceeds from disposal of land, buildings and equipment	137,497	53,741
Purchases of investments	(69,208,403)	(26,537,904)
Proceeds from sale of investments	<u>41,921,481</u>	<u>26,897,732</u>
Net cash used by investing activities	<u>(29,684,644)</u>	<u>(1,237,447)</u>
Cash flows from financing activities:		
Principal payments on notes payable	(1,700,159)	(1,142,386)
Proceeds from issuance of notes payable	<u>-</u>	<u>150,000</u>
Net cash used by financing activities	<u>(1,700,159)</u>	<u>(992,386)</u>
Increase (decrease) in cash and cash equivalents	(3,526,539)	5,868,400
Cash and cash equivalents at beginning of year	<u>9,375,355</u>	<u>3,506,955</u>
Cash and cash equivalents at end of year	\$ <u>5,848,816</u>	\$ <u>9,375,355</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statement of Functional Expenses

Year ended December 31, 2021

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 27,716,520	\$ 4,006,061	\$ 210,691	\$ 31,933,272
Occupancy	7,921,018	328,267	13,330	8,262,615
Employee benefits	4,496,871	515,502	25,364	5,037,737
Utilities	3,147,725	103,841	1,558	3,253,124
Payroll taxes	1,901,208	270,704	16,108	2,188,020
Credit card fees and other service fees	1,655,489	5,864	427	1,661,780
Supplies	1,315,477	54,942	11,084	1,381,503
Equipment rent	615,209	687,815	3,941	1,306,965
Insurance	148,831	784,352	-	933,183
Repairs and maintenance	858,529	32,000	591	891,120
Postage	661,318	5,554	2,967	669,839
Professional fees	31,272	404,439	-	435,711
Other	327,375	32,895	3,901	364,171
Advertising and promotion	280,403	63,270	19,322	362,995
Telephone	226,882	42,520	134	269,536
Travel	189,058	20,708	-	209,766
Cost of goods sold	181,728	-	-	181,728
Dues payment to affiliated organization	-	178,896	-	178,896
Copying and Printing	94,054	25,918	10,822	130,794
Interest	107,306	4,204	-	111,510
Meals and entertainment	8,980	7,621	29,809	46,410
Dues and subscriptions	6,186	31,350	2,526	40,062
Charitable contributions	12,000	-	-	12,000
Conferences and meetings	100	1,255	-	1,355
Financing charges	-	843	-	843
State and local taxes	(332)	-	-	(332)
Bad debt expense (recoveries)	<u>(32,962)</u>	<u>2,220</u>	<u>-</u>	<u>(30,742)</u>
Total expenses before depreciation	51,870,245	7,611,041	352,575	59,833,861
Depreciation expense	<u>1,596,540</u>	<u>79,521</u>	<u>708</u>	<u>1,676,769</u>
Total expenses	\$ <u>53,466,785</u>	\$ <u>7,690,562</u>	\$ <u>353,283</u>	\$ <u>61,510,630</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	\$ 3,535,072	\$ 189,838	\$ 27,106,650
Occupancy	8,256,694	330,965	12,226	8,599,885
Employee benefits	3,696,066	361,856	18,477	4,076,399
Utilities	2,991,083	78,402	1,236	3,070,721
Payroll taxes	1,644,079	229,732	14,412	1,888,223
Credit card fees and other services fees	1,326,894	16,662	-	1,343,556
Supplies	1,193,671	44,298	205	1,238,174
Equipment rent	623,708	617,998	-	1,241,706
Insurance	132,893	714,604	-	847,497
Repairs and maintenance	666,196	31,812	711	698,719
Postage	581,926	7,388	991	590,305
Professional fees	33,459	498,997	-	532,456
Other	282,228	26,827	2,417	311,472
Advertising and promotion	129,465	35,951	12,202	177,618
Telephone	220,894	41,738	174	262,806
Travel	115,106	15,666	-	130,772
Cost of goods sold	139,488	-	-	139,488
Dues payment to affiliated organization	-	176,940	-	176,940
Copying and printing	62,720	19,852	14,148	96,720
Interest	172,474	-	-	172,474
Meals and entertainment	3,303	1,451	967	5,721
Dues and subscriptions	2,320	11,962	1,576	15,858
Charitable contributions	9,000	12,776	-	21,776
Conferences and meetings	2,432	38,901	-	41,333
Financing charges	-	107	-	107
State and local taxes	2,034	2,077	-	4,111
Bad debt expense (recoveries)	<u>92,192</u>	<u>(12)</u>	<u>-</u>	<u>92,180</u>
Total expenses before depreciation	45,762,065	6,852,022	269,580	52,883,667
Depreciation expense	<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.

Notes to the Financial Statements

December 31, 2021 and 2020

(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, 2021 or 2020.

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, 2021 and 2020

(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
Software	3 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, 2021 and 2020

(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 \$105,051 and \$145,069 at December 31, 2021 and 2020, 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, 2021 and 2020.

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, 2021 and 2020

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 \$362,995 in 2021 and \$177,619 in 2020.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

(m) New accounting standard pronouncement, not yet adopted

The FASB's lease accounting standard, ASU No. 2016-02, *Leases*, 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 statements of activities and changes in net assets). 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.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. ASU No. 2020-07 was issued to increase the transparency about the measurement of contributed nonfinancial assets recognized by not-for-profit organizations, as well as the amount of those contributions used in an organization's programs and other activities. The guidance is effective for the Organization beginning January 1, 2022. The Organization is evaluating the effect that ASU 2020-07 will have on its financial statements and related disclosures.

(n) Reclassifications

Certain reclassifications have been made to the 2020 financial statements in order for them to conform to the 2021 presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

(o) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between December 31, 2021 and April 20, 2022, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

(3) Liquidity

A summary of the Organization's financial assets as of December 31, 2021 and 2020, 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 5,848,816	\$ 9,375,355
Undesignated current investments	44,628,144	18,138,643
Contributions and grants receivable	-	10,444,306
Accounts receivable	<u>913,255</u>	<u>776,620</u>
Financial assets at end of year	51,390,215	38,734,924
Less: assets unavailable for general expenditures within one year:		
Restricted by donors with purpose restrictions	<u>(88,908)</u>	<u>(22,993)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>51,301,307</u>	\$ <u>38,711,931</u>

Board designated investments of \$38,454,665 and \$34,561,490 as of December 31, 2021 and 2020, 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.

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, 2021 or 2020.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Investments at fair value:		
Money market funds	\$ 3,467,890	\$ 1,965,801
Mutual funds	<u>24,618,772</u>	<u>17,338,399</u>
Total investments at fair value	28,086,662	19,304,200
Investments at NAV:		
Common trust funds	<u>55,485,184</u>	<u>33,692,140</u>
Total investments	\$ <u>83,571,846</u>	\$ <u>52,996,340</u>

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

	<u>2021</u>	<u>2020</u>
Investments - current	\$ 44,628,144	\$ 18,138,643
Investments - board designated	38,454,665	34,561,490
Investments - deferred compensation plan	<u>489,037</u>	<u>296,207</u>
Total investments	\$ <u>83,571,846</u>	\$ <u>52,996,340</u>

The following schedule summarizes the investment return in the statements of activities for 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 439,808	\$ 284,621
Realized gain on investments	2,163,798	1,426,131
Unrealized gain on investments	<u>3,223,183</u>	<u>3,077,529</u>
	\$ <u>5,826,789</u>	\$ <u>4,788,281</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

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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.

(5) Land, buildings and equipment

A summary of land, buildings and equipment as of December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 8,216,734	\$ 8,216,734
Land improvements	3,105	3,105
Buildings	17,963,516	16,999,031
Building improvements	1,089,671	800,764
Leasehold improvements	5,794,005	6,251,070
Plant and store equipment	7,377,584	7,340,708
Software	1,560,672	-
Office equipment	2,041,460	4,067,481
Material collection vehicles and equipment	3,308,525	3,705,868
Construction in progress	<u>395,425</u>	<u>203,713</u>
	47,750,697	47,588,474
Less accumulated depreciation	<u>(22,016,805)</u>	<u>(22,718,503)</u>
	<u>\$ 25,733,892</u>	<u>\$ 24,869,971</u>

(6) Accounts payable and accrued expenses

A summary of accounts payable and accrued expenses as of December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Accounts payable	\$ 405,876	\$ 1,198,395
Accrued payroll and related liabilities	1,392,677	1,966,558
Accrued vacation	767,797	737,083
Accrued non-income related taxes	801,625	660,818
Accrued medical expenses (Note 13)	361,300	372,700
Other current liabilities	<u>565,240</u>	<u>657,795</u>
	<u>\$ 4,294,515</u>	<u>\$ 5,593,349</u>

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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 statements of financial position as deferred payroll taxes payable with non-current liabilities.

(7) Notes payable

A summary of notes payable as of December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</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. During December 2021, the Organization repaid this note in full.	\$ -	\$ 453,207
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.	2,275,486	3,522,155

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

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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 paid-in-kind interest of \$1,791 at December 31, 2021).

	<u>151,791</u>	<u>152,074</u>
Total	2,427,277	4,127,436
Less current portion	<u>1,287,510</u>	<u>1,702,201</u>
Notes payable, net of current portion	\$ <u>1,139,767</u>	\$ <u>2,425,235</u>

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, 2021.

Required principal payments on the notes payable as of December 31, 2021 is as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 1,287,510
2023	995,200
2024	3,764
2025	3,868
2026	3,976
2027 and thereafter	<u>132,959</u>
	\$ <u>2,427,277</u>

Interest expense associated with notes payable is reflected in the statements of functional expenses for the years ended December 31, 2021 and 2020 as \$111,510 and \$172,474, respectively.

(8) Net assets with donor restrictions

Net assets with donor restrictions subject to expenditure for the following specified purposes as of December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Governance and operating initiatives	\$ <u>88,908</u>	\$ <u>22,993</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

(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.

(10) Leases

The annual rentals under lease contracts for the Organization's retail stores, facilities and equipment totaled \$8,498,520 and \$8,886,251 for 2021 and 2020, 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, 2021 is as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 6,055,000
2023	5,341,000
2024	4,690,000
2025	4,253,000
2026	3,536,000
2027 and later years	<u>11,941,000</u>
	<u>\$ 35,816,000</u>

(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.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

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(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 2021 and 2020, 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 2021 and 2020 totaled \$254,061 and \$114,358, 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 accompanying statements of financial position include investments held at December 31, 2021 and 2020 totaling \$489,037 and \$296,207, 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 \$361,300 and \$372,700 at December 31, 2021 and 2020, respectively, and is included in accounts payable and accrued expenses in the accompanying statements of financial position. The liability at December 31, 2021 and 2020 was determined based on the report of a consulting actuary. The Organization has stop loss insurance to cover catastrophic claims.

(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 \$228,000 and \$400,000 during 2021 and 2020, respectively.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

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(16) Supplemental disclosures of cash flow statement information

	<u>2021</u>	<u>2020</u>
Interest paid	\$ <u>113,191</u>	\$ <u>174,796</u>

During 2021 and 2020, the Organization recognized amortization of prepaid rent associated with the sales-lease back transaction discussed in footnote 11 of approximately \$480,000.

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.