



Financial Statements

For the Years Ended December 31, 2017 and 2016



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
GOOD360

We have audited the accompanying financial statements of GOOD360, which comprise the statements of financial position as of December 31, 2017 and 2016, 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GOOD360 as of December 31, 2017 and 2016, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, GOOD360 changed its methodology for determining the value of product inventory and equipment contributions received through the Retail Donation Program. Our opinion is not modified with respect to that matter.

Raffa, P.C.

Raffa, P.C.

Washington, DC
June 27, 2018

GOOD360

STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

| | 2017 | 2016 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 981,058 | \$ 596,870 |
| Contributions and other receivable, net | 584,893 | 560,830 |
| Contributions receivable – product inventory | 6,614,749 | 7,367,771 |
| Prepaid expenses and other | 266,734 | 230,607 |
| Product inventory | 21,104,145 | 12,886,820 |
| Total Current Assets | 29,551,579 | 21,642,898 |
| Deposits | 105,034 | 105,034 |
| Property and equipment, net | 369,557 | 765,128 |
| TOTAL ASSETS | \$ 30,026,170 | \$ 22,513,060 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 924,565 | \$ 568,269 |
| Accrued expenses | 476,780 | 383,748 |
| Credits due to customers | 154,371 | 154,880 |
| Deferred registration fees | 480,684 | 769,361 |
| Line of credit | 400,000 | 400,000 |
| Note payable, current portion | 142,857 | 142,857 |
| Lease obligation, current portion | 80,958 | 143,681 |
| Deferred rent and lease incentives, current portion | 5,346 | 25,271 |
| Total Current Liabilities | 2,665,561 | 2,588,067 |
| Note payable, net of current portion | 507,143 | 650,000 |
| Lease obligation, net of current portion | 214,607 | 295,565 |
| Deferred rent and lease incentives, net of current portion | 142,438 | 120,666 |
| TOTAL LIABILITIES | 3,529,749 | 3,654,298 |
| Net Assets | | |
| Unrestricted | 26,496,421 | 18,637,964 |
| Temporarily restricted | - | 220,798 |
| TOTAL NET ASSETS | 26,496,421 | 18,858,762 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 30,026,170 | \$ 22,513,060 |

The accompanying notes are an integral part of these financial statements.

GOOD360
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2017 and 2016

| | 2017 | | | | | 2016 | | | | |
|--|-----------------------|----------------------|----------------------|---------------------------|----------------------|-----------------------|----------------------|----------------------|---------------------------|----------------------|
| | Unrestricted | | | Temporarily Restricted | Total | Unrestricted | | | Temporarily Restricted | Total |
| | Operations | In-Kind Product | Total | | | Operations | In-Kind Product | Total | | |
| SUPPORT AND REVENUE | | | | | | | | | | |
| Product inventory and equipment contributions | \$ - | \$ 355,443,520 | \$ 355,443,520 | \$ - | \$ 355,443,520 | \$ - | \$ 399,431,616 | \$ 399,431,616 | \$ - | \$ 399,431,616 |
| Administrative fees and other | 5,645,470 | - | 5,645,470 | - | 5,645,470 | 5,255,262 | - | 5,255,262 | - | 5,255,262 |
| Grants, contracts and contributions | 632,459 | - | 632,459 | 1,400,237 | 2,032,696 | 1,205,284 | - | 1,205,284 | 1,018,949 | 2,224,233 |
| Sublease rental income | 379,513 | - | 379,513 | - | 379,513 | 379,514 | - | 379,514 | - | 379,514 |
| Donated services | 105,417 | - | 105,417 | - | 105,417 | 126,529 | - | 126,529 | - | 126,529 |
| Product sales, net of cost of goods sold of \$450,035 and \$326,997 as of December 31, 2017 and 2016, respectively | 135,307 | - | 135,307 | - | 135,307 | 80,622 | - | 80,622 | - | 80,622 |
| Net assets released from restrictions: | | | | | | | | | | |
| Satisfaction of program restrictions | 1,621,035 | - | 1,621,035 | (1,621,035) | - | 1,050,428 | - | 1,050,428 | (1,050,428) | - |
| TOTAL SUPPORT AND REVENUE | 8,519,201 | 355,443,520 | 363,962,721 | (220,798) | 363,741,923 | 8,097,639 | 399,431,616 | 407,529,255 | (31,479) | 407,497,776 |
| EXPENSES | | | | | | | | | | |
| Program Service: | | | | | | | | | | |
| Product distribution | 4,304,332 | 347,979,217 | 352,283,549 | - | 352,283,549 | 3,492,517 | 390,948,399 | 394,440,916 | - | 394,440,916 |
| Total Program Service | 4,304,332 | 347,979,217 | 352,283,549 | - | 352,283,549 | 3,492,517 | 390,948,399 | 394,440,916 | - | 394,440,916 |
| Supporting Services: | | | | | | | | | | |
| Management and general | 2,520,661 | - | 2,520,661 | - | 2,520,661 | 2,499,090 | - | 2,499,090 | - | 2,499,090 |
| Partnership development | 1,300,054 | - | 1,300,054 | - | 1,300,054 | 1,303,455 | - | 1,303,455 | - | 1,303,455 |
| Total Supporting Services | 3,820,715 | - | 3,820,715 | - | 3,820,715 | 3,802,545 | - | 3,802,545 | - | 3,802,545 |
| TOTAL EXPENSES | 8,125,047 | 347,979,217 | 356,104,264 | - | 356,104,264 | 7,295,062 | 390,948,399 | 398,243,461 | - | 398,243,461 |
| CHANGE IN NET ASSETS | 394,154 | 7,464,303 | 7,858,457 | (220,798) | 7,637,659 | 802,577 | 8,483,217 | 9,285,794 | (31,479) | 9,254,315 |
| NET ASSETS, BEGINNING OF YEAR | (1,616,627) | 20,254,591 | 18,637,964 | 220,798 | 18,858,762 | (2,419,204) | 11,771,374 | 9,352,170 | 252,277 | 9,604,447 |
| NET ASSETS, END OF YEAR | \$ (1,222,473) | \$ 27,718,894 | \$ 26,496,421 | \$ - | \$ 26,496,421 | \$ (1,616,627) | \$ 20,254,591 | \$ 18,637,964 | \$ 220,798 | \$ 18,858,762 |

The accompanying notes are an integral part of these financial statements.

GOOD360

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

| | Program Services | Supporting Services | | | 2017 Total |
|------------------------------------|------------------------------|----------------------------|----------------------------|---------------------------------|------------------------------|
| | Product Distribution | Management and General | Partnership Development | Total Supporting Services | |
| Product inventory distributions | \$ 347,979,217 | \$ - | \$ - | \$ - | \$ 347,979,217 |
| Salaries and other personnel costs | 1,256,604 | 1,449,928 | 773,295 | 2,223,223 | 3,479,827 |
| Logistics | 1,972,429 | - | - | - | 1,972,429 |
| Rent | 187,437 | 218,530 | 115,347 | 333,877 | 521,314 |
| Depreciation and amortization | 180,216 | 207,942 | 110,902 | 318,844 | 499,060 |
| Professional fees | 102,618 | 118,406 | 63,150 | 181,556 | 284,174 |
| Travel | 91,455 | 105,525 | 56,280 | 161,805 | 253,260 |
| Marketing, printing and supplies | 90,446 | 104,361 | 55,659 | 160,020 | 250,466 |
| Computer information systems | 88,647 | 102,285 | 54,552 | 156,837 | 245,484 |
| Bank fees | 131,208 | - | - | - | 131,208 |
| Donated services | 38,067 | 43,924 | 23,426 | 67,350 | 105,417 |
| Conferences and meetings | 34,755 | 40,102 | 21,388 | 61,490 | 96,245 |
| Interest expense | - | 65,922 | - | 65,922 | 65,922 |
| Miscellaneous expenses | 19,740 | 22,560 | 12,148 | 34,708 | 54,448 |
| Telephone and fax | 14,930 | 17,227 | 9,188 | 26,415 | 41,345 |
| Equipment rental and maintenance | 40,552 | - | - | - | 40,552 |
| Product expense – disaster | 27,632 | - | - | - | 27,632 |
| Contractual services and fees | 19,928 | - | - | - | 19,928 |
| Dues and subscriptions | 6,346 | 7,322 | 3,905 | 11,227 | 17,573 |
| Bad debt | - | 15,101 | - | 15,101 | 15,101 |
| Postage | 1,322 | 1,526 | 814 | 2,340 | 3,662 |
| TOTAL EXPENSES | <u>\$ 352,283,549</u> | <u>\$ 2,520,661</u> | <u>\$ 1,300,054</u> | <u>\$ 3,820,715</u> | <u>\$ 356,104,264</u> |

The accompanying notes are an integral part of these financial statements.

GOOD360

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

| | Program Services | Supporting Services | | | 2016 Total |
|---------------------------------------|------------------------------|----------------------------|----------------------------|---------------------------------|------------------------------|
| | Product Distribution | Management and General | Partnership Development | Total Supporting Services | |
| Product inventory distributions | \$ 390,948,399 | \$ - | \$ - | \$ - | \$ 390,948,399 |
| Salaries and other personnel costs | 960,029 | 1,377,432 | 751,326 | 2,128,758 | 3,088,787 |
| Logistics | 1,539,135 | - | - | - | 1,539,135 |
| Rent | 152,287 | 218,500 | 119,181 | 337,681 | 489,968 |
| Depreciation and amortization | 150,542 | 215,995 | 117,815 | 333,810 | 484,352 |
| Professional fees | 45,894 | 65,848 | 35,917 | 101,765 | 147,659 |
| Travel | 58,339 | 83,704 | 45,657 | 129,361 | 187,700 |
| Marketing, printing and supplies | 96,570 | 138,557 | 75,576 | 214,133 | 310,703 |
| Computer information systems | 112,829 | 161,885 | 88,301 | 250,186 | 363,015 |
| Bank fees | 150,227 | - | - | - | 150,227 |
| Donated services | 36,900 | 60,750 | 28,878 | 89,628 | 126,528 |
| Conferences and meetings | 16,875 | 24,212 | 13,206 | 37,418 | 54,293 |
| Interest expense | - | 76,519 | - | 76,519 | 76,519 |
| Miscellaneous expenses | 11,989 | 17,202 | 9,383 | 26,585 | 38,574 |
| Telephone and fax | 11,401 | 16,358 | 8,923 | 25,281 | 36,682 |
| Equipment rental and maintenance | 46,485 | - | - | - | 46,485 |
| Product expense – disaster | 34,694 | - | - | - | 34,694 |
| Contractual services and fees | 56,447 | - | - | - | 56,447 |
| Dues and subscriptions | 10,445 | 14,986 | 8,174 | 23,160 | 33,605 |
| Bad debt | - | 25,092 | - | 25,092 | 25,092 |
| Postage | 1,429 | 2,050 | 1,118 | 3,168 | 4,597 |
| TOTAL EXPENSES | <u>\$ 394,440,916</u> | <u>\$ 2,499,090</u> | <u>\$ 1,303,455</u> | <u>\$ 3,802,545</u> | <u>\$ 398,243,461</u> |

The accompanying notes are an integral part of these financial statements.

GOOD360

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016
Increase (Decrease) in Cash and Cash Equivalents

| | 2017 | 2016 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 7,637,659 | \$ 9,254,315 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 499,060 | 484,352 |
| Provision for doubtful accounts | (9,361) | 13,942 |
| In-kind contributions of product inventory and equipment | (355,443,520) | (399,431,616) |
| Distribution of product inventory and equipment received in-kind | 347,979,217 | 390,948,399 |
| Changes in assets and liabilities: | | |
| Contributions and other receivable | (14,702) | (427,595) |
| Prepaid expenses and other | (36,127) | (82,102) |
| Deposits | - | (27,997) |
| Accounts payable | 356,296 | (175,379) |
| Accrued expenses | 93,032 | 2,465 |
| Credits due to customers | (509) | 35,636 |
| Deferred registration fees | (288,677) | 89,429 |
| Lease obligation | (143,681) | (156,182) |
| Deferred rent and lease incentive | 1,847 | 19,318 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 630,534 | 546,985 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (103,489) | (120,741) |
| NET CASH USED IN INVESTING ACTIVITIES | (103,489) | (120,741) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayments on note payable | (142,857) | (142,857) |
| NET CASH USED IN FINANCING ACTIVITIES | (142,857) | (142,857) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 384,188 | 283,387 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 596,870 | 313,483 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 981,058 | \$ 596,870 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ 65,922 | \$ 76,519 |

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies

Organization

GOOD360's mission is to transform lives by providing hope, dignity and a sense of renewed possibility to individuals, families and communities impacted by disasters or other challenging life circumstances who, without GOOD360, would struggle to find that hope. As the global leader in product philanthropy and purposeful giving, GOOD360 partners with socially responsible companies to source highly needed goods and distribute them through its network of diverse nonprofits that support people in need.

GOOD360 has been recognized by the Committee Encouraging Corporate Philanthropy, Verizon's Powerful Answers Award and Forbes for its excellence, innovation and efficiency, respectively, in helping all of its partners to do good, better. These activities are funded primarily through donated product inventory; administrative fees charged related to the donated product inventory; and grants, contracts and contributions.

Good360 is a nonpartisan, cause-agnostic 501(c)(3) nonprofit and is headquartered in Alexandria, Virginia.

Basis of Accounting

The financial statements of GOOD360 have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cash and Cash Equivalents

GOOD360 considers all cash and certificates of deposits, which are to be used for current operations and which have an original maturity of three months or less, to be cash and cash equivalents.

Contributions and Other Receivables

Contributions and other receivables are unconditional promises to give that are expected to be collected within one year and are recorded at their net realizable value. Management determines the allowance for doubtful accounts by reviewing all outstanding receivables for possible uncollectibility. Receivables are charged to the allowance account when deemed uncollectible.

Contributions Receivable – Product Inventory

Inventory receivable consists of unconditional promises to give of product inventory that are expected to be received within three months or less and are recorded at estimated retail value, which approximates fair value. Contributions receivable – product inventory included approximately \$3,285,000 and \$3,496,000 for the years ended December 31, 2017 and 2016, respectively, in product held at the warehouses of the donors that had not been distributed to

GOOD360

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions Receivable – Product Inventory (continued)

the ultimate recipients but was under the control of GOOD360. The remaining amounts in contributions receivable product inventory were goods that were in transit to the partner organization but had not been received as of year-end. GOOD360 does not accept or record inventory receivables that are expected to be collected in greater than one year. Management considers all promises to give of product inventory to be fully collectible; therefore, no allowance for doubtful accounts has been established.

Product Inventory

Product inventory consists of donated goods and is recorded at estimated retail value, which approximates fair value. As the donated product inventory is shipped, it is released from inventory and reported as product inventory distributions in the accompanying statements of functional expenses. Management periodically adjusts the value for slow-moving or obsolete inventory. The distribution of the product inventory is based on the specific identification method.

Property and Equipment and Related Depreciation and Amortization

Property and equipment are recorded at cost or, if donated, such assets are capitalized at the estimated fair value at the date of receipt. GOOD360 capitalizes all expenditures for property and equipment over \$2,000. Office equipment and office furniture are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Costs incurred in the development of software for internal use are expensed during the preliminary and post-implementation operation stages, including data conversion, training and maintenance costs. Costs incurred during the application and development stage are capitalized. Software is amortized using the straight-line method over three to five years.

Leasehold improvements are amortized over the shorter of the lease term or useful life. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation, and any gain or loss is reflected in income or expense in the accompanying statements of activities. Major additions are capitalized, while replacements, and maintenance and repairs that do not improve or extend the lives of the respective assets, are expensed as incurred.

Deferred Registration Fees

Deferred registration fees represent advance payments of annual fees to participate in the Retail Donation Program and are recognized as revenue in the year to which the fee relates.

Classification of Net Assets

GOOD360's net assets are reported as follows:

- Unrestricted net assets are available for use in general operations.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.

Continued

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NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition

Product contributions are recorded at the estimated retail value at the date of donation, which approximates fair value. Retail value of the items donated is determined based on management's best estimate using information provided by donors and other third parties. All donated inventory is considered unrestricted support.

Under the Retail Donation Program, participating charities collect items from individual locations of participating donors at a predetermined interval. The participating charities collect items in retail quantities; accordingly, the product inventory and equipment contributions and the related product distributions are recorded in the accompanying statements of activities at the estimated retail value, as discussed above. The registration fees that are collected to participate in the program are recognized over the term of the subscription.

GOOD360 charges charities receiving product via the online product portal an administrative fee based on the quantity ordered to cover costs associated with shipping and handling. These fees are recognized when the sales order is placed.

Grants, contracts and contributions are reported as revenue in the year in which payments are received and/or unconditional promises to give are made. GOOD360 reports gifts of cash and other assets as temporarily restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Revenue recognized on grants, contracts and contributions that have been committed to GOOD360, but have not been received, is reported as contributions and other receivable in the accompanying statements of financial position.

GOOD360 recognizes donated services if the services received create or enhance nonfinancial assets, or if the services require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

During the years ended December 31, 2017 and 2016, GOOD360 purchased inventory that was needed by nonprofit organizations participating in its donation program, but GOOD360 did not have enough of the donated product. This inventory was sold through GOOD360's online catalogue and is shown as product sales net of the cost of goods sold.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated proportionately among the program and supporting services to which they relate on the basis of direct labor costs.

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NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Change in Accounting Policy

During the year, management changed its methodology for obtaining the value of product inventory and equipment contributions received through the Retail Donation Program. In prior years, the valuation was based on the retail value of donated product contributions provided to GOOD360 by the donor. For the past two years, one of GOOD360's Retail Donation Program donors changed the way in which it valued the product being donated to GOOD360 and provided a discounted retail value of the product. As a result, during the year ended December 31, 2017, GOOD360 changed the way that it records product contributions from the Retail Donation Program donors when the value of donated product provided does not estimate the retail value. In these instances, GOOD360 no longer records the product donation based on the value provided by the donor but rather calculates and records an estimate of the retail value of the donated product contributions. Management changed this methodology to better reflect the fair value of the product inventory and equipment contributions and ensure that the definition of fair value was applied consistently for all donors. The amounts reported for the product inventory and equipment contributions during the year ended December 31, 2016, have been restated to conform to the current year valuation methodology. This change resulted in an increase in product inventory and equipment contributions and distributions of \$40,579,266 and had no impact on the change in net assets or the net assets.

2. Contributions and Other Receivables

The following are included in contributions and other receivables as of December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Trade receivables | \$ 520,615 | \$ 398,208 |
| Contributions receivable | <u>79,379</u> | <u>187,084</u> |
| Total Contributions and Other Receivables | 599,994 | 585,292 |
| Less: Allowance for Doubtful Accounts | <u>(15,101)</u> | <u>(24,462)</u> |
| Contributions and Other Receivable, Net | <u>\$ 584,893</u> | <u>\$ 560,830</u> |

All amounts were due within one year.

Continued

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NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

3. Property and Equipment and Accumulated Depreciation and Amortization

Property and equipment at December 31, 2017 and 2016, consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|--|--------------------|--------------------|
| Software | \$ 1,849,367 | \$ 1,753,723 |
| Office furniture | 45,000 | 45,000 |
| Leasehold improvements | 17,635 | 17,635 |
| Office equipment | <u>17,095</u> | <u>9,250</u> |
| Total Property and Equipment | 1,929,097 | 1,825,608 |
| Less: Accumulated Depreciation and Amortization | <u>(1,559,540)</u> | <u>(1,060,480)</u> |
| Property and Equipment, Net | <u>\$ 369,557</u> | <u>\$ 765,128</u> |

Depreciation and amortization expense for the years ended December 31, 2017 and 2016, was \$499,060 and \$484,352, respectively.

4. Line of Credit

GOOD360 had a \$400,000 revolving line of credit with a financial institution as of December 31, 2015. This line of credit was increased during the year ended December 31, 2017, to \$600,000. The line of credit is subject to annual renewal on September 30. The line of credit is due on demand. The line of credit requires monthly interest payments. Interest accrues at a variable interest rate equal to the Wall Street Journal's published prime rate, plus 1%, with a 6% rate floor for the year ended December 31, 2016. As of December 31, 2017 and 2016, the interest rate on the line of credit was 5.5% and 6%, respectively.

The revolving line of credit is collateralized with a blanket lien on all of GOOD360's assets, which include product inventory, receivables, and property and equipment. As of December 31, 2017 and 2016, \$400,000 was outstanding on this line of credit.

Interest expense related to the line of credit was \$21,535 and \$23,032 for the years ended December 31, 2017 and 2016, respectively.

5. Note Payable

GOOD360 has a term note requiring monthly payments of interest and principal payments and with a maturity date of August 8, 2019. The term note bears interest at a fixed rate of 6%. The term note is collateralized with a blanket lien on all of GOOD360's assets, which include product inventory, receivables, and property and equipment. The note payable has various covenants, with which GOOD360 was in full compliance as of December 31, 2017.

Continued

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NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

5. Note Payable (continued)

Annual maturities of this note payable are as follows:

| <u>For the Year Ending December 31,</u> | |
|---|-------------------|
| 2018 | \$ 142,857 |
| 2019 | <u>507,143</u> |
| Total Note Payable | 650,000 |
| Less: Current Portion | <u>(142,857)</u> |
| Note Payable, Net of Current Portion | <u>\$ 507,143</u> |

Interest expense incurred under this note was \$44,387 and \$53,487, respectively, for the years ended December 31, 2017 and 2016.

6. Commitments

Operating Leases

Due to organizational restructuring over the past few years, GOOD360 was left with a significant amount of unused office space. On February 1, 2015, in an effort to minimize the costs associated with the unused office space, GOOD360 subleased its original office space to MindPoint Group (referred to as MindPoint) and entered into a new lease agreement for new office space with Saul Holdings Limited Partnership (Saul Limited). In the sublease, MindPoint agreed to assume all conditions of the original lease and took the existing leasehold improvements and furniture in the office space it was assuming.

The terms of the leases and subleases are described below:

(a) Operating Lease for New Office Space at 675 North Washington Street

In January 2015, GOOD360 entered into a new noncancelable operating lease with Saul Limited for office space located at 675 North Washington Street in Alexandria, Virginia. The lease is set to expire in April 2024. The lease includes certain incentives and an annual escalation clause. Under GAAP, lease incentives and all rental payments, including fixed rent increases, are amortized over the life of the lease on a straight-line basis as a reduction to rent expense. The difference between the GAAP rent expense and the required lease payment is reflected as deferred rent and lease incentives in the accompanying statements of financial position. Saul Limited issued GOOD360 an eight-month abatement commencing on May 1, 2015.

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NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

6. Commitments (continued)

Operating Leases (continued)

(a) Operating Lease for New Office Space at 675 North Washington Street (continued)

The future minimum lease payments owed by GOOD360 under this lease are as follows:

| <u>For the Years Ending December 31,</u> | |
|--|---------------------|
| 2018 | \$ 180,596 |
| 2019 | 185,563 |
| 2020 | 190,666 |
| 2021 | 195,909 |
| 2022 | 201,786 |
| Thereafter | <u>275,907</u> |
| Total | <u>\$ 1,230,427</u> |

(b) Exit of Original Leased Office Space – 1330 Braddock Road

In April 2011, GOOD360 entered into a noncancelable operating lease for office space that expires on December 31, 2021. The lease includes certain incentives and an annual escalation clause. In addition, GOOD360 was provided an allowance for tenant improvements of \$816,984. Of this amount, \$748,904 was utilized to purchase leasehold improvements and the remaining \$68,080 was applied to the security deposit for the office space.

Beginning in February 2015, GOOD360 entered into a noncancelable sublease agreement with MindPoint, an independent third party, to sublease the office space, located on 1330 Braddock Road in Alexandria, Virginia. The agreement expires in December 2021. If MindPoint were to default on the sublease agreement at any time, GOOD360 would continue to be responsible for the total amount due under the lease. The sublease includes yearly rental increases and required a security deposit in the amount of \$30,259.

As of December 31, 2017, future minimum rental payments required under this office space operating lease, net of sublease income, were as follows:

| <u>For the Years Ending December 31,</u> | <u>Lease Payments</u> | <u>Sublease Income</u> | <u>Net</u> |
|--|---------------------------|----------------------------|-------------------|
| 2018 | \$ 482,637 | \$ (401,679) | \$ 80,958 |
| 2019 | 497,063 | (423,419) | 73,644 |
| 2020 | 511,977 | (440,356) | 71,621 |
| 2021 | <u>527,312</u> | <u>(457,970)</u> | <u>69,342</u> |
| Total | <u>\$ 2,018,989</u> | <u>\$ (1,723,424)</u> | <u>\$ 295,565</u> |

At the onset of the sublease to MindPoint, GOOD360 wrote off the leasehold incentives related to the office space at 1330 Braddock Road in Alexandria, Virginia, as they were no longer used by GOOD360. Rent expense and sublease rental income, adjusted for lease

Continued

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NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

6. Commitments (continued)

Operating Leases (continued)

(b) Exit of Original Leased Office Space – 1330 Braddock Road (continued)

incentives, are recognized on a straight-line basis over the term of each lease. The net difference between the total straight-line rental expense and the total straight-line rental income resulted in a loss of approximately \$280,000, which was recognized in February 2015. The net amount owed under this sublease agreement by GOOD360 is shown in lease obligation in the accompanying statement of financial position.

Rent expense for the years ended December 31, 2017 and 2016, was \$521,314 and \$489,968, respectively.

Employment Agreement

GOOD360 signed an employment agreement with its Chief Executive Officer (the CEO) on April 20, 2016. Under the terms of the agreement, if GOOD360 terminates the agreement for reasons other than cause before July 31, 2019, the CEO is entitled to receive severance pay in the amount of two to six months' salary depending on the CEO's years of service.

7. Concentrations and Risks

Concentration

For the years ended December 31, 2017 and 2016, GOOD360 received product inventory and equipment contributions of \$167,964,000 and \$197,796,000, respectively, through the Retail Donation Program from one donor, which was approximately 46% and 49% of GOOD360's total support and revenue for those respective years.

Credit Risk

Financial instruments, which potentially subject GOOD360 to a concentration of credit risk, consist principally of cash balances maintained at various creditworthy financial institutions. While the amount at a given bank at times exceeds the amount guaranteed by the Federal Deposit Insurance Corporation, and therefore bears some risk, GOOD360 has not experienced, nor does it anticipate, any losses on its funds. As of December 31, 2017 and 2016, the amount in excess of the insured limit of \$250,000 totaled approximately \$268,000 and \$90,000, respectively.

8. Temporarily Restricted Net Assets

There were no temporarily restricted net assets as of December 31, 2017. As of December 31, 2016, temporarily restricted net assets of \$220,798 were restricted by purpose for specific product distribution programs.

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NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

9. Donated Services

GOOD360 received various kinds of donated services for the years ended December 31, 2017 and 2016. These donated services related primarily to marketing, legal and shipping activities and amounted to \$105,417 and \$126,529, respectively.

10. Pension Plan

GOOD360 sponsors a contributory defined contribution pension plan (the Plan), which operates under Section 403(b) of the Internal Revenue Code (the IRC), covering all employees who have completed one year of service and have at least 1,000 hours of service. GOOD360's employer contributions to the Plan are discretionary. The Plan allows for employee contributions not to exceed federal contribution rates. GOOD360 did not make any contributions to the Plan for the years ended December 31, 2017 and 2016.

11. Reclassification

Certain 2016 amounts have been reclassified to conform with the 2017 financial statement presentation.

12. Income Taxes

Under Section 501(c)(3) of the IRC, GOOD360 is a nonprofit public charity and is exempt from federal taxes on income other than net unrelated business income. No provision for federal or state income taxes was required as of December 31, 2017 and 2016, as GOOD360 had no taxable net unrelated business income.

GOOD360 follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. GOOD360 evaluated its uncertainty in income taxes for the years ended December 31, 2017 and 2016, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2017, the statute of limitations for tax years 2014 through 2016 remains open with the U.S. federal jurisdictions or the various states and local jurisdictions in which GOOD360 files tax returns. It is GOOD360's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense. As of December 31, 2017 and 2016, GOOD360 had no accrual for interest and/or penalties.

13. Subsequent Events

GOOD360's management has evaluated subsequent events through June 27, 2018, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.