

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Financial Report
December 31, 2022

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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, 2022 and 2021, 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, 2022 and 2021, 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.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, Goodwill adopted Accounting Standards Update 2016-02, *Leases (Topic 842)*, as of January 1, 2022. 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 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 21, 2023, 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 21, 2023

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

**Consolidated Statements of Financial Position
December 31, 2022 and 2021**

	2022	2021
Assets		
Cash and cash equivalents	\$ 10,341,843	\$ 6,393,537
Restricted cash	517,950	572,770
Accounts receivable, net	3,296,714	3,202,846
Inventory	59,672	60,538
Prepaid expenses and other assets	378,043	1,139,299
Investments (Notes 2, 3 and 6)	31,542,580	36,607,998
Land, buildings and equipment, net (Note 4)	7,413,729	7,657,104
Right-of-use assets, net (Note 8)	44,555,827	-
Restricted investments (Notes 6 and 9)	1,110,759	1,707,093
Total assets	\$ 99,217,117	\$ 57,341,185
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 907,548	\$ 767,483
Accrued expenses (Notes 6, 9 and 10)	3,784,550	4,796,109
Lease liabilities (Note 8)	45,897,294	-
Total liabilities	50,589,392	5,563,592
Commitments and contingencies (Notes 8, 9 and 10)		
Net assets:		
Without donor restrictions:		
Operating	9,602,380	7,443,849
Designated for long-term investment (Note 3)	31,134,932	36,107,791
Investment in plant	7,413,729	7,657,104
	48,151,041	51,208,744
With donor restrictions (Notes 3 and 5)	476,685	568,849
Total net assets	48,627,726	51,777,593
Total liabilities and net assets	\$ 99,217,117	\$ 57,341,185

See notes to consolidated financial statements.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

**Consolidated Statement of Activities
Year Ended December 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Public support:			
General support	\$ 455,700	\$ 5,000	\$ 460,700
In-kind contributions	314,550	-	314,550
In-kind contributions of inventory	36,413,028	-	36,413,028
Special events	18,106	-	18,106
Bequests	316,050	-	316,050
Total public support	37,517,434	5,000	37,522,434
Other revenue and losses:			
Donated goods—sales	38,366,012	-	38,366,012
Contracted services (Note 7)	9,608,986	-	9,608,986
Career development	3,409,856	-	3,409,856
Investment loss (Note 2)	(4,319,793)	(97,164)	(4,416,957)
Gain on disposal of property and equipment	6,200	-	6,200
Miscellaneous	72,521	-	72,521
Total other revenue and losses	47,143,782	(97,164)	47,046,618
Total public support, revenue and losses	84,661,216	(92,164)	84,569,052
Expenses:			
Program services:			
Donated goods	68,592,143	-	68,592,143
Contracted services	7,862,962	-	7,862,962
Career development	5,713,207	-	5,713,207
Total program services	82,168,312	-	82,168,312
Supporting services:			
Management and general	5,393,315	-	5,393,315
Fundraising	157,293	-	157,293
Total supporting services	5,550,608	-	5,550,608
Total expenses	87,718,920	-	87,718,920
Change in net assets	(3,057,704)	(92,164)	(3,149,868)
Net assets:			
Beginning of year	51,208,744	568,849	51,777,593
End of year	<u>\$ 48,151,040</u>	<u>\$ 476,685</u>	<u>\$ 48,627,725</u>

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	\$ 576,378	\$ 3,000	\$ 579,378
In-kind contributions	314,550	-	314,550
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 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	<u>\$ 51,208,744</u>	<u>\$ 568,849</u>	<u>\$ 51,777,593</u>

See notes to consolidated financial statements.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (3,149,868)	\$ 5,133,046
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Increase (decrease) in allowance for doubtful promises to give	37,356	(9,342)
Realized and unrealized loss (gain) on investments, net	5,082,080	(2,638,172)
Depreciation	1,031,453	1,130,962
Loss on impairment of property and equipment	-	1,003,754
(Gain) loss on disposal of property and equipment	(6,200)	41,994
Contributions received for long-term endowment	(5,000)	(3,000)
Amortization of right-of-use assets	7,356,389	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(131,224)	(17,769)
Inventory	866	(36,996)
Prepaid expenses and other assets	761,256	18,393
Increase (decrease) in:		
Accounts payable	(21,304)	239,414
Accrued expenses	(200,560)	657,123
Lease liabilities	(6,825,921)	-
Net cash provided by operating activities	3,929,323	5,519,407
Cash flows from investing activities:		
Proceeds from sale of investments	833,350	611,000
Proceeds from sale of property and equipment	6,200	-
Purchases of investments	(850,012)	(1,008,695)
Purchases of property and equipment	(626,709)	(459,270)
Decrease (increase) in restricted investments	596,334	(349,983)
Net cash used in investing activities	(40,837)	(1,206,948)
Cash flows from financing activities:		
Contributions received for long-term endowment	5,000	3,000
Net cash provided by financing activities	5,000	3,000
Net increase in cash and cash equivalents	3,893,486	4,315,459
Cash and cash equivalents (including restricted cash):		
Beginning of year	6,966,307	2,650,848
End of year	\$ 10,859,793	\$ 6,966,307

(Continued)

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2022 and 2021

	2022	2021
Supplemental disclosure of noncash investing activities:		
Fixed asset additions included in accounts payable	<u>\$ 161,369</u>	<u>\$ -</u>
Supplemental cash flow information related to leases is as follows:		
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	<u>\$ 50,180,415</u>	<u>\$ -</u>
Lease liability:		
Operating leases	<u>\$ 50,991,414</u>	<u>\$ -</u>
Deferred rent liability prior year	<u>\$ 810,999</u>	<u>\$ -</u>

See notes to consolidated financial statements.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statement of Functional Expenses Year Ended December 31, 2022

	Donated Goods				
			Solicitation and Transportation	Management Specifications	Total
	Production	Stores			
Expenses:					
Salaries and wages	\$ 567,267	\$ 12,687,302	\$ 353,120	\$ 906,323	\$ 14,514,012
Employee benefits (Notes 8 and 9)	45,171	80,857	28,827	56,155	211,010
Payroll taxes	63,172	112,948	39,749	84,209	300,078
Subtotal	675,610	12,881,107	421,696	1,046,687	15,025,100
Cost of goods sold	-	36,413,028	-	-	36,413,028
Contracted services and professional fees	12,013	572,616	1,549	2,708	588,886
Supplies	517,412	907,488	73,005	2,553	1,500,458
Telephone	16,438	87,896	28,013	6,594	138,941
Postage	-	330,949	-	-	330,949
Occupancy (Note 8)	450,548	10,102,457	670,509	145,365	11,368,879
Equipment maintenance	47,047	125,594	23,871	9	196,521
Advertising, print and publication	2,486	129,832	-	24,000	156,318
Travel and vehicle	29,849	21,147	451,395	48,216	550,607
Dues	250	-	-	2,200	2,450
Awards	-	-	-	-	-
Service charges	9,732	1,542,201	97	(7,910)	1,544,120
Subtotal	1,761,385	63,114,315	1,670,135	1,270,422	67,816,257
Depreciation (Note 4)	194,912	424,432	44,074	112,468	775,886
Total expenses	\$ 1,956,297	\$ 63,538,747	\$ 1,714,209	\$ 1,382,890	\$ 68,592,143

See notes to consolidated financial statements.

Contracted Services	Career Development	Management and General	Fundraising	Total
\$ 4,969,246	\$ 3,465,704	\$ 2,776,714	\$ 66,525	\$ 25,792,201
1,213,939	185,291	811,462	3,320	2,425,022
580,762	353,047	227,675	5,887	1,467,449
6,763,947	4,004,042	3,815,851	75,732	29,684,672
-	-	-	-	36,413,028
531,106	302,550	217,406	4,541	1,644,489
326,760	310,647	255,994	6,135	2,399,994
44,463	97,229	48,510	-	329,143
-	3,871	33,082	12,237	380,139
92,757	681,270	183,810	-	12,326,716
20,115	54,695	52,878	-	324,209
50	3,655	344,768	57,392	562,183
43,913	55,998	61,385	-	711,903
-	1,933	169,475	150	174,008
1,271	2,087	-	-	3,358
206	59,713	128,480	1,106	1,733,625
7,824,588	5,577,690	5,311,639	157,293	86,687,467
38,374	135,517	81,676	-	1,031,453
\$ 7,862,962	\$ 5,713,207	\$ 5,393,315	\$ 157,293	\$ 87,718,920

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statement of Functional Expenses Year Ended December 31, 2021

	Donated Goods				
	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

Notes to Consolidated Financial Statements

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 \$54,389 and \$17,033 at December 31, 2022 and 2021, 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, 2022 and 2021, 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.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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

Property and equipment: Property and equipment is carried at cost, if purchased, or at its fair value at the date of the gift, if donated. 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 five 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. There was no impairment recorded for the year ended December 31, 2022.

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.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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 received conditional grants that have not yet been recognized as of the end of the year. Goodwill received cash advance payments from the grantor and the specified conditions of the grants were not yet met. As of December 31, 2022, \$200,000 of cash advance payments were received and \$1,705,754 of conditional grants payments were not yet received. As such, these amounts are not reported in the accompanying consolidated statements of activities.

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.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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

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.

Advertising costs: Goodwill expenses advertising costs the first time the advertising takes place. Advertising expense was \$156,318 and \$230,711 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021.

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 2019.

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.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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, 2022.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2022 and 2021, are as follows:

	2022	2021
Cash and cash equivalents, and restricted cash	\$ 10,859,793	\$ 6,966,307
Accounts receivable	3,296,714	3,202,846
Investments	31,542,580	36,607,998
Total financial assets	45,699,087	46,777,151
Less:		
Restricted escrow funds for unemployment	(517,950)	(572,770)
Restrictions by donor with time or purpose restrictions	(71,023)	(71,023)
Donor restricted endowments	(405,662)	(497,826)
Board designated funds for endowment and operating reserves	(31,134,932)	(36,107,791)
Financial assets available to meet cash needs for general expenditures within one year	\$ 13,569,520	\$ 9,527,741

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.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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

Leases: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. Goodwill adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, Goodwill has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with Goodwill's historical accounting treatment under ASC Topic 840, Leases.

Goodwill elected the package of practical expedients under the transition guidance within Topic 842, in which Goodwill does not reassess: (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. Goodwill has not elected to adopt the hindsight practical expedient and, therefore, will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

Goodwill determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when: (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) Goodwill obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. Goodwill also considers whether its service arrangements include the right to control the use of an asset.

Goodwill made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, Goodwill made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

Goodwill has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The non-lease components typically represent additional services transferred to Goodwill, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to Goodwill's operating leases of \$50,180,415 and \$50,991,414, respectively, on January 1, 2022. The adoption of the new lease standard did not materially impact the consolidated change in net assets or consolidated cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Prior to the adoption of ASC 842, leases which met criteria for capitalization were classified as capitalized leases. Capitalized leased assets and the related obligations were recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased asset at the time of the lease. Interest expense relating to the lease obligations was recorded to effect constant rates of interest over the term of the leases. Leases which did not meet the aforementioned capitalization criteria were classified as operating leases, and the related rentals are charged to expense as incurred.

Adopted accounting pronouncements: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which requires that lessees to recognize ROU assets and lease liabilities for all leases not considered short-term leases. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. Goodwill has implemented this ASU and has adjusted the presentation of its consolidated financial statements accordingly.

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 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. The adoption of this ASU did not materially impact the consolidated financial statements.

Subsequent events: Subsequent events have been evaluated through July 21, 2023, which is the date the consolidated financial statements were available to be issued.

Note 2. Investments

At December 31, 2022 and 2021, fair value of investments and related components were as follows:

	2022	2021
Cash equivalents	\$ 2,081,356	\$ 1,997,939
Fixed income	15,939,878	16,870,722
Common stock	7,329,626	9,521,200
Mutual funds	7,300,493	9,922,849
Charitable trusts	1,986	2,381
	<u>\$ 32,653,339</u>	<u>\$ 38,315,091</u>

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

Investment income (loss) for the years ended December 31, 2022 and 2021, are as follows:

	2022	2021
Realized and unrealized gain (loss) on investments, net of fees	\$ (5,082,080)	\$ 2,638,172
Interest and dividends	665,123	588,367
	<u>\$ (4,416,957)</u>	<u>\$ 3,226,539</u>

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:

- The duration and preservation of the fund
- The purposes of Goodwill and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Goodwill
- 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.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Endowment Funds (Continued)

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, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 15,033,239	\$ -	\$ 15,033,239
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	301,050	301,050
Accumulated investment gains	-	104,612	104,612
Total	<u>\$ 15,033,239</u>	<u>\$ 405,662</u>	<u>\$ 15,438,901</u>

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	<u>\$ 18,833,137</u>	<u>\$ 497,826</u>	<u>\$ 19,330,963</u>

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Endowment Funds (Continued)

Changes in endowment net assets for the fiscal years ended December 31, 2022 and 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
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
Investment income	209,689	4,772	214,461
Net unrealized and realized losses	(3,310,757)	(101,936)	(3,412,693)
Contributions	120,000	5,000	125,000
Appropriation of endowment assets for expenditure	(818,830)	-	(818,830)
Endowment net assets, December 31, 2022	\$ 15,033,239	\$ 405,662	\$ 15,438,901

Net assets without donor restrictions—designated for long-term investment consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Endowment net assets	\$ 15,033,239	\$ 18,833,137
Operating investments	16,101,693	17,274,654
	<u>\$ 31,134,932</u>	<u>\$ 36,107,791</u>

Note 4. Land, Buildings and Equipment

Major classes of property and equipment and accumulated depreciation are as follows at December 31, 2022 and 2021:

	2022	2021
Land	\$ 1,162,820	\$ 1,162,820
Buildings	5,362,835	5,362,435
Building improvements	11,869,660	11,265,122
Machinery and equipment	2,674,255	2,515,014
Furniture and equipment	2,470,200	2,470,200
Vehicles	1,737,390	1,739,005
	<u>25,277,160</u>	<u>24,514,596</u>
Accumulated depreciation	<u>(17,863,431)</u>	<u>(16,857,492)</u>
	<u>\$ 7,413,729</u>	<u>\$ 7,657,104</u>

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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, 2022 and 2021. There were no releases from restriction from that fund for the years ended December 31, 2022 and 2021. Net assets of \$104,612 and \$201,776 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, 2022 and 2021, respectively. Net assets of \$301,050 and \$296,050 are donor-restricted endowment funds at December 31, 2022 and 2021, 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.

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.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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, 2022:

	2022			
	Total	Level 1	Level 2	Level 3
Assets, at fair value:				
Fixed income:				
U.S. Treasury and agency bonds	\$ 6,339,592	\$ -	\$ 6,339,592	\$ -
Corporate bonds	6,490,396	-	6,490,396	-
Multi-sector bond	882,250	882,250	-	-
International bond	1,100,538	1,100,538	-	-
Intermediate-term bond	68,226	68,226	-	-
Bond fund	285,905	285,905	-	-
Mortgage-backed bond	452,119	452,119	-	-
Government agency bond	320,852	320,852	-	-
Common stock:				
Energy	297,217	297,217	-	-
Consumer goods	1,362,084	1,362,084	-	-
Financials	769,836	769,836	-	-
Health care	1,037,481	1,037,481	-	-
Industrials	628,727	628,727	-	-
Information technology	2,050,325	2,050,325	-	-
Materials	171,851	171,851	-	-
Utilities	180,367	180,367	-	-
Telecom service	535,798	535,798	-	-
Real estate	98,362	98,362	-	-
International	197,578	197,578	-	-
Mutual funds:				
Equity	5,511,626	5,511,626	-	-
Multi-strategy	185,191	185,191	-	-
Hedged strategies	492,917	492,917	-	-
Charitable trust	1,986	-	-	1,986
Restricted investments—mutual funds:				
Equity	1,110,759	1,110,759	-	-
Total assets	\$ 30,571,983	\$ 17,740,009	\$ 12,829,988	\$ 1,986
Liabilities, at fair value:				
Deferred compensation payable	\$ 1,110,759	\$ 1,110,759	\$ -	\$ -

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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, 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	\$ -	\$ -

Cash equivalents are excluded from the fair value hierarchy as cash is generally measured at cost. As such, \$2,081,356 and \$1,997,939 of cash equivalents at December 31, 2022 and 2021, respectively, have been excluded from this table.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

Changes in Level 3 assets for the years ended December 31, 2022 and 2021, were as follows:

	2022	2021
Beginning balance	\$ 2,381	\$ 2,416
Investment loss	(395)	(35)
Ending balance	<u>\$ 1,986</u>	<u>\$ 2,381</u>

Note 7. Major Support

Goodwill received \$5,768,429 and \$5,385,695 for contracted custodial services from the Social Security Administration for the years ended December 31, 2022 and 2021, respectively.

Note 8. Leases

Goodwill has entered into various noncancelable leases for its retail operations and vehicles expiring at various dates through April 2038. Several of the leases contain options to renew for varying periods. Some leases include one or more options to renew, generally at Goodwill's sole discretion, with renewal terms that can extend the lease term up to seven years each. In addition, certain leases contain termination options where the rights to terminate are held by either Goodwill, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that Goodwill will exercise that option. Goodwill's operating leases generally do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term. The components of lease expense are as follows:

Operating lease cost	\$ 7,356,389
Short-term lease cost	43,376
Variable lease cost	1,510,701
Total lease cost	<u>\$ 8,910,466</u>

Supplemental consolidated statement of financial position information related to leases is as follows as of December 31, 2022:

Operating leases:	
Operating lease ROU assets	<u>\$ 44,555,827</u>
Operating lease liabilities, current	\$ 6,443,650
Operating lease liabilities, non-current	39,453,644
Total operating lease liabilities	<u>\$ 45,897,294</u>

The lease term and discount rate for leases are as follows:

Weighted-average remaining lease term	8.87 years
Weighted-average discount rate	1.86%

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Leases (Continued)

Future minimum lease payments, adjusted for the effect of the minimum increase, are due in future years as follows:

Years ending December 31:	
2023	\$ 7,190,430
2024	6,881,215
2025	6,637,474
2026	6,201,971
2027	5,152,436
Thereafter	19,372,595
Total minimum obligations	51,436,121
Less amount representing interest	(5,538,827)
Total lease liabilities	<u>\$ 45,897,294</u>

Future minimum lease commitments, as determined under Topic 840, for all non-cancelable lease are as follows as of December 31, 2022:

Years ending December 31:	
2023	\$ 7,190,430
2024	6,881,215
2025	6,637,474
2026	6,201,971
2027	5,152,436
Thereafter	19,372,595
Total	<u>\$ 51,436,121</u>

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 \$543,273 and \$155,883 to the plan for the years ended December 31, 2022 and 2021, respectively.

Goodwill also has a 457(b) plan for its eligible employees. Goodwill made contributions of \$75,000 and \$202,666 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, the restricted investment account had a balance of \$1,110,759 and \$1,707,093, 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.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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 \$270,313 and \$382,066 as of December 31, 2022 and 2021, 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, 2022 and 2021. The line of credit is collateralized by the assets of Goodwill. On May 5, 2022, the Secured Overnight Financing Rate (SOFR) replaced LIBOR.

Note 12. Subsequent Events

In April 2023, Goodwill Industries Excel Centers, LLC was formed as a subsidiary of Goodwill Industries of the Chesapeake, Incorporated to operate an adult high school "The Excel Center" in Baltimore and the surrounding areas to further the charitable and tax-exempt purposes of the organization.

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, 2022 and 2021, 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 21, 2023

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

**Consolidated Functional Expense Detail
Years Ended December 31, 2022 and 2021**

	2022		2021	
	Amount	Percent of Public Support and Revenue	Amount	Percent of Public Support and Revenue
Expenses:				
Salaries and wages	\$ 25,792,201	30.5	\$ 24,603,780	27.7
Employee benefits	2,425,022	2.9	2,488,146	2.8
Payroll taxes	1,467,449	1.7	1,391,654	1.6
Subtotal	29,684,672	35.1	28,483,580	32.1
Cost of goods sold	36,413,028	43.1	35,398,308	39.9
Contracted services and professional fees	1,644,489	1.9	1,556,120	1.8
Supplies	2,399,994	2.8	2,043,208	2.3
Telephone	329,143	.4	298,540	.3
Postage	380,139	.4	249,109	.3
Occupancy	12,326,716	14.6	11,430,236	12.9
Equipment maintenance	324,209	.4	392,007	.4
Advertising, print, and publication	562,183	.7	495,314	.6
Travel and vehicle	711,903	.8	576,990	.6
Dues	174,008	.2	160,248	.2
Awards	3,358	-	91	-
Service charges	1,733,625	2.0	1,427,052	1.6
Subtotal	86,687,467	102.4	82,510,803	93.0
Depreciation	1,031,453	1.2	1,130,962	1.3
Total expenses	\$ 87,718,920	103.6	\$ 83,641,765	94.3

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Uniform Guidance
Supplementary Financial Report
Year Ended December 31, 2022

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Independent auditor's report on:	
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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, 2022, 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 21, 2023.

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 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 21, 2023

**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 programs for the year ended December 31, 2022. Goodwill's major federal programs are 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 programs for the year ended December 31, 2022.

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, 2022, and have issued our report thereon dated July 21, 2023, 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 21, 2023

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022**

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	#03CH011118-03-00	\$ 723,496
Early Head Start	93.600	#03CH011118-04-00	460,180
COVID-19-Early Head Start American Rescue Act Awards	93.600	N/A	52,883
Total U.S. Department of Health and Human Services			<u>1,236,559</u>
Total federal awards			<u><u>\$ 1,236,559</u></u>

See notes to schedule of expenditures of federal awards.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

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, 2022. 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, 2022.

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, 2022**

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?

 X Yes No

(Continued)

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2022

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.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Summary Schedule of Prior Audit Findings
Year Ended December 31, 2022

There were no audit findings for the year ended December 31, 2021.