

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

Morgan Memorial Goodwill Industries, Inc.

June 30, 2020 and 2019

Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated financial statements	
Consolidated statements of financial position	5
Consolidated statement of activities (2020)	6
Consolidated statement of activities (2019)	7
Consolidated statements of cash flows	8
Consolidated statement of functional expenses (2020)	9
Consolidated statement of functional expenses (2019)	10
Notes to consolidated financial statements	11

GRANT THORNTON LLP

75 State Street, 13th Floor
Boston, MA 02109-1827

D 617 723 7900

F 617 723 3640

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Morgan Memorial Goodwill Industries, Inc.

Report on the financial statements

We have audited the accompanying consolidated financial statements of Morgan Memorial Goodwill Industries, Inc. and its subsidiary and its affiliate (collectively, "Goodwill"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Goodwill's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Goodwill's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Morgan Memorial Goodwill Industries, Inc. and its subsidiary and its affiliate as of June 30, 2020 and 2019, 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.

Grant Thornton LLP

Boston, Massachusetts
September 22, 2020

Morgan Memorial Goodwill Industries, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

ASSETS	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,606,767	\$ 2,622,124
Accounts receivable	925,650	1,763,348
Inventory	671,200	681,306
Prepaid expenses	<u>715,267</u>	<u>610,591</u>
Total current assets	4,918,884	5,677,369
NON-CURRENT ASSETS		
Land, buildings and equipment, net	5,840,299	6,642,346
Investments	20,189,126	18,994,433
Beneficial interests in trusts and split-interest agreements	6,330,514	6,272,709
Other noncurrent assets	<u>455,375</u>	<u>495,814</u>
Total non-current assets	<u>32,815,314</u>	<u>32,405,302</u>
Total assets	<u><u>\$ 37,734,198</u></u>	<u><u>\$ 38,082,671</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,632,695	\$ 1,196,641
Accrued payroll and employee benefits	1,383,716	1,214,136
Other current liabilities	274,754	412,545
Current portion of long-term debt	<u>63,271</u>	<u>88,353</u>
Total current liabilities	3,354,436	2,911,675
LONG-TERM LIABILITIES		
Long-term debt	4,225,690	4,273,904
Other long-term liabilities	<u>625,980</u>	<u>530,069</u>
Total long-term liabilities	<u>4,851,670</u>	<u>4,803,973</u>
Total liabilities	<u>8,206,106</u>	<u>7,715,648</u>
NET ASSETS		
Without donor restrictions	11,493,458	12,959,377
With donor restrictions	<u>18,034,634</u>	<u>17,407,646</u>
Total net assets	<u>29,528,092</u>	<u>30,367,023</u>
Total liabilities and net assets	<u><u>\$ 37,734,198</u></u>	<u><u>\$ 38,082,671</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Morgan Memorial Goodwill Industries, Inc.

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2020 (with summarized information for the year ended June 30, 2019)

	2020			2019 Total
	Without donor restrictions	With donor restrictions	Total	
OPERATING REVENUES AND OTHER SUPPORT				
Retail sales	\$ 16,426,340	\$ -	\$ 16,426,340	\$ 21,365,609
Contribution of donated goods	7,457,775	-	7,457,775	7,582,624
Fees and grants	5,796,771	-	5,796,771	7,374,274
Worksite revenue	3,484,500	-	3,484,500	3,376,249
Contributions and bequests	1,910,029	599,658	2,509,687	1,810,967
Trust interest income	255,437	-	255,437	280,781
Income appropriated under total return spending policy	623,004	-	623,004	584,000
Net assets released from purpose restrictions	250,000	(250,000)	-	-
Other revenue	48,477	-	48,477	45,925
Total operating revenues and other support	36,252,333	349,658	36,601,991	42,420,429
OPERATING EXPENSES				
Program services				
Retail enterprise				
Cost of goods sold - retail	7,467,881	-	7,467,881	7,559,239
Other retail	18,164,935	-	18,164,935	19,526,673
Total retail enterprise	25,632,816	-	25,632,816	27,085,912
Job training and career services	8,122,238	-	8,122,238	9,481,879
Total program services	33,755,054	-	33,755,054	36,567,791
Support services				
Management and general	3,486,289	-	3,486,289	4,265,575
Fundraising	904,140	-	904,140	1,117,389
Total support services	4,390,429	-	4,390,429	5,382,964
Total operating expenses	38,145,483	-	38,145,483	41,950,755
Change in net assets from operating activities	(1,893,150)	349,658	(1,543,492)	469,674
NON-OPERATING ACTIVITIES				
Investment return, net of amounts appropriated under total return spending policy	343,076	215,663	558,739	1,106,645
Other revenues	-	-	-	18,183
Gain on sale of property and equipment	84,155	-	84,155	-
Changes in fair value of beneficial interests in trusts and split-interest agreements	-	61,667	61,667	3,738
Change in net assets from non-operating activities	427,231	277,330	704,561	1,128,566
Change in net assets	(1,465,919)	626,988	(838,931)	1,598,240
Net assets beginning of year	12,959,377	17,407,646	30,367,023	28,768,783
Net assets end of year	\$ 11,493,458	\$ 18,034,634	\$ 29,528,092	\$ 30,367,023

The accompanying notes are an integral part of this consolidated financial statement.

Morgan Memorial Goodwill Industries, Inc.

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
OPERATING REVENUES AND OTHER SUPPORT			
Retail sales	\$ 21,365,609	\$ -	\$ 21,365,609
Contribution of donated goods	7,582,624	-	7,582,624
Fees and grants	7,374,274	-	7,374,274
Worksite revenue	3,376,249	-	3,376,249
Contributions and bequests	1,391,432	419,535	1,810,967
Trust interest income	280,781	-	280,781
Income appropriated under total return spending policy	584,000	-	584,000
Net assets released from purpose restrictions	389,581	(389,581)	-
Other revenue	45,925	-	45,925
	<u>42,390,475</u>	<u>29,954</u>	<u>42,420,429</u>
OPERATING EXPENSES			
Program services			
Retail enterprise			
Cost of goods sold - retail	7,559,239	-	7,559,239
Other retail	19,526,673	-	19,526,673
	<u>27,085,912</u>	<u>-</u>	<u>27,085,912</u>
Job training and career services	9,481,879	-	9,481,879
	<u>36,567,791</u>	<u>-</u>	<u>36,567,791</u>
Support services			
Management and general	4,265,575	-	4,265,575
Fundraising	1,117,389	-	1,117,389
	<u>5,382,964</u>	<u>-</u>	<u>5,382,964</u>
	<u>41,950,755</u>	<u>-</u>	<u>41,950,755</u>
Change in net assets from operating activities	<u>439,720</u>	<u>29,954</u>	<u>469,674</u>
NON-OPERATING ACTIVITIES			
Investment return, net of amounts appropriated under total return spending policy	665,300	441,345	1,106,645
Other revenues (expenses)	(21,792)	39,975	18,183
Changes in fair value of beneficial interests in trusts and split-interest agreements	-	3,738	3,738
	<u>643,508</u>	<u>485,058</u>	<u>1,128,566</u>
Change in net assets from non-operating activities	<u>643,508</u>	<u>485,058</u>	<u>1,128,566</u>
Change in net assets	1,083,228	515,012	1,598,240
Net assets beginning of year	11,876,149	16,892,634	28,768,783
Net assets end of year	<u>\$ 12,959,377</u>	<u>\$ 17,407,646</u>	<u>\$ 30,367,023</u>

The accompanying notes are an integral part of this consolidated financial statement.

Morgan Memorial Goodwill Industries, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets provided by operations:	\$ (838,931)	\$ 1,598,240
Net realized and unrealized gains on investments and split-interest agreements	(787,112)	(1,354,734)
Depreciation	1,130,399	1,210,596
Change in operating assets and liabilities:		
Accounts receivable	837,698	(42,992)
Inventory	10,106	(10,835)
Prepaid expenses	(104,676)	62,925
Other assets	40,439	(158,164)
Accounts payable and accrued expenses	436,054	240,425
Accrued payroll and employee benefits	169,580	49,939
Other current liabilities	(137,791)	(180,054)
Other long-term liabilities	95,911	41,341
Net cash provided by operating activities	793,872	1,398,879
Cash flows from investing activities:		
Purchase of land, building and equipment	(328,352)	(709,967)
Purchases of investments	(4,305,617)	(9,487,018)
Proceeds from sales of investments	3,898,036	9,103,590
Net cash used in investing activities	(735,933)	(1,093,395)
Cash flows from financing activities:		
Net repayments on line of credit	-	(293,371)
Principal payments on note payable	(73,296)	(84,332)
Net cash used in financing activities	(73,296)	(377,703)
Net change in cash and cash equivalents	(15,357)	(72,219)
Cash and cash equivalents, beginning of year	2,622,124	2,694,343
Cash and cash equivalents, end of year	\$ 2,606,767	\$ 2,622,124
Supplemental disclosures:		
Contributions of donated goods and purchased goods	\$ 7,457,775	\$ 7,582,624
Cost of sales	7,467,881	7,559,239
Noncash changes to inventory	(10,106)	(10,835)
Cash paid for interest	227,496	232,633

The accompanying notes are an integral part of these consolidated financial statements.

Morgan Memorial Goodwill Industries, Inc.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2020 (with summarized information for the year ended June 30, 2019)

	Program services			Support services			2020 Total	2019 Total
	Retail enterprise	Job training and career services	Total program services	Management and general	Fundraising	Total support services		
Cost of goods sold - retail	\$ 7,467,881	\$ -	\$ 7,467,881	\$ -	\$ -	\$ -	\$ 7,467,881	\$ 7,559,239
Salaries and wages	7,282,324	4,681,017	11,963,341	2,264,147	430,837	2,694,984	14,658,325	16,959,439
Employee benefits	1,844,376	1,382,844	3,227,220	418,661	61,003	479,664	3,706,884	3,378,737
Non-payroll - temporary help	65,975	744	66,719	303	9,248	9,551	76,270	269,095
Total salaries and related expenses	9,192,675	6,064,605	15,257,280	2,683,111	501,088	3,184,199	18,441,479	20,607,271
Occupancy	5,586,598	716,344	6,302,942	191,449	17,304	208,753	6,511,695	6,703,053
Professional fees and contracts	298,199	313,733	611,932	251,468	167,737	419,205	1,031,137	1,739,108
Events	11,493	37,617	49,110	11,600	4,754	16,354	65,464	224,378
Goods and supplies	772,867	371,801	1,144,668	141,494	74,147	215,641	1,360,309	1,409,369
Vehicle and travel expenses	1,034,346	150,204	1,184,550	26,277	369	26,646	1,211,196	1,315,183
Rental and maintenance of equipment	201,806	66,295	268,101	32,843	4,968	37,811	305,912	361,819
Printing, advertising and publications	67,897	13,155	81,052	18,773	104,446	123,219	204,271	295,267
Meetings and dues	89,737	43,419	133,156	42,852	3,736	46,588	179,744	259,581
Bad debt expense	-	-	-	-	8,500	8,500	8,500	33,258
Interest expense	120,463	53,394	173,857	47,189	6,450	53,639	227,496	232,633
Depreciation	788,854	291,671	1,080,525	39,233	10,641	49,874	1,130,399	1,210,596
Total other expenses	8,972,260	2,057,633	11,029,893	803,178	403,052	1,206,230	12,236,123	13,784,245
Total expenses	\$ 25,632,816	\$ 8,122,238	\$ 33,755,054	\$ 3,486,289	\$ 904,140	\$ 4,390,429	\$ 38,145,483	\$ 41,950,755

The accompanying notes are an integral part of this consolidated financial statement.

Morgan Memorial Goodwill Industries, Inc.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2019

	Program services			Support services			2019 Total
	Retail enterprise	Job training and career services	Total program services	Management and general	Fundraising	Total support services	
Cost of goods sold - retail	\$ 7,559,239	\$ -	\$ 7,559,239	\$ -	\$ -	\$ -	\$ 7,559,239
Salaries and wages	8,695,430	5,498,165	14,193,595	2,252,639	513,205	2,765,844	16,959,439
Employee benefits	1,668,915	1,270,778	2,939,693	373,128	65,916	439,044	3,378,737
Non-payroll - temporary help	73,746	3,352	77,098	191,997	-	191,997	269,095
Total salaries and related expenses	10,438,091	6,772,295	17,210,386	2,817,764	579,121	3,396,885	20,607,271
Occupancy	5,509,617	840,751	6,350,655	332,066	20,332	352,398	6,703,053
Professional fees and contracts	223,874	754,346	978,220	593,208	167,680	760,888	1,739,108
Events	15,988	38,664	54,652	36,704	133,022	169,726	224,378
Goods and supplies	796,221	428,966	1,225,187	105,805	78,377	184,182	1,409,369
Vehicle and travel expenses	1,143,379	144,445	1,287,824	26,627	732	27,359	1,315,183
Rental and maintenance of equipment	252,318	73,738	326,056	30,137	5,626	35,763	361,819
Printing, advertising and publications	101,313	37,955	139,268	47,576	108,423	155,999	295,267
Meetings and dues	83,755	49,923	133,678	120,828	5,075	125,903	259,581
Bad debt expense	-	-	-	31,258	2,000	33,258	33,258
Interest expense	120,793	55,673	176,466	48,782	7,385	56,167	232,633
Depreciation	840,459	285,701	1,126,160	74,820	9,616	84,436	1,210,596
Total other expenses	9,087,717	2,710,162	11,798,166	1,447,811	538,268	1,986,079	13,784,245
Total expenses	\$ 27,085,047	\$ 9,482,457	\$ 36,567,791	\$ 4,265,575	\$ 1,117,389	\$ 5,382,964	\$ 41,950,755

The accompanying notes are an integral part of this consolidated financial statement.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 1 - ORGANIZATION

Morgan Memorial Goodwill Industries, Inc. ("Goodwill") is a non-profit organization whose mission is to help individuals with barriers to self-sufficiency to achieve independence and dignity through work. *Not charity but a chance.*

Goodwill's job training and career services help those considered hardest to employ to enter and succeed in the workforce. Goodwill is the operator of a one-stop career center, which serves job seekers and employers seeking qualified employees. Goodwill runs a retail enterprise that collects and sells donated clothing and household goods and other social enterprises. The social enterprises provide on-the-job training opportunities for individuals in its programs. Goodwill is headquartered in Boston and operates in multiple locations in Massachusetts.

Goodwill is the sole member of Goodwill Headquarters, Inc. ("GHI"), a Massachusetts non-profit organization established to support and operate for the benefit of Goodwill. GHI had no activity during fiscal years 2020 or 2019.

Goodwill Industries of the Pioneer Valley ("Pioneer Valley") was a Massachusetts non-profit organization that helped individuals with barriers to self-sufficiency to achieve independence and dignity through work and served the Pioneer Valley and western Massachusetts. Goodwill was the sole member of Pioneer Valley during the year ending June 30, 2019 and the results of Pioneer Valley were consolidated with the financial statements of Goodwill and all intercompany transactions were eliminated. Effective July 1, 2019, all assets and property of Pioneer Valley were transferred to Goodwill, and Pioneer Valley was dissolved. Pioneer Valley had interests in certain trusts; the Trustees have not made final determinations regarding the assignment of such interests to Goodwill.

Goodwill is supported from various sources, including contributions and bequests (7%), contributions of donated goods and retail sales (66%), fees and grants (including federal, state and local governments) (16%), worksite revenue (10%), and other sources (1%) for the fiscal year ended June 30, 2020.

As a result of the outbreak of COVID-19, Goodwill was required to close its retail stores for approximately three months beginning in March 2020. In response, management implemented cost savings and other measures to drastically reduce operating expenses and ensure adequate liquidity. Retail stores reopened starting in June 2020. However, given the uncertainty about the pandemic's duration, the full operational and financial impact of COVID-19 cannot be determined at this time.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A summary of Goodwill's significant accounting policies are as follows:

Basis of Presentation

The accompanying consolidated financial statements and notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Classification and Reporting of Net Assets

The consolidated financial statements have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Without donor restrictions - Net assets that are not subject to donor-imposed restrictions or for which restrictions have expired. Included in this category are net assets totaling \$900,508 designated by the Board of Directors (\$250,000 in the year ended June 30, 2020 for a project to upgrade the headquarters grounds and parking/truck lots and \$650,508 in the year ended June 30, 2008 for the Fresh Air Camp).

With donor restrictions - Net assets subject to donor-imposed restrictions that permit Goodwill to use or expend the donated assets as specified and are satisfied by either the passage of time or by actions of Goodwill. Also included in this category are net assets subject to donor-imposed restrictions that stipulate that resources be maintained permanently but may permit Goodwill to use or expend part or all of the economic benefits derived from the donated assets.

Cash and Cash Equivalents

All highly liquid debt instruments purchased with an original maturity of three months or less are considered to be cash equivalents, excluding amounts held in investments. Cash in bank deposit accounts may exceed federally insured limits. Goodwill has not experienced any losses in such accounts, and management believes cash in excess of insured limits is not at any significant risk of loss.

Accounts Receivable

Accounts receivable represent amounts due from state agencies as well as other organizations related to contracts, fees, and grants. Credit is extended on a short-term basis and accounts receivable do not bear interest. Accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Provisions for uncollectible accounts are determined based on loss experience, known or inherent risks and current economic conditions.

Inventory and Contributions of Donated Goods

Inventory consists of donated goods ready for sale and is valued at estimated fair value using the methodology provided by Goodwill Industries International, Inc. The methodology follows the retail method of accounting for inventory whereby ending inventory represents the present value of future cash flows, or the future selling price, reduced to a cost basis using the average margin on sales of goods. Prior to reaching the point of sale, donated inventory is valued at zero. Contributions of donated merchandise were valued at \$7,457,775 and \$7,582,624 for the years ended June 30, 2020 and 2019, respectively.

Processing donated merchandise requires program-related expenses before it reaches the point of sale. Such expenses include the cost of activities accomplished by people with barriers to self-sufficiency.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost, except for contributed items, which are recorded at estimated fair value at the date of the contribution. Depreciation is calculated over the estimated useful lives of the assets on a straight-line basis as follows:

<u>Description</u>	<u>Years</u>
Land improvements	10-25
Buildings	40
Building improvements	5-40
Equipment	3-10
Leasehold improvements	Lesser of the term of the lease or estimated useful life

Expenditures for major improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

Investments

Investments are stated at fair value and investment return, including interest, dividends, realized and unrealized gains and losses on investments is included in the consolidated statement of activities.

Revenue Recognition

Retail sales are recognized at the time of sale.

Goodwill adopted Accounting Standards Update ("ASU") 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* during the year ended June 30, 2020. The adoption did not have a material impact on its consolidated financial statements. In accordance with ASU 2018-08, Goodwill evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, Goodwill applies guidance for exchange transactions. If the transfer of assets is determined to be a contribution, Goodwill evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before Goodwill is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

Worksite revenue is recognized as services are rendered or contractual commitments are met based on the terms of contracts with funding sources.

Contributions

Unconditional promises to give are reported at fair value at the date the promise is received. Conditional promises to give, and indications of intentions to give, are not reported until the gift is received, or the conditional promise becomes unconditional. Contributions of assets other than cash are reported at estimated fair value. Contributions received with donor-imposed stipulations that limit their use are reported as net assets with donor restrictions. Contributions to be received after one year are discounted at a rate reflecting the risk involved and the discount is amortized based on the expected receipt date of the gift.

When a donor-imposed stipulation is met by the passage of time or when expenses have been incurred to satisfy their restricted purpose, donor restricted net assets are reclassified to net assets without donor restrictions and reported as net assets released from restrictions. This applies to restricted contributions for which donor-imposed stipulations are met in the same fiscal year as they are received.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Contributed Goods and In-Kind Services

Contributions of goods are reported at the fair value of the goods at the time of donations. Many individuals volunteer their time and perform a variety of tasks that assist Goodwill in carrying out its programs and services. Goodwill received a significant amount of volunteer hours during the years ended June 30, 2020 and 2019. No value for these volunteer hours was recorded as the nature of these services did not create or enhance nonfinancial assets or require specialized skills which would have otherwise been purchased.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the program and support services based on relative effort expended.

Income Taxes

Goodwill, GHI, and Pioneer Valley are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"), and are generally exempt from income taxes pursuant to Section 501(a) of the Code. They are required to assess uncertain tax positions and have determined that there were no such positions that are material to the consolidated financial statements at June 30, 2020 or 2019.

Non-Operating Activities

Non-operating activities include investment income, net of amounts appropriated under the total return spending policy, changes in the value of interest agreements and perpetual trusts, and other non-operating gains (losses).

Use of Estimates

In preparing financial statements in accordance with US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The objective of the new guidance is to establish the principles to report useful information to users of financial statements about the nature, timing and uncertainty of revenue from contracts with customers. In June 2020, the FASB issued ASU 2020-05, which included a deferral by one year of the effective date of ASU 2014-09, to the year ending June 30, 2021, for Goodwill. Goodwill does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 3 - LIQUIDITY AND AVAILABILITY

Goodwill's financial assets available within one year of the statement of financial position for general expenditure are as follows as of June 30, 2020 and 2019:

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 2,606,767	\$ 2,622,124
Accounts receivable to be collected during the year	925,650	1,763,348
Future fiscal year spending policy allocation	664,000	623,000
Total financial assets available within one year	4,196,417	5,008,472
Liquidity resources:		
Bank line of credit	7,218,910	2,500,000
Total financial assets and liquidity resources available within one year	\$ 11,415,327	\$ 7,508,472

As part of the Goodwill's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, Goodwill has available a line of credit in the amount of \$7,218,910, which it could draw upon. Although Goodwill does not intend to spend from its undesignated investments (other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process), amounts from its undesignated investments could be made available if necessary.

NOTE 4 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consists of the following at June 30:

	2020	2019
Land and land improvements	\$ 1,336,160	\$ 1,341,164
Buildings and building improvements	16,736,251	16,680,466
Leasehold improvements	3,142,803	2,697,843
Construction in progress	36,253	228,419
Equipment	10,382,470	10,134,917
	31,633,937	31,082,809
Less: accumulated depreciation	25,793,638	24,440,463
	\$ 5,840,299	\$ 6,642,346

Depreciation expense was \$1,130,399 and \$1,210,596 for the years ended June 30, 2020 and 2019, respectively.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 5 - INVESTMENTS

Investments are reported at fair value and consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Marketable equity securities (common stocks, mutual funds, exchange traded funds)	\$ 11,837,649	\$ 11,719,823
Government and corporate bonds	7,411,227	6,975,956
Cash and cash equivalents	940,250	298,654
	<u>\$ 20,189,126</u>	<u>\$ 18,994,433</u>

NOTE 6 - BENEFICIAL INTERESTS IN TRUSTS AND SPLIT-INTEREST AGREEMENTS

Goodwill has beneficial interests in perpetual trusts valued at \$5,993,429 and \$5,931,761 at June 30, 2020 and 2019, respectively. The principal is restricted in perpetuity. The net income generated by the investments is distributed to the beneficiaries and is income without donor restrictions. Distributions from these trusts were \$255,437 and \$280,781 for the years ended June 30, 2020 and 2019, respectively. Goodwill has other split-interest agreements (primarily charitable trusts) valued at \$337,085 and \$340,948 at June 30, 2020 and 2019, respectively.

Increases in the value of the trust assets (including unrealized gains and losses), amounted to \$61,667 and \$3,738 for the years ended June 30, 2020 and 2019, respectively.

Charitable remainder trusts have been discounted using a discount rate of 5%.

NOTE 7 - BORROWINGS

Revolving Line of Credit

Goodwill has available a revolving line of credit of \$2,500,000 with a bank. In May 2020, the terms of the agreement were amended to require monthly payments of interest only in arrears beginning June 15, 2020. Prior to the amendment, borrowings were due on demand. Interest accrues at a fluctuating per annum rate equal to 2% per annum over LIBOR, based on a year of 360 days (2.18% and 4.39% at June 30, 2020 and 2019, respectively). All deposit accounts with the bank and certain marketable securities are pledged as collateral for the revolving line of credit. There was no balance outstanding at both June 30, 2020 and 2019. There was no interest expense related to the line of credit for the years ended June 30, 2020 and 2019.

Construction Line of Credit

Effective March 15, 2016, Goodwill entered a non-revolving line of credit facility with the same bank. The facility allowed for borrowings of up to the lesser of \$5,000,000 or 70% of the marketable securities which secure the borrowing. Borrowings were to be used for build-out for new retail stores or renovating existing retail stores. In May 2020, the line of credit was amended to allow for borrowings to be used for general operating purposes and to modify the terms to allow for revolving borrowings. Advances under this agreement are required to occur by March 15, 2021. Borrowings accrue interest at a fluctuating per annum rate equal to the 30-day LIBOR as provided by the British Bankers' Association plus 200 basis points (2.18% and 4.39% at June 30, 2020 and 2019, respectively).

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

As of June 30, 2019, borrowings were due in monthly payments (commencing on April 1, 2021) based on a 10-year amortization schedule. The entire balance and principal and all accrued interest thereon, and all other fees, costs, and charges, if any, would be due and payable on or before March 15, 2031. In May 2020, the agreement was amended to revise the payment terms as follows:

- (1) Commencing on October 15, 2020 and thereafter on the 15th day of each succeeding calendar month through and including March 15, 2021, interest on the unpaid principal then outstanding shall be paid in arrears through the end of the preceding 30-day period;
- (2) Commencing on April 15, 2021 and thereafter on the 15th day of each succeeding calendar month up to March 31, 2031, interest on the unpaid principal then outstanding and principal shall be paid, based upon a ten-year amortization schedule; and
- (3) The entire balance of principal and all accrued interest thereon, and all other fees, costs and charges, if any, shall be due and payable on or before March 31, 2031.

Borrowings are cross collateralized with all deposit accounts with the bank and certain marketable securities as defined in the agreement.

This line of credit facility contains certain financial covenants to which Goodwill must adhere. Goodwill was not in compliance with one of these covenants as of June 30, 2020 and was subsequently granted a waiver from the lender. The balance outstanding was \$281,090 as of June 30, 2020 and 2019 and is included in long-term debt in the accompanying statements of financial position.

Note Payable

On January 18, 2018, Goodwill entered a promissory note with a bank in order to refinance certain existing debt for \$4,200,000. The loan bears interest at a fixed rate of 5.27% and is payable in monthly principal and interest payments of approximately \$25,000, with any outstanding principal and interest due on January 18, 2043. In May 2020, Goodwill entered into an amendment which deferred all principal and interest payments from that point through October 2020. The note is secured by the land and buildings of Goodwill's headquarters in Boston. Scheduled principal payments on the note and lines of credit as of June 30, 2020 are as follows:

	<u>Amount</u>
2021	\$ 63,271
2022	98,924
2023	104,341
2024	109,517
2025	122,407
Thereafter	<u>3,727,230</u>
Total	<u>\$ 4,225,690</u>

NOTE 8 - EMPLOYEE BENEFIT PLANS

Goodwill maintains an employee benefit plan ("403(b) Plan") that provides for tax-deferred employee benefits under Section 403(b) of the Code. The 403(b) Plan allows employees to make contributions, a portion of which may be matched by Goodwill. Goodwill contributed \$121,818 and \$105,128 to the 403(b) Plan for the years ended June 30, 2020 and 2019, respectively.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Goodwill also offers an employee benefit plan (“401(a) Plan”) that provides for tax-deferred employee benefits under Section 401(a) of the Code. The 401(a) Plan allows participants to make contributions. There were no contributions from Goodwill to this plan during 2020 and 2019.

Goodwill also maintains a deferred compensation plan (“457(b) Plan”) for key members of management. As of June 30, 2020, and 2019, the fair value of the assets and the related obligation of the 457(b) Plan were \$312,681 and \$292,474, respectively, and are included in other noncurrent assets and other long-term liabilities in the accompanying statements of financial position.

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as to use are available for the following purposes June 30:

	2020	2019
Programs	\$ 4,132,470	\$ 3,766,592
Beneficial interest in charitable unitrusts	337,085	340,948
Cumulative appreciation and reinvestment gains on net assets restricted in perpetuity	2,205,421	2,002,117
	\$ 6,674,976	\$ 6,109,657

Net assets restricted by donors for permanent endowment consisted consist of the following at June 30:

	2020	2019
Income to be used for general purposes	\$ 3,168,295	\$ 3,168,295
Income restricted for various purposes	2,197,934	2,197,933
Beneficial interests in perpetual trusts	5,993,429	5,931,761
	\$ 11,359,658	\$ 11,297,989

NOTE 10 - ENDOWMENTS AND ENDOWMENT ACTIVITY

Interpretation of Relevant Law

Goodwill manages its endowment consistent with the Massachusetts Act, and the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). Goodwill’s policy is to preserve the value of the original gifts as of the gift dates and classify the gifts as net assets with donor restrictions (see Note 11). The net appreciation is also classified as net assets with donor restrictions until appropriated for expenditure consistent with donor restrictions and Goodwill’s Total Return Spending Policy.

Endowment Investment Policy

Goodwill has pooled the endowment assets under its management with other funds in a single investment pool and has adopted a uniform investment approach.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Strategies Employed for Achieving Objectives

Under Goodwill's Investment Policy and Total Return Spending Policy, both of which are approved by the Board of Directors, the investment pool is invested to preserve the long-term purchasing power of Goodwill's assets relative to inflation and to provide a reasonable, predictable and stable revenue stream to support Goodwill's mission. Actual returns in any given year may vary. Goodwill relies on a total-return approach in which investment returns are achieved through both capital appreciation and interest and dividends. Goodwill has assigned the management and investment of the investment pool to an investment manager appointed by the Board of Directors based on the recommendation of the Board Investment Committee and subject to the Investment Policy. The Board of Directors provides periodic oversight of the actions of the investment manager through the Investment Committee.

Spending Policy

Goodwill has a total-return spending policy designed to preserve the long-term purchasing power of assets relative to inflation, to provide a reasonable and predictable revenue stream to support Goodwill's mission, and to allow flexibility relative to extraordinary projects and one-time initiatives. The Board-approved spending formula provides for an annual spending rate of up to 4% of the average simple market value balance of the investment assets (including non-endowment investments without donor restrictions) for the 20 quarters up to the quarter ending March 31 of the preceding fiscal year. The total amount appropriated under the total return spending policy was \$623,004 and \$584,000 for the years ended June 30, 2020 and 2019, respectively, which was not withdrawn from the investment portfolio.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their historic dollar value. Deficiencies of this nature are reported as a charge to net assets with donor restrictions. As of June 30, 2020, and 2019, Goodwill had no funds with deficiencies.

Endowment Fund Activity and Net Asset Balances

Goodwill has an endowment comprised of donor-restricted funds that are limited by donor-imposed stipulations. Beneficial interests in perpetual trusts are not included in the endowment.

Endowment fund activity for the year ended June 30, 2020 is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 11,518,213	\$ 7,366,326	\$ 18,884,539
Investment return, net	1,395,854	446,927	1,842,781
Appropriation of endowment assets for operations (spending policy)	<u>(381,401)</u>	<u>(241,603)</u>	<u>(623,004)</u>
Endowment net assets, end of year	<u>\$ 12,532,666</u>	<u>\$ 7,571,650</u>	<u>\$ 20,104,316</u>

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Endowment fund activity for the year ended June 30, 2019 is as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 10,207,999	\$ 6,924,981	\$ 17,132,980
Investment return, net	1,656,876	678,683	2,335,559
Appropriation of endowment assets for operations (spending policy)	(346,662)	(237,338)	(584,000)
Endowment net assets, end of year	\$ 11,518,213	\$ 7,366,326	\$ 18,884,539

NOTE 11 - LEASE COMMITMENTS AND CONTINGENCIES

Operating Leases

Goodwill has non-cancelable operating leases for retail and training facilities and equipment expiring at various dates through 2033. Minimum annual rental commitments under these agreements are as follows as of June 30, 2020:

Year Ending June 30,

2021	\$ 3,451,440
2022	2,919,070
2023	2,431,358
2024	1,805,546
2025	1,236,134
Thereafter	5,582,340
	\$ 17,425,788

Under the terms of certain leases, Goodwill pays for insurance, ordinary repairs and maintenance, heat and real estate taxes. Leases with fixed escalation clauses are accounted for on a straight-line basis over the term of the lease. The difference between lease expense and cash payments is recorded as deferred rent in other long-term liabilities. Total deferred rent amounted to \$300,170 and \$226,548 at June 30, 2020 and 2019, respectively. Rent and lease expenses were \$3,429,062 and \$3,478,943 for the years ended June 30, 2020 and 2019, respectively.

Contingencies

In the normal course of business and from time to time, Goodwill is the subject of various claims. Management believes that the ultimate resolution of any such claims would not have a material adverse effect on the consolidated financial statements of Goodwill.

NOTE 12 - RELATED PARTY TRANSACTIONS

The Board of Directors has established a disclosure of interest policy, which applies to all members of the board, non-director members of board committees, and officers. All related party transactions are subject to that policy.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

One current director is an officer of one of Goodwill's benefit providers that received premiums totaling \$1,488,414 and \$1,394,221 for medical and dental insurance for the years ended June 30, 2020 and 2019, respectively. Another current director is a member of the Board of Directors of two non-profit associations of which Goodwill is a member that received dues and fees for services totaling \$10,954 and \$11,902 for the years ended June 30, 2020 and 2019, respectively.

Each of these transactions was undertaken in the ordinary course of business on the same terms as are generally offered to the public.

NOTE 13 - FAIR VALUE MEASUREMENTS

Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. Goodwill classifies its assets and liabilities into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy.

- Level 1 - Quoted Prices in Active Markets: Investments such as actively traded equity securities, U.S. government obligations and money market funds with quoted market prices in active markets are classified as Level 1.
- Level 2 - Significant Other Observable Inputs: Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flow models.
- Level 3 - Significant Unobservable Inputs: Beneficial Interest in Perpetual Trusts is classified as Level 3 because Goodwill's share in the trusts does not have an active market. Goodwill estimates the recurring fair value of the trusts based on Goodwill's share of the underlying investment portfolios that consist primarily of actively traded equities, bonds and money market funds. The trusts are managed by financial institutions and investment managers who provide detailed statements on a regular basis presenting the market value of the portfolio on an individual investment security basis.

Beneficial Interest in charitable trusts is classified as Level 3 because Goodwill's share in these agreements does not have an active market. Goodwill estimates the recurring fair value based on Goodwill's share of the underlying investment portfolio that consists of actively traded equities, bonds and money market funds.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Goodwill believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date and that difference may be material to Goodwill's consolidated financial statements.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Goodwill's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2020 and 2019, by level within the fair value hierarchy, are presented in the table below. Financial assets measured at fair value on a non-recurring basis, such as contributions receivable and gift annuities, are excluded from the table.

Description	As of June 30, 2020		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities	\$ 11,837,649	\$ -	\$ -
Corporate bonds and government securities	-	7,411,227	-
Cash and cash equivalents	940,250	-	-
Beneficial interest in perpetual trusts	-	-	5,993,429
Charitable trusts	-	-	337,085
Total	<u>\$ 12,777,899</u>	<u>\$ 7,411,227</u>	<u>\$ 6,330,514</u>

Description	As of June 30, 2019		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities	\$ 11,719,823	\$ -	\$ -
Corporate bonds and government securities	-	6,975,956	-
Cash and cash equivalents	298,654	-	-
Beneficial interest in perpetual trusts	-	-	5,931,761
Charitable trusts	-	-	340,948
Total	<u>\$ 12,018,477</u>	<u>\$ 6,975,956</u>	<u>\$ 6,272,709</u>

The following is a summary of the change in the fair value of assets measured at fair value on a recurring basis using significant unobservable inputs for the year ended June 30, 2020:

	Charitable Trusts	Perpetual Trusts	Total
Beginning balance	\$ 340,948	\$ 5,931,761	\$ 6,272,709
Total (losses) gains included in change in net assets	(3,863)	61,668	57,805
Ending balance	<u>\$ 337,085</u>	<u>\$ 5,993,429</u>	<u>\$ 6,330,514</u>

Morgan Memorial Goodwill Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The following is a summary of the change in the fair value of assets measured at fair value on a recurring basis using significant unobservable inputs for the year ended June 30, 2019:

	<u>Charitable Trusts</u>	<u>Perpetual Trusts</u>	<u>Total</u>
Beginning balance	\$ 326,853	\$ 5,888,048	\$ 6,214,901
Total gains included in change in net assets	<u>14,095</u>	<u>43,713</u>	<u>57,808</u>
Ending balance	<u>\$ 340,948</u>	<u>\$ 5,931,761</u>	<u>\$ 6,272,709</u>

NOTE 14 - SUBSEQUENT EVENTS

Goodwill has evaluated all subsequent events through September 22, 2020, the date that the consolidated financial statements were available to be issued.