



Report of Independent Auditors and Consolidated Financial
Statements with Supplementary Information

Goodwill Industries of Southern California and Affiliates

December 31, 2022 and 2021



MOSSADAMS

Table of Contents

	Page
Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	5
Consolidated Statements of Functional Expenses	7
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10
Supplementary Information	
Schedule – Classified Consolidated Statements of Financial Position	29

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 statements of financial position as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Goodwill Industries of Southern California and Affiliates as of December 31, 2022 and 2021, 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.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, as of and for the year ended December 31, 2022, the Organization adopted Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The adoption of this standard resulted in additional footnote disclosures and had a significant impact on the consolidated statement of financial position through the recognition of right-of-use assets and lease liabilities. The Organization adopted the new standard using the transition method provided in ASU 2018-11 such that prior period amounts are not adjusted and continue to be reported in accordance with Accounting Standards Codification 840, *Leases*. Our opinion is not modified with respect to this matter.

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 available to be 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.

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

El Segundo, California

May 25, 2023, except for Footnotes 12 and 14, for which the date is July 24, 2023

Consolidated Financial Statements

Goodwill Industries of Southern California and Affiliates
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 28,313,357	\$ 28,480,458
Investments (Note 4)	14,119,413	13,681,330
Accounts receivable, net	5,636,729	5,833,025
Inventory	13,134,436	12,157,262
Prepaid expenses and deposits	2,010,014	1,945,658
Other receivables (Note 5)	1,801,020	1,380,905
Operating lease right-of-use assets, (Note 9)	95,095,693	-
Property, plant, and equipment, net (Note 6)	21,410,835	19,582,545
	<u>21,410,835</u>	<u>19,582,545</u>
Total assets	<u>\$ 181,521,497</u>	<u>\$ 83,061,183</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 11,063,449	\$ 10,487,791
Accrued compensation and related expenses	7,097,284	7,868,768
Accrued insurance claims (Note 12)	15,379,297	16,534,419
Deferred rent	-	3,936,398
Deferred gain on sale-leaseback (Note 6)	1,845,388	2,305,378
Deferred rent – construction allowance (Note 6)	-	1,823,488
Paycheck Protection Program loan (Note 7)	-	10,000,000
Notes payable (Note 7)	-	8,119,806
Capitalized lease obligation	-	186,641
Finance lease liability	113,614	-
Operating lease right-of-use liabilities (Note 9)	101,432,975	-
	<u>101,432,975</u>	<u>-</u>
Total liabilities	<u>136,932,007</u>	<u>61,262,689</u>
NET ASSETS (Note 8)		
Net assets without donor restrictions	37,323,468	15,276,344
Net assets with donor restrictions	7,266,022	6,522,150
	<u>7,266,022</u>	<u>6,522,150</u>
Total net assets	<u>44,589,490</u>	<u>21,798,494</u>
Total liabilities and net assets	<u>\$ 181,521,497</u>	<u>\$ 83,061,183</u>

See accompanying notes.

Goodwill Industries of Southern California and Affiliates
Consolidated Statements of Activities
Year Ended December 31, 2022

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND OTHER			
Revenue			
Retail sales	\$ 142,949,251	\$ -	\$ 142,949,251
Commodities sales	66,125	-	66,125
Contract services	7,504,664	-	7,504,664
Workforce development	7,382,899	-	7,382,899
Workforce development – government grants	7,516,432	-	7,516,432
Payroll protection program loan forgiveness	10,000,000	-	10,000,000
Other	501,899	-	501,899
Total revenue	175,921,270	-	175,921,270
Support and other			
Contributions	1,579,858	3,478,154	5,058,012
Interest and dividends	255,539	-	255,539
Contributed goods	98,350,605	-	98,350,605
Gain on sale of property and equipment	4,751	-	4,751
Net assets released from restriction	2,787,630	(2,787,630)	-
Total support and other	102,978,383	690,524	103,668,907
Total revenue, support, and other	278,899,653	690,524	279,590,177
EXPENSES			
Program services	240,368,581	-	240,368,581
Fundraising	2,521,996	-	2,521,996
General and administrative	11,862,990	-	11,862,990
Total expenses	254,753,567	-	254,753,567
Changes in net assets before realized and unrealized (loss) gains on investments	24,146,086	690,524	24,836,610
Realized and unrealized (loss) gains on investments, net	(2,098,962)	53,348	(2,045,614)
Changes in net assets	22,047,124	743,872	22,790,996
NET ASSETS, beginning of year	15,276,344	6,522,150	21,798,494
NET ASSETS, end of year	\$ 37,323,468	\$ 7,266,022	\$ 44,589,490

See accompanying notes.

Goodwill Industries of Southern California and Affiliates
Consolidated Statements of Activities (Continued)
Year Ended December 31, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND OTHER			
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
Total revenue	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
Loss on sale of property and equipment	97,415	-	97,415
Net assets released from restriction	2,433,457	(2,433,457)	-
Total support and other	99,533,092	1,673,173	101,206,265
Total revenue, support, and other	261,519,570	1,673,173	263,192,743
EXPENSES			
Program services	227,065,829	-	227,065,829
Fundraising	2,235,827	-	2,235,827
General and administrative	10,503,982	-	10,503,982
Total expenses	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 gains on investments	591,952	125,818	717,770
Changes in net assets	22,305,884	1,798,991	24,104,875
NET ASSETS, beginning of year	(7,029,540)	4,723,159	(2,306,381)
NET ASSETS, end of year	\$ 15,276,344	\$ 6,522,150	\$ 21,798,494

See accompanying notes.

Goodwill Industries of Southern California and Affiliates
Consolidated Statements of Functional Expenses
Year Ended December 31, 2022

	2022							
	Program Services					Support Services		Total Expenses
	Material Handling	Stores	Contract Services	Workforce Development	Total	Fundraising	General Administrative	
Salaries and wages	\$ 19,151,752	\$ 29,442,090	\$ 5,026,645	\$ 10,843,413	\$ 64,463,900	\$ 1,229,200	\$ 5,360,819	\$ 71,053,919
Payroll taxes	1,438,753	2,227,012	382,488	829,459	4,877,712	89,842	296,882	5,264,436
Employee benefits	2,383,508	1,431,047	457,320	1,013,179	5,285,054	120,136	486,606	5,891,796
Total salaries and related expenses	22,974,013	33,100,149	5,866,453	12,686,051	74,626,666	1,439,178	6,144,307	82,210,151
Contributed goods – cost of goods sold	-	97,488,960	-	-	97,488,960	-	-	97,488,960
Purchased goods – cost of goods sold	-	1,295,554	-	-	1,295,554	-	-	1,295,554
Rent and maintenance	6,254,179	21,166,969	5,000	373,283	27,799,431	-	-	27,799,431
Occupancy	3,229,415	5,675,539	-	1,727,221	10,632,175	145,221	694,342	11,471,738
Professional services and temporary labor	166,851	2,765,150	282,136	449,027	3,663,164	289,484	1,856,364	5,809,012
Participant training and support	-	-	-	2,553,787	2,553,787	-	-	2,553,787
Technology and communication	317,072	1,686,342	26,339	380,707	2,410,460	242,937	894,224	3,547,621
Utilities	171,786	3,012,856	-	11,986	3,196,628	-	-	3,196,628
Supplies	205,815	1,286,410	318,093	101,215	1,911,533	13,821	9,948	1,935,302
Trash disposal	1,839,362	18,424	-	-	1,857,786	-	-	1,857,786
Transportation	1,938,785	481,151	138,939	9,063	2,567,938	5,662	18,246	2,591,846
Banking and finance fees	52,536	1,663,895	652	-	1,717,083	1,400	37,348	1,755,831
Insurance	414,092	1,180,726	129,231	174,212	1,898,261	27,309	1,366,549	3,292,119
Postage and shipping	38,957	1,741,489	3,931	12,437	1,796,814	37,320	24,121	1,858,255
Repairs and maintenance	243,923	1,446,471	9,405	4,685	1,704,484	-	-	1,704,484
Travel, conference, and meetings	682	30,830	46,601	116,387	194,500	20,123	56,309	270,932
Printing, publications, and media	-	712	525	10,418	11,655	265,132	4,487	281,274
Other (taxes, licenses, and dues)	1,881	30,235	24	1,862	34,002	1	111,712	145,715
Membership Dues	-	15,470	1,550	10,459	27,479	13,760	216,742	257,981
Interest	7,238	-	-	-	7,238	-	198,739	205,977
Depreciation	740,259	2,022,360	47,850	162,514	2,972,983	20,648	229,552	3,223,183
	<u>\$ 38,596,846</u>	<u>\$ 176,109,692</u>	<u>\$ 6,876,729</u>	<u>\$ 18,785,314</u>	<u>\$ 240,368,581</u>	<u>\$ 2,521,996</u>	<u>\$ 11,862,990</u>	<u>\$ 254,753,567</u>

See accompanying notes.

Goodwill Industries of Southern California and Affiliates
Consolidated Statements of Functional Expenses (Continued)
Year Ended December 31, 2021

	2021							
	Program Services					Support Services		Total Expenses
	Material Handling	Stores	Contract Services	Workforce Development	Total	Fundraising	General Administrative	
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
Total salaries and related expenses	22,426,207	31,498,286	5,854,038	13,008,343	72,786,874	1,510,088	5,604,143	79,901,105
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
	<u>\$ 37,224,721</u>	<u>\$ 164,529,827</u>	<u>\$ 6,780,037</u>	<u>\$ 18,531,244</u>	<u>\$ 227,065,829</u>	<u>\$ 2,235,827</u>	<u>\$ 10,503,982</u>	<u>\$ 239,805,638</u>

See accompanying notes.

Goodwill Industries of Southern California and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 22,790,996	\$ 24,104,875
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	3,223,183	3,747,014
Bad debt expense	51,564	35,199
Recognize deferred gain with sale-leaseback	(459,990)	(391,580)
Gain on sale of property, plant, and equipment	(4,751)	(97,415)
Net realized and unrealized loss (gain) on investments	1,915,194	(717,770)
Donated merchandise	(98,350,605)	(95,492,097)
Noncash costs of goods sold related to donated merchandise	97,488,960	93,005,447
Forgiveness of Paycheck Protection Program Loan	(10,000,000)	
Amortization of deferred rent from construction allowance	(1,823,488)	(184,221)
Amortization of operating lease right-of-use assets	29,615,886	-
Changes in operating assets and liabilities		
Accounts receivable, net	144,732	(1,665,764)
Pledges receivable	-	85,083
Inventory	(115,529)	53,631
Prepaid expenses and deposits	(64,356)	(248,723)
Accounts payable and accrued liabilities	575,658	(3,251,259)
Accrued compensation and related expenses	(771,484)	704,949
Accrued insurance claims	(1,155,122)	(2,065,704)
Operating lease liabilities	(23,278,604)	-
Deferred rent	(3,936,398)	(743,638)
Net cash provided by operating activities	<u>15,845,846</u>	<u>16,878,027</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant, and equipment	9,632	135,140
Purchases of property, plant, and equipment	(5,056,390)	(972,803)
Issuance of note receivable	(420,115)	(137,500)
Proceeds from sale of investments	10,750	7,468,870
Purchase of investments	(2,363,991)	(9,021,105)
Net cash used in investing activities	<u>(7,820,114)</u>	<u>(2,527,398)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on Paycheck Protection Program loan	-	10,000,000
Repayments on financing leases/capitalized leases	(73,027)	(69,844)
Repayment of line of credit	-	(5,000,000)
Repayment of term loan	(8,119,806)	(272,742)
Net cash (used in) provided by financing activities	<u>(8,192,833)</u>	<u>4,657,414</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(167,101)</u>	<u>19,008,043</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>28,480,458</u>	<u>9,472,415</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 28,313,357</u></u>	<u><u>\$ 28,480,458</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for interest	<u>\$ 205,977</u>	<u>\$ 590,141</u>
SUPPLEMENTAL DISCLOSURES – NON-CASH ITEMS		
Payroll protection program loan forgiveness	<u><u>\$ 10,000,000</u></u>	<u><u>\$ -</u></u>

See accompanying notes.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

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 nonprofit 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 106 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

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 (U.S. 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.

Expiration of donor-imposed restrictions – Net assets are released from donor restrictions by incurring expenses to satisfy the restricted purposes and by occurrence of events specified by the donors, including the passage of time. Donor restrictions on long-lived assets or cash to construct or acquire long-lived assets are considered to have expired when the assets are placed in service or expenditures exceed the amount of the gift.

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 one to two months.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

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 held at two separate banks. 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

Securities transactions are recorded on a trade-date basis, net of applicable investment expenses. 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 \$137,000 and \$156,000 for customer obligations at December 31, 2022 and 2021, 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 as of December 31, 2022. There were no unconditional contributions receivable as of December 31, 2022 and 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, 2022 and 2021. 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

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.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

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 \$4,700 of gains on sale of plant, property, and equipment for the year ended December 31, 2022, and approximately \$97,000 of gains for the year ended December 31, 2021. 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, 2022 and 2021, there were no events or changes in circumstances indicating that the carrying amount of the property, plant, and equipment may not be recoverable.

Leases – The Organization recognizes operating and finance lease liabilities and an ROU asset for all leases, including operating leases with an expected term greater than 12 months on its consolidated statement of financial position. Operating lease ROU assets and liabilities are recognized on the consolidated statement of financial position at commencement date, which is the date that Organization gains access to the property or underlying asset. The lease liability is determined based on the present value of the minimum rental payments using a risk-free incremental borrowing rate in effect at the time of the lease commencement. The borrowing rate ranged from 0.19%–4.07% for the year ended December 31, 2022 and 2021. The ROU asset is determined based on the lease liability adjusted for lease incentives received. Operating lease cost is recognized on a straight-line basis over the lease term. Certain optional renewal periods were not included in the determination of the lease liability and ROU asset if management determined it was not reasonably certain that the lease would be extended.

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 (see 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 (see 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

Advertising expenses – Advertising costs are expensed as incurred. During 2022 and 2021, advertising costs were approximately \$281,000 and \$199,000, 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, utilities, rental and maintenance, trash, insurance, 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, 2022 and 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, 2022 and 2021, 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 U.S. GAAP.

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, 2022 and 2021, it is possible that actual results could differ from those estimates, and the difference could be material to the consolidated financial statements.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

Recent accounting guidance – The Organization adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* effective January 1, 2022, utilizing the modified retrospective approach for adoption for all leases that existed at the date of initial application.

The adoption of Accounting Standards Codification (ASC) Topic 842 had a material impact on the statement of financial position due to the recognition of right-of-use (ROU) assets and lease liabilities. The Organization did not recognize a material cumulative effect adjustment to the opening net assets on January 1, 2022. Because the modified retrospective approach was elected, ASC Topic 842 was not applied to periods prior to adoption and did not have an impact on previously reported results. At adoption, the Organization recognized operating lease ROU assets and lease liabilities that reflect the present value of the future lease payments. In connection with its adoption of ASC Topic 842, the Organization recorded \$124,683,025 of lease liabilities and \$117,909,202 for ROU assets as of January 1, 2021. See Note 9 for additional information on leases.

In September 2020, the FASB issued ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The provisions of the ASU establish new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The following information pertains to the additional required disclosures.

The Organization receives various forms of contributions of non-financial assets. Contributions of non-financial assets are reported as contributed goods in the consolidated statements of activities at their 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. There were no contributed services that met the criteria for recognition for the years ended December 31, 2022 and 2021. Contributions of non-financial assets consisted of the following at December 31:

	Fair market value	
	2022	2021
Contributed goods	\$ 98,350,605	\$ 95,492,097

Of the contributed goods received, \$97,488,860 and \$93,005,447 was sold during the years ended December 31, 2022 and 2021, respectively.

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

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, comprised the following at December 31:

	2022	2021
Financial assets at year end		
Cash and cash equivalents	\$ 28,313,357	\$ 28,480,458
Accounts receivable, net	5,636,729	5,833,025
Other receivables	1,801,020	1,380,905
Investments	14,119,413	13,681,330
Inventory	13,134,436	12,157,262
	<u>63,004,955</u>	<u>61,532,980</u>
Less amounts not available to meet general expenditures within one year		
Board designated funds	(11,017,666)	(11,543,065)
Other receivables – with donor restriction	(1,100,076)	(1,243,405)
Other receivables – not collectable within one year	(700,944)	(137,500)
Other donor restricted funds unavailable for general use	(6,165,946)	(5,278,745)
	<u>(18,984,632)</u>	<u>(18,202,715)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 44,020,323</u>	<u>\$ 43,330,265</u>

The Organization's investments without donor restriction, which totaled \$11,017,666 and \$11,543,065 as of December 31, 2022 and 2021, 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.

Note 4 – Fair Value Measurements

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.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

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.

Money market and 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 (see 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 2022 or 2021. 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

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, 2022 and 2021.

2022				
	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 3,315,731	\$ -	\$ -	\$ 3,315,731
Money market funds	92,157	-	-	92,157
Mutual funds – equity	3,855,379	-	-	3,855,379
Mutual funds – fixed income funds	6,856,146	-	-	6,856,146
Total investments	14,119,413	-	-	14,119,413
Beneficial interests in trusts				
Perpetual trusts	-	-	276,647	276,647
Charitable remainder trusts	-	-	821,479	821,479
Total beneficial interests in trusts	-	-	1,098,126	1,098,126
Assets reported at fair value	\$ 14,119,413	\$ -	\$ 1,098,126	\$ 15,217,539
2021				
	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 3,375,093	\$ -	\$ -	\$ 3,375,093
Mutual funds – equity	6,537,429	-	-	6,537,429
Mutual funds – fixed income	3,768,808	-	-	3,768,808
Total investments	13,681,330	-	-	13,681,330
Beneficial interests in trusts				
Perpetual trusts	-	-	346,926	346,926
Charitable remainder trusts	-	-	896,479	896,479
Total beneficial interests in trusts	-	-	1,243,405	1,243,405
Assets reported at fair value	\$ 13,681,330	\$ -	\$ 1,243,405	\$ 14,924,735

Changes in the fair value of Level 3 beneficial interests in trusts in 2022 and 2021 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, 2022 and 2021.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

Note 5 – Other Receivables

Other receivables include the following as of December 31:

	2022	2021
Contributions receivable	\$ 1,950	\$ -
Note receivable	700,944	137,500
Charitable remainder trusts	821,479	896,479
Perpetual trusts beneficial interest	276,647	346,926
	<u>276,647</u>	<u>346,926</u>
Total other receivables	<u>\$ 1,801,020</u>	<u>\$ 1,380,905</u>

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. An additional \$292,500 unsecured note receivable with a related party was entered into during the year ended December 31, 2022. The note accrues interest at 5% per annum and as of December 31, 2022; 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, Net; Deferred Gain in Sales Leaseback; and Deferred Rent – Construction Allowance

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

	2022	2021
Land	\$ 2,034,821	\$ 2,034,821
Buildings and improvements	46,827,787	43,955,132
Fixtures and equipment	29,708,789	29,593,355
Transportation equipment	3,445,310	3,476,703
	<u>82,016,707</u>	<u>79,060,011</u>
Less: accumulated depreciation	<u>(60,605,872)</u>	<u>(59,477,466)</u>
	<u>\$ 21,410,835</u>	<u>\$ 19,582,545</u>

Depreciation expense for the years ended December 31, 2022 and 2021, was approximately \$3,223,000 and \$3,747,000, respectively.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

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>2022</u>	<u>2021</u>
Construction allowance	\$ 5,083,860	\$ 5,083,860
Deferred rent recognized	<u>(5,083,860)</u>	<u>(3,260,372)</u>
	<u>\$ -</u>	<u>\$ 1,823,488</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 U.S. 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>2022</u>	<u>2021</u>
Unrecognized gain	\$ 5,699,806	\$ 5,699,806
Sale leaseback deferred rent recognized	<u>(3,854,418)</u>	<u>(3,394,428)</u>
	<u>\$ 1,845,388</u>	<u>\$ 2,305,378</u>

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

Years Ending December 31,

2023	\$ 369,078
2024	369,078
2025	369,078
2026	369,078
2027	<u>369,076</u>
	<u>\$ 1,845,388</u>

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

Note 7 – Notes Payable, Net

The Organization maintained borrowing facilities with a commercial bank secured by the Organization's Los Angeles campus building. The arrangement provided 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 was due. The revolving line of credit expired on March 31, 2022. The interest rate on the term loan was fixed at 3.24% at December 31, 2022 and 2021. The interest rate on the revolving line of credit was the London Interbank Offered Rate (LIBOR) daily floating rate plus 1.5% (3.97% and 2.94% at December 31, 2022 and 2021, respectively). On January 1, 2021, the term loan was amended again, adjusting the monthly payments, increasing to a 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%. On April 12, 2022, the Organization paid off the term loan in full.

On July 1, 2022, the Organization entered into a line of credit agreement which expires on July 1, 2024. During the availability period, the Organization is authorized to draw on the line of credit for up to \$20,000,000. The unused commitment fee of the line of credit is 0.15% per year.

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 Small Business Association (SBA). 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 PPP provision and the CARES Act. On February 16, 2022, the Organization was granted forgiveness for entire PPP loan balance by the SBA. This gain from forgiveness was recognized on the consolidated statement of activities for the year ended December 31, 2022.

Note 8 – Net Assets

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

	2022	2021
Net assets without donor restrictions		
Board-designated reserve	\$ 11,017,666	\$ 11,543,065
Undesignated net assets without donor restrictions	26,305,802	3,733,279
Total	<u>\$ 37,323,468</u>	<u>\$ 15,276,344</u>

Board-designated reserves are maintained for backup against adverse business conditions that may threaten the financial health of the Organization.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

Net assets with donor restrictions – Activity in net assets with donor restrictions during the years ended December 31, 2022 and 2021, was as follows:

	Balance, January 1, 2022	Contributions and Other Increases	Realized/Unrealized Gain (loss) on Investments	Release from Restrictions and Other Decreases	Balance, December 31, 2022
Program services	\$ 2,909,623	\$ 3,478,154	\$ -	\$ (2,787,630)	\$ 3,600,147
Charitable remainder trusts	896,479	-	(75,000)	-	821,479
Accumulated gains on endowments	213,012	-	198,627	-	411,639
Perpetual trusts	346,926	-	(70,279)	-	276,647
Named endowments held in perpetuity	2,156,110	-	-	-	2,156,110
Net assets with donor restrictions	<u>\$ 6,522,150</u>	<u>\$ 3,478,154</u>	<u>\$ 53,348</u>	<u>\$ (2,787,630)</u>	<u>\$ 7,266,022</u>

	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	<u>\$ 4,723,159</u>	<u>\$ 4,106,630</u>	<u>\$ 125,818</u>	<u>\$ (2,433,457)</u>	<u>\$ 6,522,150</u>

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

	2022	2021
Passage of time available to support operations and programs	\$ 2,787,630	\$ 2,433,457

Note 9 – Leases

For the year ended December 31, 2021, the Organization reported lease liabilities in accordance with ASU Topic 840 – *Leases*. The Organization leases certain stores, facilities, office and transportation equipment. Minimum annual rental payments, excluding any future inflation adjustments, were as follows for the year ended December 31:

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>

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

For the year ended December 31, 2022, the Organization reported lease liabilities in accordance with ASU Topic 842 – *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,

2023	\$ 24,768,206
2024	20,306,421
2025	15,514,578
2026	12,678,435
2027	11,145,646
Thereafter	<u>22,478,218</u>
Less imputed interest	<u>(5,458,529)</u>
	<u><u>\$ 101,432,975</u></u>

Rental expense for the years ended December 31, 2022 and 2021, was approximately \$23,662,000 and \$22,358,000, respectively.

Additional information for the Organization's leases at December 31, 2022, are summarized below:

Weighted-average remaining lease term	5.91 years
Weighted-average discount rate	2.7%

Sublease rental income – The Organization has agreements with nonprofit organizations to provide subleased space in a facility in Los Angeles. Minimum annual rental payments excluding any future inflation adjustments are \$23,253 for the year ended December 31, 2022. Rental revenue from sublease rents during the years ended December 31, 2022 and 2021, was \$72,000 and \$115,000, respectively, and is included in other operating revenues on the consolidated statements of activities.

Note 10 – Commitments and Contingencies

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.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

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.

Note 11 – Retirement Plans

403(b) deferred compensation plan – The Organization has a 403(b) Retirement Plan (the “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, 2022 and 2021, the Organization contributed approximately \$79,000 \$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 \$753,000 and \$997,000, respectively, for the years ended December 31, 2022 and 2021. The Organization did not contribute to the SERP for the years ended December 31, 2022 and 2021.

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 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.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

The estimated claims payable and changes in the claims payable amount for fiscal years ended December 31, 2022 and 2021, are listed below:

	2022		
	Workers' Compensation	CA SUI	Total
Claims payable, beginning of year	\$ 13,855,450	\$ 2,678,969	\$ 16,534,419
Claims incurred/changes in estimate	2,807,289	(26,158)	2,781,131
Claim payments	(3,380,048)	(556,205)	(3,936,253)
	<u>\$ 13,282,691</u>	<u>\$ 2,096,606</u>	<u>\$ 15,379,297</u>
	2021		
	Workers' Compensation	CA SUI	Total
Claims payable, 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	(3,218,168)	(1,296,418)	(4,514,586)
	<u>\$ 13,855,450</u>	<u>\$ 2,678,969</u>	<u>\$ 16,534,419</u>

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 \$15,379,000 and \$16,534,000, respectively, as of December 31, 2022 and 2021, 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. The surety bond was terminated on July 27, 2022 when the Organization entered into a replacement security deposit for \$15,126,000 to satisfy as collateral for the California Office of Self-Insurance Plans.

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. 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.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

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. The amount available for general use was suspended until the repayments of the endowment borrowing was completed.

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 including interest was repaid during 2022.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

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 as of December 31, 2022.

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

	2022	2021
Endowments held in perpetuity	\$ 2,156,110	\$ 2,156,110
Accumulated gains on endowments	411,639	213,013
	2,567,749	2,369,123
Perpetual trusts	276,647	346,926
	<u>\$ 2,844,396</u>	<u>\$ 2,716,049</u>

Named investment endowments with accumulated earnings as of December 31, 2022 and 2021, are as follows:

	2022	2021
Lawrence Page	\$ 41,962	\$ 38,716
Garrett Family	455,136	419,930
Ludwig EG Erb	1,933,264	1,783,718
Thomas Barry	115,165	106,256
Capital Campaign	22,222	20,503
	<u>\$ 2,567,749</u>	<u>\$ 2,369,123</u>

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 July 24, 2023, the date on which the consolidated financial statements were available to be issued.

Supplementary Information

Goodwill Industries of Southern California and Affiliates
Schedule – Classified Consolidated Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 28,313,357	\$ 28,480,458
Investments	11,551,664	12,155,458
Accounts receivable, net	5,636,729	5,833,025
Inventory	13,134,436	12,157,262
Prepaid expenses and deposits	2,010,014	1,945,658
Other receivables	<u>1,950</u>	<u>-</u>
Total current assets	60,648,150	60,571,861
INVESTMENTS	2,567,749	1,525,872
OTHER RECEIVABLES, net of current	1,799,070	1,380,905
OPERATING LEASE RIGHT-OF-USE ASSETS	95,095,693	-
PROPERTY, PLANT, AND EQUIPMENT, net	<u>21,410,835</u>	<u>19,582,545</u>
Total assets	<u><u>\$ 181,521,497</u></u>	<u><u>\$ 83,061,183</u></u>

Goodwill Industries of Southern California and Affiliates
Schedule – Classified Consolidated Statements of Financial Position (Continued)
December 31, 2022 and 2021

	2022	2021
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 11,063,449	\$ 10,487,791
Accrued compensation and related expenses	7,097,284	7,868,768
Note payable, current portion	-	470,744
Deferred gain on sale-leaseback, current portion	378,839	378,839
Deferred rent from construction allowance, current portion	-	184,222
Accrued insurance claims, current portion	6,590,424	6,590,424
Operating lease right-of-use liabilities, current portion	24,768,206	-
Total current liabilities	49,898,202	25,980,788
CAPITALIZED LEASE OBLIGATION, net of current portion	-	186,641
PAYCHECK PROTECTION PROGRAM LOAN	-	10,000,000
NOTE PAYABLE, net of current portion	-	7,649,062
DEFERRED GAIN ON SALE-LEASEBACK, net of current portion	1,466,549	1,926,539
DEFERRED RENT, net of current portion	-	3,936,398
DEFERRED RENT FROM CONSTRUCTION ALLOWANCE, net of current portion	-	1,639,266
INSURANCE CLAIMS ESTIMATED TO BE PAID AFTER ONE YEAR	8,788,873	9,943,995
FINANCE LEASE LIABILITY	113,614	-
OPERATING LEASE RIGHT-OF-USE LIABILITIES, net of current portion	76,664,769	-
Total liabilities	136,932,007	61,262,689
NET ASSETS		
Net assets without donor restrictions	37,323,468	15,276,344
Net assets with donor restrictions	7,266,022	6,522,150
Total net assets	44,589,490	21,798,494
Total liabilities and net assets	\$ 181,521,497	\$ 83,061,183