



REPORT OF INDEPENDENT AUDITORS  
AND CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

**GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA  
AND AFFILIATES**

December 31, 2021 and 2020

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## Report of Independent Auditors

The Board of Directors  
Goodwill Industries of Southern California and Affiliates

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Goodwill Industries of Southern California and Affiliates (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Goodwill Industries of Southern California and Affiliates as of December 31, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Other Matter – Prior Year Financial Statements*

The consolidated financial statements of Goodwill Industries of Southern California and Affiliates for the year ended December 31, 2020, were audited by another auditor, who expressed an unmodified opinion on those statements on May 27, 2021.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Other Matters***

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying classified consolidated statements of financial position are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The 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.

*Moss Adams LLP*

El Segundo, California  
May 25, 2022

**Goodwill Industries of Southern California and Affiliates**  
**Consolidated Statements of Financial Position**

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<b>ASSETS</b>		December 31,	
		<u>2021</u>	<u>2020</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$	28,480,458	\$ 9,472,415
Investments (Note 4)		13,681,330	11,511,271
Accounts receivable, net		5,833,025	4,202,460
Inventory		12,157,262	9,724,243
Prepaid expenses and deposits		1,945,658	1,696,935
Other receivables (Note 5)		1,380,905	1,228,542
Property, plant, and equipment, net (Note 6)		<u>19,582,545</u>	<u>22,394,481</u>
Total assets	\$	<u>83,061,183</u>	\$ <u>60,230,347</u>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$	10,487,791	\$ 13,739,050
Accrued compensation and related expenses		7,868,768	7,163,819
Accrued insurance claims (Note 11)		16,534,419	18,600,123
Deferred rent		3,936,398	4,680,036
Deferred gain on sale-leaseback (Note 6)		2,305,378	2,696,958
Deferred rent – construction allowance (Note 6)		1,823,488	2,007,709
Capitalized lease obligation		186,641	256,485
Paycheck Protection Program loan (Note 7)		10,000,000	-
Notes payable (Note 7)		<u>8,119,806</u>	<u>13,392,548</u>
Total liabilities		<u>61,262,689</u>	<u>62,536,728</u>
<b>NET ASSETS (DEFICIT) (Note 8)</b>			
Net assets (deficit) without donor restrictions		15,276,344	(7,029,540)
Net assets with donor restrictions		<u>6,522,150</u>	<u>4,723,159</u>
Total net assets (deficit)		<u>21,798,494</u>	<u>(2,306,381)</u>
Total liabilities and net assets	\$	<u>83,061,183</u>	\$ <u>60,230,347</u>

## Goodwill Industries of Southern California and Affiliates

### Consolidated Statements of Activities

	Year Ended December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>			
Revenue			
Retail sales	\$ 138,482,724	\$ -	\$ 138,482,724
Commodities sales	112,241	-	112,241
Contract services	7,059,417	-	7,059,417
Workforce development	7,695,339	-	7,695,339
Workforce development – government grants	7,972,045	-	7,972,045
Other	664,712	-	664,712
	161,986,478	-	161,986,478
Support and other			
Contributions	1,348,256	4,106,630	5,454,886
Interest and dividends	161,867	-	161,867
Contributed goods	95,492,097	-	95,492,097
Gain on sale of property and equipment	97,415	-	97,415
Net assets released from restriction	2,433,457	(2,433,457)	-
	261,519,570	1,673,173	263,192,743
<b>EXPENSES</b>			
Program services	227,065,829	-	227,065,829
Fundraising	2,235,827	-	2,235,827
General and administrative	10,503,982	-	10,503,982
	239,805,638	-	239,805,638
Changes in net assets before realized and unrealized gains on investments	21,713,932	1,673,173	23,387,105
Realized and unrealized gain on investments, net	591,952	125,818	717,770
Changes in net assets	22,305,884	1,798,991	24,104,875
NET ASSETS (DEFICIT), beginning of the year	(7,029,540)	4,723,159	(2,306,381)
NET ASSETS, end of year	\$ 15,276,344	\$ 6,522,150	\$ 21,798,494

**Goodwill Industries of Southern California and Affiliates**  
**Consolidated Statements of Activities (Continued)**

	Year Ended December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>			
Revenue			
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	633,748	-	633,748
	<u>111,889,322</u>	<u>-</u>	<u>111,889,322</u>
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 and equipment	(152,141)	-	(152,141)
Net assets released from restriction	1,629,307	(1,629,307)	-
	<u>165,943,837</u>	<u>(822,565)</u>	<u>165,121,272</u>
Total revenues and support			
<b>EXPENSES</b>			
Program services	182,716,432	-	182,716,432
Fundraising	2,120,024	-	2,120,024
General and administrative	9,196,249	-	9,196,249
	<u>194,032,705</u>	<u>-</u>	<u>194,032,705</u>
Total expenses			
Changes in net assets before realized and unrealized losses on investments	(28,088,868)	(822,565)	(28,911,433)
Realized and unrealized loss on investments, net	(3,091,579)	(311,883)	(3,403,462)
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>

## Goodwill Industries of Southern California and Affiliates

### Consolidated Statements of Functional Expenses

	Year Ended December 31, 2021							
	Program Services					Support Services		
	Material Handling	Stores	Contract Services	Workforce Development	Total	Fundraising	General Administrative	Total Expenses
Salaries and wages	\$ 18,753,545	\$ 27,896,082	\$ 5,030,921	\$ 11,164,527	\$ 62,845,075	\$ 1,320,076	\$ 4,926,978	\$ 69,092,129
Payroll taxes	1,381,117	2,098,183	376,157	828,297	4,683,754	87,153	310,560	5,081,467
Employee benefits	2,291,545	1,504,021	446,960	1,015,519	5,258,045	102,859	366,605	5,727,509
<b>Total salaries and related expenses</b>	<b>22,426,207</b>	<b>31,498,286</b>	<b>5,854,038</b>	<b>13,008,343</b>	<b>72,786,874</b>	<b>1,510,088</b>	<b>5,604,143</b>	<b>79,901,105</b>
Contributed goods – cost of goods sold	-	93,005,447	-	-	93,005,447	-	-	93,005,447
Purchased goods – cost of goods sold	-	1,201,667	-	-	1,201,667	-	-	1,201,667
Rent and maintenance	6,269,057	20,022,808	6,500	354,859	26,653,224	-	381	26,653,605
Occupancy	3,090,113	4,106,064	-	1,538,651	8,734,828	97,568	551,219	9,383,615
Professional services and temporary labor	127,757	2,457,769	283,995	580,616	3,450,137	232,490	1,297,449	4,980,076
Participant training and support	-	-	-	2,270,235	2,270,235	-	-	2,270,235
Technology and communication	279,025	1,688,888	57,389	297,625	2,322,927	66,752	777,768	3,167,447
Utilities	130,076	2,749,963	-	11,338	2,891,377	-	-	2,891,377
Supplies	217,811	1,033,457	196,921	88,285	1,536,474	2,444	30,934	1,569,852
Trash disposal	1,719,072	20,594	-	-	1,739,666	-	-	1,739,666
Transportation	1,412,990	179,183	82,532	2,098	1,676,803	4,144	3,386	1,684,333
Banking and finance fees	49,855	1,585,805	1,395	81	1,637,136	2,400	39,564	1,679,100
Insurance	213,810	636,271	93,743	90,637	1,034,461	14,495	998,387	2,047,343
Postage and shipping	632	1,834,151	2,581	11,498	1,848,862	85,845	26,176	1,960,883
Repairs and maintenance	122,400	542,074	7,583	7,488	679,545	-	-	679,545
Travel, conference, and meetings	421	18,989	42,790	88,331	150,531	9,240	23,492	183,263
Printing, publications, and media	700	32,447	-	711	33,858	164,792	32	198,682
Other (taxes, licenses, and dues)	2,229	12,579	1,741	4,937	21,486	19,889	229,867	271,242
Interest	10,421	-	-	-	10,421	-	579,720	590,141
Depreciation	1,152,145	1,903,385	148,829	175,511	3,379,870	25,680	341,464	3,747,014
	<b>\$ 37,224,721</b>	<b>\$ 164,529,827</b>	<b>\$ 6,780,037</b>	<b>\$ 18,531,244</b>	<b>\$ 227,065,829</b>	<b>\$ 2,235,827</b>	<b>\$ 10,503,982</b>	<b>\$ 239,805,638</b>



## Goodwill Industries of Southern California and Affiliates Consolidated Statements of Functional Expenses (Continued)

	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	5,702,745	690,526	1,885,992	11,384,973	186,805	584,931	12,156,709
<b>Total salaries and related expenses</b>	<b>21,231,535</b>	<b>27,839,731</b>	<b>5,819,067</b>	<b>14,208,327</b>	<b>69,098,660</b>	<b>1,552,218</b>	<b>4,608,219</b>	<b>75,259,097</b>
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	-	1,703,061	8,839,788	127,608	557,261	9,524,657
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	301,228	112,554	1,724,359	3,445	39,983	1,767,787
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
	<b>\$ 36,663,168</b>	<b>\$ 119,102,119</b>	<b>\$ 7,058,686</b>	<b>\$ 19,874,459</b>	<b>\$ 182,698,432</b>	<b>\$ 2,120,024</b>	<b>\$ 9,196,249</b>	<b>\$ 194,014,705</b>

See accompanying notes.

## Goodwill Industries of Southern California and Affiliates

### Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 24,104,875	\$ (32,314,895)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	3,747,014	4,375,169
Bad debt expense	35,199	48,000
Recognize deferred gain with sale-leaseback	(391,580)	(379,008)
(Gain) loss on sale of property, plant, and equipment	(97,415)	152,141
Net realized and unrealized (gain) loss on investments	(717,770)	3,403,462
Donated merchandise	(95,492,097)	(50,860,012)
Non-cash costs of goods sold related to donated merchandise	93,005,447	51,750,285
Amortization of deferred rent from construction allowance	(184,221)	(252,680)
Changes in assets and liabilities		
Accounts receivable, net	(1,665,764)	(91,005)
Pledges receivable	85,083	577,477
Inventory	53,631	1,086,843
Prepaid expenses and deposits	(248,723)	632,137
Accounts payable and accrued liabilities	(3,251,259)	3,011,325
Accrued compensation and related expenses	704,949	738,077
Accrued insurance claims	(2,065,704)	2,349,240
Deferred rent	(743,638)	619,055
Net cash provided by (used in) operating activities	16,878,027	(15,154,389)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property, plant, and equipment	135,140	357,685
Purchases of property, plant, and equipment	(972,803)	(1,122,619)
Issuance of note receivable	(137,500)	-
Proceeds from sale of investments	7,468,870	8,234,420
Purchase of investments	(9,021,105)	(113,086)
Net cash (used in) provided by investing activities	(2,527,398)	7,356,400
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowing on long-term debt	-	150,000
Borrowing on revolving line of credit	-	5,000,000
Borrowing on Paycheck Protection Program loan	10,000,000	-
Repayments on capitalized leases	(69,844)	(66,643)
Repayment of line of credit	(5,000,000)	-
Repayment of term loan	(272,742)	(228,994)
Net cash provided by financing activities	4,657,414	4,854,363
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	19,008,043	(2,943,626)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	9,472,415	12,416,041
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 28,480,458	\$ 9,472,415
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest	\$ 590,141	\$ 356,855

# Goodwill Industries of Southern California and Affiliates

## Notes to Consolidated Financial Statements

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### Note 1 – Organization

**General** – Goodwill Industries of Southern California (“Goodwill”) 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. Goodwill and GRS are collectively referred to as the “Organization.”

### 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 105 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 76 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.

# Goodwill Industries of Southern California and Affiliates

## Notes to Consolidated Financial Statements

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### 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.

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 8):

*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. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the use of restricted contributions in accordance with donors' stipulations results in the release of such restrictions.

*Net assets with donor restrictions* – Net assets with donor restrictions are limited as to use by donor-imposed stipulations that may expire with the passage of time or that may be satisfied by action of the Organization. Net assets with donor restrictions are designated by donors for specific purposes and include unconditional pledges and accumulated appreciation on donor-restricted endowments which have not been appropriated by the Board for distribution. Some net assets with donor restrictions may be required by donors to be held in perpetuity. The donors of substantially all net assets to be held in perpetuity permit the Organization to use a portion of the income earned on the related investments for specific purposes.

### Revenue Recognition

*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. Total revenues do not include sales tax because the Organization is a pass-through conduit for collecting and remitting sales taxes.

*Commodity sales* – Goodwill sells old computers and wastepaper 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.

## **Goodwill Industries of Southern California and Affiliates**

### **Notes to Consolidated Financial Statements**

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

*Workforce development revenues* – Certain government entities or nonprofit organizations hire Goodwill to provide career service trainings to eligible participants. The amount earned is based on contractual hourly rates based on the type of services provided by the Organization's program staff. The arrangements are nonreciprocal, meaning the granting agency has not received a direct benefit in exchange for the resources provided. Certain conditions must be met, such as compliance requirements established by the terms of each agreement; therefore, revenue is recognized when the certain conditions are met.

*Contributions and contributed goods* – The Organization also receives contribution revenue, including unconditional promises to give (pledges), which are recognized at fair value when received. 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. 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.

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 with an original maturity of three months or less at the time of purchase. Cash and cash equivalents representing assets held for endowment and as charitable gift annuities are included within investments.

**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. Certain investments held with financial institutions are insured up to a specific limit by the Securities Investors Protection Corporation (SIPC).

Investments are exposed to various risks such as interest rates, market, and credit risk. Risk is managed through evaluation before an investment is made and regular communication with investment managers. It is at least reasonably possible, given the level of risk associated with investments, that changes in the near term could materially affect the amounts reported in the consolidated financial statements.

Concentration of credit risk with respect to accounts receivable is limited due to the large number of contracts from whom amounts are due, with no one account being significant.

**Investments** – The Organization's investment policy requires adherence to high standards of quality in the selection of all types of investments, with reasonable diversification to be maintained at all times. Investments are held at fair value. 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.

# Goodwill Industries of Southern California and Affiliates

## Notes to Consolidated Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (continued)

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 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 restricted by donors for a specified purpose or future period.

**Accounts receivable** – Accounts receivable are comprised of unsecured 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 \$156,000 and \$168,000 for customer obligations at December 31, 2021 and 2020, respectively.

**Inventory** – Inventory is comprised of donated goods inventory and new product inventory. Donated goods inventory is recorded at fair value at the date of donation 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.

**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. There were no unconditional contributions receivable at December 31, 2021. 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. There were no conditional promises to give as of December 31, 2021 and 2020. Contributions receivable are reported within other receivables on the consolidated statements of financial position (see Note 5).

**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:

Land	Not depreciated
Buildings and improvements	5–30 years
Fixtures and equipment	5–30 years
Transportation equipment	3–7 years

## **Goodwill Industries of Southern California and Affiliates**

### **Notes to Consolidated Financial Statements**

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

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 plant, property, and equipment. The Organization recognized approximately \$97,000 of gains on sale of plant, property, and equipment for the year ended December 31, 2021, and approximately \$152,000 of losses for the year ended December 31, 2020. 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 6).

**Accounting for the impairment of long-lived assets and for the disposal of long-lived assets** – The Organization reviews plant, property, and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the plant, 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, 2021 and 2020, 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 using the payout rate for each agreement and life expectancies derived from Internal Revenue Service (IRS) formulas. A receivable, net of the present value of the liability, is recorded in other receivables (Note 5) 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 in investments (Note 4). The liability associated with these annuities is reported with accounts payable and accrued liabilities on the consolidated statements of financial position.

## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 2 – Summary of Significant Accounting Policies (continued)

**Advertising expenses** – Advertising costs are expensed as incurred. During 2021 and 2020, advertising costs were approximately \$199,000 and \$166,000, respectively, and are reported with printing, publications 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.

**Income tax status** – Goodwill and GRS were organized pursuant to the General Nonprofit Corporation Law of the State of California. Both entities have been recognized by the IRS as an organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Both entities have 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, Goodwill 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 income, 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, 2021 and 2020, nor does it expect there will be a material change in the twelve months following the year ended December 31, 2021.

**Contributed services** – A substantial number of volunteers have donated significant amounts of time and services to the Organization's program operations for the years ended December 31, 2021 and 2020, 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.



## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 2 – Summary of Significant Accounting Policies (continued)

**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, 2021 and 2020, it is possible that actual results could differ from those estimates, and the difference could be material to the consolidated financial statements.

**Recent accounting guidance** – In February 2016, the Financial Accounting Standards Board 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 statements 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 consolidated financial statements.

**Reclassifications** – Certain amounts presented in the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

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#### 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 consolidated statement of financial position date, comprise the following:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 28,480,458	\$ 9,472,415
Accounts receivable, net	5,833,025	4,202,460
Other receivables	1,380,905	1,228,542
Investments	13,681,330	11,511,271
Inventory	<u>12,157,262</u>	<u>9,724,243</u>
Total financial assets at year-end	<u>61,532,980</u>	<u>36,138,931</u>
Less amounts not available to meet general expenditures within one year		
Board designated funds	(11,543,065)	-
Other receivables – with donor restriction	(1,243,405)	(1,228,542)
Other receivables – not collectable within one year	(137,500)	-
Other donor restricted funds unavailable for general use	<u>(5,278,745)</u>	<u>(3,494,617)</u>
	<u>(18,202,715)</u>	<u>(4,723,159)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 43,330,265</u>	<u>\$ 31,415,772</u>

The Organization's investments without donor restriction, which totaled \$11,543,065 and \$10,873,969 as of December 31, 2021 and 2020, 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. As part of the Organization's liquidity management plan, it structures its financial assets to be available as obligations come due. As discussed in Note 7, the Organization has a committed revolving line of credit for \$5,000,000 which it could draw upon in the event of an unanticipated liquidity need.

## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

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#### 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.

The inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments, or a reflection of the liquidity of or degree of difficulty in estimating the investment's fair value.

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

*Cash and cash equivalents* – The carrying amount of the assets approximates fair value due to their short-term maturity.

*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 5) 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.

Where quoted market prices are available in active markets, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash equivalents, money market funds, and mutual funds.

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 2021 or 2020. The changes in value of Level 3 assets are reported within realized and unrealized gains and losses in the consolidated statements of activities.

## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

#### Note 4 – Fair Value (continued)

The following tables summarize the valuation of the Organization's investments and beneficial interests in trusts by fair value hierarchy levels as of December 31, 2021 and 2020.

	2021			Total
	Level 1	Level 2	Level 3	
<b>Investments</b>				
Cash and cash equivalents	\$ 3,375,093	\$ -	\$ -	\$ 3,375,093
Mutual funds – equity	6,537,429	-	-	6,537,429
Mutual funds – fixed income funds	3,768,808	-	-	3,768,808
<b>Total investments</b>	<b>13,681,330</b>	<b>-</b>	<b>-</b>	<b>13,681,330</b>
<b>Beneficial interests in trusts</b>				
Perpetual trusts	-	-	346,926	346,926
Charitable remainder trusts	-	-	896,479	896,479
<b>Total beneficial interests in trusts</b>	<b>-</b>	<b>-</b>	<b>1,243,405</b>	<b>1,243,405</b>
<b>Assets reported at fair value</b>	<b>\$ 13,681,330</b>	<b>\$ -</b>	<b>\$ 1,243,405</b>	<b>\$ 14,924,735</b>
	2020			Total
	Level 1	Level 2	Level 3	
<b>Investments</b>				
Cash and cash equivalents	\$ 10,873,969	\$ -	\$ -	\$ 10,873,969
Mutual funds – equity	10,187	-	-	10,187
Mutual funds – fixed income	627,115	-	-	627,115
<b>Total investments</b>	<b>11,511,271</b>	<b>-</b>	<b>-</b>	<b>11,511,271</b>
<b>Beneficial interests in trusts</b>				
Perpetual trusts	-	-	325,798	325,798
Charitable remainder trusts	-	-	817,661	817,661
<b>Total beneficial interests in trusts</b>	<b>-</b>	<b>-</b>	<b>1,143,459</b>	<b>1,143,459</b>
<b>Assets reported at fair value</b>	<b>\$ 11,511,271</b>	<b>\$ -</b>	<b>\$ 1,143,459</b>	<b>\$ 12,654,730</b>

Changes in the fair value of Level 3 beneficial interests in trusts in 2021 and 2020 were due to adjustments from investment earnings received and adjustments to net present discount rates. There were no new contributions, write-offs, sales, or transfers during the years ended December 31, 2021 and 2020.

**Goodwill Industries of Southern California and Affiliates**  
**Notes to Consolidated Financial Statements**

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**Note 5 – Other Receivables**

Other receivables include the following as of December 31:

	<u>2021</u>	<u>2020</u>
Pledges receivable	\$ -	\$ 85,083
Note receivable	137,500	-
Charitable remainder trusts	896,479	817,661
Perpetual trusts beneficial interest	<u>346,926</u>	<u>325,798</u>
Total other receivables	<u>\$ 1,380,905</u>	<u>\$ 1,228,542</u>

The Organization held one pledge receivable at December 31, 2020, that was collected in full in 2021.

In July 2021 the Organization entered into an unsecured note receivable with a related party for the purpose of developing technology to support the Organization. As of December 31, 2021, the Organization had loaned \$137,500; however, additional installments up to \$500,000 have been authorized by the Board of Directors. The note accrues interest at 5% per annum and as of December 31, 2021; no set date of repayment had been determined.

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 4. The beneficial interest in charitable remainder and perpetual trusts is distributed by the Organization as stipulated in the trust agreements.

**Note 6 – Property, Plant, and Equipment; Deferred Gain in Sales Leaseback; and Deferred Rent – Construction Allowance**

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

	<u>2021</u>	<u>2020</u>
Land	\$ 2,034,821	\$ 2,034,821
Buildings and improvements	43,955,132	43,761,320
Fixtures and equipment	29,593,355	29,142,741
Transportation equipment	<u>3,476,703</u>	<u>3,443,195</u>
	79,060,011	78,382,077
Less: accumulated depreciation	<u>(59,477,466)</u>	<u>(55,987,596)</u>
	<u>\$ 19,582,545</u>	<u>\$ 22,394,481</u>

## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 6 – Property, Plant, and Equipment; Deferred Gain in Sales Leaseback; and Deferred Rent – Construction Allowance (continued)

Depreciation expense for the years ended December 31, 2021 and 2020, was approximately \$3,747,000 and \$4,375,000, respectively.

**Construction allowance** – The Organization has several lease arrangements that provide for the payment of a construction allowance. The costs of improvements 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>2021</u>	<u>2020</u>
Construction allowance	\$ 5,083,860	\$ 5,083,860
Deferred rent recognized	<u>(3,260,372)</u>	<u>(3,076,151)</u>
	<u>\$ 1,823,488</u>	<u>\$ 2,007,709</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>2021</u>	<u>2020</u>
Unrecognized gain	\$ 5,699,806	\$ 5,699,806
Sale leaseback deferred rent recognized	<u>(3,394,428)</u>	<u>(3,002,848)</u>
	<u>\$ 2,305,378</u>	<u>\$ 2,696,958</u>

## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

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#### **Note 6 – Property, Plant, and Equipment; Deferred Gain in Sales Leaseback; and Deferred Rent – Construction Allowance (continued)**

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

2022	\$ 378,839
2023	378,839
2024	378,839
2025	378,839
2026	378,839
Thereafter	<u>411,183</u>
	<u>\$ 2,305,378</u>

#### **Note 7 – Notes Payable and Paycheck Protection Program Loan**

The Organization maintains borrowing facilities with a commercial bank secured by the Los Angeles campus building. 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 3.24% at December 31, 2021 and 2020. The interest rate on the revolving line of credit is the LIBOR daily floating rate plus 1.5% (2.94% and 2.19% at December 31, 2021 and 2020, respectively).

On June 4, 2020, the Organization entered into an unsecured 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 18 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.

## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 7 – Notes Payable and Paycheck Protection Program Loan (continued)

As of December 31, 2021 and 2020, the Organization's total indebtedness was as follows:

	<u>2021</u>	<u>2020</u>
Term loan	\$ 7,969,806	\$ 8,242,548
Revolving line of credit	-	5,000,000
SBA loan	<u>150,000</u>	<u>150,000</u>
Total notes payable	8,119,806	13,392,548
Less: current portion of notes payable	<u>(470,744)</u>	<u>(421,374)</u>
Total long-term notes payable	<u>\$ 7,649,062</u>	<u>\$ 12,971,174</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.

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%.

Future payments of all notes payable as of December 31, 2021, are as follows:

2022	\$ 470,744
2023	331,441
2024	341,823
2025	353,894
2026	365,696
Thereafter	<u>6,256,208</u>
	<u>\$ 8,119,806</u>

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 April 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.

On February 16, 2022, the Organization was granted forgiveness for entire PPP loan balance by the United States Small Business Administration.



## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

#### Note 8 – Net Assets

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

	2021	2020
Net assets without donor restrictions		
Board-designated reserve	\$ 11,543,065	\$ -
Undesignated net assets (deficit) without donor restrictions	3,733,279	(7,029,540)
Total	\$ 15,276,344	\$ (7,029,540)

Board designated reserves are maintained for backup against adverse business conditions that may threaten the financial health of the Organization. These may include additional COVID-19 response, maintenance and repair of buildings, or other improvements.

**Net assets with donor restrictions** – Activity in net assets with donor restrictions during the years ended December 31, 2021 and 2020, was as follows:

	Balance January 1, 2021	Contributions and Other Increases	Realized / Unrealized Gain on Investments	Release from Restrictions and Other Decreases	Balance December 31, 2021
Program services	\$ 1,236,450	\$ 4,106,630	\$ -	\$ (2,433,457)	\$ 2,909,623
Charitable remainder trusts	817,661	-	78,818	-	896,479
Accumulated gains on endowments	187,140	-	25,872	-	213,012
Perpetual trusts	325,798	-	21,128	-	346,926
Named endowments held in perpetuity	2,156,110	-	-	-	2,156,110
	-				-
Net assets with donor restrictions	\$ 4,723,159	\$ 4,106,630	\$ 125,818	\$ (2,433,457)	\$ 6,522,150
	Balance January 1, 2020	Contributions and Other Increases	Realized / Unrealized Gain/(Loss) 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
Accumulated gains on endowments	798,696	-	(406,280)	(205,276)	187,140
Perpetual trusts	306,531	-	19,267	-	325,798
Named endowments held in perpetuity	2,156,110	-	-	-	2,156,110
	-				-
Net assets with donor restrictions	\$ 5,857,607	\$ 806,742	\$ (311,883)	\$ (1,629,307)	\$ 4,723,159

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

	2021	2020
Passage of time available to support operations and programs	\$ 2,433,457	\$ 1,629,307

## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 9 – 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:

Years Ending December 31,	
2022	\$ 24,552,992
2023	20,870,470
2024	16,574,901
2025	11,361,236
2026	8,981,785
Thereafter	<u>20,413,787</u>
	<u>\$ 102,755,171</u>

Rental expense for the years ended December 31, 2021 and 2020, was approximately \$22,358,000 and \$23,670,000, 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 \$7,741 for the year ended December 31, 2022. Rental revenue from sublease rents during the years ended December 31, 2021 and 2020, was \$115,000 and \$158,000, respectively, and is included in other operating revenues on the consolidated statements of activities.

**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 due to disallowed costs. Management believes that liabilities, if any, resulting from any such audits will not have a material effect on the consolidated financial statements.

## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 10 – Retirement Plans

**403(b) Deferred Compensation 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 years ended December 31, 2021 and 2020, the Organization contributed approximately \$138,000 to the Plan.

**457(b) Deferred Compensation Plan** – The Organization has a Supplemental Executive Retirement Plan (“SERP”) for certain executives. The Organization records a deferred compensation liability for amounts due these individuals which include the earnings from the invested assets. The liability is funded as required by the plan and is reported within accrued compensation and other related expenses on the consolidated statements of financial position. The corresponding investments held by the Organization are included in prepaid expenses and deposits on the consolidated statements of financial position. Total assets and liabilities amounted to approximately \$997,000 and \$946,000, respectively, for the years ended December 31, 2021 and 2020. The Organization did not contribute to the SERP for the years ended December 31, 2021 and 2020.

#### Note 11 – Self-Insurance

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

## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 11 – Self-Insurance (continued)

The estimated claims payable and changes in the claims payable amount for fiscal years ended December 31, 2021 and 2020, are listed below:

	2021		
	<u>Workers'</u> <u>Compensation</u>	<u>CA SUI</u>	<u>Insurance</u> <u>Claims</u>
Claims payable at beginning of year	\$ 15,330,684	\$ 3,269,439	\$ 18,600,123
Claims incurred/changes in estimate	1,742,934	705,948	2,448,882
Claim payments	<u>(3,218,168)</u>	<u>(1,296,418)</u>	<u>(4,514,586)</u>
	<u>\$ 13,855,450</u>	<u>\$ 2,678,969</u>	<u>\$ 16,534,419</u>
	2020		
	<u>Workers'</u> <u>Compensation</u>	<u>CA SUI</u>	<u>Insurance</u> <u>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>

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. Given the estimation nature of this area, it is reasonably possible that future adjustments to these estimates will be required. The workers’ compensation accrual has been discounted with a rate of 3%. The discounted amount of the liability was approximately \$16,534,000 and \$18,600,000, respectively, as of December 31, 2021 and 2020, as determined by the results of the actuarial study performed.

In July 2021, the Organization obtained a surety bond secured by the assets of the Organization with a third-party broker in the amount of approximately \$8,400,000 to satisfy as additional collateral for the California Office of Self-Insurance Plans.

## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 12 – 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. A reconciliation of beginning and ending balances of endowment funds in total including investment return, contributions, amounts appropriated for expenditure, and other changes is disclosed in Note 8.

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 donor restricted endowment, (b) the original value of subsequent gifts to the donor 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 donor restricted endowment and (d) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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 borrowing** – In May 2021, the Board of Directors approved borrowing of approximately \$2,550,000 from the donor-restricted endowment, with repayment, including interest at 5% per annum, in full by 2025. The repayment timeline was subsequently amended to be repaid in full by September 2022. During 2021, \$1,500,000 was repaid by the Organization. The remaining loan balance due to the endowment was approximately \$1,050,000 at December 31, 2021.

## Goodwill Industries of Southern California and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 12 – Endowments (continued)

**Funds with deficiencies** – From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies due to the borrowing amounted to approximately \$843,000 at December 31, 2021. There were no such deficiencies at December 31, 2020.

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

	2021	2020
Endowments held in perpetuity	\$ 2,156,110	\$ 2,156,110
Accumulated gains on endowments	<u>213,013</u>	<u>187,140</u>
	2,369,123	2,343,250
Perpetual trusts	<u>346,926</u>	<u>325,798</u>
	<u>\$ 2,716,049</u>	<u>\$ 2,669,048</u>

Named investment endowments with accumulated earnings as of December 31, 2021 and 2020, are as follows:

	2021	2020
Lawrence Page	\$ 38,716	\$ 38,293
Garrett Family	419,930	415,344
Ludwig EG Erb	1,783,718	1,764,239
Thomas Barry	106,256	105,096
Capital Campaign	<u>20,503</u>	<u>20,278</u>
	<u>\$ 2,369,123</u>	<u>\$ 2,343,250</u>

#### Note 13 – COVID-19 Impact

On March 13, 2020, the President of the United States declared the COVID-19 outbreak a national emergency. 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. 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. The State of California lifted all occupancy limits in June 2021.

## **Goodwill Industries of Southern California and Affiliates**

### **Notes to Consolidated Financial Statements**

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#### **Note 13 – COVID-19 Impact (continued)**

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 7. The covenant requirements were restructured as of January 1, 2021, as further described in Note 7, and covenant requirements were met as of December 31, 2021. The Organization expects to meet the covenant requirement for next 12 months based on forecasted revenue and expenses.

#### **Note 14 – Subsequent Events**

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are available to be issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued.

The Organization has evaluated subsequent events after the statement of financial position date for appropriate accounting and disclosure, through May 25, 2022, the date on which the consolidated financial statements were available to be issued.

Other than the events disclosed in Note 7, there were no other subsequent events to disclose.

## **Supplementary Information**

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**Goodwill Industries of Southern California and Affiliates**  
**Schedule – Classified Consolidated Statements of Financial Position**  
**As of December 31, 2021 and 2020**

	2021	2020
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 28,480,458	\$ 9,472,415
Investments	12,155,458	9,168,021
Accounts receivable, net	5,833,025	4,202,460
Inventory	12,157,262	9,724,243
Prepaid expenses and deposits	1,945,658	1,696,935
Other receivables	-	85,083
	60,571,861	34,349,157
<b>INVESTMENTS</b>	1,525,872	2,343,250
<b>OTHER RECEIVABLES, net of current</b>	1,380,905	1,143,459
<b>PROPERTY, PLANT, AND EQUIPMENT, net</b>	19,582,545	22,394,481
	\$ 83,061,183	\$ 60,230,347
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 10,487,791	\$ 13,739,050
Accrued compensation and related expenses	7,868,768	7,163,819
Current portion of note payable	470,744	421,374
Current portion of deferred gain on sale-leaseback	378,839	378,839
Current portion of deferred rent from construction allowance	184,222	307,689
Current portion of accrued insurance claims	6,590,424	7,147,012
	25,980,788	29,157,783
<b>CAPITALIZED LEASE OBLIGATION</b>	186,641	256,485
<b>PAYCHECK PROTECTION PROGRAM LOAN</b>	10,000,000	-
<b>NOTE PAYABLE, net</b>	7,649,062	12,971,174
<b>DEFERRED GAIN ON SALE-LEASEBACK, net</b>	1,926,539	2,318,119
<b>DEFERRED RENT</b>	3,936,398	4,680,036
<b>DEFERRED RENT FROM CONSTRUCTION ALLOWANCE, net</b>	1,639,266	1,700,020
<b>INSURANCE CLAIMS ESTIMATED TO BE PAID AFTER ONE YEAR</b>	9,943,995	11,453,111
	61,262,689	62,536,728
<b>NET ASSETS (DEFICIT)</b>		
Net assets (deficit) without donor restrictions	15,276,344	(7,029,540)
Net assets with donor restrictions	6,522,150	4,723,159
	21,798,494	(2,306,381)
	\$ 83,061,183	\$ 60,230,347