

**GOODWILL INDUSTRIES OF
MIDDLE TENNESSEE, INC.**

FINANCIAL STATEMENTS

December 31, 2013 and 2012

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 – 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses.....	5 – 6
Statements of Cash Flows	7
Notes to Financial Statements.....	8 – 21



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Goodwill Industries of Middle Tennessee, Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of Goodwill Industries of Middle Tennessee, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows 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.

Auditor's 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 from 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 auditor's 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 Tennessee, Inc. as of December 31, 2013 and 2012, 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.

Frasier, Dean + Hand, PLLC

Nashville, Tennessee

March 18, 2014

Goodwill Industries of Middle Tennessee, Inc.
Statements of Financial Position
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,263,896	\$ 7,787,963
Accounts receivable and grants receivable, net	432,819	551,207
Inventory	2,218,989	1,990,260
Prepaid expenses	329,316	264,409
Total current assets	12,245,020	10,593,839
Noncurrent assets:		
Cash and cash equivalents restricted for debt requirement	225,000	225,000
Investments - board designated	4,178,665	3,554,591
Investments - deferred compensation plan	889,657	881,443
Land, buildings and equipment (net of depreciation)	45,117,848	34,338,016
Other assets	164,459	99,164
Total assets	<u>\$ 62,820,649</u>	<u>\$ 49,692,053</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,300,053	\$ 4,453,795
Deferred revenue	40,052	16,591
Current portion of deferred lease incentive	36,340	55,429
Current portion of notes payable	1,124,519	1,259,918
Total current liabilities	6,500,964	5,785,733
Noncurrent liabilities:		
Deferred compensation plan liability	889,657	881,443
Deferred lease incentive, net of current portion	452,786	481,621
Other liabilities	227,526	164,309
Notes payable, net of current portion	14,195,828	6,680,514
Total liabilities	22,266,761	13,993,620
Net assets:		
Unrestricted net assets:		
Undesignated	36,270,974	32,108,174
Designated for long-term investments	4,178,665	3,554,591
Total unrestricted net assets	40,449,639	35,662,765
Temporarily restricted net assets	104,249	35,668
Total net assets	40,553,888	35,698,433
Total liabilities and net assets	<u>\$ 62,820,649</u>	<u>\$ 49,692,053</u>

See accompanying notes.

Goodwill Industries of Middle Tennessee, Inc.
Statements of Activities
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Changes in unrestricted net assets:		
Revenue, gains, and other support:		
Retail operations:		
Store sales, net of related discounts	\$ 41,876,652	\$ 37,374,661
Contributed value of donated merchandise	26,246,429	24,085,611
Total retail operations	68,123,081	61,460,272
Salvage sales	4,370,366	4,470,652
Grants and fees received	509,849	495,424
Investment income, net	355,982	361,300
Contributions	116,446	134,922
Other	163,325	83,256
United Way contributions	40,740	41,288
Administrative fees revenue	21,600	120
Net assets released from restrictions	31,419	238,336
Total revenue, gains, and other support	73,732,808	67,285,570
Expenses:		
Program services	61,502,282	54,066,526
Management and general	6,709,810	6,081,700
Fundraising	733,842	625,085
Total expenses	68,945,934	60,773,311
Increase in unrestricted net assets	4,786,874	6,512,259
Changes in temporarily restricted net assets:		
Revenues:		
Contributions	100,000	28,700
Net assets released from restrictions	(31,419)	(238,336)
Total revenues	68,581	(209,636)
Increase (decrease) in temporarily restricted net assets	68,581	(209,636)
Change in net assets	4,855,455	6,302,623
Net assets, beginning of year	35,698,433	29,395,810
Net assets, end of year	<u>\$ 40,553,888</u>	<u>\$ 35,698,433</u>

See accompanying notes.

Goodwill Industries of Middle Tennessee, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2013

	Program Services	Management and General	Fund- raising	Total
Salaries	\$ 34,707,962	\$ 4,044,333	\$ 91,242	\$ 38,843,537
Occupancy	8,989,265	197,638	-	9,186,903
Employee benefits	3,619,929	322,611	9,619	3,952,159
Payroll taxes	3,591,662	313,341	6,884	3,911,887
Supplies	2,371,642	110,557	-	2,482,199
Advertising, printing and publications	779,589	130,167	623,279	1,533,035
Travel and vehicles	1,169,889	95,630	-	1,265,519
Equipment rent and maintenance	522,228	133,560	-	655,788
Postage	813,562	17,634	2,818	834,014
Credit card fees	722,223	818	-	723,041
Telephone	374,491	109,460	-	483,951
Professional fees	286,869	193,047	-	479,916
Ecommerce fees	337,251	45	-	337,296
Interest	240,660	23,985	-	264,645
Insurance	21,599	212,859	-	234,458
Noncapitalized purchases	139,140	65,334	-	204,474
Dues payment to affiliated organization	-	162,024	-	162,024
Cost of goods sold	142,368	-	-	142,368
Employee relations	46,287	30,848	-	77,135
Other	148,095	5,075	-	153,170
Bank service charges	27,818	44,682	-	72,500
Conferences and meetings	14,024	13,315	-	27,339
Dues	9,194	9,361	-	18,555
Awards and grants	2,527	1,254	-	3,781
Total expense before depreciation	59,078,274	6,237,578	733,842	66,049,694
Depreciation	2,424,008	472,232	-	2,896,240
Total expenses	<u>\$ 61,502,282</u>	<u>\$ 6,709,810</u>	<u>\$ 733,842</u>	<u>\$ 68,945,934</u>

See accompanying notes.

Goodwill Industries of Middle Tennessee, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2012

	Program Services	Management and General	Fund- raising	Total
Salaries	\$ 29,967,571	\$ 3,685,038	\$ 80,659	\$ 33,733,268
Occupancy	7,949,268	176,648	-	8,125,916
Employee benefits	3,244,833	295,343	8,181	3,548,357
Payroll taxes	3,127,468	286,726	6,281	3,420,475
Supplies	2,193,327	139,085	-	2,332,412
Advertising, printing and publications	804,916	108,157	529,964	1,443,037
Travel and vehicles	1,144,010	97,978	-	1,241,988
Equipment rent and maintenance	642,544	120,950	-	763,494
Postage	722,947	18,342	-	741,289
Credit card fees	619,203	360	-	619,563
Telephone	343,504	71,950	-	415,454
Professional fees	231,294	144,973	-	376,267
Ecommerce fees	310,904	57	-	310,961
Interest	185,391	27,710	-	213,101
Insurance	14,672	182,321	-	196,993
Noncapitalized purchases	100,103	61,206	-	161,309
Dues payment to affiliated organization	-	159,624	-	159,624
Cost of goods sold	129,046	-	-	129,046
Employee relations	52,288	24,547	-	76,835
Other	26,668	4,801	-	31,469
Bank service charges	4,866	13,176	-	18,042
Conferences and meetings	10,637	6,448	-	17,085
Dues	6,063	5,963	-	12,026
Awards and grants	2,621	-	-	2,621
Total expense before depreciation	51,834,144	5,631,403	625,085	58,090,632
Depreciation	2,232,382	450,297	-	2,682,679
Total expenses	<u>\$ 54,066,526</u>	<u>\$ 6,081,700</u>	<u>\$ 625,085</u>	<u>\$ 60,773,311</u>

See accompanying notes.

Goodwill Industries of Middle Tennessee, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,855,455	\$ 6,302,623
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,896,240	2,682,679
(Gain) loss on disposal of fixed assets	3,055	(10,155)
(Gain) loss on investments, net	(209,903)	(161,476)
(Gain) loss on investments, net - deferred compensation plan	(188,710)	(65,457)
Change in operating assets and liabilities:		
Accounts and grants receivable, net	118,388	170,583
Inventory	(228,729)	(274,842)
Prepaid expenses	(64,907)	(64,418)
Other assets	(65,295)	(11,335)
Accounts payable and accrued expenses	846,258	923,886
Deferred revenue	23,461	5,054
Deferred compensation plan liability	8,214	198,630
Deferred lease incentive	(47,924)	23,474
Other liabilities	63,217	(61,933)
Net cash provided by operating activities	<u>8,008,820</u>	<u>9,657,313</u>
Cash flows from investing activities:		
Purchases of investments	(740,340)	(521,753)
Proceeds from sale of investments	506,665	152,033
Purchase of land, buildings, and equipment	(13,679,127)	(9,587,298)
Net cash used in investing activities	<u>(13,912,802)</u>	<u>(9,957,018)</u>
Cash flows from financing activities:		
Principal payments on notes payable	(1,237,141)	(965,567)
Proceeds from issuance of notes payable	8,617,056	1,760,000
Net cash provided by financing activities	<u>7,379,915</u>	<u>794,433</u>
Net increase in cash and cash equivalents	1,475,933	494,728
Cash and cash equivalents, beginning of year	7,787,963	7,293,235
Cash and cash equivalents, end of year	<u>\$ 9,263,896</u>	<u>\$ 7,787,963</u>
Supplemental cash flow information:		
Cash paid during the year for interest	<u>\$ 236,131</u>	<u>\$ 204,909</u>

See accompanying notes.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Goodwill Industries of Middle Tennessee, 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. The following is a summary of the Organization’s significant accounting policies:

Financial Statement 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 stipulations 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 stipulations 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 statements of activities as net assets released from restrictions. The Organization had temporarily restricted net assets of \$104,249 and \$35,668 at December 31, 2013 and 2012, respectively.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that require that 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 had no permanently restricted net assets at December 31, 2013 and 2012.

Contributions

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.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of Restricted Revenue

Revenue from restricted grants is recorded based on expenses incurred since these grants are generally on a cost-reimbursement basis.

Cash and Cash Equivalents and Restricted Cash

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. In 2011, the Organization placed \$225,000 in a separate account with a financial institution to meet a new debt requirement. The account is non-interest bearing. The debt restriction requires the cash account to remain with the financial institution until the debt is satisfied. The account is reflected in the statements of financial position as “cash and cash equivalents restricted for debt requirement.”

Investments

Investments are stated at fair market value. Unrealized gains and losses as well as appreciation or depreciation in market value are reflected in the accompanying financial statements.

Inventory

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 2013 and 2012, the Organization recognized contributed merchandise with an estimated fair value of \$26,246,429 and \$24,085,611, 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.

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.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land, Buildings and Equipment (Continued)

Estimated useful lives of all major classes of assets are as follows:

Buildings	7 - 39 years
Building improvements	3 - 29 years
Leasehold improvements	3 - 15 years
Equipment	3 - 10 years
Material collection vehicles	3 - 5 years

Income Taxes

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

The Organization follows Financial Accounting Standards Board Accounting Standards Codification (“FASB 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 and penalties in the accompanying financial statements. Federal tax years that remain open for examination include the years ended December 31, 2010 through December 31, 2013.

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 have not been satisfied.

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.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Advertising Expense

The Organization expenses advertising costs as incurred. Advertising costs charged to expense totaled \$1,263,763 in 2013 and \$1,186,958 in 2012.

Subsequent Events

The Organization evaluated subsequent events through March 18, 2014, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 2 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Trade, contract services and other	\$ 396,049	\$ 517,579
Billings under grants and rehabilitation programs	<u>40,540</u>	<u>37,398</u>
	436,589	554,977
Less: allowance for uncollectibles	<u>(3,770)</u>	<u>(3,770)</u>
Accounts and grants receivable, net	<u>\$ 432,819</u>	<u>\$ 551,207</u>

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization has an established process for determining fair values. Fair values are based upon quoted market prices, where available. If listed prices or quotes are not available, fair values are based upon market-based or independently-sourced market data. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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 have a three-level valuation hierarchy for fair value measurements. 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 three levels are explained as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Investments are stated at fair value, with fair value determined based on quoted prices in active markets for identical assets (Level 1), and consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Investments – board designated:		
Money market funds	\$ 220,214	\$ 510,472
Fixed income funds:		
Corporate bonds	75,692	77,690
Municipal bonds	556,893	676,280
Inv grade bond funds	521,100	-
High yield funds	207,494	327,476
Equities:		
Common stock	538,756	1,190,696
Multi-strategy funds	-	483,852
Large cap funds	598,552	-
Small cap funds	166,496	-
International funds	464,453	98,326
Emerging market funds	82,603	-
Alternatives:		
Multi strategy funds	585,477	-
Gold bullion funds	90,805	126,700
Real estate funds	<u>70,130</u>	<u>63,099</u>
Investments – board designated	<u>\$ 4,178,665</u>	<u>\$ 3,554,591</u>

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

	<u>2013</u>	<u>2012</u>
Investments – deferred compensation plan:		
Growth stock fund	\$ 83,437	\$ 65,979
Midcap growth fund	333,921	337,089
Equity income fund	28,654	114,281
Capital appreciation fund	309,219	335,492
U.S. treasury fund	63,972	-
Spectrum income fund	<u>70,454</u>	<u>28,602</u>
Investments – deferred compensation plan	<u>\$ 889,657</u>	<u>\$ 881,443</u>

Investment income, net as presented in the statements of activities is comprised of the following:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 146,079	\$ 199,824
Net realized and unrealized investment gains	<u>209,903</u>	<u>161,476</u>
Investment income, net	<u>\$ 355,982</u>	<u>\$ 361,300</u>

NOTE 4 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 10,569,749	\$ 8,932,382
Land improvements	106,286	57,566
Buildings	26,623,559	20,384,288
Building improvements	3,056,194	2,814,050
Leasehold improvements	5,247,096	5,073,322
Plant equipment	3,932,259	3,008,256
Store equipment	4,067,578	3,737,220
Office equipment	2,724,596	2,984,674
Material collection vehicles and equipment	3,916,352	3,381,342
Construction in progress	<u>2,831,472</u>	<u>685,847</u>
	63,075,141	51,058,947
Less accumulated depreciation	<u>(17,957,293)</u>	<u>(16,720,931)</u>
	<u>\$ 45,117,848</u>	<u>\$ 34,338,016</u>

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 5 – NOTES PAYABLE

Notes payable consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Promissory note issued to the Industrial Development Board of the City of Berry Hill, Tennessee. Total borrowings under the note amounted to \$2,250,000. The proceeds of the borrowing were used to purchase a facility that contains a retail store, attended donation center, employment and training services and commercial services operation. The note required interest only payments until April 2004 at which time monthly payments of principal and interest (3.75% per annum) of \$22,420 were required. The note matures in April 2014. The note is secured by the real estate. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2013 and 2012.	\$ 88,974	\$ 349,244
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. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2013 and 2012.	950,364	1,188,548
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 provided for interest only payments at 2.80% per annum through February 2011. Thereafter, 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. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2013 and 2012.	3,096,681	3,550,412

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 5 – NOTES PAYABLE (Continued)

Promissory note issued to the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County. Total initial borrowings under this note amounted to \$1,140,000. Additional borrowings continued as construction progressed and totaled \$2,900,000 when construction was completed. 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 provided for interest only payments through the construction period. Thereafter, 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. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2013 and 2012.

	2,567,272	2,852,228
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Promissory note issued to the Industrial Development Board of Rutherford County, Tennessee. Maximum borrowings allowed under this arrangement are \$10,000,000 and will continue as construction progresses. Subsequent to December 31, 2013, an additional \$277,976 has been drawn under the arrangement. 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 provides for interest only payments through December 31, 2014. Thereafter, 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. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2013 and 2012.

	<u>8,617,056</u>	<u>-</u>
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	15,320,347	7,940,432
Less current portion	<u>(1,124,519)</u>	<u>(1,259,918)</u>
Long-term portion	<u>\$ 14,195,828</u>	<u>\$ 6,680,514</u>

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 5 – NOTES PAYABLE (Continued)

Required principal payments on the notes payable are as follows at December 31, 2013:

Year ending <u>December 31,</u>	
2014	\$ 1,124,519
2015	1,939,480
2016	2,001,506
2017	1,931,322
2018	1,824,640
Thereafter	<u>6,498,880</u>
	<u>\$ 15,320,347</u>

Interest expense associated with notes payable is reflected in the statements of activities for the years ended December 31, 2013 and 2012 as \$264,645 and \$213,101, respectively.

NOTE 6 – CONCENTRATIONS

Financial instruments that potentially subject the Organization to credit risk consist principally of cash and cash equivalents, investments, and trade receivables. Cash balances are maintained at times in excess of Federal Deposit Insurance Corporation insured amounts.

NOTE 7 – COMMITMENTS

The annual rentals under lease contracts for the Organization's retail stores and other facilities totaled \$5,694,066 and \$4,912,187 for 2013 and 2012, respectively. The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2013.

Year ending <u>December 31,</u>	
2014	\$ 5,745,473
2015	5,478,826
2016	4,717,951
2017	4,266,334
2018	3,233,900
Thereafter	<u>9,007,059</u>
	<u>\$ 32,449,543</u>

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 8 – GRANTS

The Organization receives grants and awards from governmental agencies and private foundations that are used to fund various programs. A brief description of each grant and the related program(s) follows:

Division of Intellectual Disabilities Services (“DIDS”) Day Services

Day Services assist individuals with developmental disabilities in learning appropriate work, social skills and habits within the Goodwill work environment.

Metropolitan Development and Housing Agency (“MDHA”) (Youth Enrichment Grant) (two programs: Summer Work Services and TRAC)

Summer Work Services provides youth, age 16-18 with disabilities or who are considered disadvantaged, with paid work opportunities both within Goodwill and at community employers.

TRAC training program provides youth, age 14-18 with disabilities or who are considered disadvantaged, with customer service skills and job readiness training.

Good Prospects program

Goodwill Industries International is the primary grantee of a Department of Labor grant to improve internet connectivity and provide additional computers to the Organization’s Career Solutions centers and to provide industry-recognized, certificate training for counselors. The Organization is a sub-grantee, receiving \$349,300 over a two year period. The grant expired in June 2012.

Department of Human Services (“DHS”) Vocational Evaluation/Work Adjustment

The State of Tennessee Department of Human Services, Division of Vocational Rehabilitation provided fee reimbursement for work assessments and on-the-job work experiences for individuals with disabilities.

Regional Transit Authority (“RTA”)

The Regional Transit Authority provided partial funding for an administrative assistant. A portion of this assistant’s responsibilities includes providing bus passes to qualifying Goodwill clients. This program expired in September 2013.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 8 – GRANTS (Continued)

Clarksville Operation Defiance

The City of Clarksville provided funding for a case manager to serve the residents of the New Providence neighborhood with job placement and supporting services. Neighborhood events are conducted in order to connect the residents with the police officers to encourage safety and to reduce crime. Total reimbursement for this grant is up to \$160,000. This grant expires September 2014.

Columbia Operation Reintegration

The City of Columbia provided funding for a case manager to provide job services and connect with clients to support services to reduce/eliminate recidivism. The clients served are ex-felons in certain categories referred by the parole/probation officers. The grant reimbursement will not exceed \$148,420 over a three year period. This grant expires in December 2014.

Beyond Jobs

Goodwill International is the primary grantee of a grant provided by the Wal-Mart Foundation to provide at risk women job services and financial literacy classes for a six month period. The grant reimbursement may not exceed \$158,567 over a three year period. This grant expires in December 2014.

NCP Pilot Project

The Center for Policy Research provided funding for job training and job placement services to non-custodial parents who are referred to Goodwill by the State of Tennessee

Bank of America Neighborhood Builders

Bank of America provided this grant to assist our community. Goodwill used these funds to establish a Youth program, providing targeted job training and job placement services to out-of-school youth, age 17-25, who are unemployed.

Bank of America Workforce Grant

Goodwill is the fiscal agent on this grant. Funds provided assist the Nashville Workforce Network, a consortium of workforce providers in Davidson County. The funds have been used to pay for an intern who provides administrative support for the volunteers who lead the network as well as for events and materials related to training and education programs for staff from the member agencies.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 8 – GRANTS (Continued)

VITA

Goodwill International is the primary grantee of a grant provided by Walmart through a partnership with Goodwill International and United Way. This grant provided funds for materials and supplies to train volunteers in the community to provide tax preparation services to Goodwill employees, clients and members of the Nashville community.

The Organization also receives training fees from governmental agencies used to provide additional occupational skill training. Community-based organizations and some employers pay for their clients to participate in computer, forklift or security guard training.

A summary of fees and grants from governmental agencies as reported in the accompanying statements of activities follows:

	<u>2013</u>	<u>2012</u>
Training Fees/Private Pay/Community Work Sites	\$ 179,631	\$ 220,881
Beyond Jobs	60,200	9,167
DIDS Day Services/Follow Along	59,856	61,720
Clarksville Operation Defiance	50,550	34,988
Columbia Operation Reintegration	48,604	28,259
Regional Transit Authority	25,972	10,170
DHS Vocational Evaluation /Work Adjustment/JDP	28,670	17,955
Bank of America Summer Program	15,000	-
MDHA – Youth Enrichment	12,500	12,500
TRAC training program	12,500	12,500
VITA	10,479	-
NCP Pilot Project	5,871	-
Other	16	1,319
Good Prospects (Goodwill International)	<u>-</u>	<u>85,965</u>
	<u>\$ 509,849</u>	<u>\$ 495,424</u>

NOTE 9 – RETIREMENT PLANS

On May 1, 1991, the Organization implemented 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 2013 and 2012, the Organization matched employee contributions

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 9 – RETIREMENT PLANS (Continued)

up to 4% of employee wages. Contributions to the Plan are used to purchase annuities on behalf of the employees. Retirement plan expense for 2013 and 2012 totaled \$328,528 and \$293,131, respectively, and is included in employee benefits in the accompanying statements of functional expenses.

During 2002, the Organization established 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, 2013 and 2012 amounted to \$889,657 and \$881,443, respectively.

NOTE 10 – SELF-FUNDED HEALTH INSURANCE

During 2003, the Organization began to self-fund 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 \$834,131 and \$672,935 at December 31, 2013 and 2012, 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.

NOTE 11 – RELATED PARTY TRANSACTIONS

During the normal course of business, the Organization purchased advertising services in the amount of \$948,593 and \$962,795 in 2013 and 2012, respectively, from a company affiliated with a member of the board of directors. The arrangement was approved by the board of directors prior to commencement.

During 2013 and 2012, the Organization purchased legal services in the amount of \$35,323 and \$12,499, respectively, from a firm affiliated with a member of the board of directors.

During 2013 and 2012, the Organization purchased legal services in the amount of \$4,180 and \$28,245, respectively, from a firm affiliated with a member of the board of directors.

The Organization has entered into an administrative agreement with Government Services, Inc. (“GS”) to provide limited administrative and management services to GS. The total amount of management fees earned by the Organization was \$21,600 and \$120 in 2013 and 2012, respectively.

During 2013 and previous years, the Organization paid certain expenses on behalf of GS. At December 31, 2013 and 2012, the Organization was due \$2,795 and \$12,790, respectively, from GS. This receivable is included in accounts and grants receivable in the accompanying statements of financial position.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 11 – RELATED PARTY TRANSACTIONS (Continued)

During 2013 and 2012, the Organization paid insurance brokerage fees in the amount of \$36,000 and \$40,000 respectively, to a company affiliated with a member of the board of directors.

During 2013 and 2012, the Organization purchased construction services in the amount of \$7,718,231 and \$526,559 respectively, from a company affiliated with a member of the board of directors.