



Financial Statements
December 31, 2019 and 2018

Goodwill Industries of Southern Nevada, Inc.

Goodwill Industries of Southern Nevada, Inc.

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December 31, 2019 and 2018

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Independent Auditor's Report

The Board of Directors
Goodwill Industries of Southern Nevada, Inc.
Las Vegas, Nevada

Report on the Financial Statements

We have audited the accompanying financial statements of Goodwill Industries of Southern Nevada, Inc., which comprise the statement of financial position as of December 31, 2019 and the related statements of activities, functional expenses and cash flows for the year 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 audit 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Southern Nevada, Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Goodwill Industries of Southern Nevada, Inc. as of December 31, 2018, were audited by other auditors, whose report dated July 8, 2019, expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Las Vegas, Nevada
May 27, 2020

Goodwill Industries of Southern Nevada, Inc.
 Statements of Financial Position
 December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---------------|---------------|
| Assets | | |
| Cash and cash equivalents | \$ 6,077,432 | \$ 3,089,891 |
| Accounts receivable | 27,488 | 33,336 |
| Contracts receivable | 11,920 | 28,726 |
| Grants receivable | 35,573 | 255,360 |
| Inventory | 2,670,706 | 2,802,218 |
| Prepaid expenses and other assets | 715,999 | 595,584 |
| Deposits | 625,808 | 437,901 |
| Restricted cash | 1,201,427 | 1,171,651 |
| Property and equipment, net | 17,937,857 | 18,453,094 |
| Total assets | \$ 29,304,210 | \$ 26,867,761 |
| Liabilities and Net Assets | | |
| Accounts payable | \$ 471,747 | \$ 234,982 |
| Pre-filing liabilities subject to compromise | 200,438 | 2,339,274 |
| Accrued expenses and other liabilities | 857,177 | 1,895,923 |
| Deferred gain on sale-leaseback | 1,475,840 | 2,086,532 |
| Deferred rent payable | 1,053,497 | 1,129,646 |
| Bonds payable, net of unamortized bond issuance costs and discounts on bonds | 20,703,296 | 20,369,502 |
| Total liabilities | 24,761,995 | 28,055,859 |
| Net Assets | | |
| Without donor restrictions | | |
| Undesignated | 6,959,928 | 401,234 |
| Invested in property and equipment, net of related debt | (2,765,439) | (1,916,408) |
| | 4,194,489 | (1,515,174) |
| With donor restrictions | | |
| Purpose restrictions | 347,726 | 327,076 |
| | 347,726 | 327,076 |
| Total net assets | 4,542,215 | (1,188,098) |
| Total liabilities and net assets | \$ 29,304,210 | \$ 26,867,761 |

Goodwill Industries of Southern Nevada, Inc.

Statements of Activities

Years Ended December 31, 2019 and 2018

| | 2019 | | | 2018 | | |
|--|----------------------------|-------------------------|--------------|----------------------------|-------------------------|----------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenue, Support, and Gains | | | | | | |
| Contributions | \$ 32,643 | \$ 492,139 | \$ 524,782 | \$ 52,892 | \$ 502,785 | \$ 555,677 |
| Grants | 889,594 | - | 889,594 | 1,106,596 | - | 1,106,596 |
| Goods contributed for sale | 36,429,744 | - | 36,429,744 | 32,337,250 | - | 32,337,250 |
| Sale of contributed goods | 36,583,749 | - | 36,583,749 | 32,480,855 | - | 32,480,855 |
| Less cost of goods sold | (36,583,749) | - | (36,583,749) | (32,480,855) | - | (32,480,855) |
| Sale of purchased goods | 219,997 | - | 219,997 | 67,545 | - | 67,545 |
| Less cost of goods sold | (111,060) | - | (111,060) | (37,466) | - | (37,466) |
| Vocational assistance programs | 210,341 | - | 210,341 | 292,133 | - | 292,133 |
| Amortization of deferred gains on sale-leaseback | 610,692 | - | 610,692 | 610,692 | - | 610,692 |
| Interest | 34,387 | - | 34,387 | 12,731 | - | 12,731 |
| Other | 48,233 | - | 48,233 | 39 | - | 39 |
| Net assets released from restrictions | 471,489 | (471,489) | - | 316,386 | (316,386) | - |
| Total revenue, support, and gains | 38,836,060 | 20,650 | 38,856,710 | 34,758,798 | 186,399 | 34,945,197 |
| Expenses and Losses | | | | | | |
| Program services expense | 32,923,929 | - | 32,923,929 | 29,550,569 | - | 29,550,569 |
| Supporting services expense | | | | | | |
| Management and general | 997,829 | - | 997,829 | 949,313 | - | 949,313 |
| Fundraising and development | 394,156 | - | 394,156 | 422,871 | - | 422,871 |
| Total supporting services expenses | 1,391,985 | - | 1,391,985 | 1,372,184 | - | 1,372,184 |
| Total expenses and losses | 34,315,914 | - | 34,315,914 | 30,922,753 | - | 30,922,753 |
| Reorganization Items | | | | | | |
| Gain from release from liabilities | 1,773,590 | - | 1,773,590 | 2,547 | - | 2,547 |
| Professional fees | (584,073) | - | (584,073) | (1,859,157) | - | (1,859,157) |
| Total Reorganization Items | 1,189,517 | - | 1,189,517 | (1,856,610) | - | (1,856,610) |
| Change in Net Assets | 5,709,663 | 20,650 | 5,730,313 | 1,979,435 | 186,399 | 2,165,834 |
| Net Assets, Beginning of Year | (1,515,174) | 327,076 | (1,188,098) | (3,494,609) | 140,677 | (3,353,932) |
| Net Assets, End of Year | \$ 4,194,489 | \$ 347,726 | \$ 4,542,215 | \$ (1,515,174) | \$ 327,076 | \$ (1,188,098) |

See Notes to Financial Statements

Goodwill Industries of Southern Nevada, Inc.

Statements of Functional Expenses

Year Ended December 31, 2019

| | Program Services | Management and General | Fundraising and Development | Total |
|---|--------------------------|---------------------------|--------------------------------|--------------------------|
| Salaries and wages | \$ 17,346,271 | \$ 415,970 | \$ 218,435 | \$ 17,980,676 |
| Payroll taxes | 1,324,180 | 31,754 | 16,675 | 1,372,609 |
| Employee benefits | 797,001 | 19,112 | 10,036 | 826,149 |
| Advertising and promotion | - | 255,473 | - | 255,473 |
| Merchant fees | 595,517 | - | - | 595,517 |
| Travel | 50,148 | 1,203 | 631 | 51,982 |
| Occupancy | 5,372,244 | 128,828 | 67,651 | 5,568,723 |
| Equipment rental | 577,907 | 13,858 | 7,277 | 599,042 |
| Repairs and maintenance | 299,757 | 7,187 | 3,774 | 310,718 |
| Insurance | 895,408 | 21,472 | 11,276 | 928,156 |
| Utilities | 1,074,545 | 25,768 | 13,531 | 1,113,844 |
| Property taxes | 169,178 | 4,057 | 2,130 | 175,365 |
| Office expenses | 494,061 | 11,847 | 6,221 | 512,129 |
| Client assistance | 220,347 | - | - | 220,347 |
| Printing and duplication | 40,523 | 972 | 510 | 42,005 |
| Security | 79,109 | 1,897 | 996 | 82,002 |
| Supplies | 578,602 | 13,875 | 7,286 | 599,763 |
| Telecommunications | 233,715 | 5,604 | 2,943 | 242,262 |
| Mileage and other vehicle expense | 245,695 | 5,892 | 3,094 | 254,681 |
| Postage and shipping | 154,430 | 3,703 | 1,945 | 160,078 |
| Conferences, conventions and meetings | 16,781 | 402 | 211 | 17,394 |
| Professional services | 144,798 | 3,472 | 1,823 | 150,093 |
| Depreciation and amortization | 880,450 | 21,114 | 11,087 | 912,651 |
| Interest and debt related amortization | 1,151,074 | - | - | 1,151,074 |
| Other fundraising expense | - | - | 4,330 | 4,330 |
| Membership fees | 182,188 | 4,369 | 2,294 | 188,851 |
| Cost of goods sold | 36,694,809 | - | - | 36,694,809 |
| | <u>69,618,738</u> | <u>997,829</u> | <u>394,156</u> | <u>71,010,723</u> |
| Less expenses included with revenues on the statement of activities | | | | |
| Sale of contributed goods cost of goods sold | (36,583,749) | - | - | (36,583,749) |
| Sale of purchased goods cost of goods sold | (111,060) | - | - | (111,060) |
| | <u>(37,694,809)</u> | <u>-</u> | <u>-</u> | <u>(37,694,809)</u> |
| Total expenses included in the expense section on the statement of activities | <u>\$ 32,923,929</u> | <u>\$ 997,829</u> | <u>\$ 394,156</u> | <u>\$ 34,315,914</u> |

Goodwill Industries of Southern Nevada, Inc.

Statement of Functional Expenses

Year Ended December 31, 2018

| | Program Services | Management and General | Fundraising and Development | Total |
|---|----------------------|---------------------------|--------------------------------|----------------------|
| Salaries and wages | \$ 16,071,212 | \$ 412,441 | \$ 235,170 | \$ 16,718,823 |
| Payroll taxes | 1,418,415 | 36,401 | 20,756 | 1,475,572 |
| Employee benefits | 415,217 | 10,656 | 6,076 | 431,949 |
| Advertising and promotion | - | 208,526 | - | 208,526 |
| Merchant fees | 452,794 | - | - | 452,794 |
| Travel | 21,770 | 559 | 319 | 22,648 |
| Occupancy | 5,064,634 | 129,975 | 74,108 | 5,268,717 |
| Equipment rental | 673,540 | 17,285 | 9,856 | 700,681 |
| Repairs and maintenance | 341,331 | 8,760 | 4,995 | 355,086 |
| Insurance | 827,404 | 21,234 | 12,107 | 860,745 |
| Utilities | 1,048,230 | 26,901 | 15,339 | 1,090,470 |
| Property taxes | 136,526 | 3,504 | 1,998 | 142,028 |
| Office expenses | 350,620 | 8,998 | 5,131 | 364,749 |
| Client assistance | 194,672 | - | - | 194,672 |
| Printing and duplication | 20,574 | 528 | 301 | 21,403 |
| Security | 69,013 | 1,771 | 1,010 | 71,794 |
| Supplies | 627,384 | 16,101 | 9,181 | 652,666 |
| Telecommunications | 230,430 | 5,914 | 3,372 | 239,716 |
| Mileage and other vehicle expense | 231,667 | 5,945 | 3,390 | 241,002 |
| Postage and shipping | 91,284 | 2,343 | 1,336 | 94,963 |
| Conferences, conventions and meetings | 15,829 | 406 | 232 | 16,467 |
| Professional services | 81,865 | 2,101 | 1,198 | 85,164 |
| Depreciation and amortization | 981,339 | 25,184 | 14,360 | 1,020,883 |
| Interest and debt related amortization | 37,512 | - | - | 37,512 |
| Other fundraising expense | - | - | 480 | 480 |
| Membership fees | 147,307 | 3,780 | 2,156 | 153,243 |
| Cost of goods sold | 32,518,321 | - | - | 32,518,321 |
| | <u>62,068,890</u> | <u>949,313</u> | <u>422,871</u> | <u>63,441,074</u> |
| Less expenses included with revenues on the statement of activities | | | | |
| Sale of contributed goods cost of goods sold | (32,480,855) | - | - | (32,480,855) |
| Sale of purchased goods cost of goods sold | (37,466) | - | - | (37,466) |
| | <u>(32,518,321)</u> | <u>-</u> | <u>-</u> | <u>(32,518,321)</u> |
| Total expenses included in the expense section on the statement of activities | <u>\$ 29,550,569</u> | <u>\$ 949,313</u> | <u>\$ 422,871</u> | <u>\$ 30,922,753</u> |

Goodwill Industries of Southern Nevada, Inc.

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|--------------|--------------|
| Operating Activities | | |
| Change in net assets | \$ 5,730,313 | \$ 2,165,834 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation and amortization | 912,651 | 1,020,883 |
| Interest expense attributable to amortization of debt issuance costs and bond discount | 33,275 | 37,512 |
| Amortization of deferred gain on sale-leaseback | (610,692) | (610,692) |
| Reorganization items | (1,189,517) | 1,856,610 |
| Changes in operating assets and liabilities | | |
| Accounts receivable, net | 5,848 | 41,163 |
| Contracts receivable | 16,806 | 16,727 |
| Grants receivable | 219,787 | (73,281) |
| Inventory | 131,512 | 143,605 |
| Prepaid expenses and other | (120,414) | (1,034) |
| Deposits | (187,907) | - |
| Accounts payable and pre-filing liabilities subject to compromise | 270,819 | (501,647) |
| Accrued expenses | (802,446) | 55,970 |
| Deferred rent payable | (76,149) | 41,569 |
| Net Cash from Operating Activities | | |
| Before reorganization items | 4,333,886 | 4,193,219 |
| Operating Cash Flows from Reorganization Items | | |
| Professional fees | (584,073) | (1,859,156) |
| Net Cash from Operating Activities | 3,749,813 | 2,334,063 |
| Investing Activities | | |
| Purchases of property and equipment | (397,415) | (98,150) |
| Financing Activities | | |
| Principal payments on bonds | (335,081) | (25,269) |
| Net Change in Cash, Cash Equivalents, and Restricted Cash | 3,017,317 | 2,210,644 |
| Cash, Cash Equivalents, and Restricted Cash, Beginning of Year | 4,261,542 | 2,050,898 |
| Cash, Cash Equivalents, and Restricted Cash, End of Year | \$ 7,278,859 | \$ 4,261,542 |
| Cash and Cash Equivalents | 6,077,432 | 3,089,891 |
| Cash Restricted for Debt Service | 1,201,427 | 1,171,651 |
| Total Cash, Cash Equivalents, and Restricted Cash | \$ 7,278,859 | \$ 4,261,542 |

Goodwill Industries of Southern Nevada, Inc.
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------|
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for interest | <u>\$ 616,782</u> | <u>\$ -</u> |
| Supplemental Disclosure of Non-cash Financing Activity | | |
| Accrued bond interest added to debt principal in connection with bankruptcy reorganization | <u>\$ 635,600</u> | <u>\$ -</u> |

Note 1 - Principal Activity and Significant Accounting Policies

Organization and Nature of Activities

Goodwill Industries of Southern Nevada, Inc. (the Organization) is a nonprofit organization that solicits and collects donated materials, processes and resells them to the general public, and provides employment and training services to people with disabilities and other barriers to employment.

The Organization operates under, and has the use of, the Goodwill® name as allowed under an in-substance franchise license agreement with Goodwill Industries International, Inc.

The Organization funds job training, employment placement services and other community programs by selling donated, “gently used” items through its retail, post-retail and e-commerce operations. Its nationally certified workforce development services target job seekers with disabilities and other barriers to employment. The Organization’s traditional workforce development programs deliver vocational rehabilitation services, including assessment, training, job placement and job coaching to clients. The Organization also administers federal workforce development programs.

The Organization operates 16 thrift retail stores, 2 clearance centers, 2 distribution centers and 9 attended donation centers and has approximately 800 employees. Due to recent state mandated temporary business closures due to the coronavirus pandemic which began in March 2020 (Note 11), the Organization has been forced to temporarily shut down its regular operations which has resulted in significant loss of revenue. This loss of revenue has forced the Organization to make substantial temporary reductions in its workforce.

Cash and Cash Equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted for long-term purposes are excluded from this definition.

Restricted Cash

Cash reserved for debt service as required per the amended bond indenture (Note 6) is considered to be restricted cash.

Accounts Receivable and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for sale of contributed goods made on credit. Allowance for uncollectible accounts receivable is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2019 and 2018, an allowance was not deemed necessary.

Receivables from contracts with customers are reported as accounts receivable in the accompanying statements of financial position. Contract liabilities are reported as deferred revenue in the accompanying statements of financial position.

Contracts Receivable

Contract receivables consist primarily of noninterest-bearing amounts due from the Nevada Bureau of Vocational Rehabilitation in connection with the Organization's involvement in vocational assistance programs.

Grants Receivable

Grants receivable consist primarily of noninterest-bearing amounts due for reimbursement of expenses in connection with the Organization's administration of a federal workforce development program.

Inventory

Inventory held for sale is comprised primarily of donated goods and some purchased products. Donated goods inventory is recorded at fair value as described below and new goods inventory is valued at the lower of cost or net realizable value using the first-in first-out (FIFO) method.

The Organization's method for valuing its donated goods inventory varies depending on the location and condition or quality of the donated items. Donated goods on the retail floor of its stores has been processed and pre-determined to be of retail quality. Goods in this category are aggregated by type and valued by multiplying item counts in each type by the average expected sales prices associated with the type. Item counts are determined by specific counts for higher priced items and by an estimation process for lower priced items. Estimated sales prices for each of the respective type of goods is based on the average price received for the specific type during the month of December of the then current year.

The Organization values donated goods in its e-commerce program at the expected sales price associated with each item. Donated goods in the Organization's clearance centers are valued by establishing product weights for the various types of goods multiplied by the average price per pound the Organization expects to receive for each type. The Organization values donated goods in its distribution centers and storage trailers at the prevailing salvage market value per pound for each type of good.

Property and Equipment

Property and equipment additions over \$1,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 39 years, or in the case of capitalized leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2019 and 2018, respectively.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor 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 restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports unconditional contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. 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 reports conditional contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other conditional donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition*Exchange Revenues*

Revenue from the sale of goods is measured based on consideration specified in an implicit contract with a customer. The Organization recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

For performance obligations relating to the sale of goods, control transfers to the customer at a point in time. Most sales are point of sale transactions and revenue is recorded at the time of sale. For all other exchange transactions, the Organization's principal terms of sale are FOB shipping point and the Organization records revenue for the sale of goods upon shipment to the customer.

The Organization does not have any significant financing components as payment is received at or shortly after the point of sale.

These goods are sold to customers through retail and e-commerce outlets. Goods that cannot be sold through retail outlets are sold on secondary markets at salvage value.

Nonexchange Revenues

Contributions, grants, and vocational assistance program revenues are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at December 31, 2019 and 2018, conditional contributions approximating \$2,602,824 and \$4,182,317 respectively, for which no amounts had been received in advance, have not been recognized in the accompanying financial statements.

Shipping and Handling Costs

Shipping and handling costs of \$160,078 and \$94,963 respectively, for the years ended December 31, 2019 and 2018, are included in the statement of functional expenses.

Donated Services and In-Kind Contributions

Goods contributed for sale are recorded in revenue at expected selling prices. Accordingly, no acquisition costs are recognized for the sales of such goods.

Volunteers may contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. Contributions towards the program services function include donated services for valued at \$29,057 and \$46,597, during December 31, 2019 and 2018, respectively.

Bond Issuance Costs

Bond issuance costs are amortized over the period the related obligation is outstanding using the effective interest method. Unamortized bond issuance costs are included within bonds payable in the statements of financial position. Amortization of bond issuance costs is included in interest expense in the accompanying financial statements.

Deferred Rent Payable

Rent expense associated with office and warehouse leases is recorded on a straight-line basis over the terms of the related lease agreements. Deferred rent represents the straight-line rent expense recorded in excess of the total payments made on the lease contracts from lease inception-to-date.

Advertising Costs

Advertising costs are expensed as incurred and were \$255,473 and \$208,526 during the years ended December 31, 2019 and 2018, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that can be determined to be directly related to programs or supporting services are recorded in the appropriate category. Those expenses that cannot be directly attributed are allocated based on the amount of time and effort, as estimated by management, and reviewed and amended annually. All expenses are allocated with the exception of merchant fees, advertising, client assistance, interest, fundraising, and cost of goods sold.

Income Taxes

The Organization is organized as a Nevada nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Organization determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Organization to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash and money market accounts with financial institutions believed by the Organization to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable, contracts and grants receivable are considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of the Organization's mission.

Reclassifications

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

Change in Accounting Principle

As of January 1, 2019, the Organization adopted the provisions of FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, which provides a comprehensive revenue recognition model for all contracts with customers. The new model requires revenue recognition to depict the transfer of promised goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those goods or services. The Organization has adopted Topic 606 using the modified retrospective approach. The adoption of this standard had no significant effect on the December 31, 2019 financial statements.

As of January 1, 2019, the Organization adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. The amendments provide a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction. The amendments also provide additional guidance about how to determine whether a contribution is conditional. The adoption of this standard had no significant effect on the December 31, 2019 financial statements.

As of January 1, 2019, the Organization adopted the provisions of Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents, by including amounts generally described as restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Retrospective application of the amendment is required. The Organization has adopted this standard as management believes this presentation eliminates a diversity in practice in the presentation of restricted cash and restricted cash equivalents in the statement of cash flows.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard requires lessees to recognize almost all leases on their statement of financial position as a right-of-use asset and a lease liability. The new guidance will require the asset and the liability to be initially measured at the present value of the lease payments in the statement of financial position. The new guidance will also require the Organization to recognize interest expense on the lease liability separately from the amortization of the right-use-asset for finance leases and recognize a single lease cost allocated on a straight-line basis over the term of the lease term for operating leases. This ASU is effective for annual reporting periods beginning after December 15, 2020. The Organization is currently evaluating this guidance to determine the impact it may have on the Organization's financial statements.

Note 2 - Reorganization and Emergence from Chapter 11 Bankruptcy

On August 11, 2017, the Organization filed petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the District of Nevada. Under Chapter 11, certain claims against the Organization in existence before the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Organization continues operations as Debtor-in-Possession. These claims were reflected in the December 31, 2019 and 2018 statement of financial position as liabilities subject to compromise. Claims secured by the Organization's assets (secured claims) also are stayed, although the holders of such claims have a right to request the Court for relief from the stay. Secured claims are collateralized primarily by liens on the Organization's property and equipment. During the period of bankruptcy, the Organization received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including most employee wages. During 2018, principal and interest payments were not made on the Bonds payable, and interest did not accrue.

Effective April 18, 2019 (the Effective Date), a plan of reorganization (the Plan) was approved by the Bankruptcy Court and the Organization officially emerged from bankruptcy. Pursuant to the Plan, the unpaid interest accrued during the bankruptcy period from the date of filing of August 11, 2017 through January 31, 2019 was forgiven by the lender. The unpaid interest accruing from June 1, 2017 to August 11, 2017 and from February 1, 2019 to June 1, 2019 totaling \$635,598 was added to the bond principal and the terms of payment were amended. Under the plan \$1,773,590 in pre-filing liabilities subject to compromise are not payable from the resources of the Organization. Accordingly, a reorganization gain was recorded. The pre-filing liabilities subject to compromise presented in the statement of financial position as of December 31, 2019 in the amount of \$200,438 represent the remaining portion of pre-filing liabilities that will be paid from the resources of the Organization.

Note 3 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

| | 2019 | 2018 |
|---------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 6,077,432 | \$ 3,089,891 |
| Accounts receivable | 27,488 | 33,336 |
| Contracts receivable | 11,920 | 28,726 |
| Grants receivable | 35,573 | 255,360 |
| | <u>\$ 6,152,413</u> | <u>\$ 3,407,313</u> |

As part of a liquidity management plan, operating surplus funds may be invested in short-term investments as determined by executive management and the investment committee, subject to approval by the board of directors. Consideration for the investment of the Organization's funds is in the order of 1) security; then 2) liquidity; then 3) rate of return. At December 31, 2019 and 2018, the Organization's short-term investments consisted of funds invested in savings and money market accounts, totaling \$4,440,985 and \$1,464,587, respectively.

Note 4 - Property and Equipment

Property and equipment consists of the following at December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Land | \$ 4,680,000 | \$ 4,680,000 |
| Leasehold improvements | 978,433 | 961,612 |
| Buildings | 12,796,456 | 12,796,456 |
| Office equipment, furniture and fixtures | 6,606,989 | 6,138,791 |
| Construction in progress | - | 87,605 |
| | <u>25,061,878</u> | <u>24,664,464</u> |
| Less accumulated depreciation and amortization | <u>(7,124,021)</u> | <u>(6,211,370)</u> |
| | <u>\$ 17,937,857</u> | <u>\$ 18,453,094</u> |

Note 5 - Deferred Gain on Sale-leaseback

In 2007, the Organization entered into a sale-leaseback arrangement that was accounted for under the financing method since the Organization retained continuing involvement in the property in the form of an option to repurchase. In 2010, however, the repurchase option was removed from the lease agreement, by amendment, thereby resulting in a change to sale lease-back accounting. Accordingly, in 2010, the property and associated debt were removed and a net deferred gain of \$7,582,760 was recorded, which is being amortized at the rate of \$610,692 annually over the remaining life of the lease, scheduled to end in June 2022. At December 31, 2019 and 2018, the net deferred gain was \$1,475,840 and \$2,086,532, respectively.

Note 6 - Bonds Payable

Pursuant to a Limited Offering Memorandum (the LOM) dated November 13, 2015, and amended December 9, 2015, the Public Finance Authority of Madison, Wisconsin (the Authority) sold the Public Finance Authority Revenue Bonds (Goodwill Industries of Southern Nevada Project) Series 2015 (the Bonds) to an "accredited investor" or "Qualified Institutional Buyer". The proceeds from the Bonds were loaned to the Organization to finance the acquisition of retail and/or donation facilities located, or to be located, in Las Vegas, North Las Vegas or Henderson, Clark County, Nevada, to fund the bond reserve fund, to pay off the existing line of credit under customary terms and the term loan, and to pay certain issuance expenses of the Bonds.

The Bonds consisted of Series A sold for \$19,024,145 and Series B sold for \$2,351,943, both net of original issue discount and issuance costs. Series A is tax-exempt with \$8,975,000 at an interest rate 5.50%, and \$10,760,000 at an interest rate of 5.75%. Series B is taxable with \$2,410,000 at an interest rate 5.25%.

Financial covenants include “days cash on hand”, “unrestricted financial reserve to debt ratio”, “fixed charges coverage ratio”, and limitations on borrowings, all of which were first effective as of and for the year ended December 31, 2016.

In 2017, the Organization determined that it was not in compliance with the fixed charges coverage ratio and unrestricted financial resources to debt ratio with respect to the measurement period ending December 31, 2016. Under bankruptcy law, the Bonds were not considered in default per the bond agreement as a result of the non-compliance. During 2018, principal and interest payments were not made on the Bonds, and interest did not accrue.

Effective April 18, 2019 (the Effective Date), a plan of reorganization (the Plan) was approved by the Bankruptcy Court and the Organization officially emerged from bankruptcy (Note 2). Pursuant to the Plan, the unpaid interest accrued from June 1, 2017 through August 11, 2017 and from February 1, 2019 through June 1, 2019 was added to the bond principal and the terms of payment were amended and extended. Financial covenants under the amended agreement remain substantially unchanged.

Payment of principal and interest on the Bonds is guaranteed by a loan agreement which provides the Authority with rights and title to unrestricted gross revenues, receivables, inventory, receivables, and is secured by the Organization’s real property. Interest on the Bonds is payable semi-annually on June 1 and December 1. Bonds payable at December 31, 2019 and 2018, net of unamortized bond issuance costs and discounts of \$962,222 in 2019 and \$995,498 in 2018, based on effective interest rates between 5.38% and 5.92%, totaled \$20,703,296 and \$20,369,502, respectively.

Future maturities of the bonds payable are as follows:

| <u>Years Ending December 31,</u> | <u>Bonds Payable</u> |
|--------------------------------------|----------------------|
| 2020 | \$ 335,081 |
| 2021 | 335,081 |
| 2022 | 335,081 |
| 2023 | 335,082 |
| 2024 | 615,794 |
| Thereafter | 19,709,399 |
| Less unamortized debt issuance costs | (673,569) |
| Unamortized bond discount | (288,653) |
| | <u>\$ 20,703,296</u> |

Note 7 - Operating Leases

The Organization has operating lease arrangements as lessee for several retail and donation locations, vehicles and office equipment expiring at various dates through 2035. The operating leases are collateralized by various non-leased assets, including inventory, certain chattels and personal property.

The Chapter 11 proceedings pursuant to orders by the Bankruptcy Court relating to the operating leases for non-residential real property, resulted in a gain from lease compromise activities of approximately \$1 million characterized as a reorganization item and recognized almost entirely in 2017.

Future minimum lease payments are as follows:

| <u>Years Ending December 31,</u> | <u>Operating Leases</u> |
|----------------------------------|-----------------------------|
| 2020 | \$ 5,091,427 |
| 2021 | 5,782,642 |
| 2022 | 4,888,096 |
| 2023 | 4,528,223 |
| 2024 | 3,668,851 |
| Thereafter | <u>16,213,249</u> |
| Total minimum lease payments | <u>\$ 40,172,488</u> |

Total rent expense (including rent and common area maintenance charges) for all operating leases in 2019 and 2018 totaled \$5,568,723 and \$5,268,722, respectively.

On December 6, 2019, the Organization entered into a lease for use of a building to be used for administrative offices, wholesale sales, storage, warehousing and distribution of general merchandise. The Organization plans to move from two existing leased spaces to the new leased premises. The effective date of the lease will commence when the landlord delivers possession of the property to the Organization, which shall occur on or around (but not earlier than) July 1, 2020, and will be for approximately 125 months from the commencement date, with two five-year renewal options. The Organization will not be charged rent for the first four months of the lease and thereafter will pay a base rent of \$75,618 per month escalating at 3% annually, plus common area maintenance. Rent expense will be recorded on a straight-line basis over the term of the lease. If the landlord fails to deliver possession of the premises to the Organization on or before September 30, 2020, the Organization will have the option to terminate the lease. Future minimum lease payments for this lease have been included in the schedule of minimum lease payments shown above.

Note 8 - Net Assets with Donor Restrictions

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

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Subject to Expenditure for Specified Purpose | | |
| Mission salaries and supportive services | \$ 313,032 | \$ 252,076 |
| Disability Program and Salaries | - | 75,000 |
| Team coach salaries | <u>34,694</u> | <u>-</u> |
| | <u>\$ 347,726</u> | <u>\$ 327,076</u> |

Goodwill Industries of Southern Nevada, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2019 and 2018:

| | 2019 | 2018 |
|--|------------|------------|
| Satisfaction of purpose restrictions | | |
| Mission salaries and supportive services | \$ 381,947 | \$ 302,334 |
| Disability Program and Salaries | 75,000 | 14,052 |
| Team coach salaries | 15,306 | - |
| | \$ 472,253 | \$ 316,386 |

Note 9 - Revenue from Contracts with Customers

Revenue from contracts with customers regarding the sale of contributed goods disaggregated by type, during the years ended December 31, 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---------------|---------------|---------------|
| Retail stores | \$ 33,105,200 | \$ 29,422,106 |
| E-commerce | 1,539,849 | 1,141,086 |
| Salvage | 1,883,525 | 1,872,043 |
| Other | 55,175 | 45,620 |
| | \$ 36,583,749 | \$ 32,480,855 |

Note 10 - Related Party Transactions

During the years ended December 31, 2019 and 2018, board member contributions totaled \$24,041 and \$2,639, respectively.

The Organization operates under, and has the use of, the Goodwill name as allowed under an in-substance franchise license agreement with Goodwill Industries International, Inc. The agreement requires payment of dues based on sales and other specified factors. During the years ended December 31, 2019 and 2018, dues incurred to Goodwill Industries International, Inc. totaled \$173,544 and \$157,080, respectively.

Note 11 - Subsequent Events

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. Due to recent state mandated temporary business closures which began March 18, 2020, the Organization was forced to temporarily shut down its regular retail and clearance center operations which resulted in a significant loss of revenue and forced the Organization to make substantial temporary reductions in its workforce. On May 9, 2020 the state allowed retail businesses to reopen, and the Organization officially reopened its retail and clearance centers on May 13, 2020 and hired employees as necessary to support the reopening. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Organization's financial position is not known.

In May 2020, the Organization applied for and was granted a \$3,280,000 loan under the Paycheck Protection Program administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest, but payments are not required to begin for six months to one year after the funding of the loan. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization intends to take measures to maximize the loan forgiveness but cannot reasonably determine the portion of the loan that will ultimately be forgiven.

On January 30, 2020, the Organization entered into a lease for use of a building to be used for corporate and administrative offices. The effective date of the lease will commence when the landlord delivers possession of the property to the Organization, which shall occur on or around (but not earlier than) June 1, 2020, and will be for approximately 126 months from the commencement date. The Organization will not be charged rent for the first six months of the lease and thereafter will pay a base rent of \$35,358 per month with minor periodic increases, plus periodic additional rent for excess operating costs of landlord.

The Organization has evaluated subsequent events through May 27, 2020, the date the financial statements were available to be issued.