

**GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA
AND AFFILIATES**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

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AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Goodwill Industries of Southern California and Affiliates
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Goodwill Industries of Southern California and Affiliates (collectively, the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Southern California and Affiliates as of December 31, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the COVID-19 pandemic caused an adverse effect on the Organization's revenues, results of operations, and cash flows during the year ended December 31, 2020. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 14. Our conclusion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The classified consolidated statements of financial position are presented for purposes of additional analysis of the consolidated financial statements, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information and other information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Crowe LLP

Los Angeles, California
May 27, 2021

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 9,472,415	\$ 7,992,666
Restricted cash	-	4,423,375
Investments (Note 5)	11,511,271	23,130,464
Accounts receivable, net	4,202,460	4,063,455
Inventory	9,724,243	11,701,359
Prepaid expenses and deposits	1,696,935	2,329,072
Other receivables (Note 6)	1,228,542	1,711,622
Property, plant and equipment, net (Note 7)	<u>22,394,481</u>	<u>26,252,857</u>
 Total assets	 <u>\$ 60,230,347</u>	 <u>\$ 81,604,870</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 13,739,050	\$ 10,727,725
Accrued compensation and related expenses	7,163,819	6,425,742
Accrued insurance claims (Note 12)	18,600,123	16,250,883
Deferred rent	4,680,036	4,060,981
Deferred gain on sale-leaseback (Note 7)	2,696,958	3,075,966
Deferred rent - construction allowance (Note 7)	2,007,709	2,260,389
Capitalized lease obligation (Note 8)	256,485	323,128
Notes payable (Note 8)	<u>13,392,548</u>	<u>8,471,542</u>
Total liabilities	<u>62,536,728</u>	<u>51,596,356</u>
Net assets (Note 9)		
Net assets without donor restrictions	(7,029,540)	24,150,907
Net assets with donor restrictions	<u>4,723,159</u>	<u>5,857,607</u>
Total net assets (deficit)	<u>(2,306,381)</u>	<u>30,008,514</u>
 Total liabilities and net assets	 <u>\$ 60,230,347</u>	 <u>\$ 81,604,870</u>

See accompanying notes to consolidated financial statements.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended December 31, 2020

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Revenues			
Operating revenues			
Retail sales	\$ 87,931,257	\$ -	\$ 87,931,257
Commodities sales	237,168	-	237,168
Contract services	7,518,367	-	7,518,367
Workforce development	6,703,777	-	6,703,777
Workforce development – government grants	8,865,005	-	8,865,005
Other	<u>633,748</u>	-	<u>633,748</u>
	111,889,322	-	111,889,322
Other revenues and support			
Contributions	1,625,337	806,742	2,432,079
Interest and dividends	92,000	-	92,000
Contributed goods	50,860,012	-	50,860,012
Loss on sale of property	(152,141)	-	(152,141)
Net assets released from restriction	<u>1,629,307</u>	<u>(1,629,307)</u>	<u>-</u>
Total revenues and support	165,943,837	(822,565)	165,121,272
Expenses			
Program services	182,716,432	-	182,716,432
Fundraising	2,120,024	-	2,120,024
General and administrative	<u>9,196,249</u>	-	<u>9,196,249</u>
Total operating expense	194,032,705	-	194,032,705
Changes in net assets from operations	(28,088,868)	(822,565)	(28,911,433)
Other changes in net assets			
Realized and unrealized (loss) on investments, net	<u>(3,091,579)</u>	<u>(311,883)</u>	<u>(3,403,462)</u>
Changes in net assets	(31,180,447)	(1,134,448)	(32,314,895)
Net assets, beginning of the year	<u>24,150,907</u>	<u>5,857,607</u>	<u>30,008,514</u>
Net assets (deficit), end of year	<u>\$ (7,029,540)</u>	<u>\$ 4,723,159</u>	<u>\$ (2,306,381)</u>

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Revenues			
Operating revenues			
Retail sales	\$ 137,115,393	\$ -	\$ 137,115,393
Commodities sales	402,385	-	402,385
Contract services	7,185,893	-	7,185,893
Workforce development	10,555,200	-	10,555,200
Workforce development – government grants	6,404,024	-	6,404,024
Other	<u>658,457</u>	<u>-</u>	<u>658,457</u>
	162,321,352	-	162,321,352
Other revenues and support			
Contributions	1,757,768	1,483,538	3,241,306
Interest and dividends	534,959	-	534,959
Contributed goods	87,342,912	-	87,342,912
Gain on sale of property	(17,904)	-	(17,904)
Net assets released from restriction	<u>3,630,846</u>	<u>(3,630,846)</u>	<u>-</u>
Total revenues and support	255,569,933	(2,147,308)	253,422,625
Expenses			
Program services	242,271,666	-	242,271,666
Fundraising	2,672,231	-	2,672,231
General and administrative	<u>10,334,399</u>	<u>-</u>	<u>10,334,399</u>
Total operating expense	255,278,296	-	255,278,296
Changes in net assets from operations	291,637	(2,147,308)	(1,855,671)
Other changes in net assets			
Realized and unrealized (loss) on investments, net	<u>2,885,976</u>	<u>370,887</u>	<u>3,256,863</u>
Changes in net assets	3,177,613	(1,776,421)	1,401,192
Net assets, beginning of the year	<u>20,973,294</u>	<u>7,634,028</u>	<u>28,607,322</u>
Net assets, end of year	<u>\$ 24,150,907</u>	<u>\$ 5,857,607</u>	<u>\$ 30,008,514</u>

See accompanying notes to consolidated financial statements.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2020

	Program Services					Support Services		Total Expenses
	Material Handling	Stores	Contract Services	Workforce Development	Total	Fundraising	General Administrative	
Salaries and wages	\$ 16,806,072	\$ 20,572,382	\$ 4,770,120	\$ 11,460,926	\$ 53,609,500	\$ 1,281,770	\$ 3,775,280	\$ 58,666,550
Payroll taxes	1,319,753	1,564,604	358,421	861,409	4,104,187	83,643	248,008	4,435,838
Employee benefits	3,105,710	5,720,745	690,526	1,885,992	11,402,973	186,805	584,931	12,174,709
Total salaries and related expenses	21,231,535	27,857,731	5,819,067	14,208,327	69,116,660	1,552,218	4,608,219	75,277,097
Contributed goods - cost of goods sold	-	51,750,285	-	-	51,750,285	-	-	51,750,285
Purchased goods - cost of goods sold	-	1,933,944	-	-	1,933,944	-	-	1,933,944
Rent and maintenance	6,798,695	20,721,836	4,500	344,732	27,869,763	-	-	27,869,763
Occupancy	3,036,142	4,100,585	-	1,478,373	8,615,100	127,608	557,261	9,299,969
Professional services and temporary labor	140,275	1,987,937	256,254	488,824	2,873,290	146,414	1,216,969	4,236,673
Participant training and support	-	-	-	2,022,979	2,022,979	-	-	2,022,979
Technology and communication	314,957	1,208,619	108,936	302,673	1,935,185	41,002	1,028,496	3,004,683
Utilities	128,177	2,238,509	-	9,060	2,375,746	-	-	2,375,746
Supplies	231,683	1,078,894	525,916	112,554	1,949,047	3,445	39,983	1,992,475
Trash disposal	1,671,505	7,685	-	-	1,679,190	-	-	1,679,190
Transportation	1,720,682	103,078	65,012	2,100	1,890,872	1,229	972	1,893,073
Banking and finance fees	34,129	1,027,860	2,370	1,062	1,065,421	1,802	98,111	1,165,334
Insurance	317,463	737,865	87,094	161,697	1,304,119	18,349	602,531	1,924,999
Postage and shipping	148	1,468,019	620	7,254	1,476,041	86,282	19,930	1,582,253
Repairs and maintenance	78,634	522,391	8,594	5,646	615,265	-	-	615,265
Travel, conference and meetings	1,391	24,069	52,344	100,078	177,882	7,392	34,275	219,549
Printing, publications and media	-	47,763	-	1,529	49,292	116,341	222	165,855
Other (taxes, licenses and dues)	1,385	48,334	2,715	3,281	55,715	7,413	228,421	291,549
Interest	13,622	-	-	-	13,622	-	343,233	356,855
Depreciation	942,745	2,254,715	349,952	399,602	3,947,014	10,529	417,626	4,375,169
	\$ 36,663,168	\$ 119,120,119	\$ 7,283,374	\$ 19,649,771	\$ 182,716,432	\$ 2,120,024	\$ 9,196,249	\$ 194,032,705

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	Program Services				Support Services			Total Expenses
	Material Handling	Stores	Contract Services	Workforce Development	Total	Fundraising	General Administrative	
Salaries and wages	\$ 22,020,835	\$ 28,376,172	\$ 5,102,601	\$ 13,671,004	\$ 69,170,612	\$ 1,505,659	\$ 4,325,304	\$ 75,001,575
Payroll taxes	1,654,863	2,130,217	381,376	1,018,402	5,184,858	94,617	247,354	5,526,829
Employee benefits	3,191,209	2,957,395	687,557	1,724,967	8,561,128	203,945	525,687	9,290,760
Total salaries and related expenses	26,866,907	33,463,784	6,171,534	16,414,373	82,916,598	1,804,221	5,098,345	89,819,164
Contributed goods - cost of goods sold	-	85,140,044	-	-	85,140,044	-	-	85,140,044
Purchased goods - cost of goods sold	-	3,423,485	-	-	3,423,485	-	-	3,423,485
Rent and maintenance	7,346,049	21,520,065	6,000	340,819	29,212,933	-	-	29,212,933
Occupancy	3,752,919	5,043,248	(453,376)	2,431,370	10,774,161	247,444	800,398	11,822,003
Professional services and temporary labor	1,479,237	2,086,587	262,857	725,227	4,553,908	281,151	1,357,901	6,192,960
Participant training and support	-	-	-	2,380,221	2,380,221	-	-	2,380,221
Technology and communication	422,302	1,677,369	146,095	321,398	2,567,164	64,217	1,276,212	3,907,593
Utilities	169,449	2,504,700	-	38,991	2,713,140	-	-	2,713,140
Supplies	370,826	1,442,892	690,157	283,205	2,787,080	12,360	29,372	2,828,812
Trash disposal	3,000,804	14,504	-	-	3,015,308	-	-	3,015,308
Transportation	2,535,666	186,735	87,231	12,658	2,822,290	12,759	3,610	2,838,659
Banking and finance fees	60,682	1,360,277	7,943	3,399	1,432,301	48	(63,973)	1,368,376
Insurance	327,540	578,775	61,562	107,716	1,075,593	15,399	703,239	1,794,231
Postage and shipping	1,459	1,464,010	1,431	4,771	1,471,671	69,713	18,793	1,560,177
Repairs and maintenance	169,493	826,770	8,940	29,593	1,034,796	-	-	1,034,796
Travel, conference and meetings	7,525	48,903	62,999	397,096	516,523	32,382	56,525	605,430
Printing, publications and media	-	152,689	-	13,216	165,905	112,627	4,357	282,889
Other (taxes, licenses and dues)	7,633	19,357	5,188	9,889	42,067	8,681	283,191	333,939
Interest	17,027	-	-	-	17,027	-	321,035	338,062
Depreciation	950,428	2,494,631	353,220	411,172	4,209,451	11,229	445,394	4,666,074
	\$ 47,485,946	\$ 163,448,825	\$ 7,411,781	\$ 23,925,114	\$ 242,271,666	\$ 2,672,231	\$ 10,334,399	\$ 255,278,296

See accompanying notes to consolidated financial statements.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Changes in net assets	\$ (32,314,895)	\$ 1,401,192
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	4,375,169	4,666,074
Bad debt expense	(48,000)	-
Recognize deferred gain with sale-leaseback	(379,008)	(379,008)
Loss (gain) on sale of plant property and equipment	(152,141)	17,904
Net realized and unrealized (gain) loss on investments	3,403,462	(3,256,863)
Changes in assets and liabilities:		
Accounts receivable, net	(91,005)	306,019
Pledges receivable	577,477	768,388
Inventory	1,977,116	(2,969,578)
Prepaid expenses and deposits	632,137	(85,497)
Accounts payable and accrued liabilities	3,011,325	8,087
Accrued compensation and related expenses	738,077	311,754
Accrued insurance claims	2,349,240	(127,713)
Deferred rent	619,055	24,002
Deferred rent from construction allowance	<u>(252,680)</u>	<u>(437,338)</u>
Net cash (used in) provided by operating activities	<u>(15,554,671)</u>	<u>247,423</u>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	357,685	21,838
Purchases of property, plant and equipment	(722,337)	(2,001,490)
Proceeds from sale of investments	8,234,420	1,316,968
Purchase of investments	<u>(113,086)</u>	<u>(1,393,928)</u>
Net cash provided by (used in) investing activities	<u>7,756,682</u>	<u>(2,056,612)</u>
Cash flows from financing activities		
Repayment of capitalized lease	(66,643)	(63,240)
Borrowing on long-term debt	150,000	-
Borrowing on revolving line of credit	5,000,000	-
Repayment of term loan	<u>(228,994)</u>	<u>(333,606)</u>
Net cash provided by (used in) financing activities	<u>4,854,363</u>	<u>(396,846)</u>
Net decrease in cash and cash equivalents and restricted cash	(2,943,626)	(2,206,035)
Cash and cash equivalents and restricted cash at beginning of year	<u>12,416,041</u>	<u>14,622,076</u>
Cash and cash equivalents and restricted cash at end of year	<u>\$ 9,472,415</u>	<u>\$ 12,416,041</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 356,855	\$ 338,062

See accompanying notes to consolidated financial statements.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – ORGANIZATION

General: Goodwill Industries of Southern California (“Goodwill” or the “Organization”) was incorporated in 1919. Goodwill is a tax-exempt 501(c)(3) public charity, incorporated under the laws of the State of California as a non-profit public benefit corporation. The mission of Goodwill is to transform lives through the power of work. As a social enterprise, Goodwill prepares and places those with the greatest barriers to employment, including veterans, homeless, individuals with disabilities, at-risk youth, the formerly incarcerated, and many more. Goodwill operates a network of retail stores and attended donation centers and provides contractual services such as assembly and fulfillment, secure document management, e-recycling, printing, custodial and building services, and workforce development programs in Los Angeles, San Bernardino, and Riverside counties.

Formation of Goodwill Retail Services: In March 2011, Goodwill’s Board of Directors authorized the creation of Goodwill Retail Services (“GRS”) as a supporting organization under Section 509(a)(3) of the Internal Revenue Code. GRS’s purpose is to support, benefit and carry out the purposes of Goodwill. Its specific purpose is to provide staffing services in the retail stores operated by Goodwill. GRS was incorporated on April 4, 2011 and received its tax-exempt status determination letter as a 501(c)(3) supporting organization from the Internal Revenue Service on April 20, 2012. As the supported organization, Goodwill controls GRS, and the financial statements of the two entities are consolidated.

Program Services:

Material Handling – These services include the collection, transportation, sorting, and processing of contributed goods, most of which are made available for sale through Goodwill’s network of stores, clearance centers and e-commerce operations. Material handling creates employment for persons with disabilities and other barriers to employment.

Stores – Goodwill operates 107 stores where contributed goods and a limited selection of new goods are available to the public. Persons with disabilities or other vocational challenges work alongside traditional employees to provide consumers with a positive shopping experience. The proceeds from store sales are used to support unfunded or partially funded program services in addition to capital and administrative expenses for the Organization.

Contract Services – Persons with disabilities and other vocational challenges work in closely supervised teams to provide electronics recycling, secure document management, printing, custodial services, and assembly and fulfillment services to the local business community.

Workforce Development – There are over 70 program activities that provide education, training, placement and other vocational support for target populations including veterans, homeless, individuals with disabilities, at-risk youth, the formerly incarcerated, and many more. These programs are funded through reimbursement, fee for service arrangements, and private support. Workforce development also includes several career centers that provide job listings, resume assistance, telephone and computer services for all job seekers.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Reporting: The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All significant intercompany transactions have been eliminated.

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Organization reports its consolidated financial position and activities into two net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein, are classified and reported as follows (see Note 9):

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated by the Board either for specific purposes or for investment.
- *Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations that may, or will be, met by either actions of the Organization, and/or, the passage of time.

Revenue Recognition: Goodwill recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers (“ASC Topic 606”). ASC 606 is a comprehensive revenue recognition model that requires revenue to be recognized when control of the promised goods or services are transferred to customers at an amount that reflects the consideration that expect to be received.

The Organization elected the modified retrospective approach of adoption; therefore, prior period balances are presented under legacy GAAP and may not be comparable to current year presentation.

A description of the Organization’s revenue streams accounted for under ASC 606 follows:

Retail Sales: Goodwill sells donated goods and purchased new goods either in retail stores or online. All payments are received upon items sold and no refund is granted. Revenue is recognized when the items are sold or shipped on a gross basis.

Commodity Sales: Goodwill sells old computers and waste paper in bulk. Revenue is recognized when items are sold.

Contract Services: Goodwill provides certain services to customers, such as printing, shredding, custodial services, and building janitorial service. Revenue is recognized at the time of service provided or over the service period based on contract terms to be either by piece or flat monthly rate. Invoices are issued at each month. The usual collection period is 1-2 months.

Workforce Development Revenues: Certain government entities or nonprofit organizations hire Goodwill to provide career service trainings to eligible participants. Revenue is recognized when training occurs on a gross basis.

The Organization also receives contribution revenue, including unconditional promises to give, which are recognized when received. Donated goods revenue and donated goods inventory are recorded at fair value based on the estimated value of the inventory at selling price. The fair value is derived from sales value less the cost to bring the product to market.

Cash and Cash Equivalents: Cash and cash equivalents include short-term, highly liquid investments and certificates of deposit with an original maturity of three months or less at the time of purchase. Cash and cash equivalents representing assets held as endowment and as charitable gift annuities are included within investments. Cash equivalents are reported at cost, which approximates fair value.

Restricted Cash: Cash of \$ \$4,423,375 was contractually designated for specific purposes as of December 31, 2019. The contractual obligation was satisfied during 2020, and accordingly there is no remaining restricted cash balance as of December 31, 2020.

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk: The Organization has cash balances that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance coverage. The Organization has not experienced and does not anticipate any losses related to cash held in these accounts.

Investments: The Organization’s investment policy is to adhere to high standards of quality in the selection of all types of investments, with reasonable diversification to be maintained at all times. The fair value of investments in securities traded on national securities exchanges are valued at the closing price on the last business day of the fiscal year; securities traded on the over-the-counter market are valued at the last reported bid price.

Securities transactions are recorded on a trade-date basis. Dividend income is recorded as of the ex-dividend date, and interest income is recorded as earned using the accrual basis. Net realized and unrealized gains and losses on investments include realized and unrealized gains and losses on investments held or sold during the year. Investment income is recognized as a component of net assets without donor restrictions, unless its use is temporarily or permanently restricted by donors for a specified purpose or future period.

Accounts Receivable: Accounts receivable are comprised of grants and contracts receivable from the federal, state and local government and customer obligations due under normal trade terms requiring payment within 30 – 90 days from the invoice date. Management analyzes the collectability of these receivables and establishes an allowance for doubtful accounts that reflects its best estimate of the amounts that will not be collected. The allowance for doubtful accounts is determined by a monthly and annual review of account balances, including the age of the balance and historical collection experience. Uncollectible receivables are charged to the allowance. An expense is recorded at the time the allowance is adjusted. Management has determined substantially all government receivables are fully collectible, but has provided an allowance for approximately \$168,000 and \$120,000 for customer obligations at December 31, 2020 and 2019, respectively.

Contributions Receivable: The Organization records contributions receivable, net of allowances for estimated uncollectible amounts, when there is sufficient evidence in the form of verifiable documentation that an unconditional promise to give was received. No allowance was recorded for estimated uncollectible contributions receivable at December 31, 2020 or 2019. Multi-year contributions are recorded at fair value at the date of the contribution. Conditional promises to give are recognized only when the conditions on which they depend are met. Contributions receivable is reported within other receivables on the consolidated statements of financial position (see Note 6).

Inventory: Inventory is comprised of donated goods inventory and new product inventory. Donated goods inventory is recorded at fair value as noted in the revenue accounting policy above. New product inventory is valued at the lower of cost or net realizable value, using the weighted-average cost method.

Property, Plant and Equipment: Property, plant and equipment used in the operations of the Organization are stated at cost or, if donated, at the fair value at the date of contribution. Property, plant and equipment with a cost of at least \$5,000 and a useful life of three years or more is capitalized. Depreciation and amortization on both purchased and donated items are recorded using the straight-line method over the shorter of the estimated useful life of the related asset or the term of the lease for leasehold improvements as follows:

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Buildings and improvements	5 – 30 years
Fixtures and equipment	5 – 30 years
Transportation equipment	3 – 7 years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that increase the fixed asset values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

Expenditures for fixed assets that are purchased with government funds are expensed when acquired because the grantor retains title to such assets.

Gains and losses are recognized in the consolidated statements of activities upon disposal of property and equipment. During the year ended December 31, 2012, the Organization entered into sale-leaseback transactions on three properties, for which specific analysis has been performed and gains deferred (see Note 7).

Accounting for the Impairment of Long-Lived Assets and for the Disposal of Long-Lived Assets: The Organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the years ended December 31, 2020 and 2019, there were no events or changes in circumstances indicating that the carrying amount of the property, plant and equipment may not be recoverable.

Split-Interest Agreements: The Organization is a beneficiary of irrevocable split-interest agreements, including charitable remainder trusts, perpetual trusts and gift annuities.

The charitable remainder trust agreements generally require the Organization to make annual payments to the trust beneficiaries based on stipulated payment rates, applied to the fair value of the trust assets as determined annually. The Organization uses an interest rate commensurate with the risks involved to discount the future payments and calculate the present value of the liability. A receivable, net of the present value of the liability, is recorded in other receivables (Note 6) at the estimated fair value of the asset. A receivable is recorded in other receivables for the perpetual trusts at the estimated fair value of the amount held by the trustee that is due to the Organization.

The Organization invests funds contributed by individuals in exchange for a lifetime annuity paid by the Organization. These investments are reported at fair value and reported with investments (Note 5). The liability associated with these annuities is reported with accounts payable and accrued liabilities on the consolidated statements of financial position.

Donor-Restricted Contributions: Unconditional promises to give (contributions receivable) are recognized as contributions when received at their estimated fair value. Contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future period or by the donor for specific purposes are reported as donor-restricted support that increases those net asset classes.

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When a donor-imposed 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 accompanying consolidated statements of activities as net assets released from restrictions. Capital campaign contributions are considered to be net assets with donor restrictions until the asset is placed into service.

Government and Other Grants: The Organization receives numerous grants from governmental agencies and certain foundations. The Organization recognizes income from these grants as revenue and support only to the extent that expenditures have been made for the purposes specified by the grant agreement.

Advertising Expenses: Advertising costs are expensed as incurred. During 2020 and 2019, advertising costs were approximately \$165,000 and \$266,000, respectively, and are reported with printing, publication and media on the consolidated statements of functional expenses.

Functional Expenses: The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that are identified with a specific program or support service are charged directly according to their natural expenditure classification. Expenses that are common to specific programs or support services are allocated to those services based on estimated level of effort or level of use. Certain shared costs are allocated. Services related to information technology are allocated based on the number of computers for each program or support service. Occupancy and related costs for the Los Angeles, San Fernando Valley, San Bernardino and Ontario campuses are allocated based on the number of square feet used by program and support service departments.

Use of Estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues, expenses and changes in net assets during the reporting period. While management believes that these estimates are adequate as of December 31, 2020 and 2019, it is possible that actual results could differ from those estimates, and the difference could be material to the consolidated financial statements.

Income Tax Status: The Organization was organized pursuant to the General Nonprofit Corporation Law of the State of California. The Organization has been recognized by the Internal Revenue Service as an organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization has also been recognized by the California Franchise Tax Board as an organization that is exempt from California franchise and income taxes under Section 23701d of the California Revenue and Taxation Code and has qualified for the welfare exemption from certain general county real and personal property taxes. However, the Organization is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

Tax positions taken related to the Organization's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the Organization would more likely than not be sustained by examination. Accordingly, the Organization has not recorded an income tax liability for uncertain tax benefits as of December 31, 2020 and 2019, nor does it expect there will be a material change in the twelve months following the year ended December 31, 2020.

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Services: A substantial number of volunteers have donated significant amounts of time and services to the Organization’s program operations and to its fundraising campaigns. Contributed services are recognized by the Organization if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The services donated are not reflected in the accompanying consolidated financial statements as an expense or as income from donations; such services do not meet the above criteria for recording under GAAP.

Recent Accounting Guidance: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a corresponding liability. The ASU is effective for fiscal years beginning after December 15, 2021. The Organization has not yet implemented this ASU and is in the process of assessing the effect on the financial statements.

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 balance sheet date, comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 9,472,415	\$ 7,992,666
Accounts receivable	4,202,460	4,063,455
Other receivables	1,228,542	1,711,622
Investments	<u>11,511,271</u>	<u>23,130,464</u>
Total financial assets at year-end	26,414,688	36,898,207
Plus endowment distributions available to be appropriated in the next year:	357,894	405,121
Less amounts not available to meet general expenditures within one year:		
Other receivables - with donor restriction	(1,228,542)	(1,711,622)
Investments - with donor restriction	(637,302)	(3,525,977)
Other donor restricted funds unavailable for general expenditures within one year	<u>(2,857,315)</u>	<u>(620,008)</u>
	(4,723,159)	(5,857,607)
Financial assets available to meet general expenditures within one year	<u>\$ 22,049,423</u>	<u>\$ 31,445,721</u>

The Organization’s endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use, which on an annual basis is calculated as 7% of the average balance of the prior twelve quarters. Otherwise, donor-restricted endowment funds are not available for general expenditure.

The Organization’s investments without donor restriction, which totaled \$10,873,969 and \$19,604,487 as of December 31, 2020 and 2019, respectively, are accessible upon board approval for general operations, and are not subject to an annual spending maximum. Although the Organization does not intend to spend from these board-designated amounts, these amounts could be made available for use in general operations by the board if necessary.

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 4 – FAIR VALUE

For those assets and liabilities reported at fair value, the Organization has determined their placement in the fair value hierarchy based on the nature of inputs to determine the fair value and management's assessment of risk characteristics associated with these inputs. The Organization categorizes the financial assets and liabilities, based on the priority of inputs to the valuation technique, into three-tiered hierarchy as described below.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Level 1 investments include listed equities, listed fixed income securities, and mutual funds.

Level 2 – Observable inputs, other than Level 1 quoted prices, such as quoted prices for similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable for the asset or liability either directly or indirectly. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 – Unobservable inputs that are supportable by little or no market activity, which requires the Organization to develop its own assumptions. Contributions receivable from split-interest agreements are included in this category.

The following methods and assumptions are used to estimate fair value:

Mutual funds - Mutual funds held by the Organization are publicly traded and are valued at the closing price on the last business day of the fiscal year.

Beneficial interests in trusts - Beneficial interests in trusts (Note 6) include charitable remainder trusts and perpetual trusts administered by other trustees, which are valued based on estimates associated with life expectancy, investment return, future inflation, and cash flows associated with real estate and untraded securities.

The following tables summarize the valuation of the Organization's investments and contributions receivable under split-interest agreements by fair value hierarchy levels as of December 31, 2020 and 2019.

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 10,873,969	\$ -	\$ -	\$ 10,873,969
Mutual funds - equity				
Stock - Index	10,187	-	-	10,187
Mutual funds - fixed income				
Intermediate Bonds - Index	<u>627,115</u>	-	-	<u>627,115</u>
Total investments	11,511,271	-	-	11,511,271
Beneficial interests in trusts				
Perpetual trusts	-	-	325,798	325,798
Charitable remainder trusts	-	-	<u>817,661</u>	<u>817,661</u>
Total beneficial interests in trusts	-	-	<u>1,143,459</u>	<u>1,143,459</u>
Assets reported at fair value	<u>\$ 11,511,271</u>	<u>\$ -</u>	<u>\$ 1,143,459</u>	<u>\$ 12,654,730</u>

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 4 – FAIR VALUE (Continued)

<u>2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 2,485,001	\$ -	\$ -	\$ 2,485,001
Mutual funds - equity				
Emerging Markets - Index	649,321	-	-	649,321
Small Cap - Index	235,020	-	-	235,020
Stock - Index	8,234,633	-	-	8,234,633
Global Stock - Index	1,531,989	-	-	1,531,989
Growth	1,634,780	-	-	1,634,780
Mutual funds - fixed income				
Global Bonds	1,373,006	-	-	1,373,006
Global Bonds Index	497,107	-	-	497,107
Intermediate Bonds	5,374,543	-	-	5,374,543
Intermediate Bonds - Index	571,172	-	-	571,172
Bond Index	<u>543,892</u>	-	-	<u>543,892</u>
Total investments	23,130,464	-	-	23,130,464
Beneficial interests in trusts				
Perpetual trusts	-	-	306,531	306,531
Charitable remainder trusts	-	-	<u>742,531</u>	<u>742,531</u>
Total beneficial interests in trusts	-	-	<u>1,049,062</u>	<u>1,049,062</u>
Assets reported at fair value	<u>\$ 23,130,464</u>	<u>\$ -</u>	<u>\$ 1,049,062</u>	<u>\$ 24,179,526</u>

The Organization's policy is to recognize transfers in and out of Levels 1, 2, and 3 as of the end of the year. There were no transfers between levels during 2020 or 2019. The changes in value of Level 3 assets are reported within realized and unrealized gains and losses in the consolidated statements of activities.

The following table summarizes the Organization's Level 3 reconciliation as of December 31, 2020 and 2019:

	<u>Charitable</u>	<u>Perpetual</u>	<u>Total</u>
Balance January 1, 2019	\$ 683,964	\$ 271,688	\$ 955,652
Increase in fair value	<u>58,567</u>	<u>34,843</u>	<u>93,410</u>
Balance December 31, 2019	742,531	306,531	1,049,062
Increase in fair value	<u>75,130</u>	<u>19,267</u>	<u>94,397</u>
Balance December 31, 2020	<u>\$ 817,661</u>	<u>\$ 325,798</u>	<u>\$ 1,143,459</u>

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2020 and 2019

NOTE 5 – INVESTMENTS

For the beneficial interest in the charitable remainder trusts and perpetual trusts, upon the death of the donors or other termination of the trusts as may be defined in the individual agreements, the remaining trust assets will be distributed by the Organization to itself and to other beneficiaries, as stipulated in the trust agreements.

Investments consist of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 10,873,969	\$ 2,485,001
Mutual funds - bond funds	627,115	8,359,720
Mutual funds - stock funds	<u>10,187</u>	<u>12,285,743</u>
	<u>\$ 11,511,271</u>	<u>\$ 23,130,464</u>

The uses of the investments as of December 31, are as follows:

	<u>2020</u>	<u>2019</u>
Charitable gift annuities	\$ 627,115	\$ 571,172
Board designated reserve	-	6,692,720
Other Investments	10,884,156	12,911,767
Endowment	<u>-</u>	<u>2,954,805</u>
	<u>\$ 11,511,271</u>	<u>\$ 23,130,464</u>

The investments include the assets of the charitable gift annuities account, whose funds are contributed by individuals in exchange for a lifetime annuity paid by Goodwill. Investments in this account are regulated under the California Insurance Code and by the Department of Insurance. The liability associated with these annuities of approximately \$0 and \$3,000 as of December 31, 2020 and 2019, respectively, is reported within accounts payable and accrued liabilities in the consolidated statements of financial position. The board designated reserve is invested as “quasi-endowment” in a specially segregated account. These funds are eligible for use for purposes that are authorized by the Board.

Activity in the investments during the years ended December 31, was as follows:

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 5 – INVESTMENTS (Continued)

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 23,130,464	\$ 19,890,051
Increases:		
Dividends and interest reinvested	92,438	534,959
Purchase of investments/ donations received	<u>20,648</u>	<u>858,969</u>
	113,086	1,393,928
Decreases:		
Sales, redemptions and distributions	(8,234,420)	(1,316,968)
Realized gains	5,349	88,868
Unrealized gains (losses)	<u>(3,503,208)</u>	<u>3,074,585</u>
Realized and unrealized gains (losses), net	<u>(3,497,859)</u>	<u>3,163,453</u>
Balance, end of year	<u>\$ 11,511,271</u>	<u>\$ 23,130,464</u>

Information about net realized and unrealized gains (losses) during the years ended December 31, is as follows:

	<u>2020</u>	<u>2019</u>
From investments	\$ (3,497,859)	\$ 3,163,453
From remainder trust	75,130	58,566
From perpetual trust	<u>19,267</u>	<u>34,843</u>
	<u>\$ (3,403,462)</u>	<u>\$ 3,256,862</u>

NOTE 6 – OTHER RECEIVABLES

Other receivables include the following as of December 31:

	<u>2020</u>	<u>2019</u>
Pledges receivable	\$ 85,083	\$ 662,560
Charitable remainder trusts	817,661	742,530
Perpetual trusts beneficial interest	<u>325,798</u>	<u>306,532</u>
Total other receivables	<u>\$ 1,228,542</u>	<u>\$ 1,711,621</u>

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 6 – OTHER RECEIVABLES (Continued)

Charitable remainder trusts and beneficial interest of perpetual trusts are presented at fair value based on significant unobservable inputs and accordingly are categorized as Level 3, whose activities are disclosed in Note 5. The beneficial interest in charitable remainder and perpetual trusts is distributed by the Organization as stipulated in the trust agreements.

Activity of contributions receivable during the years ended December 31, was as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 662,560	\$ 1,430,946
New contributions promised	340,645	1,367,731
Pledge payments received	<u>(918,122)</u>	<u>(2,136,117)</u>
Ending balance	<u>\$ 85,083</u>	<u>\$ 662,560</u>

Repayment schedule of contributions receivable are as follows as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 85,083	\$ 562,560
Between one year and three years	<u>-</u>	<u>100,000</u>
Pledges receivable, net	<u>\$ 85,083</u>	<u>\$ 662,560</u>

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 2,034,821	\$ 2,034,821
Buildings and improvements	43,761,320	43,798,896
Fixtures and equipment	29,142,741	29,424,409
Transportation equipment	<u>3,443,195</u>	<u>3,398,016</u>
	78,382,077	78,656,142
Less: Accumulated depreciation	<u>(55,987,596)</u>	<u>(52,403,285)</u>
	<u>\$ 22,394,481</u>	<u>\$ 26,252,857</u>

Depreciation expense for the years ended December 31, 2020 and 2019, was approximately \$4,375,000 and \$4,666,000, respectively.

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (Continued)

Construction Allowance: The Organization has several lease arrangements that provide for the payment of a construction allowance. The costs of improvement are included with property, plant and equipment. Typically, the construction allowance is repaid when the building is opened for occupancy. The value of the allowance is amortized over the life of the lease.

The unamortized value of the construction allowance is reported in the consolidated statements of financial position as deferred rent – construction allowance as of December 31:

	<u>2020</u>	<u>2019</u>
Construction allowance	\$ 5,083,860	\$ 5,083,860
Deferred rent recognized	<u>(3,076,151)</u>	<u>(2,823,471)</u>
	<u>\$ 2,007,709</u>	<u>\$ 2,260,389</u>

Sale-leaseback Transaction: During 2012, the Organization sold its real estate investments in three of its properties for approximately \$6,996,000. After the sale, the Organization leased back the three buildings under 15 year lease agreements. In accordance with GAAP, the Organization accounted for the transaction as a sale-leaseback and deferred a portion of the gain on the sale equal to the net present value of the Organization's future minimum lease payments of approximately \$5,700,000. The deferred gain is being amortized on a straight line basis over the 15 year life of the lease. This amount is reported as a reduction of rent expense in each year.

The unamortized gain is reported in the consolidated statements of financial position as deferred gain on sale-leaseback as of December 31:

	<u>2020</u>	<u>2019</u>
Unrecognized gain	\$ 5,699,806	\$ 5,699,806
Sale leaseback deferred rent recognized	<u>(3,002,848)</u>	<u>(2,623,840)</u>
	<u>\$ 2,696,958</u>	<u>\$ 3,075,966</u>

The future amortization of the deferred gain based on minimum rents for years ending December 31 is as follows:

2021	\$	378,839
2022		378,839
2023		378,839
2024		378,839
2025		378,839
Thereafter		<u>802,763</u>
		<u>\$ 2,696,958</u>

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 8 – NOTES PAYABLE

The Organization maintains borrowing facilities with a commercial bank. The arrangement provides for a term loan for \$10,000,000 and access to a revolving line-of-credit for \$5,000,000. Originally, the term loan required payment of principal and interest monthly through October 31, 2022. In January 2020, the term loan was amended, adjusting the monthly payments and extended the maturity to February 1, 2027 when the remaining principal balance plus any interest is due. The revolving line-of-credit expires on March 31, 2022. Both the term loan and the revolving line-of-credit are collateralized by real property. The interest rate on the term loan was fixed at 3.66% at December 31, 2019. In January 2020, as part of the amendment to the term loan, the interest rate was decreased to a fixed rate 3.24%. The interest rate on the revolving line-of-credit is the LIBOR daily floating rate plus 1.5% (1.58% and 3.04% at December 31, 2020 and 2019, respectively).

On June 4, 2020, the Organization entered into a promissory note for disaster loan of \$150,000 with the United States Small Business Administration. The loan will be due in monthly principal and interest payments of \$641 over 30 years, beginning 12 months from the date of the promissory note, with interest at a rate of 2.75% per annum. The proceeds can only be used as working capital to alleviate economic injury caused by COVID-19.

As of December 31, 2020 and 2019, the Organization’s total indebtedness was as follows:

	<u>2020</u>	<u>2019</u>
Term Loan	\$ 8,242,548	\$ 8,471,542
Revolving line of credit	5,000,000	-
SBA loan	<u>150,000</u>	<u>-</u>
 Total notes payable	 13,392,548	 8,471,542
 Less: current portion of notes payable	 <u>(421,374)</u>	 <u>(228,994)</u>
 Total long-term notes payable	 <u>\$ 12,971,174</u>	 <u>\$ 8,242,548</u>

The terms of the credit facilities require the Organization to meet or exceed certain ratios and to communicate financial results to the bank on a regular basis. The Organization was unable to comply with its financial covenant requirements under its existing credit facility in 2020 due to the impact of COVID-19 pandemic, and received a forbearance agreement from the lender to waive financial covenant requirement and default penalty through January 2, 2021.

Subsequently on January 1, 2021, the term loan was amended again, adjusting the monthly payments, increasing the fixed interest rate to 5.27%, and modifying financial covenant requirements. The revolving line of credit was amended as well, increasing the interest rate to LIBOR daily floating rate plus 3.5%.

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 8 – NOTES PAYABLE (Continued)

Future payments of all notes payable as of December 31, 2020, are as follows:

2021	\$ 421,374
2022	5,461,026
2023	476,187
2024	491,846
2025	508,021
Thereafter	<u>6,034,094</u>
 Total	 <u>\$ 13,392,548</u>

NOTE 9 – NET ASSETS

Net assets without donor restrictions: At December 31, unrestricted and board-designated net assets are as follows:

	<u>2020</u>	<u>2019</u>
Net Assets without donor restrictions:		
Board designated reserve	\$ -	\$ 6,692,720
Invested in property, plant and equipment	<u>13,910,324</u>	<u>17,458,187</u>
	13,910,324	24,150,907
 Undesignated deficit	 <u>(20,939,864)</u>	 <u>-</u>
	 <u>\$ (7,029,540)</u>	 <u>\$ 24,150,907</u>

Net assets with donor restrictions: Activity in net assets with donor restrictions during the years ended December 31, 2020 and 2019 was as follows:

	Balance January 1, 2020	Contribution and other increases	Realized/ unrealized gain on investments	Release from restrictions and other decreases	Balance December 31, 2020
Program services	\$ 1,853,739	\$ 806,742	\$ -	\$ (1,424,031)	\$ 1,236,450
Charitable remainder trusts	742,531	-	75,130	-	817,661
Unexpended endowment	798,696	-	(406,280)	(205,276)	187,140
Perpetual trusts	306,531	-	19,267	-	325,798
Named Endorments	<u>2,156,110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,156,110</u>
 Net Assets with donor restrictions	 <u>\$ 5,857,607</u>	 <u>\$ 806,742</u>	 <u>\$ (311,883)</u>	 <u>\$ (1,629,307)</u>	 <u>\$ 4,723,159</u>

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 9 – NET ASSETS (Continued)

	Balance January 1, 2019	Contribution and other increases	Realized/ unrealized gain on investments	Release from restrictions and other decreases	Balance December 31, 2019
Program services	\$ 3,859,769	\$ 1,424,971	\$ -	\$ (3,431,001)	\$ 1,853,739
Charitable remainder trusts	683,964	-	58,567	-	742,531
Unexpended endowment	662,497	-	336,044	(199,845)	798,696
Perpetual trusts	271,688	-	34,843	-	306,531
Named Endorments	<u>2,156,110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,156,110</u>
Net Assets with donor restrictions	<u>\$ 7,634,028</u>	<u>\$ 1,424,971</u>	<u>\$ 429,454</u>	<u>\$ (3,630,846)</u>	<u>\$ 5,857,607</u>

Net assets were released from donor restrictions during the year ended December 31, as follows:

	<u>2020</u>	<u>2019</u>
Passage of time available to support operations and programs	\$ 1,629,307	\$ 3,630,846

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Leases: The Organization leases certain stores, facilities and office and transportation equipment. The leases have various expiration dates through 2031. Minimum annual rental payments, excluding any future inflation adjustments, are as follows:

2021	\$ 24,718,250
2022	22,546,803
2023	17,966,938
2024	13,180,878
2025	8,514,119
Thereafter	<u>21,258,507</u>
	<u>\$ 108,185,495</u>

Rental expense for the years ended December 31, 2020 and 2019, was approximately \$23,670,000 and \$25,485,000, respectively.

Sublease Rental Income: The Organization has agreements with non-profit organizations to provide subleased space in a facility in Los Angeles. Minimum annual rental payments excluding any future inflation adjustments are as follows:

2021	\$ 68,024
2022	<u>7,751</u>
	<u>\$ 75,775</u>

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

Rental revenue from sublease rents during the year ended December 31, 2020 and 2019, was both approximately \$158,000 and \$163,000, respectively.

Litigation: In the normal course of operations, the Organization is named as defendant in lawsuits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management is of the opinion that any probable and measurable liabilities arising from such litigation and examinations have been properly reported in the consolidated statements of financial position within accounts payable and accrued liabilities.

Environmental Matter: An adjoining property owner has alleged that contamination at one of their properties was caused by operations taking place at one of the Organization's sites. The ultimate outcome of this uncertainty cannot presently be determined, and management believes that any liability, if determined, will not have a material adverse impact in the Organization's consolidated financial condition.

Government Grants: Certain programs of the Organization receive funding and support from the local, state or federal governments. Accordingly, these programs are subject to audit that could result in adjustments. Management believes that liabilities, if any, resulting from any such audits will not have a material effect on the consolidated financial statements.

NOTE 11 – RETIREMENT PLAN

The Organization has a 403(b) Retirement Plan ("Plan") for the benefit of its employees. All employees are eligible to make contributions from their pre-tax and/or post-tax salary. At the discretion of management, and after one year of service, certain full-time employees may receive an employer contribution. Participants are fully vested in their own contributions. Employees are vested in the employer contributions as follows:

<u>Years of service</u>	<u>% Vested</u>
2	25%
3	50%
4	75%
5 or more	100%

For the year ended December 31, 2020 and 2019, the Organization contributed approximately \$138,000 and \$153,000 and to the plan, respectively.

In addition, the Organization has a Supplemental Executive Retirement Plan ("SERP") for certain executives. The Organization did not contribute to the SERP for the years ended December 31, 2020 and 2019.

The Organization has elected not to pay state unemployment insurance ("SUI") taxes and, instead, is charged for its share of unemployment benefits actually paid by the State of California to former employees.

The Organization is self-insured under its workers' compensation insurance program. Excess policies provide insurance coverage on individual claims which exceed specified amounts. Each year, the Organization estimates its liability for any claims outstanding, including claims incurred but not reported. The ultimate liability for claims is estimated based on historical data related to the timing and nature of claims paid and current payroll data. The workers' compensation accrual has been discounted with a rate of 3%. The discounted amount of the liability was \$18,600,123 and \$16,251,000, respectively, as of December 31, 2020 and 2019.

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 12 – SELF-INSURANCE

Accrued insurance claims reported in the consolidated statements of financial position include estimated obligations for state unemployment insurance and workers' compensation.

The estimated claims payable and changes in the claims payable amount for fiscal years 2020 and 2019 are listed below:

<u>2020</u>	<u>Worker's Compensation</u>	<u>CA SUI</u>	<u>Insurance Claims</u>
Claims payable at beginning of year	\$ 15,249,959	\$ 1,000,924	\$ 16,250,883
Claims incurred/changes in estimate	2,927,702	6,288,550	9,216,252
Claim payments	<u>(2,846,977)</u>	<u>(4,020,035)</u>	<u>(6,867,012)</u>
	<u>\$ 15,330,684</u>	<u>\$ 3,269,439</u>	<u>\$ 18,600,123</u>
<u>2019</u>	<u>Worker's Compensation</u>	<u>CA SUI</u>	<u>Insurance Claims</u>
Claims payable at beginning of year	\$ 15,399,061	\$ 979,535	\$ 16,378,596
Claims incurred/changes in estimate	7,405,140	510,440	7,915,580
Claim payments	<u>(7,554,242)</u>	<u>(489,051)</u>	<u>(8,043,293)</u>
	<u>\$ 15,249,959</u>	<u>\$ 1,000,924</u>	<u>\$ 16,250,883</u>

NOTE 13 – ENDOWMENTS

The Organization's endowment consists of individual funds established for a variety of purposes. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment, (c) the fair value of the Organization's interest in split-interest agreements at the time of termination of the trust as stipulated by the trust agreement to be restricted endowment and (d) accumulations to the restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2020 and 2019

NOTE 13 – ENDOWMENTS (Continued)

Additionally, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The mission of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The Organization's investment policies

Investment Return Objectives, Risk Parameters and Strategies: The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve investment income with minimum risk. Endowment assets are invested in mutual funds.

Spending Policy: Although UPMIFA permits a more aggressive spending policy, funds will only be transferred out of the endowment fund when approved specifically by the finance committee provided that this is consistent with the wishes of the donors. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use, which on an annual basis is calculated as 7% of the average balance of the prior twelve quarters.

Endowment Net Asset Composition by Type of Fund: During 2020, the Board of Directors approved borrowing of \$2,549,517 from the donor-restricted endowment, with repayment, including interest at 5% per annum, in full by 2025. For the year ended December 31, 2020, endowment net assets have been classified as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Board designated reserve	\$ 10,873,969	\$ -	\$ 10,873,969
Perpetual trusts	-	325,798	325,798
Unexpended endowment	-	187,140	187,140
Named endowment	-	2,156,110	2,156,110
Subtotal	<u>10,873,969</u>	<u>2,669,048</u>	<u>13,543,017</u>
Change in designation	<u>(10,873,969)</u>	<u>-</u>	<u>(10,873,969)</u>
	<u>\$ -</u>	<u>\$ 2,669,048</u>	<u>\$ 2,669,048</u>

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 13 – ENDOWMENTS (Continued)

For the year ended December 31, 2019, endowment net assets have been classified as follows:

	Net Assets Without Donor <u>Restrictions</u>	Net Assets With Donor <u>Restrictions</u>	<u>Total</u>
Board designated reserve	\$ 19,604,487	\$ -	\$ 19,604,487
Perpetual trusts	-	306,531	306,531
Unexpended endowment	-	798,696	798,696
Named endowment	-	<u>2,156,110</u>	<u>2,156,110</u>
Subtotal	<u>19,604,487</u>	<u>3,261,337</u>	<u>22,865,824</u>
Change in designation	<u>(12,911,767)</u>	<u>-</u>	<u>(12,911,767)</u>
	<u>\$ 6,692,720</u>	<u>\$ 3,261,337</u>	<u>\$ 9,954,057</u>

Unexpended and named investment endowments as of December 31, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Lawrence Page	\$ 38,293	\$ 48,288
Garret Family	415,344	523,743
Ludwig EG Erb	1,764,239	2,224,681
Thomas Barry	105,096	132,524
Capital Campaign	<u>20,279</u>	<u>25,570</u>
	<u>\$ 2,343,250</u>	<u>\$ 2,954,806</u>

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 13 – ENDOWMENTS (Continued)

Changes in Endowment Net Assets During the Year:

Activity in the endowment during the year was as follows:

	Net Assets Without Donor <u>Restrictions</u>	Net Assets With Donor <u>Restrictions</u>	<u>Total</u>
Balance December 31, 2019	\$ 6,692,720	\$ 3,261,337	\$ 9,954,057
Contributions	-	-	-
Dividends and interest	92,000	-	92,000
Realized and unrealized losses	(3,091,579)	(387,013)	(3,478,592)
Distribution and expense	<u>-</u>	<u>(205,276)</u>	<u>(205,276)</u>
	3,693,141	2,669,048	6,362,189
Change in designation	<u>(3,693,141)</u>	<u>-</u>	<u>(3,693,141)</u>
Balance December 31, 2020	<u>\$ -</u>	<u>\$ 2,669,048</u>	<u>\$ 2,669,048</u>
	Net Assets Without Donor <u>Restrictions</u>	Net Assets With Donor <u>Restrictions</u>	<u>Total</u>
Balance December 31, 2018	\$ 1,207,627	\$ 3,090,295	\$ 4,297,922
Dividends and interest	534,959	-	534,959
Realized and unrealized gains	2,885,976	370,887	3,256,863
Distribution and Expense	<u>199,845</u>	<u>(199,845)</u>	<u>-</u>
	4,828,407	3,261,337	8,089,744
Change in designation	<u>1,864,313</u>	<u>-</u>	<u>1,864,313</u>
Balance December 31, 2019	<u>\$ 6,692,720</u>	<u>\$ 3,261,337</u>	<u>\$ 9,954,057</u>

NOTE 14 – COVID-19 IMPACT

In December 2019, there were a limited number of cases of an unknown virus reported to the World Health Organization (“WHO”). However, since that time, the WHO has declared COVID-19 (“Coronavirus”) a worldwide pandemic with a significant impact on the global economy and businesses like those of the Organization’s. The Coronavirus was declared a Public Health Emergency of International Concern by the WHO on January 30, 2020. On March 13, 2020, the President of the United States declared the COVID-19 outbreak a national emergency.

(Continued)

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 14 – COVID-19 IMPACT (Continued)

Due to the stay-at-home requirements enacted by the State of California and the related social distancing protocol advisories, the Organization's sales were significantly impacted toward the end of the first quarter of 2020. The Organization implemented measures of temporarily closing all of its retail locations commencing March 18, 2020. In addition, in early April 2020, the Organization laid off the vast majority of its employees, reduced executive compensation, deferred all bonuses and compensation increases and deferred or significantly reduced payments to the Organization's landlords, licensors, vendors, consultants and other outside partners. Local government officials declared the Organization's Workforce and Career Development, E-Commerce, and Contract Services operations "essential" to the community, so those divisions continued to operate during the COVID-19 crisis. When the State of California and local authorities lifted the stay-at-home requirements in late May 2020, the Organization began to gradually reopen its retail locations after implementing safety precautions. During 2020, Management permanently closed 13 locations. All other retail locations (including stores, outlet centers, bookstores, and attended donation centers) have been re-opened.

In 2020, the State of California imposed occupancy limitations as part of its response to dealing with the pandemic. Between Memorial Day 2020 (when the Organization started to re-open stores) and December 6, 2020, the limit was 5 persons/1,000 square feet of retail space; this represented a 25% occupancy maximum for the Organization's retail stores. When the virus numbers spiked in early December 2020, the limit decreased to 4 persons/1,000 sq. feet of retail space, or a 20% occupancy cap. Subsequent to year-end, occupancy limits increased to 50% in late January 2021, and to 75% in April 2021. On April 6, 2021, the State of California announced its plan to lift all occupancy limits by the end of June 2021.

The COVID-19 pandemic has caused an adverse effect on the Organization's revenues, results of operations, and cash flows, including the Organization's ability to comply with the debt covenant compliance requirements under its existing credit facility. The Organization received a forbearance agreement from the lender to waive financial covenant requirement and default penalty through January 2, 2021, as noted in Note 8. The covenant requirements were restructured as of January 1, 2021, as further described in Note 8. The Organization expects to meet the covenant requirement for next 12 months based on forecasted revenue and expenses.

In May 2020, upon approval by the Board of Directors, the Organization borrowed the full amount of the donor-restricted endowment, totaling \$2,549,517, which will be repaid in full by 2025, including interest at 5% per annum. The Board also approved that the Organization may use the board designated reserve for operations, after fully utilizing certain other liquidity sources. As of December 31, 2020, the Organization utilized \$5.3 million from the board designated reserve to cover the cash flow shortfall. No further drawdowns are anticipated at this time. Also, the available line of credit of \$5 million was fully drawn upon in March 2020 and outstanding as of December 31, 2020 (Note 8).

Subsequent to year-end, in April 2021, the Organization entered into an unsecured forgivable loan of \$10 million, under the Paycheck Protection Program (the "PPP" loan) pursuant to the Coronavirus Aid, Relief and Economic Security Act (the "CARES" Act) administered by the United States Small Business Administration. Any portion of the PPP loan not forgiven is payable in equal monthly installments starting February 2022, including interest of 1.00% per annum, maturing in April 2026. The loan is fully forgivable if the Organization complies with the terms and requirements of the paycheck protection program provision and the CARES Act. In accordance with the requirements for the CARES Act, the Organization will use the proceeds from the PPP loan primarily for payroll costs and rent and plans to file for full forgiveness.

NOTE 15 – SUBSEQUENT EVENTS'

The Organization has evaluated subsequent events after the balance sheet date for appropriate accounting and disclosure, through May 27, 2021, the date on which the consolidated financial statements were available to be issued. Other than the events disclosed in Note 8 and Note 14, there were no other subsequent events to disclose.

SUPPLEMENTAL INFORMATION

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
SUPPLEMENTAL SCHEDULE – CLASSIFIED CONSOLIDATED STATEMENTS
OF FINANCIAL POSITION
As of December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 9,472,415	\$ 7,992,666
Restricted cash	-	4,423,375
Accounts and other receivables, net	4,202,460	4,063,455
Inventory	9,724,243	11,701,359
Prepaid expenses and deposits	1,696,935	2,329,072
Other receivables	85,083	562,560
Total current assets	<u>25,181,136</u>	<u>31,072,487</u>
Investments	11,511,271	23,130,464
Other receivables, net of current	1,143,459	1,149,062
Property, plant and equipment, net	<u>22,394,481</u>	<u>26,252,857</u>
Total assets	<u>\$ 60,230,347</u>	<u>\$ 81,604,870</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 13,739,050	\$ 10,727,725
Accrued compensation and related expenses	7,163,819	6,425,742
Current portion of capitalized lease obligation	-	71,519
Current portion of note payable	421,374	228,994
Current portion of deferred gain on sale-leaseback	378,839	378,839
Current portion of deferred rent from construction allowance	307,689	307,689
Current portion of accrued insurance claims	7,147,012	6,590,423
Total current liabilities	<u>29,157,783</u>	<u>24,730,931</u>
Capitalized lease obligation	256,485	251,609
Note payable	12,971,174	8,242,548
Deferred gain on sale-leaseback	2,318,119	2,697,127
Deferred rent	4,680,036	4,060,981
Deferred rent from construction allowance	1,700,020	1,952,700
Insurance claims estimated to be paid after one year	<u>11,453,111</u>	<u>9,660,460</u>
Total liabilities	<u>62,536,728</u>	<u>51,596,356</u>
Net assets		
Net assets without donor restrictions	(7,029,540)	24,150,907
Net Assets with donor restrictions	4,723,159	5,857,607
Total net assets	<u>(2,306,381)</u>	<u>30,008,514</u>
Total liabilities and net assets	<u>\$ 60,230,347</u>	<u>\$ 81,604,870</u>