

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)



GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statement of Functional Expenses for 2018	6
Statement of Functional Expenses for 2017	7
Notes to the Financial Statements	8 - 19

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, 2018 and 2017, 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, 2018 and 2017, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 2, in August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization adopted the standard for fiscal year 2018.

LBM, PC

Brentwood, Tennessee
April 19, 2019

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Financial Position

December 31, 2018 and 2017

<u>Assets</u>		
	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 3,830,544	\$ 3,120,960
Investments	39,463,438	6,075,640
Accounts receivable and grants receivable, less reserve for doubtful accounts of \$3,770 and \$4,093 in 2018 and 2017, respectively	741,909	642,634
Inventory	1,769,330	1,799,645
Prepaid expenses	309,302	234,999
Current portion of prepaid rent	<u>1,401,318</u>	<u>276,874</u>
Total current assets	47,515,841	12,150,752
Investments - board designated	4,566,272	4,914,398
Investments - deferred compensation plan	311,056	290,944
Land, buildings and equipment, net of accumulated depreciation	25,844,488	38,535,312
Prepaid rent, net of current portion	1,827,660	-
Other assets	<u>86,305</u>	<u>106,900</u>
Total assets	\$ <u>80,151,622</u>	\$ <u>55,998,306</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,843,289	\$ 5,716,676
Deferred revenue	23,545	56,876
Current portion of notes payable	1,523,709	2,001,968
Current portion of deferred lease incentive	133,494	114,482
Current portion of deferred gain from sale-leaseback	<u>477,127</u>	<u>-</u>
Total current liabilities	7,001,164	7,890,002
Deferred compensation plan liability	311,056	290,944
Notes payable, net of current portion	5,111,384	7,254,413
Deferred rent	575,881	591,860
Deferred lease incentive, net of current portion	840,958	794,584
Deferred gain on sale-leaseback, net of current portion	<u>1,827,660</u>	<u>-</u>
Total liabilities	<u>15,668,103</u>	<u>16,821,803</u>
Net assets:		
Without donor restrictions		
Undesignated	59,820,376	34,088,341
Board designated for long-term investments	<u>4,566,272</u>	<u>4,914,398</u>
	64,386,648	39,002,739
With donor restrictions	<u>96,871</u>	<u>173,764</u>
Total net assets	<u>64,483,519</u>	<u>39,176,503</u>
Total liabilities and net assets	\$ <u>80,151,622</u>	\$ <u>55,998,306</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Activities

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Changes in net assets without donor restrictions:		
Revenues, gains, and other support:		
Retail operations:		
Store sales, net of related discounts	\$ 34,076,427	\$ 36,367,983
Contributed value of donated merchandise	<u>22,749,662</u>	<u>23,285,659</u>
Total retail operations	<u>56,826,089</u>	<u>59,653,642</u>
Revenue, gains, and other support:		
Salvage sales	4,828,167	4,635,995
Grants and fees received	645,939	411,329
Investment income, net	(153,401)	909,249
Contributions	728,385	852,145
Other	42,161	53,340
United Way contributions	37,693	40,886
Gain on disposal of land, buildings and equipment	27,647,525	5,303,108
Net assets released from restrictions	<u>79,421</u>	<u>767,876</u>
Total revenue, gains, and other support	<u>90,681,979</u>	<u>72,627,570</u>
Expenses:		
Program services	58,158,368	62,516,160
Management and general	6,780,427	6,798,726
Fundraising	<u>359,275</u>	<u>679,353</u>
Total expenses	<u>65,298,070</u>	<u>69,994,239</u>
Increase in net assets without donor restrictions	<u>25,383,909</u>	<u>2,633,331</u>
Changes in net assets with donor restrictions:		
Revenues:		
Contributions	2,528	302,590
Net assets released from restrictions	<u>(79,421)</u>	<u>(767,876)</u>
Decrease in net assets with donor restrictions	<u>(76,893)</u>	<u>(465,286)</u>
Increase in net assets	25,307,016	2,168,045
Net assets at beginning of year	<u>39,176,503</u>	<u>37,008,458</u>
Net assets at end of year	\$ <u>64,483,519</u>	\$ <u>39,176,503</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Cash Flows

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 25,307,016	\$ 2,168,045
Adjustments to reconcile change in net assets to cash flows provided (used) by operating activities:		
Depreciation	2,708,800	3,130,875
Bad debt expense	5,757	4,897
Gain on disposal of land, buildings and equipment	(27,647,525)	(5,303,108)
Unrealized (gain) loss on investments	504,061	(529,455)
Unrealized (gain) loss on investments - deferred compensation plan	17,372	(27,144)
(Increase) decrease in operating assets:		
Accounts and grants receivable	(105,032)	(154,781)
Inventory	30,315	(211,276)
Prepaid expenses	418,830	130,174
Other assets	20,595	7,844
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(844,696)	(392,630)
Deferred revenue	(33,331)	38,797
Deferred compensation plan liability	20,113	77,306
Deferred lease incentive	65,386	265,384
Deferred rent	<u>(15,979)</u>	<u>59,293</u>
Total adjustments	<u>(24,855,334)</u>	<u>(2,903,824)</u>
Net cash provided (used) by operating activities	<u>451,682</u>	<u>(735,779)</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(468,232)	(1,620,069)
Proceeds from disposal of land, buildings and equipment	36,928,640	6,363,917
Purchases of investments	(76,900,466)	(13,524,526)
Proceeds from sale of investments	<u>43,319,248</u>	<u>11,602,944</u>
Net cash provided by investing activities	<u>2,879,190</u>	<u>2,822,266</u>
Cash flows from financing activities:		
Principal payments on notes payable	<u>(2,621,288)</u>	<u>(2,095,068)</u>
Increase (decrease) in cash and cash equivalents	709,584	(8,581)
Cash and cash equivalents at beginning of year	<u>3,120,960</u>	<u>3,129,541</u>
Cash and cash equivalents at end of year	\$ <u>3,830,544</u>	\$ <u>3,120,960</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statement of Functional Expenses

Year ended December 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 31,055,039	\$ 3,697,574	\$ 59,863	\$ 34,812,476
Occupancy	11,514,821	232,386	-	11,747,207
Employee benefits	3,965,044	415,527	2,986	4,383,557
Payroll taxes	3,014,920	306,785	6,532	3,328,237
Supplies	1,190,527	35,135	15	1,225,677
Advertising, printing and publications	413,097	128,896	185,950	727,943
Travel and vehicles	1,387,083	59,183	99,376	1,545,642
Equipment rent and maintenance	509,763	543,912	2,250	1,055,925
Postage	404,407	13,100	-	417,507
Credit card fees	834,785	328	-	835,113
Telephone	261,466	48,851	1,767	312,084
Professional fees	227,120	274,074	135	501,329
Ecommerce fees	283,758	-	-	283,758
Interest	243,007	3,520	-	246,527
Insurance	11,606	365,376	352	377,334
Noncapitalized purchases	33,176	13,479	-	46,655
Dues payment to affiliated organization	-	169,368	-	169,368
Cost of goods sold	194,226	-	-	194,226
Employee relations	83,170	27,965	7	111,142
Other	206,975	3,906	-	210,881
Bank service charges	25,038	10,777	-	35,815
Conferences and meetings	6,599	4,006	42	10,647
Dues	3,601	3,844	-	7,445
Awards and grants	<u>-</u>	<u>2,775</u>	<u>-</u>	<u>2,775</u>
Total expenses before depreciation	55,869,228	6,360,767	359,275	62,589,270
Depreciation	<u>2,289,140</u>	<u>419,660</u>	<u>-</u>	<u>2,708,800</u>
Total expenses	\$ <u>58,158,368</u>	\$ <u>6,780,427</u>	\$ <u>359,275</u>	\$ <u>65,298,070</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 expenses 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.

Notes to the Financial Statements

December 31, 2018 and 2017

(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) Adopted accounting pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes certain presentation and disclosure requirements of not-for-profit entities. The primary changes are a reduction in the number of net asset classes from three to two (with donor restrictions and without donor restrictions), reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring enhanced disclosures about how a not-for-profit entity manages its liquidity and requiring reporting of expenses by functional and natural classification, as well as enhanced endowment disclosures. This standard is effective for fiscal years beginning after December 15, 2017 and has been adopted by the Organization for fiscal year 2018. There were no restatements or reclassifications of net assets as a result of adopting this guidance.

(b) 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, 2018 or 2017.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

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.

(c) Cash and cash equivalents

The Organization considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

(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 net assets without donor restrictions unless the use of the assets received is limited by donor-imposed restrictions.

The Board designates only a portion of the Organization's investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The Organization utilizes a spending rate policy to determine the amount of investment return available to support current operations. Investment return from short and intermediate term investments is also used to support current operations.

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

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

(f) 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

(g) 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.

(h) Revenue recognition

Retail sales of donated merchandise are recognized at the point of sale. The Organization accounts for all governmental taxes associated with such retail sales on a net basis.

Cash contributions are recognized as revenues when received.

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, 2018 and 2017

The Organization follows 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 \$539,574 in 2018 and \$1,074,905 in 2017.

(m) New accounting standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09, along with subsequent amendments, supersedes most existing revenue recognition guidance and outlines a single comprehensive standard for revenue recognition across all industries. In addition, ASU 2014-09 requires expanded quantitative and qualitative disclosures, including disclosure about the nature, amount, timing, and uncertainty of revenue. This standard is effective for fiscal years beginning after December 15, 2018 and will be adopted by the Organization for fiscal year 2019. The Organization continues to evaluate its population of revenue sources to assess the potential effects ASU 2014-09 will have on its financial statements and related disclosures; however, the Organization expects the primary impact to be in the form of additional financial statement disclosures.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

The FASB's new lease accounting standard, ASU No. 2016-02, *Leases*, which was issued in February 2016, will generally require on-balance sheet recognition for all leases with terms that exceed twelve months. The new lease accounting model will continue to reflect two types of leases. Under the new rules, a lessee would account for most existing capital leases as finance leases (that is, recognizing amortization of the right-of-use ("ROU") asset, as well as separately recognizing interest on the lease liability in the statement of operations). Most existing operating leases will remain as operating leases (that is, recognizing a single total lease expense). Both finance leases and operating leases will result in the lessee recognizing a ROU asset and a lease liability. The guidance is effective for the Organization beginning January 1, 2020. The Organization continues to evaluate the impact the standard will have on its financial statements.

(n) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between December 31, 2018 and April 19, 2019 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Liquidity

A summary of the Organization's financial assets as of December 31, 2018 and 2017, 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>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 3,830,544	\$ 3,120,960
Undesignated current investments	39,463,438	6,075,640
Accounts receivable and grants receivable	<u>741,909</u>	<u>642,634</u>
Financial assets at end of year	44,035,891	9,839,234
Less: assets unavailable for general expenditures within one year:		
Restricted by donors with purpose restrictions	<u>(96,871)</u>	<u>(173,764)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>43,939,020</u>	\$ <u>9,665,470</u>

Board designated investments of \$4,566,272 and \$4,914,398 as of December 31, 2018 and 2017, 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.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

(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, 2018 or 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investments:		
Money market funds	\$ 39,726,954	\$ 3,148,110
Certificate of deposit	-	100,000
Mutual funds	1,647,071	5,138,848
Municipal bonds	199,359	302,748
Equities - Domestic	1,540,550	1,147,039
Equities - Foreign	<u>1,226,832</u>	<u>1,444,237</u>
Total investments	\$ <u>44,340,766</u>	\$ <u>11,280,982</u>

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

	<u>2018</u>	<u>2017</u>
Investments - current	\$ 39,463,438	\$ 6,075,640
Investments - board designated as long-term investments	4,566,272	4,914,398
Investments - deferred compensation plan	<u>311,056</u>	<u>290,944</u>
Total investments	\$ <u>44,340,766</u>	\$ <u>11,280,982</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

The following schedule summarizes the investment income in the statements of activities for 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 269,254	\$ 140,913
Realized gain on investments	81,406	238,881
Unrealized (loss) gain on investments	<u>(504,061)</u>	<u>529,455</u>
	\$ <u>(153,401)</u>	\$ <u>909,249</u>

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

(5) Land, buildings and equipment

A summary of land, buildings and equipment as of December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 8,216,734	\$ 9,974,449
Land improvements	3,105	106,591
Buildings	16,999,031	29,333,325
Building improvements	760,180	3,343,585
Leasehold improvements	6,416,354	6,898,130
Plant equipment	4,458,754	4,324,150
Store equipment	3,894,918	4,388,530
Office equipment	3,874,505	4,387,657
Material collection vehicles and equipment	4,436,076	4,409,432
Construction in progress	<u>32,243</u>	<u>163,762</u>
	49,091,900	67,329,611
Less accumulated depreciation	<u>(23,247,412)</u>	<u>(28,794,299)</u>
	\$ <u>25,844,488</u>	\$ <u>38,535,312</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

(6) Accounts payable and accrued expenses

A summary of accounts payable and accrued expenses as of December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Accounts payable	\$ 553,871	\$ 535,315
Accrued payroll and related liabilities	1,486,267	1,925,096
Accrued vacation	729,795	737,352
Gift card liability, net of reserve for breakage of \$92,857 and \$75,332 in 2018 and 2017, respectively	251,858	257,625
Accrued non-income related taxes	568,243	589,947
Accrued medical expenses (Note 13)	922,527	1,264,726
Other current liabilities	<u>330,728</u>	<u>406,615</u>
	<u>\$ 4,843,289</u>	<u>\$ 5,716,676</u>

(7) Notes payable

A summary of notes payable as of December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</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. During 2018, the building was sold and the loan was repaid in full.	\$ -	\$ 1,149,367
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.	1,025,887	1,350,444

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

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.

	<u>5,609,206</u>	<u>6,756,570</u>
Total	6,635,093	9,256,381
Less current portion	<u>1,523,709</u>	<u>2,001,968</u>
Notes payable, net of current portion	\$ <u>5,111,384</u>	\$ <u>7,254,413</u>

Each of the 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, 2018.

Required principal payments on the notes payable as of December 31, 2018 is as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 1,523,709
2020	1,559,856
2021	1,597,415
2022	1,292,989
2023	<u>661,124</u>
	\$ <u>6,635,093</u>

Interest expense associated with notes payable is reflected in the statements of activities for the years ended December 31, 2018 and 2017 as \$246,527 and \$306,954, respectively.

(8) Net assets with donor restrictions

Net assets with donor restrictions subject to expenditure for the following specified purposes as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Veteran training	\$ -	\$ 2,640
Governance and operating initiatives	<u>96,871</u>	<u>171,124</u>
	\$ <u>96,871</u>	\$ <u>173,764</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

(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 \$8,452,115 and \$7,934,267 for 2018 and 2017, 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, 2018 is as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 6,013,000
2020	5,106,000
2021	4,694,000
2022	4,254,000
2023	3,397,000
2024 and later years	<u>11,491,000</u>
	<u>\$ 34,955,000</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, which is included with prepaid expenses in the 2018 accompanying statement of financial position. The prepaid rent is reduced and rent expense is recognized for approximately \$123,000 per month. Additionally, due to the lease of one building being more than a minor portion of the property sold, approximately \$2,400,000 of the gain was deferred and is recognized over the five-year term of the lease at approximately \$40,000 per month. The remaining gain on the sale of the property totaling approximately \$27,549,000 was recognized in 2018.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

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. 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.

(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 2018 and 2017, 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 2018 and 2017 totaled \$204,796 and \$195,428, 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, 2018 and 2017 amounted to \$311,056 and \$290,944, respectively.

(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 \$922,527 and \$1,264,726 at December 31, 2018 and 2017, respectively, and is included in accounts payable and accrued expenses in the accompanying statements of financial position. The liability at December 31, 2018 was determined based on the report of a consulting actuary. The liability at December 31, 2017 was based on a formula determined by management based on estimated and actual claims subsequent to year end. 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.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

(15) Related party transactions

During the normal course of business, the Organization purchased advertising services of approximately \$273,000 in 2018 from a company affiliated with a member of the board of directors.

During 2018 and 2017, the Organization purchased legal services of approximately \$73,000 and \$20,000, respectively, from firms affiliated with members of the board of directors.

(16) Supplemental disclosures of cash flow statement information

	<u>2018</u>	<u>2017</u>
Interest paid	\$ <u>252,283</u>	\$ <u>311,655</u>

During 2018 and 2017, the Organization received non-cash proceeds from sale-leaseback transactions for certain land and buildings totaling approximately \$3,450,000 and \$290,275, respectively, representing the present value of rentals to be received over the terms of lease agreements which was recorded as prepaid rent in the accompanying statements of financial position. Amortization of such prepaid rent during 2018 and 2017 was approximately \$493,000 and \$37,980, respectively.