Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Financial Report
December 31, 2021

Contents

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RSM US LLP

Independent Auditor's Report

Board of Directors
Goodwill Industries of the Chesapeake, Incorporated

Opinion

We have audited the consolidated financial statements of Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries (collectively, Goodwill) which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Goodwill as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Goodwill 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Goodwill's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the 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 and *Government Auditing Standards* 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 financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the 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 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 Goodwill'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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Goodwill'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 Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2022 on our consideration of Goodwill's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Goodwill's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Goodwill's internal control over financial reporting and compliance.

RSM US LLP

Baltimore, Maryland
July 26, 2022

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 6,393,537	$ 2,106,710
Restricted cash	572,770	544,138
Accounts receivable, net	3,202,846	3,175,735
Inventory	60,538	23,542
Prepaid expenses and other assets	1,139,299	1,157,692
Investments (Notes 2, 3 and 6)	36,607,998	33,572,131
Land, buildings and equipment, net (Note 4)	7,657,104	9,374,544
Restricted investments (Notes 6 and 9)	1,707,093	1,357,110
Total assets	$ 57,341,185	$ 51,311,602
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 767,483	$ 528,069
Accrued expenses (Notes 6, 9 and 10)	4,796,109	4,138,986
Total liabilities	5,563,592	4,667,055
Commitments and contingencies (Notes 8, 9 and 10)		
Net assets:		
Without donor restrictions:		
Operating	7,443,849	3,629,265
Designated for long-term investment (Note 3)	36,107,791	33,138,702
Investment in plant	7,657,104	9,374,544
	51,208,744	46,142,511
With donor restrictions (Notes 3 and 5)	568,849	502,036
Total net assets	51,777,593	46,644,547
Total liabilities and net assets	$ 57,341,185	$ 51,311,602

See notes to consolidated financial statements.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statement of Activities
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Public support:			
General support	$ 890,928	$ 3,000	$ 893,928
In-kind contributions of inventory	35,398,308	-	35,398,308
Special events	8,005	-	8,005
Total public support	36,297,241	3,000	36,300,241
Other revenue and losses:			
Donated goods – sales	36,981,715	-	36,981,715
Contracted services (Note 7)	9,678,124	-	9,678,124
Career development	3,589,569	-	3,589,569
Investment income (Note 2)	3,162,726	63,813	3,226,539
Loss on impairment of property and equipment	(1,003,754)	-	(1,003,754)
Loss on disposal of property and equipment	(41,994)	-	(41,994)
Miscellaneous	44,371	-	44,371
Total other revenue and losses	52,410,757	63,813	52,474,570
Total public support, revenue and losses	88,707,998	66,813	88,774,811
Expenses:			
Program services:			
Donated goods	65,759,641	-	65,759,641
Contracted services	7,424,135	-	7,424,135
Career development	5,826,543	-	5,826,543
Total program services	79,010,319	-	79,010,319
Supporting services:			
Management and general	4,511,527	-	4,511,527
Fundraising	119,919	-	119,919
Total supporting services	4,631,446	-	4,631,446
Total expenses	83,641,765	-	83,641,765
Change in net assets	5,066,233	66,813	5,133,046
Net assets:			
Beginning of year	46,142,511	502,036	46,644,547
End of year	$ 51,208,744	$ 568,849	$ 51,777,593

See notes to consolidated financial statements.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statement of Activities
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Public support:			
General support	$ 1,207,647	$ 2,074	$ 1,209,721
In-kind contributions of inventory	25,218,592	-	25,218,592
Special events	16,987	-	16,987
Bequests	82,944	-	82,944
Total public support	26,526,170	2,074	26,528,244
Other revenue and losses:			
Donated goods – sales	26,978,513	-	26,978,513
Contracted services (Note 7)	10,130,496	-	10,130,496
Career development	2,918,286	-	2,918,286
Investment income (Note 2)	2,721,487	55,752	2,777,239
Gain on disposal of property and equipment	11,045	-	11,045
Miscellaneous	28,001	-	28,001
Total other revenue and losses	42,787,828	55,752	42,843,580
Total public support, revenue and losses	69,313,998	57,826	69,371,824
Expenses:			
Program services:			
Donated goods	53,453,836	-	53,453,836
Contracted services	7,824,199	-	7,824,199
Career development	5,042,659	-	5,042,659
Total program services	66,320,694	-	66,320,694
Supporting services:			
Management and general	3,918,100	-	3,918,100
Fundraising	239,807	-	239,807
Total supporting services	4,157,907	-	4,157,907
Total expenses	70,478,601	-	70,478,601
Change in net assets	(1,164,603)	57,826	(1,106,777)
Net assets:			
Beginning of year	47,307,114	444,210	47,751,324
End of year	$ 46,142,511	$ 502,036	$ 46,644,547

See notes to consolidated financial statements.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 5,133,046	$ (1,106,777)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
(Decrease) increase in allowance for doubtful promises to give	(9,342)	24,755
Realized and unrealized gain on investments, net	(2,638,172)	(2,141,115)
Depreciation	1,130,962	1,244,506
Loss on impairment of property and equipment	1,003,754	-
Loss (gain) on disposal of property and equipment	41,994	(11,045)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(17,769)	247,699
Inventory	(36,996)	186,456
Prepaid expenses and other assets	18,393	(9,716)
Increase in:		
Accounts payable	239,414	30,493
Accrued expenses	657,123	243,606
Net cash provided by (used in) operating activities	5,522,407	(1,291,138)
Cash flows from investing activities:		
Proceeds from sale of investments	611,000	1,045,000
Proceeds from sale of property and equipment	-	23,461
Purchases of investments	(1,008,695)	(1,027,889)
Purchases of property and equipment	(459,270)	(707,786)
Increase in restricted investments	(349,983)	(324,542)
Net cash used in investing activities	(1,206,948)	(991,756)
Net increase (decrease) in cash and cash equivalents	4,315,459	(2,282,894)
Cash and cash equivalents (including restricted cash):		
Beginning of year	2,650,848	4,933,742
End of year	$ 6,966,307	$ 2,650,848

See notes to consolidated financial statements.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended December 31, 2021

			Donated Goods Solicitation and Transportation		
	Production	Stores	Solicitation and Transportation	Management Specifications	Total
Expenses:					
Salaries and wages	$ 520,816	$ 12,544,645	$ 437,471	$ 705,729	$ 14,208,661
Employee benefits (Notes 8 and 9)	84,031	96,312	55,256	78,804	314,403
Payroll taxes	62,775	82,617	48,092	68,749	262,233
Subtotal	667,622	12,723,574	540,819	853,282	14,785,297
Cost of goods sold	-	35,398,308	-	-	35,398,308
Contracted services and professional fees	8,695	498,119	4,222	390	511,426
Supplies	378,677	795,690	26,980	30,424	1,231,771
Telephone	12,887	94,365	25,112	4,378	136,742
Postage	(82)	207,875	-	-	207,793
Occupancy (Note 8)	641,690	9,235,873	538,733	(9,376)	10,406,920
Equipment maintenance	47,360	103,343	97,472	2,150	250,325
Advertising, print and publication	1,229	129,520	1,632	98,330	230,711
Travel and vehicle	27,460	7,200	433,413	27,468	495,541
Dues	-	-	-	2,200	2,200
Awards	91	-	-	-	91
Service charges	8,352	1,250,528	-	(30)	1,258,850
Subtotal	1,793,981	60,444,395	1,668,383	1,009,216	64,915,975
Depreciation (Note 4)	206,652	445,959	52,978	138,077	843,666
Total expenses	$ 2,000,633	$ 60,890,354	$ 1,721,361	$ 1,147,293	$ 65,759,641

See notes to consolidated financial statements.

Contracted Services	Career Development	Management and General	Fundraising	Total
$ 4,536,944	$ 3,450,021	$ 2,358,619	$ 49,535	$ 24,603,780
1,265,640	261,555	634,463	12,085	2,488,146
574,693	341,539	206,726	6,463	1,391,654
6,377,277	4,053,115	3,199,808	68,083	28,483,580
-	-	-	-	35,398,308
590,167	157,030	277,697	19,800	1,556,120
226,325	291,622	289,281	4,209	2,043,208
40,984	77,647	43,157	10	298,540
152	674	11,702	28,788	249,109
69,824	793,429	160,063	-	11,430,236
26,788	59,108	55,581	205	392,007
30,293	201,890	32,420	-	495,314
19,336	28,587	33,526	-	576,990
-	2,657	155,391	-	160,248
-	-	-	-	91
583	15,883	152,912	(1,176)	1,427,052
7,381,729	5,681,642	4,411,538	119,919	82,510,803
42,406	144,901	99,989	-	1,130,962
$ 7,424,135	$ 5,826,543	$ 4,511,527	$ 119,919	$ 83,641,765

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended December 31, 2020

	Production	Stores	Donated Goods Solicitation and Transportation	Management Specifications	Total
Expenses:					
Salaries and wages	$ 600,215	$ 11,413,058	$ 504,305	$ 665,551	$ 13,183,129
Employee benefits (Notes 8 and 9)	73,301	53,496	40,535	54,099	221,431
Payroll taxes	103,455	91,841	62,470	95,962	353,728
Subtotal	776,971	11,558,395	607,310	815,612	13,758,288
Cost of goods sold	-	25,218,592	-	-	25,218,592
Contracted services and professional fees	81,592	353,991	15,059	9,478	460,120
Supplies	467,761	691,450	28,909	436,844	1,624,964
Telephone	14,564	91,349	26,418	6,474	138,805
Postage	43	171,188	-	26	171,257
Occupancy (Note 8)	821,710	8,005,082	441,690	231,607	9,500,089
Equipment maintenance	90,189	97,560	121,481	3,103	312,333
Advertising, print, and publication	1,020	140,708	119	37,731	179,578
Travel and vehicle	6,905	12,312	514,356	25,001	558,574
Dues	-	-	-	-	-
Awards	-	-	-	-	-
Service charges	12,207	576,154	500	-	588,861
Subtotal	2,272,962	46,916,781	1,755,842	1,565,876	52,511,461
Depreciation (Note 4)	219,158	497,229	62,077	163,911	942,375
Total expenses	$ 2,492,120	$ 47,414,010	$ 1,817,919	$ 1,729,787	$ 53,453,836

See notes to consolidated financial statements.

Contracted Services	Career Development	Management and General	Fundraising	Total
$ 4,861,456	$ 3,220,628	$ 2,119,348	$ 114,972	$ 23,499,533
1,409,977	264,554	371,049	7,346	2,274,357
605,509	402,197	195,202	10,975	1,567,611
6,876,942	3,887,379	2,685,599	133,293	27,341,501
-	-	-	-	25,218,592
523,840	116,085	184,564	11,542	1,296,151
235,707	45,459	243,066	3,826	2,153,022
43,236	79,940	47,869	972	310,822
4	446	8,632	33,382	213,721
57,753	608,835	135,894	125	10,302,696
29,401	84,887	76,823	296	503,740
-	1,261	108,851	54,838	344,528
11,443	31,238	35,922	(991)	636,186
-	2,249	183,101	-	185,350
75	-	-	-	75
35	39,719	96,572	2,524	727,711
7,778,436	4,897,498	3,806,893	239,807	69,234,095
45,763	145,161	111,207	-	1,244,506
$ 7,824,199	$ 5,042,659	$ 3,918,100	$ 239,807	$ 70,478,601

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Goodwill Industries of the Chesapeake, Incorporated and Goodwill Works of the Chesapeake, Incorporated are voluntary health and welfare organizations, which provide personal and career development services and employment opportunities for persons with disabilities and other special needs. GIC Real Estate Holdings, LLC and GIC 32 South Street, LLC are limited liability companies supporting the same mission. Collectively, the four entities are referred to as Goodwill.

Effective January 1, 2008, Goodwill Industries of the Chesapeake, Incorporated moved its retail operation labor force, entire staffing service and state of Maryland custodial contract to a newly formed nonprofit corporation, tax-exempt under Section 501(c)(3) of the Internal Revenue Code (IRC), named Goodwill Works of the Chesapeake, Incorporated.

GIC Real Estate Holdings, LLC was formed on April 30, 2012, primarily to hold real property for the sole benefit of the Goodwill Industries of the Chesapeake, Incorporated to the extent such activities are permitted of organizations, which are exempt from federal income tax under Section 501(c)(3) of the IRC.

In January 2015, Goodwill formed a new entity, GIC 32 South Street, LLC, for the purpose of purchasing and holding real property for the sole benefit of the Goodwill Industries of the Chesapeake, Incorporated to the extent such activities are permitted of organizations which are exempt from federal income tax under Section 501(c)(3) of the IRC. GIC 32 South Street, LLC was dissolved effective June 29, 2022.

A summary of Goodwill's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of Goodwill Industries of the Chesapeake, Incorporated, Goodwill Works of the Chesapeake, Incorporated, GIC Real Estate Holdings, LLC and GIC 32 South Street, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents: Cash and cash equivalents include investments with an original maturity of three months or less.

Restricted cash: Restricted cash includes escrow funds for unemployment.

Accounts receivable: Accounts receivable are carried at original invoice amount. There was an allowance for doubtful accounts of $17,033 and $26,375 at December 31, 2021 and 2020, respectively. Accounts receivables are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days.

Inventory: Inventories are reported at the lower of cost or net realizable value. At December 31, 2021 and 2020, contributed inventory had a nominal fair value of $1, as contributed inventory is deemed to have little value until the inventory is sold.

Investments: Goodwill values debt and equity securities at fair value. Accordingly, the net change in fair value of investments is reflected in the consolidated statements of activities.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Property and equipment: Property and equipment is carried at cost. Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets. Building improvements for owned buildings are depreciated over their useful lives of 20 to 40 years. Building improvements for leased facilities are amortized over the shorter of the life of the asset or the remaining expected lease term. Remaining classes of assets are amortized over a period of expected use, which range from 5 to 10 years. Goodwill capitalizes all property and equipment purchased with a unit cost of $1,000 or more and a useful life of more than one year.

Valuation of long-lived assets: Goodwill accounts for the valuation of long-lived and certain identifiable intangible assets for impairment, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. An impairment analysis was performed during the year ended December 31, 2021, and Goodwill's headquarters building was determined to be impaired. The loss on impairment of property and equipment of $1,003,754 is recorded on Goodwill's consolidated statement of activities for the year ended December 31, 2021.

Net assets without donor restrictions: Net assets without donor restrictions are the net assets that are neither invested in perpetuity, nor purpose or time restricted by donor-imposed stipulations.

- Operating represents the portion of expendable net assets that are available for support of operations.
- Designated for long-term investment represents amounts principally designated as long-term investments by the Board of Directors to provide future income to supplement other revenue in support of operations.
- Investment in plant represents resources designated by the Board of Directors for asset acquisitions and net assets expended for land, buildings and equipment.

Net assets with donor restrictions: Net assets with donor restrictions are the net assets that are contributions and endowment investment earnings subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature that either expire by passage of time or can be fulfilled and removed by actions of Goodwill pursuant to these stipulations. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Support and revenue – public support: Goodwill performs an evaluation at contract inception focused on whether a performance obligation is satisfied over time or at a point in time. If a performance obligation meets certain specific criteria, the related revenue is recognized over time if Goodwill is able to reasonably measure its progress toward complete satisfaction of the performance obligation using reliable information. If certain criteria are not met, the revenue is recognized at a point in time.

Store and commodity sales are generated with individuals who purchase and pay for merchandise either in store or through ecommerce. Revenue is recognized upon shipment of merchandise (for ecommerce) and immediately upon exchange of tender/currency and product between Goodwill and the customer for store purchases.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Contracted services consist of services with government agencies through programs legislated to provide training and employment opportunities for individuals with severe disabilities. These service contracts are approved and funded for a period of one year and typically have a renewal option for the four following years. The contract runs for the full timeline approved by the government and can only be cancelled if Goodwill does not meet the contract requirements, or the government cannot fund the service in future years. There are no prepayments by the government for services. Revenue is recognized straight-line over the 12-month service period based on the fixed rate contractual price. Service contract revenue is billed and recognized at the time the service is provided.

Career development revenue is generated through government fees for service and grants to support efforts to help train and find employment for individuals with special needs, typically on a cost reimbursement basis. Revenue is recognized as costs qualified under the grants are incurred. Grant funds received in excess of costs incurred are recorded as deferred revenue until earned. Reimbursable grant costs incurred in excess of funds received are recorded as receivables.

Revenue recognition on contracts and grants deemed to be non-exchange transactions will follow contribution accounting as described below.

The revenue streams noted above do not include significant financing components as the performance obligations are typically satisfied within a year of receipt of payment. Economic downturns can affect the level of revenues for all the revenue streams or can have a positive impact on cash flows in good economic times.

Support and revenue – contributions: Unconditional contributions received, including grants and contracts deemed to be non-exchange transactions, are recorded as support to net assets with or without donor restrictions, depending on the existence and/or nature of donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Conditional contributions are those contributions that contain donor-imposed rights of refund/return and barriers (performance obligations and/or controlling stipulations). Conditional contributions are recognized into revenue when conditions are satisfied and then follow the above policies for unconditional contributions. Conditional contributions received in advance of satisfying conditions are recorded as deferred revenue.

Goodwill receives contributions of used clothing, furniture, appliances and other goods from various donors. These items are refurbished or resold by Goodwill for sale in its retail stores. It is the policy of Goodwill to record the sale price of these contributions as revenue and an increase in cost of goods sold when items are sold. Contributions of building rent are recorded at fair value.

Donated services: Goodwill receives donated services that are not reflected in the consolidated financial statements as they do not meet the criteria for recording donated services.

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Goodwill. Certain expenses are attributable to more than one program or supporting function. These expenses, consisting primarily of occupancy expenses, are allocated consistently based on the square footage occupied.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Advertising costs: Goodwill expenses advertising costs the first time the advertising takes place. Advertising expense was $230,711 and $178,558 for the years ended December 31, 2021 and 2020, respectively.

Credit risk: Goodwill has funds on deposit in financial institutions, which exceed federally insured limits. Goodwill has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash.

Investment risk: Goodwill invests in mutual funds, common shares and bonds of publicly traded companies, municipalities and U.S. Treasury securities. Such investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Income taxes: Goodwill Industries of the Chesapeake, Incorporated and Goodwill Works, Incorporated are generally exempt from federal income taxes under Section 501(c)(3) of the IRC. GIC Real Estate Holdings, LLC and GIC 32 South Street, LLC are limited liability companies wholly owned by Goodwill Industries of the Chesapeake, Incorporated and are considered disregarded entities for tax purposes. This designation requires GIC Real Estate Holdings, LLC and GIC 32 South Street, LLC to file tax returns under Goodwill Industries of the Chesapeake, Incorporated’s tax identification number. Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. Goodwill had no net unrelated business income for the years ended December 31, 2021 and 2020.

Goodwill has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this policy, Goodwill may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated Goodwill’s tax positions and has concluded that Goodwill has taken no uncertain tax positions that require disclosure.

Goodwill would be liable for income taxes in the U.S. federal jurisdiction. Generally, Goodwill is no longer subject to U.S. federal tax examinations by tax authorities before 2018.

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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from those estimates.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Liquidity and availability: Goodwill is primarily supported by the sale of donated goods, contracted service fees and career development fees. As part of Goodwill's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, Goodwill invests cash in excess of daily requirements in short-term investments. The board has established a minimum reserve level for the organization that consists of 1.5 times current liabilities, plus budgeted capital expenditures, plus three months of operating expenses. There is a fund established by the board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities. Additionally, Goodwill also has a line of credit, as described in Note 11, of which $3,000,000 is available to be drawn on for general use as of December 31, 2021.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2021 and 2020, are as follows:

	2021	2020
Cash and cash equivalents, and restricted cash	$ 6,966,307	$ 2,650,848
Accounts receivable	3,202,846	3,175,735
Investments	36,607,998	33,572,131
Total liquidity	46,777,151	39,398,714
Less:		
Restricted escrow funds for unemployment	(572,770)	(544,138)
Restrictions by donor with time or purpose restrictions	(272,799)	(208,986)
Donor restricted endowments	(296,050)	(293,050)
Board designated endowment fund, primarily for long-term investing	(36,107,791)	(33,138,702)
Financial assets available to meet cash needs for general expenditures within one year	$ 9,527,741	$ 5,213,838

Uncertainties: On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a "Public Health Emergency of International Concern" and, on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries. It is unknown how long these conditions will last and what the complete financial effect will be on Goodwill. The extent of the impact on COVID-19 on Goodwill's operations and financial performance are uncertain and cannot be predicted. Management is continually monitoring the impact of COVID-19.

Pending accounting pronouncements: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842*), which requires that lessees recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The ASU is effective for Goodwill for the year ending December 31, 2022. The adoption of this standard is expected to result in Goodwill recognizing right-of-use assets and lease liabilities for some leases currently accounted for as operating leases under the legacy lease accounting guidance. Management is evaluating the impact of this standard on Goodwill's consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In July 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not–for–Profit Entities for Contributed Nonfinancial Assets*. The amendment is intended to increase transparency of contributed nonfinancial assets for not-for-profit entities through enhancements in presentation and disclosure requirements. Entities will now be required to present contributed nonfinancial assets as a separate line item in the consolidated statement of activities, apart from contributions of cash and other financial contributions. Entities will also be required to disclose various information related to contributed nonfinancial assets. ASU 2020-07 is effective for fiscal years beginning January 1, 2022. Management is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

Subsequent events: Subsequent events have been evaluated through July 26, 2022, which is the date the consolidated financial statements were available to be issued.

Note 2. Investments

At December 31, 2021 and 2020, fair value of investments and related components were as follows:

	2021	2020
Cash equivalents	$ 1,997,939	$ 1,698,174
Fixed income	16,870,722	17,008,987
Common stock	9,521,200	7,738,141
Mutual funds	9,922,849	8,481,523
Charitable trusts	2,381	2,416
	$ 38,315,091	$ 34,929,241

Investment income for the years ended December 31, 2021 and 2020, are as follows:

	2021	2020
Realized and unrealized gain on investments, net	$ 2,638,172	$ 2,141,115
Interest and dividends	588,367	636,124
	$ 3,226,539	$ 2,777,239

Note 3. Endowment Funds

Interpretation of relevant law: The Board of Directors of Goodwill has interpreted the Maryland enacted version of Uniform Prudent Management of Institutional Fund 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, Goodwill classifies as net assets with donor restrictions in perpetuity: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions for a specific purpose, until those amounts are appropriated for expenditure by Goodwill in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Goodwill considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

Note 3. Endowment Funds (Continued)

a. The duration and preservation of the fund

b. The purposes of Goodwill and the donor-restricted endowment fund

c. General economic conditions

d. The possible effects of inflation and deflation

e. The expected total return from income and the appreciation of investments

f. Other resources of Goodwill

g. The investment policies of Goodwill

Endowment investment and spending policies: Endowment funds are invested to produce maximum total return consistent with prudent risk limits. A target total return figure is determined for internal financial planning purposes; results to market indexes and other endowment funds will also be used to evaluate performance. At present, the target total annual return objective is 4% after inflation over time. Subsequent fund growth will be derived from a combination of bequests, memorials, honorariums and investment returns. A minimum of 15% of the investment income will be reinvested in the fund annually.

The Executive Committee of the Board of Directors is the oversight committee for the uses of the endowment fund. In order to expend any of the funds, a written request must be submitted by the President to the Executive Committee. The amount available for use will be determined by calculating the average value of the fund during the immediate past three years, based on a 12-quarter rolling average. Up to 5% of this value can be expended in any given year. Approval of the request by the Board of Directors will be required prior to any expenditure. No funds shall be expended if the requested expenditure results in the market value of the corpus of the endowment fund being reduced to less than $2,500,000.

Endowment net asset composition by type of fund as of December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 18,833,137	$ -	$ 18,833,137
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	296,050	296,050
Accumulated investment gains	-	201,776	201,776
Total	$ 18,833,137	$ 497,826	$ 19,330,963

Note 3. Endowment Funds (Continued)

Endowment net asset composition by type of fund as of December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 16,628,417	$ -	$ 16,628,417
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	293,050	293,050
Accumulated investment gains	-	137,963	137,963
Total	$ 16,628,417	$ 431,013	$ 17,059,430

Changes in endowment net assets for the fiscal years ended December 31, 2021 and 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2019	$ 15,523,706	$ 374,211	$ 15,897,917
Investment income	176,109	4,368	180,477
Net unrealized and realized gains	1,568,794	51,384	1,620,178
Contributions	330,000	1,050	331,050
Appropriation of endowment assets for expenditure	(970,192)	-	(970,192)
Endowment net assets, December 31, 2020	16,628,417	431,013	17,059,430
Investment income	147,954	4,080	152,034
Net unrealized and realized gains	2,255,804	59,733	2,315,537
Contributions	192,000	3,000	195,000
Appropriation of endowment assets for expenditure	(391,038)	-	(391,038)
Endowment net assets, December 31, 2021	$ 18,833,137	$ 497,826	$ 19,330,963

Net assets without donor restrictions – designated for long-term investment consisted of the following as of December 31, 2021 and 2020:

	2021	2020
Endowment net assets	$ 18,833,137	$ 16,628,417
Operating investments	17,274,654	16,510,285
	$ 36,107,791	$ 33,138,702

Note 4. Land, Buildings and Equipment

Major classes of property and equipment and accumulated depreciation are as follows at December 31, 2021 and 2020:

	2021	2020
Land	$ 1,162,820	$ 1,162,820
Buildings	5,362,435	6,366,189
Building improvements	11,265,122	11,028,647
Machinery and equipment	2,515,014	2,444,657
Furniture and equipment	2,470,200	2,438,408
Vehicles	1,739,005	1,739,136
	24,514,596	25,179,857
Accumulated depreciation	(16,857,492)	(15,805,313)
	$ 7,657,104	$ 9,374,544

Note 5. Net Assets with Donor Restrictions

Net assets of $71,023 are donor-restricted for a specific purpose, the Marge Thomas Scholarship Fund, at December 31, 2021 and 2020. There were no releases from restriction for the years ended December 31, 2021 and 2020. Net assets of $201,776 and $137,963 consist of investment income, subject to Goodwill's spending policy and appropriation resulting from net assets invested in perpetuity, for the years ended December 31, 2021 and 2020, respectively. Net assets of $296,050 and $293,050 are donor-restricted endowment funds at December 31, 2021 and 2020, respectively.

Note 6. Fair Value Measurements

Goodwill defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and within a fair value hierarchy. The fair value hierarchy gives the highest rank to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest rank to unobservable inputs (Level 3). Inputs are broadly defined as data that market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Listed equities and holdings in mutual funds are types of investments included in Level 1.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 2 includes the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds and over-the-counter derivatives.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

Note 6. Fair Value Measurements (Continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Goodwill's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The following section describes the valuation techniques used by Goodwill:

Level 1: Investments in securities traded on a national securities exchange, or reported on the NASDAQ global market, are stated at the last reported sales price on the day of valuation. Liabilities associated with Goodwill's 457(b) plan are stated at the fair value of the plan's assets.

Level 2: Investments in corporate obligations and U.S. Treasury and agency obligations are stated at the last reported sales price on the day of valuation.

Level 3: The charitable trusts income investment is recognized at the estimated net present value using a discount rate of 6% and actuarial ages of the beneficiaries.

The following table presents Goodwill's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2021:

	2021			
	Total	Level 1	Level 2	Level 3
Assets, at fair value:				
Fixed income:				
U.S. Treasury and agency bonds	$ 5,631,474	$ -	$ 5,631,474	$ -
Corporate bonds	7,759,186	-	7,759,186	-
Multi-sector bond	1,003,896	1,003,896	-	-
International bond	1,201,551	1,201,551	-	-
Intermediate-term bond	75,467	75,467	-	-
Bond fund	312,265	312,265	-	-
Mortgage-backed bond	469,997	469,997	-	-
Government agency bond	416,886	416,886	-	-
Common stock:				
Energy	193,785	193,785	-	-
Consumer goods	1,991,350	1,991,350	-	-
Financials	909,674	909,674	-	-
Health care	1,176,783	1,176,783	-	-
Industrials	755,813	755,813	-	-
Information technology	2,848,828	2,848,828	-	-
Materials	180,338	180,338	-	-
Utilities	165,604	165,604	-	-
Telecom service	948,451	948,451	-	-
Real estate	146,112	146,112	-	-
International	204,462	204,462	-	-
Mutual funds:				
Equity	7,398,960	7,398,960	-	-
Multi-strategy	202,192	202,192	-	-
Hedged strategies	614,604	614,604	-	-
Charitable trust	2,381	-	-	2,381
Restricted investments – mutual funds:				
Equity	1,707,093	1,707,093	-	-
Total assets	$ 36,317,152	$ 22,924,111	$ 13,390,660	$ 2,381
Liabilities, at fair value:				
Deferred compensation payable	$ 1,707,093	$ 1,707,093	$ -	$ -

Note 6. Fair Value Measurements (Continued)

The following table presents Goodwill's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2020:

	2020			
	Total	Level 1	Level 2	Level 3
Assets, at fair value:				
Fixed income:				
U.S. Treasury and agency bonds	$ 4,888,868	$ -	$ 4,888,868	$ -
Corporate bonds	8,892,081	-	8,892,081	-
Multi-sector bond	1,008,018	1,008,018	-	-
International bond	1,128,111	1,128,111	-	-
Intermediate-term bond	69,972	69,972	-	-
Bond fund	263,057	263,057	-	-
Mortgage-backed bond	352,590	352,590	-	-
Government agency bond	406,290	406,290	-	-
Common stock:				
Energy	110,941	110,941	-	-
Consumer goods	1,538,029	1,538,029	-	-
Financials	723,979	723,979	-	-
Health care	930,495	930,495	-	-
Industrials	610,381	610,381	-	-
Information technology	2,287,112	2,287,112	-	-
Materials	235,573	235,573	-	-
Utilities	168,466	168,466	-	-
Telecom service	854,110	854,110	-	-
Real estate	88,903	88,903	-	-
International	190,152	190,152	-	-
Mutual funds:				
Equity	6,335,130	6,335,130	-	-
Multi-strategy	195,390	195,390	-	-
Hedged strategies	593,893	593,893	-	-
Charitable trust	2,416	-	-	2,416
Restricted investments – mutual funds:				
Equity	1,357,110	1,357,110	-	-
Total assets	$ 33,231,067	$ 19,447,702	$ 13,780,949	$ 2,416
Liabilities, at fair value:				
Deferred compensation payable	$ 1,357,110	$ 1,357,110	$ -	$ -

Cash equivalents are excluded from the fair value hierarchy as cash is generally measured at cost. As such, $1,997,939 and $1,698,174 of cash equivalents at December 31, 2021 and 2020, respectively, have been excluded from this table.

Changes in Level 3 assets for the years ended December 31, 2021 and 2020, were as follows:

	2021	2020
Beginning balance	$ 2,416	$ 2,177
Investment (loss) income	(35)	239
Ending balance	$ 2,381	$ 2,416

Note 7. Major Support

Goodwill received $5,385,695 and $5,258,611 for contracted custodial services from the Social Security Administration for the years ended December 31, 2021 and 2020, respectively.

Note 8. Commitments

Goodwill has entered into various noncancelable leases for its retail operations and vehicles expiring at various dates through February 2038. Several of the leases contain options to renew for varying periods.

As a result of COVID-19, multiple leases were amended through either abatement, deferral of payments, an amended future repayment schedule, or a combination of the aforementioned modifications.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable terms in excess of one year as of December 31, 2021:

Years ending December 31:	
2022	$ 6,579,630
2023	6,445,209
2024	5,303,329
2025	4,112,950
2026	3,318,316
Thereafter	7,673,563
	$ 33,432,997

Retail operations rent expense for the years ended December 31, 2021 and 2020, was $7,824,846 and $6,881,645, respectively. Vehicle rental expense for the years ended December 31, 2021 and 2020, was $98,712 and $101,692, respectively.

Note 9. Employee Benefit Plans

Goodwill has a 401(k) Profit Sharing Plan for its eligible employees and makes discretionary contributions to the plan. Goodwill made contributions of $155,883 and $151,059 to the plan for the years ended December 31, 2021 and 2020, respectively.

Goodwill also has a 457(b) plan for its eligible employees. Goodwill made contributions of $202,666 and $55,000 for the years ended December 31, 2021 and 2020, respectively. Under terms of the plan, Goodwill deposits the funds into a restricted investment account and pays the appropriate individual upon termination. At December 31, 2021 and 2020, the restricted investment account had a balance of $1,707,093 and $1,357,110, respectively. Goodwill has recorded a payable in the same amount, which is included in accrued expenses on the consolidated statements of financial position.

Note 10. Contingencies

Litigation: Goodwill has certain pending legal proceedings that generally involve employment issues. These proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by Goodwill. In the opinion of management, such proceedings are substantially covered by insurance, and the ultimate disposition of such proceedings is not expected to have a material adverse effect on Goodwill's consolidated financial position, activities or cash flows.

Note 10. Contingencies (Continued)

Health insurance liability: Goodwill participates in a health reimbursement account and accrues claims that have incurred but not paid as of the consolidated statements of financial position date. The liability of $382,066 and $249,088 as of December 31, 2021 and 2020, respectively, is included in accrued expenses on the consolidated statements of financial position. Goodwill is also partially self-insured against medical claims with a maximum annual liability of $75,000 for each insured.

Note 11. Line of Credit

Goodwill has a $3,000,000 line of credit with a bank. Goodwill obtained this line of credit in July of 2020. The amounts drawn against the line of credit are payable upon demand and bear interest at the London Interbank Offered Rate (LIBOR), plus 1.25%. No balance was outstanding on the line at December 31, 2021 and 2020. The line of credit is collateralized by the assets of Goodwill. On May 5, 2022, the Secured Overnight Financing Rate (SOFR) replaced LIBOR.

Independent Auditor's Report on the Supplementary Information

Board of Directors
Goodwill Industries of the Chesapeake, Incorporated

We have audited the consolidated financial statements of Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries as of and for the years ended December 31, 2021 and 2020, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits 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, or other additional procedures in accordance with the 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.

RSM US LLP

Baltimore, Maryland
July 26, 2022

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Functional Expense Detail
Years Ended December 31, 2021 and 2020

	2021		2020	
	Amount	**Percent of Public Support and Revenue**	Amount	Percent of Public Support and Revenue
Expenses:				
Salaries and wages	**$ 24,603,780**	**27.7**	$ 23,499,533	33.9
Employee benefits	**2,488,146**	**2.8**	2,274,357	3.3
Payroll taxes	**1,391,654**	**1.6**	1,567,611	2.3
Subtotal	**28,483,580**	**32.1**	27,341,501	39.5
Cost of goods sold	**35,398,308**	**39.9**	25,218,592	36.4
Contracted services and professional fees	**1,556,120**	**1.8**	1,296,151	1.9
Supplies	**2,043,208**	**2.3**	2,153,022	3.1
Telephone	**298,540**	**.3**	310,822	.4
Postage	**249,109**	**.3**	213,721	.3
Occupancy	**11,430,236**	**12.9**	10,302,696	14.9
Equipment maintenance	**392,007**	**.4**	503,740	.7
Advertising, print, and publication	**495,314**	**.6**	344,528	.5
Travel and vehicle	**576,990**	**.6**	636,186	.9
Dues	**160,248**	**.2**	185,350	.3
Awards	**91**	**-**	75	-
Service charges	**1,427,052**	**1.6**	727,711	1.0
Subtotal	**82,510,803**	**93.0**	69,234,095	99.9
Depreciation	**1,130,962**	**1.3**	1,244,506	1.8
Total expenses	**$ 83,641,765**	**94.3**	$ 70,478,601	101.7

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Uniform Guidance
Supplementary Financial Report
Year Ended December 31, 2021

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Goodwill Industries of the Chesapeake, Incorporated

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the consolidated financial statements of Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries (collectively, Goodwill), which comprise the consolidated statement of financial position as of December 31, 2021, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated July 26, 2022.

Report on Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Goodwill's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Goodwill's internal control. Accordingly, we do not express an opinion on the effectiveness of Goodwill's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters
As part of obtaining reasonable assurance about whether Goodwill's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Baltimore, Maryland
July 26, 2022

RSM US LLP

Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Board of Directors
Goodwill Industries of the Chesapeake, Incorporated

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program
We have audited Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries' (collectively, Goodwill) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Goodwill's major federal program for the year ended December 31, 2021. Goodwill's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Goodwill complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards)*; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Goodwill and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Goodwill's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance
Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Goodwill's federal programs.

Auditor's Responsibilities for the Audit of Compliance
Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Goodwill's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Goodwill's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, 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 Goodwill's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Goodwill's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Goodwill's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the consolidated financial statements of Goodwill as of and for the year ended December 31, 2021, and have issued our report thereon dated July 26, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Baltimore, Maryland
July 26, 2022

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Federal Grantor/ Pass-Through Grantor/ Program Title	Assistance Listing Number	Grant/Contract Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Passed through Maryland Family Network:			
Early Head Start	93.600	N/A	$ 505,173
Early Head Start	93.600	N/A	451,973
Early Head Start Duration Start-Up Award	93.600	N/A	530,987
COVID-19 Early Head Start Federal COVID Relief Funds	93.600	N/A	49,213
Total U.S. Department of Health and Human Services			1,537,346
U.S. Department of Labor Employment and Training Administration			
Passed through Goodwill Industries International, Inc.			
Goodwill Adult Reentry Project (GROW)	17.270	N/A	198,234
Total U.S. Department of Labor Employment and Training Administration			198,234
Total federal awards			$ 1,735,580

See notes to schedule of expenditures of federal awards.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Goodwill under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Goodwill, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of Goodwill.

There are no amounts passed through to subrecipients for the year ended December 31, 2021.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

Goodwill has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

Section I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	____ Yes __X__ No
• Significant deficiency(ies) identified?	____ Yes __X__ None reported
Noncompliance material to financial statements noted?	____ Yes __X__ No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	____ Yes __X__ No
• Significant deficiency(ies) identified?	____ Yes __X__ None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ Yes __X__ No

Identification of major federal programs:

Assistance Listing Number	Program Name or Cluster
93.600	Head Start and Early Head Start

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	____ Yes __X__ No

(Continued)

Section II. Financial Statements Findings

A. Significant Deficiencies or Material Weaknesses in Internal Control Over Financial Reporting

None reported.

B. Compliance Findings

None reported.

Section III. Federal Award Findings and Questioned Costs

A. Significant Deficiencies or Material Weaknesses in Internal Control

None reported.

B. Compliance Findings

None reported.

Corrective Action Plan

1. 2020-001 Inventory

   This entry was prepared by the Director of Finance and approved by the CFO/COO. It was an unfortunate oversight as we were shorthanded and the ending balance changed $3.7K year over year, at a glance it appeared reasonable. Going forward, we will calculate a monthly average expense for the 3 new good accounts, multiply that number by 1.5 to accurately reflect the 45 day new good inventory balance RSM has advised Goodwill to maintain. In our 2021 Financial Statements, this will be prepared by the Director of Finance and approved by the VP of Finance. Going forward in 2022, the Accountant II position will be responsible for preparing the entry and analysis with review and approval by the Director of Finance.

   Update: During the 2021 year-end close process, the calculation of the new goods inventory balance was carefully reviewed and prepared by the Director of Finance and approved by the CFO/VP of Finance.

2. 2020-002 Fixed Asset Capitalization
   The Finance team was not aware assets purchased with Federal funds were required to be capitalized. Goodwill will capitalize all fixed assets purchased with Federal funds that meet the required criteria. Going forward, the Accountant Sr. will be responsible for reviewing transactions that meet the criteria and capitalizing as assets with approval by the Director and/or VP of Finance.

   Update: During the 2021 year-end close process, the Accountant Sr. reviewed expenses funded by federal resources to identify all activity that was expensed to the grant but would be required to be capitalized for GAAP purposes in our financial statement reporting. The journal entry to capitalize the related expenses was approved by the Director of Finance.

3. 2020-003 Lease Accounting
   Due to the onset of the pandemic in 2020, Goodwill negotiated 16 modifications to existing leases in order to defer or abate rent payments. In our preparation of the 2021 financial statements, Goodwill will utilize the supporting documentation from the 2020 correcting entry to ensure that the liabilities are accurately stated. The Director of Finance and/or the VP of Finance will review the related adjustments in consultation with RSM.

   Update: During the 2021 audit review with RSM, all related lease agreements and amendments were provided to RSM and related lease accounting adjustments were made. This entry was carefully reviewed and prepared by the Director of Finance and approved by the CFO/VP of Finance. In addition, responsibilities for periodic review and support to lease accounting was added to the Accountant II position which was filled in June 2022 for additional internal support to lease accounting.

4. 2020-004 In-Kind Revenue and Expense
Goodwill was instructed by Early Head Start (EHS) to maintain in-kind balances in a sub ledger. Beginning in 2021 these balances will be reported in offsetting revenue (acct 424) and expense (acct 811) accounts on the revenue and expense report. The Accountant Sr. will be responsible for preparing the related accounting for all in-kind services or goods with review and approval by the Director of Finance.

Update: During the 2021 year-end close process, the Accountant Sr. prepared the related accounting which was approved by the Director of Finance.

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