

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Financial Statements

December 31, 2016 and 2015

(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 2016	6
Statement of Functional Expenses for 2015	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, 2016 and 2015, 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, 2016 and 2015, 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.

L BMC, PC

Brentwood, Tennessee

June 20, 2017

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Financial Position

December 31, 2016 and 2015

Assets

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 3,129,541	\$ 5,185,264
Accounts receivable and grants receivable, net	492,750	420,757
Inventory	1,588,369	2,182,367
Prepaid expenses	<u>351,772</u>	<u>383,023</u>
Total current assets	5,562,432	8,171,411
Cash and cash equivalents restricted for debt requirement	-	225,000
Investments - board designated	8,589,161	8,455,847
Investments - deferred compensation plan	213,640	965,243
Land, buildings and equipment, net of accumulated depreciation	41,397,204	44,085,124
Other assets	<u>114,744</u>	<u>132,599</u>
Total assets	\$ <u>55,877,181</u>	\$ <u>62,035,224</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued expenses	\$ 6,109,306	\$ 5,335,798
Deferred revenue	18,079	-
Current portion of deferred lease incentive	77,539	77,317
Current portion of notes payable	<u>2,103,069</u>	<u>2,186,089</u>
Total current liabilities	8,307,993	7,599,204
Deferred compensation plan liability	213,640	965,243
Deferred lease incentive, net of current portion	566,143	642,299
Deferred rent	532,567	413,256
Notes payable, net of current portion	<u>9,248,380</u>	<u>11,325,614</u>
Total liabilities	<u>18,868,723</u>	<u>20,945,616</u>
Net assets:		
Unrestricted net assets:		
Undesignated	27,780,247	32,601,983
Designated for long-term investments	<u>8,589,161</u>	<u>8,455,847</u>
Total unrestricted net assets	36,369,408	41,057,830
Temporarily restricted net assets	<u>639,050</u>	<u>31,778</u>
Total net assets	<u>37,008,458</u>	<u>41,089,608</u>
Total liabilities and net assets	\$ <u>55,877,181</u>	\$ <u>62,035,224</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Activities

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets:		
Revenues, gains, and other support:		
Retail operations:		
Store sales, net of related discounts	\$ 46,818,558	\$ 47,501,527
Contributed value of donated merchandise	<u>21,768,200</u>	<u>26,988,548</u>
Total retail operations	<u>68,586,758</u>	<u>74,490,075</u>
Revenue, gains, and other support:		
Salvage sales	3,283,921	2,814,805
Grants and fees received	411,845	405,922
Investment income, net	219,490	(28,441)
Contributions	982,447	832,945
Other	(10,141)	26,406
United Way contributions	41,970	42,395
Administrative fees revenue	-	1,800
Net assets released from restrictions	<u>144,991</u>	<u>95,307</u>
Total revenues, gains and other support	<u>73,661,281</u>	<u>78,681,214</u>
Expenses:		
Program services	70,077,201	70,944,394
Management and general	7,485,538	7,241,856
Fundraising	<u>786,964</u>	<u>1,104,158</u>
Total expenses	<u>78,349,703</u>	<u>79,290,408</u>
Decrease in unrestricted net assets	<u>(4,688,422)</u>	<u>(609,194)</u>
Changes in temporarily restricted net assets:		
Revenues:		
Contributions	752,263	19,430
Net assets released from restrictions	<u>(144,991)</u>	<u>(95,307)</u>
Increase (decrease) in temporarily restricted assets	<u>607,272</u>	<u>(75,877)</u>
Decrease in net assets	<u>(4,081,150)</u>	<u>(685,071)</u>
Net assets at beginning of year	<u>41,089,608</u>	<u>41,774,679</u>
Net assets at end of year	\$ <u>37,008,458</u>	\$ <u>41,089,608</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statements of Cash Flows

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Decrease in net assets	\$ <u>(4,081,150)</u>	\$ <u>(685,071)</u>
Adjustments to reconcile decrease in net assets to cash flows provided by operating activities:		
Depreciation	3,460,149	3,566,878
(Gain) loss on disposal of land, buildings and equipment	18,082	(11,343)
Unrealized (gain) loss on investments	(123,712)	368,480
(Increase) decrease in investments, net - deferred compensation plan	(54,805)	8,292
(Increase) decrease in operating assets:		
Accounts and grants receivable, net	(71,993)	(21,399)
Inventory	593,998	(63,801)
Prepaid expenses	31,251	(104,978)
Cash and cash equivalent restricted for debt requirements	225,000	-
Other assets	17,855	8,392
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	773,508	(4,050)
Deferred revenue	18,079	(11,922)
Deferred compensation plan liability	(751,603)	84,208
Deferred lease incentive	(75,934)	89,215
Deferred rent	<u>119,311</u>	<u>93,700</u>
Total adjustments	<u>4,179,186</u>	<u>4,001,672</u>
Net cash provided by operating activities	<u>98,036</u>	<u>3,316,601</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(794,512)	(1,433,874)
Proceeds from disposal of land, buildings and equipment	4,200	18,720
Purchases of investments	(2,195,093)	(2,505,988)
Proceeds from sale of investments	<u>2,991,899</u>	<u>2,259,041</u>
Net cash provided (used) by investing activities	<u>6,494</u>	<u>(1,662,101)</u>
Cash flows from financing activities:		
Principal payments on notes payable	<u>(2,160,253)</u>	<u>(2,092,982)</u>
Decrease in cash and cash equivalents	(2,055,723)	(438,482)
Cash and cash equivalents at beginning of year	<u>5,185,264</u>	<u>5,623,746</u>
Cash and cash equivalents at end of year	\$ <u><u>3,129,541</u></u>	\$ <u><u>5,185,264</u></u>
Supplemental cash flow information:		
Cash paid during the year for interest	\$ <u><u>378,998</u></u>	\$ <u><u>443,925</u></u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statement of Functional Expenses

Year ended December 31, 2016

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

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Statement of Functional Expenses

Year ended December 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 39,271,201	\$ 3,743,250	\$ 161,102	\$ 43,175,553
Occupancy	9,975,676	183,635	-	10,159,311
Employee benefits	5,663,893	447,993	16,336	6,128,222
Payroll taxes	3,992,556	315,962	14,979	4,323,497
Supplies	1,819,757	73,862	2,023	1,895,642
Advertising, printing and publications	660,598	170,052	889,227	1,719,877
Travel and vehicles	1,065,675	88,483	6,854	1,161,012
Equipment rent and maintenance	528,067	583,304	3,175	1,114,546
Postage	1,032,142	13,454	-	1,045,596
Credit card fees	904,771	4	-	904,775
Telephone	330,851	121,231	2,865	454,947
Professional fees	330,113	244,655	122	574,890
Ecommerce fees	447,535	-	-	447,535
Interest	425,337	15,545	-	440,882
Insurance	30,523	318,920	-	349,443
Noncapitalized purchases	130,629	39,700	-	170,329
Dues payment to affiliated organization	-	167,544	-	167,544
Cost of goods sold	1,018,732	-	-	1,018,732
Employee relations	62,208	27,912	-	90,120
Other	204,596	28,571	-	233,167
Bank service charges	33,475	62,263	-	95,738
Conferences and meetings	12,801	15,830	208	28,839
Dues	8,105	12,060	232	20,397
Awards and grants	<u>1,933</u>	<u>1,003</u>	<u>-</u>	<u>2,936</u>
Total expenses before depreciation	67,951,174	6,675,233	1,097,123	75,723,530
Depreciation	<u>2,993,220</u>	<u>566,623</u>	<u>7,035</u>	<u>3,566,878</u>
Total expenses	\$ <u>70,944,394</u>	\$ <u>7,241,856</u>	\$ <u>1,104,158</u>	\$ <u>79,290,408</u>

See accompanying notes to the financial statements.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2016 and 2015

(1) Nature of activities

Goodwill Industries of Middle TN, Inc. (the "Organization"), was incorporated in 1958 as a Tennessee nonprofit corporation. The primary purposes of the Organization are to provide rehabilitation services, training, and employment for individuals who have a disability and for people who are economically disadvantaged as a step to their employment in the labor market.

(2) Summary of significant accounting policies

(a) Basis of presentation

The Organization presents its financial statements in accordance with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows. Net assets of the Organization are presented as follows:

Unrestricted net assets

Undesignated - net assets not subject to donor-imposed restrictions or designated by the Organization.

Designated - net assets designated by the Organization for particular purposes.

Temporarily restricted net assets - net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - net assets subject to donor-imposed restrictions that require the assets be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. The Organization has no permanently restricted net assets at December 31, 2016 or 2015.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Revenue from restricted grants is recorded based on expenses incurred since these grants are generally on a cost-reimbursement basis.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2016 and 2015

(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. In 2015, the Organization was required to maintain \$225,000 in a separate account with a financial institution to meet debt requirements. In 2016, this requirement was lifted. The account is reflected in the statements of financial position as "cash and cash equivalents restricted for debt requirement."

(c) Investments

Investments are shown at their fair values in the statements of financial position. Investment income shown in the statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income is reported in the period earned as an increase in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions.

(d) Inventory and contributed merchandise

The inventory of merchandise consists of items donated to the Organization. Accounting principles generally accepted in the United States of America require that contributions be recognized as revenue when received. The Organization considers the fair value of contributed merchandise to be the excess of selling price over processing costs. The captions "store sales, net of related discounts" and "contributed value of donated merchandise" represent the actual amounts received from retail store sales. "Store sales, net of related discounts" represents the proceeds received on retail sales up to actual processing and other costs. During 2016 and 2015, the Organization recognized contributed merchandise with an estimated fair value of \$21,768,200 and \$26,988,548, respectively, as contribution revenue. 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.

Notes to the Financial Statements

December 31, 2016 and 2015

(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	5 - 29 years
Equipment	3 - 7 years
Material collection vehicles	3 - 7 years

(f) Deferred rent

Deferred rent and deferred lease incentives represent the cumulative excess of rent expense recognized on the straight-line basis over actual payments made resulting from scheduled rent increases, rent abatements or construction allowances.

(g) Income taxes

The Organization has qualified for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Gifts to the Organization are tax deductible.

The Organization follows 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.

(h) Donated services

The Organization receives donated services from a variety of unpaid volunteers. No amounts have been recognized in the accompanying statements of activities because the criteria for recognition of such volunteer effort has not been satisfied.

Notes to the Financial Statements

December 31, 2016 and 2015

(i) Allocated expenses

For purposes of the statements of functional expenses, certain expenses have been allocated between program and supporting services based on estimates made by management.

(j) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) Advertising and promotion costs

The Organization expenses advertising costs as incurred. Advertising costs charged to expense totaled \$1,078,543 in 2016 and \$1,445,617 in 2015.

(l) Reclassifications

Certain reclassifications have been made to the 2015 financial statements in order for them to conform to the 2016 presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

(m) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between December 31, 2016 and June 20, 2017 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Accounts and grants receivable

A summary of accounts and grants receivable as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Trade, contract services and other	\$ 494,016	\$ 410,221
Billings under grants and rehabilitation programs	<u>2,725</u>	<u>14,306</u>
	496,741	424,527
Less: allowance for uncollectibles	<u>(3,991)</u>	<u>(3,770)</u>
Accounts and grants receivable, net	<u>\$ 492,750</u>	<u>\$ 420,757</u>

Notes to the Financial Statements

December 31, 2016 and 2015

(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 listed prices or quotes are not available, fair values are based upon market-based or independently-sourced market data. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Accounting principles generally accepted in the United States of America establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Organization does not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2016.

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Investments - board designated:		
Money market funds	\$ 482,896	\$ 346,343
Certificate of deposit	100,000	200,000
Fixed income funds:		
Corporate bonds	-	164,631
Municipal bonds	485,862	592,526
Investment grade bond funds	442,418	-
High yield funds	761,702	60,714
Equities:		
Common stock	1,581,963	2,336,092
Large cap funds	-	471,570
Small cap fund	851,402	536,395
International funds	1,308,565	1,513,984
Alternatives:		
Multi strategy funds	1,028,626	1,834,697
Real estate funds	<u>1,545,727</u>	<u>398,895</u>
Total - board designated	<u>\$ 8,589,161</u>	<u>\$ 8,455,847</u>

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Investments - deferred compensation plan:		
Mutual funds:		
Growth stock fund	\$ -	\$ 127,780
Midcap growth fund	-	372,767
Equity income fund	-	55,816
Capital appreciation fund	-	362,883
Spectrum income fund	-	45,997
Balanced fund	<u>213,640</u>	<u>-</u>
Total - deferred compensation plan	\$ <u>213,640</u>	\$ <u>965,243</u>

The following schedule summarizes the investment income in the statements of activities for 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 173,429	\$ 184,183
Net gain (loss) on investments	(77,651)	155,856
Unrealized gain (loss) on investments	<u>123,712</u>	<u>(368,480)</u>
	\$ <u>219,490</u>	\$ <u>(28,441)</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.

GOODWILL INDUSTRIES OF MIDDLE TN, INC.

Notes to the Financial Statements

December 31, 2016 and 2015

(5) Land, buildings and equipment

A summary of land, buildings and equipment as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 10,569,749	\$ 10,569,749
Land improvements	106,591	106,591
Buildings	30,112,684	30,112,684
Building improvements	3,590,671	3,559,576
Leasehold improvements	6,250,189	6,208,306
Plant equipment	3,536,338	3,505,536
Store equipment	4,403,780	4,458,476
Office equipment	4,335,995	4,246,905
Material collection vehicles and equipment	4,377,273	4,261,709
Construction in progress	<u>285,677</u>	<u>59,365</u>
	67,568,947	67,088,897
Less accumulated depreciation	<u>(26,171,743)</u>	<u>(23,003,773)</u>
	\$ <u>41,397,204</u>	\$ <u>44,085,124</u>

(6) Accounts payable and accrued expenses

A summary of accounts payable and accrued expenses as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Accounts payable	\$ 405,427	\$ 259,985
Accrued payroll and related liabilities	1,716,685	1,846,334
Accrued vacation	817,419	827,836
Gift card liability, net of reserve of \$56,361 in 2016. No reserve in 2015	293,277	325,236
Accrued non-income related taxes	530,256	486,439
Accrued medical expenses (Note 12)	1,987,696	1,213,768
Other current liabilities	<u>358,546</u>	<u>376,200</u>
	\$ <u>6,109,306</u>	\$ <u>5,335,798</u>

Notes to the Financial Statements

December 31, 2016 and 2015

(7) Notes payable

A summary of notes payable as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</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 \$2,300,000. The proceeds of the borrowing were used to purchase a warehouse facility for distribution operations. The note requires monthly payments of principal and interest (5.08% per annum) of \$24,485 with a final maturity of June 8, 2017. The note is collateralized by real estate which was financed by the debt.	\$ 157,816	\$ 435,650
Promissory note issued to the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County. Total borrowings under this note amounted to \$4,350,000. The proceeds of the borrowing were used to refinance the Career Solutions operations facility completed during 2010. The note requires monthly payments of principal and interest (2.80% per annum) of \$45,612 with a final maturity of February 1, 2020. The note is collateralized by the Career Solutions building.	1,656,805	2,150,064
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.	1,666,663	1,975,001

Notes to the Financial Statements

December 31, 2016 and 2015

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 \$110,964 with a final maturity of July 10, 2023. The note is collateralized by the Indian Lake, Murfreesboro II and Mt. Juliet buildings.

	<u>7,870,165</u>	<u>8,950,988</u>
Total	11,351,449	13,511,703
Less current installments	<u>2,103,069</u>	<u>2,186,089</u>
Notes payable, excluding current installments	\$ <u>9,248,380</u>	\$ <u>11,325,614</u>

Each of the loan agreements above contain various financial and other covenants. The Organization was not in compliance with a debt service ratio financial covenant for at December 31, 2016. The Organization has received waivers of the violations from its financial institutions subsequent to year end.

Required principal payments on the notes payable as of December 31, 2016 is as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 2,103,069
2018	1,993,752
2019	2,051,901
2020	1,650,763
2021	1,605,852
2022 and later years	<u>1,946,112</u>
	\$ <u>11,351,449</u>

Interest expense associated with notes payable is reflected in the statements of activities for the years ended December 31, 2016 and 2015 as \$374,017 and \$440,882, respectively.

Notes to the Financial Statements

December 31, 2016 and 2015

(8) Net assets

Temporarily restricted net assets as of December 31, 2016 and 2015 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Leadership development training	\$ -	\$ 14,584
Veteran training	5,077	17,194
Governance and operating initiatives	598,796	-
Community specific operations	<u>35,177</u>	<u>-</u>
	<u>\$ 639,050</u>	<u>\$ 31,778</u>

(9) Concentrations

The Organization generally maintains cash and cash equivalents on deposit at banks in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash and cash equivalents.

The Organization utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

(10) Leases

The annual rentals under lease contracts for the Organization's retail stores and other facilities totaled \$7,225,100 and \$6,567,438 for 2016 and 2015, 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, 2016 is as follows:

	<u>Amount</u>
2017	\$ 7,312,000
2018	6,714,000
2019	5,266,000
2020	4,472,000
2021	4,113,000
2022 and later years	<u>18,616,000</u>
	<u>\$ 46,493,000</u>

Notes to the Financial Statements

December 31, 2016 and 2015

(11) Retirement plans

The Organization sponsors the Goodwill Industries of Middle Tennessee Retirement Plan (the "Plan") pursuant to Section 403(b) of the Internal Revenue Code of 1986 (the "Code"), as amended. Under the terms of the Plan, each eligible employee may contribute a percentage of wages subject to certain limitations. The Organization may match employee contributions at its discretion. For 2016 and 2015, the Organization matched employee contributions up to 4% of employee wages. Contributions to the Plan are used to purchase annuities on behalf of the employees. Retirement plan expense for 2016 and 2015 totaled \$384,606 and \$360,965, 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, 2016 and 2015 amounted to \$213,640 and \$965,243, respectively.

(12) Self-funded health insurance

The Organization is self-funded for health benefits for eligible employees and their dependents. Health insurance expense is recorded on an accrual basis. An accrued liability is recorded at year-end, which estimates the incurred but not reported claims. The liability amounted to \$1,987,696 and \$1,213,768 at December 31, 2016 and 2015, respectively, and is included in accounts payable and accrued expenses in the accompanying statements of financial position. The Organization has stop loss insurance to cover catastrophic claims.

(13) Contingent liabilities

The Organization is involved in various legal actions arising in the normal course of its activities. In the opinion of management, such matters will not have a material adverse effect on the Organization's financial position. As these matters develop, it is reasonably possible management's estimate of their effect could change and an accrual for additional liabilities could be required.

(14) Related party transactions

During the normal course of business, the Organization purchased advertising services in the amount of \$373,578 and \$852,026 in 2016 and 2015, respectively, from a company affiliated with a member of the board of directors.

During 2016 and 2015, the Organization purchased legal services in the amount of \$503 and \$22,803, respectively, from firms affiliated with members of the board of directors.

Notes to the Financial Statements

December 31, 2016 and 2015

The Organization owes two notes payable to a bank affiliated with a member of the board. The first note has an outstanding balance of \$157,816 as of December 31, 2016, bears interest at a rate of 5.08% and matures June 2017. The other note payable has an outstanding balance of \$1,666,663 as of December 31, 2016, bears interest at a rate of 2.57 % and matures December 2021.

(15) Subsequent event

Subsequent to December 31, 2016, the Organization's board of directors approved the use of approximately \$4,500,000 of long-term investments for operations and removed the related designation on the net assets designated for such long-term investments.

(16) Management's plans for future operations

The Organization has experienced net losses during 2016 and 2015 as retail store sales have weakened and competitive entrants into thrift and discount retail have increased. In response, the Organization is implementing changes in its operating model that will decentralize textile processing into its retail locations. These changes will result in savings in personnel, logistics and infrastructure with an anticipated completion during 2018. Considering projected future operating performance, cash on hand at December 31, 2016, and availability of long term investments, the Organization's management believes that sufficient funds will be available to meets its obligations as they come due for the next year from the date of this report.