



Report of Independent Auditors and Consolidated Financial
Statements with Supplementary Information

Goodwill Industries of Southern California and Affiliates

December 31, 2023 and 2022



MOSSADAMS

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Report of Independent Auditors

The Board of Directors
Goodwill Industries of Southern California and Affiliates

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Goodwill Industries of Southern California and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Goodwill Industries of Southern California and Affiliates as of December 31, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (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 Industries of Southern California and Affiliates 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Goodwill Industries of Southern California and Affiliates' ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 consolidated 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Goodwill Industries of Southern California and Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Goodwill Industries of Southern California and Affiliates' 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying classified consolidated statements of financial position are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 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 expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2024 on our consideration of Goodwill Industries of Southern California and Affiliates' 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 Industries of Southern California and Affiliates' 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 Industries of Southern California and Affiliates' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

El Segundo, California
May 20, 2024

Consolidated Financial Statements

Goodwill Industries of Southern California and Affiliates
Consolidated Statements of Financial Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 18,034,891	\$ 28,313,357
Investments (Note 4)	30,405,488	14,119,413
Accounts receivable, net	6,206,099	5,636,729
Inventory	15,211,907	13,134,436
Prepaid expenses and deposits	5,079,232	2,010,014
Other receivables (Note 5)	3,921,582	1,801,020
Operating lease right-of-use assets, net (Note 9)	92,432,243	95,095,693
Property, plant, and equipment, net (Note 6)	<u>20,936,742</u>	<u>21,410,835</u>
Total assets	<u><u>\$ 192,228,184</u></u>	<u><u>\$ 181,521,497</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 8,778,401	\$ 11,063,449
Accrued compensation and related expenses	7,871,716	7,097,284
Accrued insurance claims (Note 12)	14,351,668	15,379,297
Deferred gain on sale-leaseback (Note 6)	1,378,036	1,845,388
Finance lease liability	45,708	113,614
Operating lease right-of-use liabilities (Note 9)	<u>98,475,194</u>	<u>101,432,975</u>
Total liabilities	<u>130,900,723</u>	<u>136,932,007</u>
NET ASSETS (Note 8)		
Net assets without donor restrictions	54,426,383	37,323,468
Net assets with donor restrictions	<u>6,901,078</u>	<u>7,266,022</u>
Total net assets	<u>61,327,461</u>	<u>44,589,490</u>
Total liabilities and net assets	<u><u>\$ 192,228,184</u></u>	<u><u>\$ 181,521,497</u></u>

See accompanying notes.

Goodwill Industries of Southern California and Affiliates
Consolidated Statements of Activities
Year Ended December 31, 2023

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND OTHER			
Revenue			
Retail sales	\$ 150,653,417	\$ -	\$ 150,653,417
Commodities sales	63,373	-	63,373
Contract services	7,688,639	-	7,688,639
Workforce development	8,700,103	-	8,700,103
Workforce development – government grants	9,313,709	-	9,313,709
Other	852,365	-	852,365
Total revenue	177,271,606	-	177,271,606
Support and other			
Contributions	2,651,417	3,865,146	6,516,563
Interest and dividends	1,290,637	-	1,290,637
Contributed goods	102,890,212	-	102,890,212
Gain on sale of property and equipment	12,997	-	12,997
Net assets released from restriction	4,703,791	(4,703,791)	-
Total support and other	111,549,054	(838,645)	110,710,409
Total revenue, support, and other	288,820,660	(838,645)	287,982,015
EXPENSES			
Program services	259,837,421	-	259,837,421
Fundraising	2,167,918	-	2,167,918
General and administrative	11,341,257	-	11,341,257
Total expenses	273,346,596	-	273,346,596
Changes in net assets before realized and unrealized gains on investments	15,474,064	(838,645)	14,635,419
Realized and unrealized gains on investments, net	1,628,851	473,701	2,102,552
Changes in net assets	17,102,915	(364,944)	16,737,971
NET ASSETS, beginning of year	37,323,468	7,266,022	44,589,490
NET ASSETS, end of year	\$ 54,426,383	\$ 6,901,078	\$ 61,327,461

See accompanying notes.

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

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

See accompanying notes.

Goodwill Industries of Southern California and Affiliates
Consolidated Statements of Functional Expenses
Year Ended December 31, 2023

	2023							
	Program Services					Support Services		Total Expenses
	Material Handling	Stores	Contract Services	Workforce Development	Total	Fundraising	General Administrative	
Salaries and wages	\$ 20,660,404	\$ 32,417,005	\$ 5,547,648	\$ 15,021,561	\$ 73,646,618	\$ 944,828	\$ 5,790,435	\$ 80,381,881
Payroll taxes	1,548,412	2,455,017	415,689	1,104,855	5,523,973	70,748	378,878	5,973,599
Employee benefits	2,359,479	1,303,504	467,946	1,174,413	5,305,342	100,747	470,158	5,876,247
Total salaries and related expenses	24,568,295	36,175,526	6,431,283	17,300,829	84,475,933	1,116,323	6,639,471	92,231,727
Contributed goods – cost of goods sold	-	100,862,199	-	-	100,862,199	-	-	100,862,199
Purchased goods – cost of goods sold	-	1,943,497	50,346	-	1,993,843	-	-	1,993,843
Rent and maintenance	6,520,687	21,766,002	5,500	657,691	28,949,880	-	-	28,949,880
Occupancy	3,337,877	6,974,032	-	1,542,836	11,854,745	122,371	778,645	12,755,761
Professional services and temporary labor	185,592	3,935,404	221,591	466,849	4,809,436	65,370	827,945	5,702,751
Participant training and support	1,150	706	-	3,569,523	3,571,379	-	-	3,571,379
Technology and communication	353,905	1,576,903	29,704	287,859	2,248,371	290,476	1,060,883	3,599,730
Utilities	136,384	3,158,890	-	10,366	3,305,640	-	-	3,305,640
Supplies	150,353	1,532,657	474,735	142,594	2,300,339	2,879	27,173	2,330,391
Trash disposal	2,000,563	10,537	-	-	2,011,100	-	-	2,011,100
Transportation	1,760,684	255,378	147,312	24,104	2,187,478	344	58,734	2,246,556
Banking and finance fees	54,306	1,746,524	502	695	1,802,027	1,743	151,235	1,955,005
Insurance	265,678	1,284,074	92,565	214,186	1,856,503	21,206	1,271,714	3,149,423
Postage and shipping	3,509	1,784,637	3,576	9,236	1,800,958	49,889	27,029	1,877,876
Repairs and maintenance	265,750	2,126,895	73,359	11,018	2,477,022	-	-	2,477,022
Travel, conference, and meetings	8,288	24,297	62,907	223,100	318,592	12,032	69,976	400,600
Printing, publications, and media	-	393	-	21,500	21,893	449,531	4,774	476,198
Other (taxes, licenses, and dues)	1,623	19,329	-	1,051	22,003	-	110,207	132,210
Membership dues	42	4,647	2,603	7,196	14,488	15,923	237,205	267,616
Interest	2,805	-	-	-	2,805	-	-	2,805
Depreciation	573,564	2,236,991	31,489	108,743	2,950,787	19,831	76,266	3,046,884
	<u>\$ 40,191,055</u>	<u>\$ 187,419,518</u>	<u>\$ 7,627,472</u>	<u>\$ 24,599,376</u>	<u>\$ 259,837,421</u>	<u>\$ 2,167,918</u>	<u>\$ 11,341,257</u>	<u>\$ 273,346,596</u>

See accompanying notes.

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

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

See accompanying notes.

Goodwill Industries of Southern California and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 16,737,971	\$ 22,790,996
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	3,046,884	3,223,183
Bad debt expense	-	51,564
Credit loss	409,360	-
Recognize deferred gain with sale-leaseback	(467,352)	(459,990)
Gain on sale of property, plant, and equipment	(12,997)	(4,751)
Net realized and unrealized (gain) loss on investments	(2,102,552)	2,045,614
Donated merchandise	(102,890,212)	(98,350,605)
Noncash costs of goods sold related to donated merchandise	100,862,199	97,488,960
Forgiveness of Paycheck Protection Program Loan	-	(10,000,000)
Amortization of deferred rent	-	(5,759,886)
Amortization of operating lease right-of-use assets	24,465,833	29,615,886
Changes in operating assets and liabilities		
Accounts receivable	(978,730)	144,732
Inventory	(49,458)	(115,529)
Prepaid expenses and deposits	(3,069,218)	(64,356)
Accounts payable and accrued liabilities	(2,285,048)	575,658
Accrued compensation and related expenses	774,432	(771,484)
Accrued insurance claims	(1,027,629)	(1,155,122)
Operating lease liabilities	(24,760,200)	(23,278,604)
Net cash provided by operating activities	<u>8,653,283</u>	<u>15,976,266</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant, and equipment	53,107	9,632
Purchases of property, plant, and equipment	(2,612,901)	(5,056,390)
Issuance of note receivable	(2,120,562)	(420,115)
Proceeds from sale of investments	28,218	10,750
Purchase of investments	(14,211,705)	(2,494,411)
Net cash used in investing activities	<u>(18,863,843)</u>	<u>(7,950,534)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on financing leases	(67,906)	(73,027)
Repayment of term loan	-	(8,119,806)
Net cash (used in) by financing activities	<u>(67,906)</u>	<u>(8,192,833)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,278,466)	(167,101)
CASH AND CASH EQUIVALENTS, beginning of year	28,313,357	28,480,458
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 18,034,891</u>	<u>\$ 28,313,357</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for interest	<u>\$ 2,805</u>	<u>\$ 205,977</u>
SUPPLEMENTAL DISCLOSURES – NON-CASH ITEMS		
Payroll protection program loan forgiveness	<u>\$ -</u>	<u>\$ 10,000,000</u>

See accompanying notes.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

Note 1 – Organization

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

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

Program Services

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

Stores – Goodwill operates 106 stores where contributed goods and a limited selection of new goods are available to the public. Persons with disabilities or other vocational challenges work alongside traditional employees to provide consumers with a positive shopping experience. The proceeds from store sales are used to support unfunded or partially funded program services in addition to capital and administrative expenses for the Organization.

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

Workforce development – There are over 83 program activities that provide education, training, placement, and other vocational support for target populations including veterans, homeless, individuals with disabilities, at-risk youth, the formerly incarcerated, and many more. These programs are funded through reimbursement, fee for service arrangements, and private support. Workforce development also includes several career centers that provide job listings, resume assistance, and telephone and computer services for all job seekers.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies

Basis of accounting and reporting – The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany transactions have been eliminated.

The Organization reports its consolidated statements of financial position and activities into two net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows (see Note 8):

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated by the Board either for specific purposes or for investment. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the use of restricted contributions in accordance with donors' stipulations results in the release of such restrictions.

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

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

Revenue Recognition

Retail sales – Goodwill sells donated goods and purchased new goods either in retail stores or online. All payments are received upon items sold and no refund is granted. Revenue is recognized when the items are sold or shipped on a gross basis. Total revenues do not include sales tax because the Organization is a pass-through conduit for collecting and remitting sales taxes.

Commodity sales – Goodwill sells old computers and wastepaper in bulk. Revenue is recognized when items are sold.

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

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

Contributions and contributed goods – The Organization also receives unconditional contribution revenue, including unconditional promises to give (pledges), which are recognized at fair value when received. Contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future period or by the donor for specific purposes are reported as donor-restricted support that increases those net asset classes. When a donor-imposed time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statements of activities as net assets released from restrictions. Capital campaign contributions are considered to be net assets with donor restrictions until the asset is placed into service.

The Organization receives various forms of contributions of non-financial assets. Contributions of non-financial assets are reported as contributed goods in the consolidated statements of activities at their fair value based on the estimated value of the inventory at selling price. The fair value is derived from sales value less the cost to bring the product to market. There were no contributed services that met the criteria for recognition for the years ended December 31, 2023 and 2022. Contributions of non-financial assets consisted of the following at December 31:

	Fair market value	
	2023	2022
Contributed goods	\$ 102,890,212	\$ 98,350,605

Of the contributed goods received, \$100,862,199 and \$97,488,860 was sold during the years ended December 31, 2023 and 2022, respectively.

Donated goods revenue and donated goods inventory are recorded at fair value based on the estimated value of the inventory at selling price. The fair value is derived from sales value less the cost to bring the product to market.

Cash and cash equivalents – Cash and cash equivalents include short-term, highly liquid investments with an original maturity of three months or less at the time of purchase. Cash and cash equivalents representing assets held for endowment and as charitable gift annuities are included within investments.

Concentrations of credit risk – The Organization has cash balances that exceed the Federal Deposit Insurance Corporation (FDIC) insurance coverage held at two separate banks. The Organization has not experienced and does not anticipate any losses related to cash held in these accounts. Certain investments held with financial institutions are insured up to a specific limit by the Securities Investors Protection Corporation (SIPC).

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

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

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

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

Accounts receivable – Accounts receivable are comprised of unsecured grants and contracts receivable from the federal, state, and local government and customer obligations due under normal trade terms requiring payment within 30–90 days from the invoice date. The Organization recognizes an expected allowance for credit loss for accounts receivable, to present the net amount expected to be collected as of the Statement of Financial Position date in accordance with Accounting Standards Update (*Topic 326-Financial Instruments Credit Losses*) Management determines an allowance for credit losses based on historical experience and management’s evaluation of current and reasonably supportable expected future economic conditions and the customer’s willingness or ability to pay. Assets are written off when determined that such financial asset is deemed uncollectible, and write-offs are recognized as a deduction from the allowance for credit losses. An expense is recorded at the time the allowance is adjusted. Management has determined substantially all government receivables are fully collectible but has provided an allowance for approximately \$546,000 and \$137,000 for customer obligations at December 31, 2023 and 2022, respectively.

Note receivable – The note receivable is comprised of unsecured notes receivable with a related party. The note accrues interest at 5% per annum, which is recognized as interest revenue. The Organization analyzes the collectability of the note receivable and has determined to not record an allowance for credit loss given there is no concern regarding collectability of the full balance.

Inventory – Inventory is comprised of donated goods inventory that has been processed, is ready for sale, and new product inventory. Donated goods inventory is recorded at fair value at the date of donation as noted in the revenue accounting policy above. New product inventory is valued at the lower of cost or net realizable value, using the weighted-average cost method.

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Contributions receivable – The Organization records contributions receivable, net of allowances for estimated uncollectible amounts, when there is sufficient evidence in the form of verifiable documentation that an unconditional promise to give was received. No allowance was recorded for estimated uncollectible contributions receivable as of December 31, 2023 and 2022. There were no conditional contributions receivable as of December 31, 2023 and 2022. Multi-year contributions are recorded at fair value at the date of the contribution. Conditional promises to give are recognized only when the conditions on which they depend are met. There were no conditional promises to give as of December 31, 2023 and 2022. Contributions receivable are reported within other receivables on the consolidated statements of financial position (see Note 5).

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

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

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

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

Gains and losses are recognized in the consolidated statements of activities upon disposal of plant, property, and equipment. The Organization recognized approximately \$12,997 of gains on sale of plant, property, and equipment for the year ended December 31, 2023, and approximately \$4,700 of gains for the year ended December 31, 2022. During the year ended December 31, 2012, the Organization entered into sale-leaseback transactions on three properties, for which specific analysis has been performed and gains deferred (see Note 6).

Accounting for the impairment of long-lived assets and for the disposal of long-lived assets – The Organization reviews plant, property, and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the plant, property, and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the years ended December 31, 2023 and 2022, there were no events or changes in circumstances indicating that the carrying amount of the property, plant, and equipment may not be recoverable.

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Leases – The Organization recognizes operating and finance lease liabilities and a right-of-use (ROU) asset for all leases, including operating leases with an expected term greater than 12 months on its consolidated statements of financial position. Operating lease ROU assets and liabilities are recognized on the consolidated statements of financial position at commencement date, which is the date that Organization gains access to the property or underlying asset. At adoption, the modified retrospective approach was elected, and thus ASC Topic 842 was not applied to periods prior to adoption. The lease liability is determined based on the present value of the minimum rental payments using a risk-free incremental borrowing rate in effect at the time of the lease commencement. The borrowing rate ranged from 0.19%–4.19% for the year ended December 31, 2023. The ROU asset is determined based on the lease liability adjusted for lease incentives received. Operating lease cost is recognized on a straight-line basis over the lease term. Certain optional renewal periods were not included in the determination of the lease liability and ROU asset if management determined it was not reasonably certain that the lease would be extended.

The Organization elected the practical expedient to account for lease and non-lease components together as the accounting for these items is not significant to the Organization and can become complex. The Organization adopted the risk-free rate on US government debt for a period comparable with that of the lease term on the date of transition, and then on the lease commencement date for any new leases. The Organization adopted the Transition Reliefs practical expedients regarding initial direct costs; elected the practical expedient to not reassess the lease classification from ASC 840, the 75% assessment is applied to new leases beginning after 1/1/22 and is compared to the useful life of the building, or typically 40 years; elected the practical expedient to not reassess the lease classification from ASC 840, the 90% assessment is applied to new leases beginning after 1/1/22 and is compared to the valuation of the associated building.

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

The charitable remainder trust agreements generally require the Organization to make annual payments to the trust beneficiaries based on stipulated payment rates, applied to the fair value of the trust assets as determined annually. The Organization uses an interest rate commensurate with the risks involved to discount the future payments and calculate the present value of the liability using the payout rate for each agreement and life expectancies derived from Internal Revenue Service (IRS) formulas. A receivable, net of the present value of the liability, is recorded in other receivables (see Note 5) at the estimated fair value of the asset. A receivable is recorded in other receivables for the perpetual trusts at the estimated fair value of the amount held by the trustee that is due to the Organization.

The Organization invests funds contributed by individuals in exchange for a lifetime annuity paid by the Organization. These investments are reported at fair value and reported in investments (see Note 4). The liability associated with these annuities is reported with accounts payable and accrued liabilities on the consolidated statements of financial position.

Advertising expenses – Advertising costs are expensed as incurred. During 2023 and 2022, advertising costs were approximately \$476,000 and \$281,000, respectively, and are reported with printing, publications, and media on the consolidated statements of functional expenses.

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

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

Tax positions taken related to the Organization's tax-exempt status, unrelated business activities taxable income and deductibility of expenses, and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the Organization would more likely than not be sustained by examination. Accordingly, the Organization has not recorded an income tax liability for uncertain tax benefits as of December 31, 2023 and 2022.

Contributed services – A substantial number of volunteers have donated significant amounts of time and services to the Organization's program operations for the years ended December 31, 2023 and 2022, and to its fundraising campaigns. Contributed services are recognized by the Organization if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The services donated are not reflected in the accompanying consolidated financial statements as an expense or as income from donations; such services do not meet the above criteria for recording under U.S. GAAP.

Use of estimates – The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues, expenses, and changes in net assets during the reporting period. While management believes that these estimates are adequate as of December 31, 2023 and 2022, it is possible that actual results could differ from those estimates, and the difference could be material to the consolidated financial statements.

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Recent accounting guidance – recently issued accounting pronouncements – In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (CECL)*, which requires the establishment of an allowance for estimated credit losses on financial assets, including trade and other receivables and contract assets, at each reporting date. The Organization adopted the new standard on January 1, 2023, using the modified-retrospective approach, which did not have a significant effect on the consolidated financial statements as of and for the year ended December 31, 2023. The impact of the adoption is not considered to have a significant impact on the comparative 2022 balances; as such, comparative 2022 information has not been adjusted to conform to the new standard and continues to be reported under the accounting standards in effect for that year.

Note 3 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprised the following at December 31:

	2023	2022
Financial assets at year end		
Cash and cash equivalents	\$ 18,034,891	\$ 28,313,357
Accounts receivable, net	6,206,099	5,636,729
Other receivables	3,921,582	1,801,020
Investments	30,405,488	14,119,413
Inventory	15,211,907	13,134,436
Total financial assets at year end	<u>73,779,967</u>	<u>63,004,955</u>
Less amounts not available to meet general expenditures within one year		
Board designated funds	(14,945,572)	(11,017,666)
Other receivables – with donor restriction	(1,174,540)	(1,100,076)
Other receivables/notes receivable – not collectable within one year	(2,747,042)	(700,944)
Other donor restricted funds unavailable for general use	<u>(5,726,538)</u>	<u>(6,165,946)</u>
	<u>(24,593,692)</u>	<u>(18,984,632)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 49,186,275</u>	<u>\$ 44,020,323</u>

The Organization's investments without donor restriction, which totaled \$14,945,572 and \$11,017,666 as of December 31, 2023 and 2022, respectively, are accessible upon Board approval for general operations and are not subject to an annual spending maximum. Although the Organization does not intend to spend from these Board-designated amounts, these amounts could be made available for use in general operations by the Board if necessary. As part of the Organization's liquidity management plan, it structures its financial assets to be available as obligations come due.

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Notes to Consolidated Financial Statements

Note 4 – Fair Value Measurements

ASC 820 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. For those assets and liabilities reported at fair value, the Organization has determined their placement in the fair value hierarchy based on the nature of inputs to determine the fair value and management's assessment of risk characteristics associated with these inputs. The Organization categorizes the financial assets and liabilities, based on the priority of inputs to the valuation technique, into three-tiered hierarchy as described below.

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

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

Level 3 – Unobservable inputs that are supportable by little or no market activity, which requires the Organization to develop its own assumptions.

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

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

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

U.S. treasury securities – U.S. Treasury securities held by the Organization are valued using the spread above the risk-free yield curve.

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

Beneficial interests in trusts – Beneficial interests in trusts (see Note 5) include charitable remainder trusts and perpetual trusts administered by other trustees, which are valued based on estimates associated with life expectancy, investment return, future inflation, and cash flows associated with the underlying securities.

Where quoted market prices are available in active markets, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash equivalents, money market funds, and mutual funds. Investments classified as Level 2 are priced using similar securities in active markets (i.e., matrix pricing). Level 2 securities include U.S. treasury securities.

The Organization's policy is to recognize transfers in and out of Levels 1, 2, and 3 as of the end of the year. There were no transfers between levels during 2023 or 2022. The changes in value of Level 3 assets are reported within realized and unrealized gains and losses in the consolidated statements of activities.

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The following tables summarize the valuation of the Organization's investments and beneficial interests in trusts by fair value hierarchy levels as of December 31, 2023 and 2022.

2023				
	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 3,401,024	\$ -	\$ -	\$ 3,401,024
U.S. treasury securities	-	8,928,241	-	8,928,241
Money market funds	3,096,848	-	-	3,096,848
Mutual funds – equity	5,969,378	-	-	5,969,378
Mutual funds – fixed income funds	9,009,997	-	-	9,009,997
Total investments	21,477,247	8,928,241	-	30,405,488
Beneficial interests in trusts				
Perpetual trusts	-	-	302,279	302,279
Charitable remainder trusts	-	-	872,261	872,261
Total beneficial interests in trusts	-	-	1,174,540	1,174,540
Assets reported at fair value	<u>\$ 21,477,247</u>	<u>\$ 8,928,241</u>	<u>\$ 1,174,540</u>	<u>\$ 31,580,028</u>
2022				
	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 3,315,731	\$ -	\$ -	\$ 3,315,731
Money market funds	92,157	-	-	92,157
Mutual funds – equity	3,855,379	-	-	3,855,379
Mutual funds – fixed income	6,856,146	-	-	6,856,146
Total investments	14,119,413	-	-	14,119,413
Beneficial interests in trusts				
Perpetual trusts	-	-	276,647	276,647
Charitable remainder trusts	-	-	821,479	821,479
Total beneficial interests in trusts	-	-	1,098,126	1,098,126
Assets reported at fair value	<u>\$ 14,119,413</u>	<u>\$ -</u>	<u>\$ 1,098,126</u>	<u>\$ 15,217,539</u>

Changes in the fair value of Level 3 beneficial interests in trusts in 2023 and 2022 were due to adjustments from investment earnings received, and adjustments to net present discount rates. There were no new contributions, write-offs, sales, or transfers during the years ended December 31, 2023 and 2022.

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The following table represents the Organization's Level 3 financial instruments for the year ended December 31, 2023, the valuation technique used to measure the fair value of the financial instruments, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range
Beneficial interest in trusts				
Perpetual trusts	\$ 302,279	Income approach	Discount rate based	3.4% to 8%
Charitable remainder trusts	872,261		on mortality tables	

Note 5 – Other Receivables

Other receivables include the following as of December 31:

	2023	2022
Contributions receivable	\$ -	\$ 1,950
Note receivable	2,747,042	700,944
Charitable remainder trusts	872,261	821,479
Perpetual trusts beneficial interest	302,279	276,647
	<u>\$ 3,921,582</u>	<u>\$ 1,801,020</u>
Total other receivables		

In July 2021, the Organization entered into an unsecured note receivable with a related party for the purpose of developing technology to support the Organization. As of December 31, 2023 and 2022, the Organization had loaned \$2,747,042 and \$700,944 made up of unsecured notes receivable with a related party; however, additional installments up to \$500,000 have been authorized by the Board of Directors. The note accrues interest at 5% per annum and as of December 31, 2023; no set date of repayment had been determined.

Charitable remainder trusts and beneficial interest of perpetual trusts are presented at fair value based on significant unobservable inputs and accordingly are categorized as Level 3, whose activities are disclosed in Note 4. The beneficial interest in charitable remainder and perpetual trusts is distributed by the Organization as stipulated in the trust agreements.

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Notes to Consolidated Financial Statements

Note 6 – Property, Plant, and Equipment, Net; Deferred Gain in Sales Leaseback

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

	2023	2022
Land	\$ 2,034,821	\$ 2,034,821
Buildings and improvements	47,960,054	46,827,787
Fixtures and equipment	30,627,687	29,708,789
Transportation equipment	3,069,787	3,445,310
	83,692,349	82,016,707
Less: accumulated depreciation	(62,755,607)	(60,605,872)
	<u>\$ 20,936,742</u>	<u>\$ 21,410,835</u>

Depreciation expense for the years ended December 31, 2023 and 2022, was approximately \$3,047,000 and \$3,223,000, respectively.

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

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

	2023	2022
Unrecognized gain	\$ 5,699,806	\$ 5,699,806
Sale-leaseback deferred rent recognized	(4,321,770)	(3,854,418)
	<u>\$ 1,378,036</u>	<u>\$ 1,845,388</u>

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

<u>Years Ending December 31,</u>	
2024	\$ 378,839
2025	378,839
2026	378,839
2027	<u>241,519</u>
	<u><u>\$ 1,378,036</u></u>

Note 7 – Notes Payable, Net

The Organization maintained borrowing facilities with a commercial bank secured by the Organization's Los Angeles campus building. On April 12, 2022, the Organization paid off the term loan in full.

On July 1, 2022, the Organization entered into a line of credit agreement which expires on July 1, 2024. During the availability period, the Organization is authorized to draw on the line of credit for up to \$20,000,000. The remaining available balance was not draw during 2023 or 2022. The unused commitment fee of the line of credit is 0.15% per year.

In April 2021, the Organization entered into an unsecured forgivable loan of \$10 million, under the Paycheck Protection Program (the PPP loan) pursuant to the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) administered by the Small Business Association (SBA). On February 16, 2022, the Organization was granted forgiveness for entire PPP loan balance by the SBA. This gain from forgiveness was recognized on the consolidated statement of activities for the year ended December 31, 2022.

Note 8 – Net Assets

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

	<u>2023</u>	<u>2022</u>
Net assets without donor restrictions		
Board-designated reserve	\$ 14,945,572	\$ 11,017,666
Undesignated net assets without donor restrictions	<u>39,480,811</u>	<u>26,305,802</u>
Total	<u><u>\$ 54,426,383</u></u>	<u><u>\$ 37,323,468</u></u>

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

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Net assets with donor restrictions – Activity in net assets with donor restrictions during the years ended December 31, 2023 and 2022, was as follows:

	Balance, January 1, 2023	Contributions and Other Increases	Realized/Unrealized Gain on Investments	Release from Restrictions and Other Decreases	Balance, December 31, 2023
Program services	\$ 3,600,147	\$ 3,865,146	\$ -	\$ (4,703,791)	\$ 2,761,502
Charitable remainder trusts	821,479	-	50,782	-	872,261
Accumulated gains on endowments	411,639	-	397,287	-	808,926
Perpetual trusts	276,647	-	25,632	-	302,279
Named endowments held in perpetuity	2,156,110	-	-	-	2,156,110
Net assets with donor restrictions	<u>\$ 7,266,022</u>	<u>\$ 3,865,146</u>	<u>\$ 473,701</u>	<u>\$ (4,703,791)</u>	<u>\$ 6,901,078</u>

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

Note 9 – Leases

The Organization reported lease liabilities in accordance with ASU Topic 842, *Leases*. The Organization leases certain stores, facilities, and office and transportation equipment. The leases have various expiration dates through 2034. Minimum annual rental payments, excluding any future inflation adjustments, are as follows:

Years Ending December 31,

2024	\$ 24,558,526
2025	19,504,598
2026	16,498,163
2027	15,021,275
2028	11,660,900
2029–2033	15,903,863
2034	<u>200,670</u>
Less imputed interest	<u>(4,872,801)</u>
	<u>\$ 98,475,194</u>

Lease expense for the years ended December 31, 2023 and 2022, was approximately \$24,263,000 and \$23,662,000, respectively.

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Notes to Consolidated Financial Statements

Additional information for the Organization's leases at December 31, 2023, are summarized below:

Weighted-average remaining lease term	8.05 years
Weighted-average discount rate	1.4%

Sublease rental income – The Organization had agreements with nonprofit organizations to provide subleased space in a facility in Los Angeles through 2022. Minimum annual rental payments excluding any future inflation adjustments were \$0 and \$23,253 for the years ended December 31, 2023 and 2022, respectively. The agreements were not renewed in 2023. Rental revenue from sublease rents during the years ended December 31, 2023 and 2022, was \$37,000 and \$72,000, respectively, and is included in other operating revenues on the consolidated statements of activities.

Note 10 – Commitments and Contingencies

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

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

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

Note 11 – Retirement Plans

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

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

For the years ended December 31, 2023 and 2022, the Organization contributed approximately \$200,000 and \$179,000 to the Plan, respectively.

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

457(b) deferred compensation plan – The Organization has a Supplemental Executive Retirement Plan (SERP) for certain executives. The Organization records a deferred compensation liability for amounts due to these individuals which include the earnings from the invested assets. The liability is funded as required by the plan and is reported within accrued compensation and other related expenses on the consolidated statements of financial position. The corresponding investments held by the Organization are included in prepaid expenses and deposits on the consolidated statements of financial position. Total assets and liabilities amounted to approximately \$812,000 and \$753,000, respectively, for the years ended December 31, 2023 and 2022. The Organization did not contribute to the SERP for the years ended December 31, 2023 and 2022.

Note 12 – Self-Insurance

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

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

The estimated claims payable and changes in the claims payable amount for fiscal years ended December 31, 2023 and 2022, are listed below:

	2023		
	Workers' Compensation	CA SUI	Total
Claims payable, beginning of year	\$ 13,282,691	\$ 2,096,606	\$ 15,379,297
Claims incurred/changes in estimate	2,555,100	67,014	2,622,114
Claim payments	(3,461,344)	(188,399)	(3,649,743)
	<u>\$ 12,376,447</u>	<u>\$ 1,975,221</u>	<u>\$ 14,351,668</u>
	2022		
	Workers' Compensation	CA SUI	Total
Claims payable, beginning of year	\$ 13,855,450	\$ 2,678,969	\$ 16,534,419
Claims incurred/changes in estimate	2,807,289	(26,158)	2,781,131
Claim payments	(3,380,048)	(556,205)	(3,936,253)
	<u>\$ 13,282,691</u>	<u>\$ 2,096,606</u>	<u>\$ 15,379,297</u>

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

The Organization is self-insured under its workers' compensation insurance program. Excess policies provide insurance coverage on individual claims which exceed specified amounts. Each year, the Organization estimates its liability for any claims outstanding, including claims incurred but not reported. The ultimate liability for claims is estimated based on historical data related to the timing and nature of claims paid and current payroll data. Given the estimation nature of this area, it is reasonably possible that future adjustments to these estimates will be required. The workers' compensation accrual has been discounted with a rate of 3%. The discounted amount of the liability was approximately \$14,352,000 and \$15,379,000, respectively, as of December 31, 2023 and 2022, as determined by the results of the actuarial study performed.

Note 13 – Endowments

The Organization's endowment consists of individual funds established for a variety of purposes. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. A reconciliation of beginning and ending balances of endowment funds in total including investment return, contributions, amounts appropriated for expenditure, and other changes is disclosed in Note 8.

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

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

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

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

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

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

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2023 or 2022.

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

	2023	2022
Endowments held in perpetuity	\$ 2,156,110	\$ 2,156,110
Accumulated gains on endowments	808,926	411,639
	2,965,036	2,567,749
Perpetual trusts	302,279	276,647
	<u>\$ 3,267,315</u>	<u>\$ 2,844,396</u>

Named investment endowments with accumulated earnings as of December 31, 2023 and 2022, are as follows:

	2023	2022
Lawrence Page	\$ 48,455	\$ 41,962
Garrett Family	525,556	455,136
Ludwig EG Erb	2,232,384	1,933,264
Thomas Barry	132,983	115,165
Capital Campaign	25,658	22,222
	<u>\$ 2,965,036</u>	<u>\$ 2,567,749</u>

Goodwill Industries of Southern California and Affiliates

Notes to Consolidated Financial Statements

Note 14 – Subsequent Events

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

The Organization has evaluated subsequent events after the statement of financial position date for appropriate accounting and disclosure, through May 20, 2024, the date on which the consolidated financial statements were available to be issued.

Supplementary Information

Goodwill Industries of Southern California and Affiliates
Schedule – Classified Consolidated Statements of Financial Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 18,034,891	\$ 28,313,357
Investments	24,408,693	11,551,664
Accounts receivable, net	6,206,099	5,636,729
Inventory	15,211,907	13,134,436
Prepaid expenses and deposits	5,079,232	2,010,014
Other receivables	<u>-</u>	<u>1,950</u>
Total current assets	68,940,822	60,648,150
INVESTMENTS	5,996,795	2,567,749
OTHER RECEIVABLES, net of current	3,921,582	1,799,070
OPERATING LEASE RIGHT-OF-USE ASSETS	92,432,243	95,095,693
PROPERTY, PLANT, AND EQUIPMENT, net	<u>20,936,742</u>	<u>21,410,835</u>
Total assets	<u><u>\$ 192,228,184</u></u>	<u><u>\$ 181,521,497</u></u>

Goodwill Industries of Southern California and Affiliates
Schedule – Classified Consolidated Statements of Financial Position (Continued)
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 8,778,401	\$ 11,063,449
Accrued compensation and related expenses	7,059,601	6,344,672
Deferred gain on sale-leaseback, current portion	378,839	378,839
Finance lease liability	45,708	113,614
Accrued insurance claims, current portion	1,975,221	6,590,424
Operating lease right-of-use liabilities, current portion	<u>22,875,062</u>	<u>24,768,206</u>
Total current liabilities	41,112,832	49,259,204
DEFERRED GAIN ON SALE-LEASEBACK, net of current portion	999,197	1,466,549
EXECUTIVE 457 PENSION PLAN PAYABLE	812,115	752,612
INSURANCE CLAIMS ESTIMATED TO BE PAID AFTER ONE YEAR	12,376,447	8,788,873
OPERATING LEASE RIGHT-OF-USE LIABILITIES, net of current portion	<u>75,600,132</u>	<u>76,664,769</u>
Total liabilities	<u>130,900,723</u>	<u>136,932,007</u>
NET ASSETS		
Net assets without donor restrictions	54,426,383	37,323,468
Net assets with donor restrictions	<u>6,901,078</u>	<u>7,266,022</u>
Total net assets	<u>61,327,461</u>	<u>44,589,490</u>
Total liabilities and net assets	<u><u>\$ 192,228,184</u></u>	<u><u>\$ 181,521,497</u></u>

Goodwill Industries of Southern California and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Federal Grantor/Pass-through Agency Program Name or Cluster Title	Assistance Listing Number	Federal Contract or Pass- through Identification Number	Total Expenditures	Pass-through to Subrecipients
U.S. Department of Labor				
Direct Award				
Homeless Veterans' Reintegration Program	17.805	HV-35263-20-60-5-6	\$ 126,651	\$ -
Total Direct Award			126,651	-
Pass-through from Mary's Mercy Center				
Employment and Training Administration - Workforce Investment Act	17.289	09.2023-01	16,976	-
Total Pass-through from Mary's Mercy Center			16,976	-
Workforce Innovation and Opportunity Act (WIOA) Cluster				
Pass-through from the City of Los Angeles				
WIOA Adult Program	17.258	C-140733	359,328	-
WIOA Adult Program	17.258	C-143681	332,778	-
WIOA Dislocated Worker	17.278	C-140733	189,142	-
WIOA Dislocated Worker	17.278	C-143681	212,526	-
WIOA Youth	17.259	C-141178	244,431	-
WIOA Youth	17.259	C-143716	275,529	-
WIOA Adult Program	17.258	C-140734	307,987	-
WIOA Adult Program	17.258	C-143685	371,475	-
WIOA Dislocated Worker	17.278	C-140734	107,455	-
WIOA Dislocated Worker	17.278	C-143685	131,563	-
WIOA Youth	17.259	C-141178	22,996	-
WIOA Dislocated Worker	17.278	C-136431	15,738	-
WIOA Dislocated Worker	17.278	C-136643	91	-
WIOA Adult Program	17.258	C-144646	6,863	-
WIOA Dislocated Worker	17.278	C-144646	2,387	-
Total Pass-through from the City of Los Angeles			2,580,289	-
Pass-through from the County of Los Angeles				
WIOA Adult Program	17.258	2223-AJCC-ES	341,790	-
WIOA Adult Program	17.258	2223-AJCC-ES	197,368	-
WIOA Dislocated Worker	17.278	2223-AJCC-ES	59,852	-
WIOA Dislocated Worker	17.278	2223-AJCC-ES	54,001	-
WIOA Adult Program	17.258	2223-AJCC-ES	898,037	-
WIOA Adult Program	17.258	2223-AJCC-ES	441,599	-
WIOA Dislocated Worker	17.278	2223-AJCC-ES	214,317	-
WIOA Dislocated Worker	17.278	2223-AJCC-ES	143,830	-
WIOA Youth	17.259	2223-AJCC-ES	456,631	-
WIOA Youth	17.259	2223-AJCC-ES	369,919	-
WIOA Youth	17.259	2223-AJCC-ES	206,919	-
WIOA Youth	17.259	2223-AJCC-ES	146,581	-
Total Pass-through from the County of Los Angeles			3,530,844	-

See accompanying notes to schedule of expenditures of federal awards.

Goodwill Industries of Southern California and Affiliates
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2023

Federal Grantor/Pass-through Agency Program Name or Cluster Title	Listing Number	Federal Contract or Pass-through Identification Number	Total Expenditures	Pass-through to Subrecipients
Pass-through from State of California, EDD				
WIOA Adult Program	17.258	AA311070	\$ 41,044	\$ -
Total Pass-through from State of California, EDD			41,044	-
Pass-through from the County of Los Angeles through the City of Los Angeles				
WIOA Adult Program	17.258	C-140734	89,193	-
WIOA Adult Program	17.258	C-140734	64,945	-
WIOA Dislocated Worker Formula Grants	17.278	C-140734	29,313	-
WIOA Dislocated Worker Formula Grants	17.278	C-140734	17,098	-
Total Pass-through from the County of Los Angeles through the City of Los Angeles			200,549	-
Total WIOA Cluster			6,352,726	-
Total U.S. Department of Labor			6,496,353	-
U.S. Department of Health and Human Services				
Pass-through from the County of Los Angeles				
Temporary Assistance for Needy Families	93.558	2223-AJCC-ES	194,129	-
Temporary Assistance for Needy Families	93.558	2223-AJCC-ES	83,719	-
Temporary Assistance for Needy Families	93.558	2223-AJCC-ES	52,992	-
Temporary Assistance for Needy Families	93.558	2223-AJCC-ES	28,677	-
Temporary Assistance for Needy Families	93.558	2223-AJCC-ES	69,456	-
Temporary Assistance for Needy Families	93.558	2223-AJCC-ES	40,529	-
Temporary Assistance for Needy Families	93.558	2223-AJCC-ES	7,606	-
Temporary Assistance for Needy Families	93.558	2223-AJCC-ES	10,186	-
Total Pass-through from the County of Los Angeles			487,294	-
County Pass Through City of Los Angeles				
Temporary Assistance for Needy Families	93.558	C-141293	16,366	-
Temporary Assistance for Needy Families	93.558	C-144313	16,409	-
Temporary Assistance for Needy Families	93.558	C-138879	(30)	-
Temporary Assistance for Needy Families	93.558	C-141293	31,490	-
Temporary Assistance for Needy Families	93.558	C-144313	27,579	-
Temporary Assistance for Needy Families	93.558	C-141293	35,949	-
Total - County Pass through City of Los Angeles			127,763	-
Pass-through from County of San Bernardino				
CalWORKS Youth Employment Program (TANF)	93.558	23-616	8,536	-
CalWORKS Subsidized Employment Program (TANF)	93.558	23-622	34,193	-
Total Pass-through from County of San Bernardino			42,729	-
Total U.S. Department of Health and Human Services and Temporary Assistance for Needy Families			657,786	-

See accompanying notes to schedule of expenditures of federal awards.

Goodwill Industries of Southern California and Affiliates
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2023

Federal Grantor/Pass-through Agency Program Name or Cluster Title	Listing Number	Federal Contract or Pass- through Identification Number	Total Expenditures	Pass-through to Subrecipients
U.S. Department of Agriculture				
Supplemental Nutrition Assistance Program (SNAP) Cluster				
Pass-through from the County of Los Angeles				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	CEPP-21-01	\$ 155,540	\$ -
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	CEPP-21-01	78,493	-
Pass-through from the County of San Bernardino				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	19-659	170,227	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	19-659	37,645	-
Total U.S. Department of Agriculture and SNAP Cluster			441,905	-
U.S. Department of Housing and Urban Development				
CDBG - Entitlement Grants Cluster				
Pass-through from the City of Los Angeles				
Community Development Block Grants/Entitlement Grants	14.218	C-139813	58,190	-
Community Development Block Grants/Entitlement Grants	14.218	C-139815	111,832	-
Total CDBG Entitlement Grants Cluster			170,022	-
Total U.S. Department of Housing and Urban Development			170,022	-
U.S. Department of Treasury				
Pass-through from the County of Los Angeles				
Covid-19-Coronavirus State and Local Fiscal Recovery Fund	21.027	ARP-PRRR-02	1,050,759	-
Covid-19-Coronavirus State and Local Fiscal Recovery Fund	21.027	ARP-EL-02	354,480	-
Total Pass-through from the County of Los Angeles			1,405,239	-
Pass-through from the City of Los Angeles				
Covid-19-Coronavirus State and Local Fiscal Recovery Fund	21.027	C-141557	5,017	-
Covid-19-Coronavirus State and Local Fiscal Recovery Fund	21.027	C-141845	636	-
Covid-19-Coronavirus State and Local Fiscal Recovery Fund	21.027	C-142559	2,503	-
Covid-19-Coronavirus State and Local Fiscal Recovery Fund	21.027	C-144641	29,790	-
Total Pass-through from the City of Los Angeles			37,946	-
Total U.S. Department of Treasury			1,443,185	-
U.S. Department of Rehabilitation				
Pass-through from Foundation for California Community College				
WIOA Vocational Rehabilitation funds	84.126A	00005872	63,852	-
Total Pass-through from Foundation for California Community College			63,852	-
Total U.S. Department of Rehabilitation			63,852	-
Total Federal Awards			\$ 9,273,103	\$ -

See accompanying notes to schedule of expenditures of federal awards.

Goodwill Industries of Southern California and Affiliates

Notes to Schedule of Expenditures of Federal Awards

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes federal award activity of Goodwill Industries of Southern California and Affiliates (the Organization) under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the 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). Because this Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated financial position, changes in net assets, functional expenses, or cash flows of the Organization. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3 – Indirect Cost Rate

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

Report of Independent Auditors 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*

The Board of Directors
Goodwill Industries of Southern California and Affiliates

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 Southern California and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2023, and 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, and have issued our report thereon dated May 20, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Goodwill Industries of Southern California and Affiliates' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Goodwill Industries of Southern California and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Goodwill Industries of Southern California and Affiliates' 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 Industries of Southern California and Affiliates' 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 consolidated financial statements. 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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

El Segundo, California
May 20, 2024

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

The Board of Directors
Goodwill Industries of Southern California and Affiliates

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Goodwill Industries of Southern California and Affiliates' 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 Industries of Southern California and Affiliates' major federal programs for the year ended December 31, 2023. Goodwill Industries of Southern California and Affiliates' 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 Industries of Southern California and Affiliates 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, 2023.

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 Industries of Southern California and Affiliates 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 Industries of Southern California and Affiliates' 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 Industries of Southern California and Affiliates' 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 Industries of Southern California and Affiliates' 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 Industries of Southern California and Affiliates' 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 Industries of Southern California and Affiliates' 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 Industries of Southern California and Affiliates' 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 Industries of Southern California and Affiliates' 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 a 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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

El Segundo, California
May 20, 2024

Goodwill Industries of Southern California and Affiliates
Schedule of Findings and Questioned Costs
Year Ended December 31, 2023

Section I – Summary of Auditors' Results

Consolidated Financial Statements

Type of auditor's report issued on whether the consolidated financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No
Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over each major federal program:

Material weakness(es) identified? ☐ Yes ☒ No
Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of Each Major Federal Program and Type of Auditor's Report Issued on Compliance for Each Major Federal Program:

<i>Assistance Listing Numbers</i>	<i>Name of Federal Program and Cluster</i>	<i>Type of Auditor's Report Issued on Compliance for each Major Federal Programs</i>
17.258 / 17.259 / 17.278	Workforce Innovation and Opportunity Act (WIOA) Cluster	Unmodified
21.027	Covid-19-Coronavirus State and Local Fiscal Recovery Fund	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

