

Financial Statements and Report of
Independent Certified Public
Accountants

Morgan Memorial Goodwill Industries, Inc.

June 30, 2023 and 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Morgan Memorial Goodwill Industries, Inc.

Report on the financial statements**Opinion**

We have audited the financial statements of Morgan Memorial Goodwill Industries, Inc. (Goodwill) (a nonprofit organization) which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Goodwill as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Goodwill and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter

As discussed in Note 2 and Note 12 to the financial statements, Goodwill adopted ASC 842, *Leases*, effective July 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial

doubt about Goodwill's ability to continue as a going concern for one year after the date the 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 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 US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the 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's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Goodwill's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Boston, Massachusetts
September 20, 2023

Morgan Memorial Goodwill Industries, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,732,472	\$ 7,903,916
Accounts receivable	1,281,451	1,084,460
Inventory	738,544	695,102
Prepaid expenses	<u>547,998</u>	<u>457,550</u>
Total current assets	10,300,465	10,141,028
Noncurrent assets		
Land, buildings and equipment, net	6,395,907	5,909,729
Right-of-use assets	13,969,111	-
Investments	24,853,026	22,343,497
Beneficial interests in trusts and split-interest agreements	6,365,170	6,092,620
Other noncurrent assets	<u>523,836</u>	<u>442,761</u>
Total noncurrent assets	<u>52,107,050</u>	<u>34,788,607</u>
Total assets	<u><u>\$ 62,407,515</u></u>	<u><u>\$ 44,929,635</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 986,537	\$ 808,371
Accrued payroll and employee benefits	1,135,521	1,090,312
Current portion of lease obligations	2,649,275	-
Current portion of long-term debt	<u>133,360</u>	<u>127,735</u>
Total current liabilities	4,904,693	2,026,418
Long-term liabilities		
Long-term debt	3,838,152	3,971,883
Paycheck Protection Program (PPP) loan	-	295,877
Lease obligations	11,822,919	-
Other long-term liabilities	<u>798,702</u>	<u>1,284,704</u>
Total long-term liabilities	<u>16,459,773</u>	<u>5,552,464</u>
Total liabilities	<u>21,364,466</u>	<u>7,578,882</u>
Net assets		
Without donor restrictions	21,077,392	18,753,463
With donor restrictions	<u>19,965,657</u>	<u>18,597,290</u>
Total net assets	<u>41,043,049</u>	<u>37,350,753</u>
Total liabilities and net assets	<u><u>\$ 62,407,515</u></u>	<u><u>\$ 44,929,635</u></u>

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

Morgan Memorial Goodwill Industries, Inc.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2023 (with summarized information for the year ended June 30, 2022)

	2023			
	Without Donor Restrictions	With Donor Restrictions	Total	2022 Total
Operating revenues and other support				
Retail sales	\$ 22,214,813	\$ -	\$ 22,214,813	\$ 20,967,810
Donated goods	8,206,041	-	8,206,041	7,740,626
Government contracts and grants	5,464,339	574,372	6,038,711	5,756,913
Worksite revenue	3,469,698	-	3,469,698	3,354,908
Contributions and bequests	1,455,349	67,559	1,522,908	1,579,747
Trust income	336,169	-	336,169	271,685
Income appropriated under total return spending policy	804,000	-	804,000	725,000
Net assets released from restrictions	142,270	(142,270)	-	-
Other revenue	5,001	-	5,001	8,173
Total operating revenues and other support	42,097,680	499,661	42,597,341	40,404,862
Operating expenses				
Program services				
Retail enterprise				
Cost of goods sold - retail	8,162,599	-	8,162,599	7,681,171
Other retail	19,253,514	-	19,253,514	18,421,785
Total retail enterprise	27,416,113	-	27,416,113	26,102,956
Job training and career services	7,104,564	-	7,104,564	7,337,152
Total program services	34,520,677	-	34,520,677	33,440,108
Support services				
Management and general	3,842,203	-	3,842,203	3,413,386
Fundraising	905,603	-	905,603	828,858
Total support services	4,747,806	-	4,747,806	4,242,244
Total operating expenses	39,268,483	-	39,268,483	37,682,352
Change in net assets from operating activities	2,829,197	499,661	3,328,858	2,722,510
Non-operating activities				
Investment return (loss), net of amounts appropriated under total return spending policy	1,119,570	588,092	1,707,662	(3,105,640)
Environmental remediation costs	(1,862,603)	-	(1,862,603)	-
Gain on forgiveness of debt	237,765	-	237,765	3,097,730
Changes in fair value of beneficial interests in trusts and split-interest agreements	-	280,614	280,614	(1,239,470)
Change in net assets from non-operating activities	(505,268)	868,706	363,438	(1,247,380)
CHANGE IN NET ASSETS	2,323,929	1,368,367	3,692,296	1,475,130
Net assets beginning of year	18,753,463	18,597,290	37,350,753	35,875,623
Net assets end of year	\$ 21,077,392	\$ 19,965,657	\$ 41,043,049	\$ 37,350,753

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

Morgan Memorial Goodwill Industries, Inc.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2022

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and other support			
Retail sales	\$ 20,967,810	\$ -	\$ 20,967,810
Donated goods	7,723,356	17,270	7,740,626
Government contracts and grants	5,756,913	-	5,756,913
Worksite revenue	3,354,908	-	3,354,908
Contributions and bequests	1,342,915	236,832	1,579,747
Trust income	271,685	-	271,685
Income appropriated under total return spending policy	725,000	-	725,000
Net assets released from restrictions	122,000	(122,000)	-
Other revenue	8,173	-	8,173
Total operating revenues and other support	40,272,760	132,102	40,404,862
Operating expenses			
Program services			
Retail enterprise			
Cost of goods sold - retail	7,681,171	-	7,681,171
Other retail	18,421,785	-	18,421,785
Total retail enterprise	26,102,956	-	26,102,956
Job training and career services	7,337,152	-	7,337,152
Total program services	33,440,108	-	33,440,108
Support services			
Management and general	3,413,386	-	3,413,386
Fundraising	828,858	-	828,858
Total support services	4,242,244	-	4,242,244
Total operating expenses	37,682,352	-	37,682,352
Change in net assets from operating activities	2,590,408	132,102	2,722,510
Non-operating activities			
Investment loss, net of amounts appropriated under total return spending policy	(1,992,926)	(1,112,714)	(3,105,640)
Gain on forgiveness of debt	3,097,730	-	3,097,730
Changes in fair value of beneficial interests in trusts and split-interest agreements	-	(1,239,470)	(1,239,470)
Change in net assets from non-operating activities	1,104,804	(2,352,184)	(1,247,380)
CHANGE IN NET ASSETS	3,695,212	(2,220,082)	1,475,130
Net assets beginning of year	15,058,251	20,817,372	35,875,623
Net assets end of year	\$ 18,753,463	\$ 18,597,290	\$ 37,350,753

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

Morgan Memorial Goodwill Industries, Inc.

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,692,296	\$ 1,475,130
Adjustments to reconcile change in net assets to net cash provided by operations:		
Gain on forgiveness of debt	(295,877)	(3,097,730)
Net realized and unrealized (gains) losses on investments	(1,977,207)	2,975,615
Changes in fair value of beneficial interests in trusts and split-interest agreements	(272,550)	1,239,470
Depreciation	1,175,640	1,034,749
Donated leasehold improvements	-	(17,270)
Amortization of right-of-use assets	3,202,060	-
Changes in operating assets and liabilities:		
Accounts receivable	(196,991)	275,787
Inventory	(43,442)	(42,185)
Prepaid expenses	(90,448)	134,032
Other assets	(81,075)	31,707
Accounts payable and accrued expenses	178,166	(171,244)
Accrued payroll and employee benefits	45,209	(700,736)
Lease liabilities	(2,698,977)	-
Other long-term liabilities	(486,002)	157,455
	<u>2,150,802</u>	<u>3,294,780</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(1,661,818)	(1,631,699)
Purchases of investments	(3,924,088)	(3,664,614)
Proceeds from sales of investments	3,391,766	3,081,134
	<u>(2,194,140)</u>	<u>(2,215,179)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Principal payments on note payable	(128,106)	(121,642)
	<u>(128,106)</u>	<u>(121,642)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(171,444)</u>	<u>957,959</u>
Cash and cash equivalents, beginning of year	<u>7,903,916</u>	<u>6,945,957</u>
Cash and cash equivalents, end of year	<u><u>\$ 7,732,472</u></u>	<u><u>\$ 7,903,916</u></u>
Supplemental disclosures:		
Contributions of donated goods and purchased goods	\$ 8,206,041	\$ 7,723,356
Noncash changes to inventory	43,442	42,185
Cash paid for interest	208,914	214,473
Donated leasehold improvements	-	17,270

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

Morgan Memorial Goodwill Industries, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2023 (with summarized information for the year ended June 30, 2022)

	Program Services			Support Services			2023 Total	2022 Total
	Retail Enterprise	Job Training and Career Services	Total Program Services	Management and General	Fundraising	Total Support Services		
Cost of goods sold - retail	\$ 8,162,599	\$ -	\$ 8,162,599	\$ -	\$ -	\$ -	\$ 8,162,599	\$ 7,681,171
Salaries and wages	8,251,358	3,953,475	12,204,833	2,187,533	409,050	2,596,583	14,801,416	14,331,947
Employee benefits	1,398,494	977,626	2,376,120	338,728	53,498	392,226	2,768,346	2,691,860
Non-payroll - temporary help	42,409	86,198	128,607	151,950	1,577	153,527	282,134	339,505
Total salaries and related expenses	9,692,261	5,017,299	14,709,560	2,678,211	464,125	3,142,336	17,851,896	17,363,312
Occupancy	5,633,778	722,330	6,356,108	149,397	15,859	165,256	6,521,364	6,874,568
Professional fees and contracts	353,201	317,757	670,958	442,251	140,410	582,661	1,253,619	907,255
Events	6,328	5,566	11,894	1,894	66,129	68,023	79,917	55,321
Goods and supplies	1,135,270	414,052	1,549,322	182,809	73,842	256,651	1,805,973	1,547,697
Vehicle and travel expenses	1,196,097	125,619	1,321,716	19,215	5,182	24,397	1,346,113	1,268,451
Real and maintenance of equipment	185,984	76,586	262,570	50,770	5,184	55,954	318,524	340,859
Printing, advertising and publications	41,151	58,139	99,290	86,429	117,493	203,922	303,212	177,670
Meetings and dues	104,101	51,488	155,589	79,845	5,278	85,123	240,712	215,146
Bad debt expense	-	-	-	-	-	-	-	1,680
Interest expense	118,560	43,633	162,193	42,158	4,563	46,721	208,914	214,473
Depreciation	786,783	272,095	1,058,878	109,224	7,538	116,762	1,175,640	1,034,749
Total other expenses	9,561,253	2,087,265	11,648,518	1,163,992	441,478	1,605,470	13,253,988	12,637,869
Total operating expenses	\$ 27,416,113	\$ 7,104,564	\$ 34,520,677	\$ 3,842,203	\$ 905,603	\$ 4,747,806	\$ 39,268,483	\$ 37,682,352

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

Morgan Memorial Goodwill Industries, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2022

	Program Services			Support Services			
	Retail Enterprise	Job Training and Career Services	Total Program Services	Management and General	Fundraising	Total Support Services	2022 Total
Cost of goods sold - retail	\$ 7,681,171	\$ -	\$ 7,681,171	\$ -	\$ -	\$ -	\$ 7,681,171
Salaries and wages	7,776,949	4,041,992	11,818,941	2,136,071	376,935	2,513,006	14,331,947
Employee benefits	1,364,380	957,212	2,321,592	314,469	55,799	370,268	2,691,860
Non-payroll - temporary help	77,617	139,603	217,220	105,041	17,244	122,285	339,505
Total salaries and related expenses	9,218,946	5,138,807	14,357,753	2,555,581	449,978	3,005,559	17,363,312
Occupancy	5,746,038	918,893	6,664,931	195,665	13,972	209,637	6,874,568
Professional fees and contracts	235,836	266,503	502,339	302,261	102,655	404,916	907,255
Events	5,937	1,664	7,601	1,746	45,974	47,720	55,321
Goods and supplies	903,266	440,574	1,343,840	127,432	76,425	203,857	1,547,697
Vehicle and travel expenses	1,141,603	106,308	1,247,911	20,444	96	20,540	1,268,451
Real and maintenance of equipment	214,802	76,848	291,650	44,303	4,906	49,209	340,859
Printing, advertising and publications	26,240	20,161	46,401	17,289	113,980	131,269	177,670
Meetings and dues	96,176	42,803	138,979	71,758	4,409	76,167	215,146
Bad debt expense	-	-	-	-	1,680	1,680	1,680
Interest expense	118,214	45,832	164,046	44,106	6,321	50,427	214,473
Depreciation	714,727	278,759	993,486	32,801	8,462	41,263	1,034,749
Total other expenses	9,202,839	2,198,345	11,401,184	857,805	378,880	1,236,685	12,637,869
Total operating expenses	\$ 26,102,956	\$ 7,337,152	\$ 33,440,108	\$ 3,413,386	\$ 828,858	\$ 4,242,244	\$ 37,682,352

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

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

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 looking for 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 across Massachusetts.

Goodwill is supported from various sources, including retail sales and donated goods (73%), government contracts and grants (including federal, state, and local governments) (14%), worksite revenue (8%), contributions and bequests (4%), and other sources (1%) for the year ended June 30, 2023.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Classification and Reporting of Net Assets

The financial statements have been prepared on the accrual basis of accounting. 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.

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

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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 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 \$8,206,041 and \$7,740,626 for the years ended June 30, 2023 and 2022, respectively.

Processing donated merchandise requires program-related expenses before it reaches the point of sale. Such expenses include the cost of activities accomplished by participants in Goodwill's programs who have barriers to self-sufficiency.

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:

Description	Years
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, and realized and unrealized gains and losses on investments is included in the statements of activities.

Revenue Recognition

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.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Retail Sales

Retail sales are recognized when the control of goods is transferred to the customer, at the time of sale.

Government Contracts and Grants and Worksite Revenue

Goodwill has contracts and grants from federal and state agencies that are contingent upon Goodwill meeting requirements, which include carrying out certain activities and/or incurring qualified expenditures stipulated by the contracts and grants.

Contributions and Bequests

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. Goodwill has conditional grants from federal and state agencies that are contingent upon Goodwill meeting donor-imposed barriers, which include carrying out certain activities and incurring qualified expenditures stipulated by the grants. Grants and contracts (including certain worksite contracts), for which the contractual performance obligations have not yet been made, or the right to recognize revenue is dependent on future events, included \$1,351,000 for programs and \$1,026,000 for the Headquarters Upgrade Project at June 30, 2023 and \$1,552,000 for programs and \$1,600,000 for the Headquarters Upgrade Project at June 30, 2022.

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 also applies to restricted contributions for which donor-imposed stipulations are met in the same fiscal year as they are received.

Donated Goods and In-Kind Services

Donated goods (other than clothing and household goods) are reported at the fair value of the goods at the time of donation. Donated services are evaluated to determine if they meet the criteria for recognition in the financial statements. The value of such donated goods and in-kind services was nil and \$17,270 during the years ended June 30, 2023 and 2022, respectively and is included within donated goods in the accompanying statements of activities.

Functional Allocation of Expenses

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

Income Taxes

Goodwill is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"), and is generally exempt from income taxes pursuant to Section 501(a) of the Code. It is required to assess uncertain tax positions and has determined that there were no such positions that are material to the financial statements at June 30, 2023 or 2022.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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).

Early in the year, Goodwill started a construction project to upgrade the parking and truck lots at its headquarters, which included the removal of a significant amount of soil. Planned testing identified unanticipated contamination that required a remediation plan including specialized procedures for soil disposal. The cost of soil disposal in FY2023 was \$1,862,603.

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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Leases

Goodwill determines whether an arrangement is or contains a lease at inception. Operating leases are recognized on the statement of financial position as right-of-use (ROU) assets and lease liabilities. ROU assets represent Goodwill's right to use an underlying asset for the lease term and lease liabilities represent Goodwill's obligation to make lease payments arising from the lease. Operating lease liabilities and their corresponding ROU assets are recorded based on the present value of lease payments over the expected remaining lease term. The ROU assets also include any lease payments made and adjustments for prepayments and lease incentives. The interest rate implicit in lease contracts is typically not readily determinable. Goodwill has opted for the private company election to discount the future minimum lease payments based on the risk-free interest rate for the respective lease terms when the implied interest rate is not known. Goodwill applies this election on a lease-by-lease basis.

Lease terms may include options to extend or terminate the lease when it is reasonably certain that Goodwill will exercise that option. Goodwill reassesses the lease term and remeasures the lease liability if triggering events occur. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This standard requires the recognition of a right-of-use asset and lease liability on the balance sheet for substantially all leases. The standard retained a dual model for lease classification, requiring leases to be classified as finance or operating lease to determine recognition in the statement of operations and cash flows. Additionally, in July 2018, the FASB issued ASU 2018-11, *Leases, Targeted Improvements*, which provided entities with a transition method option to not restate comparative periods presented, but to recognize a cumulative effect adjustment to beginning retained earnings in the period of adoption. Goodwill elected the modified retrospective transition method and did not restate prior comparative periods. The standards also provide additional transition relief, of which Goodwill has elected to (1) not reassess whether any expired or existing contracts are or contain leases, (2) retain the classification of leases (e.g., operating or finance lease) existing as of the date of adoption, (3) not reassess initial direct costs for any existing leases, and (4) not utilize hindsight when assessing lease term and right-of-use asset impairment. The standards require more detailed disclosures to enable users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for public companies beginning after December 15, 2018 and nonpublic companies beginning after December 15, 2021. Goodwill adopted this standard as of July 1, 2022.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Upon adoption of ASC 842 *Leases*, Goodwill elected the following practical expedients:

- Package of practical expedients which eliminates the need to reassess (1) whether any expired or existing contracts are or contain leases; (2) the lease classification for any expired or existing leases; and (3) the initial direct costs for any existing leases.
- The practical expedient whereby the lease and non-lease components will not be separated for all classes of assets.
- Not to recognize ROU assets and corresponding lease liabilities with a lease term of 12 months or less from the lease commencement date.

For existing leases, Goodwill did not elect the use of hindsight and did not reassess lease term upon adoption.

Upon adoption of Topic 842 Goodwill recognized ROU assets of \$11,483,881 including the reclassification of deferred rent, prepaid expenses and accrued expenses, and operating lease liabilities of \$12,005,917. The adoption of the new leasing standards did not have an impact on Goodwill's statements of activities.

Goodwill's lease commitments are included in Note 12.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Goodwill's financial assets available within one year of the statements of financial position for general expenditure are as follows as of June 30:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 7,732,472	\$ 7,903,916
Accounts receivable to be collected during the year	1,281,451	1,084,460
Future fiscal year spending policy allocation	<u>850,000</u>	<u>804,000</u>
Total financial assets available within one year	9,863,923	9,792,376
Liquidity resources:		
Bank lines of credit	<u>5,500,000</u>	<u>5,500,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 15,363,923</u>	<u>\$ 15,292,376</u>

As part of Goodwill's liquidity management, it structures its financial assets to be available as its general expenditures come due. In addition, although Goodwill does not intend to spend from its funds functioning as endowment (other than amounts appropriated under the total return spending policy), amounts from such funds could be made available if necessary.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE 4 - LAND, BUILDINGS AND EQUIPMENT

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

	2023	2022
Land and land improvements	\$ 1,336,159	\$ 1,336,160
Buildings and building improvements	16,888,236	16,860,202
Leasehold improvements	4,857,368	4,456,543
Construction in progress	1,260,605	334,036
Equipment	11,014,812	10,708,421
	35,357,180	33,695,362
Less: accumulated depreciation	28,961,273	27,785,633
	<u>\$ 6,395,907</u>	<u>\$ 5,909,729</u>

Depreciation expense was \$1,175,640 and \$1,034,749 for the years ended June 30, 2023 and 2022, respectively.

NOTE 5 - INVESTMENTS

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

	2023	2022
Marketable equity securities (common stocks, mutual funds, exchange traded funds)	\$ 16,426,929	\$ 14,177,346
Corporate bonds and government securities	7,899,094	7,816,001
Cash and cash equivalents	527,003	350,150
	<u>\$ 24,853,026</u>	<u>\$ 22,343,497</u>

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

Goodwill has beneficial interests in perpetual trusts valued at \$6,002,170 and \$5,742,579 at June 30, 2023 and 2022, 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 \$ 336,169 and \$271,685 for the years ended June 30, 2023 and 2022, respectively, and are reflected as trust income in the accompanying statements of activities. Goodwill has other split-interest agreements (primarily charitable trusts) valued at \$363,000 and \$350,041 at June 30, 2023 and 2022, respectively.

Increases (or decreases) in the value of the trust assets (including unrealized gains and losses), amounted to \$280,614 and (\$1,239,470) for the years ended June 30, 2023 and 2022, respectively.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE 7 - BORROWINGS

Goodwill has entered into several agreements to borrow funds from a single bank.

Revolving Line of Credit

Goodwill has available a revolving line of credit that allows for borrowings of up to \$5,000,000. Any unpaid principal and interest are due on demand. Interest accrues at a fluctuating per annum rate equal to the One Month Term SOFR, plus 2.11% per annum (7.26% at June 30, 2023). There was no balance outstanding at either June 30, 2023 or 2022. There was no interest expense related to the line of credit for either of the years ended June 30, 2023 and 2022.

Term Loan

Goodwill has a term loan from an April 2021 note of \$281,000, payable with a fixed rate interest of 2.106% at June 30, 2023, to be repaid based upon a 10-year amortization schedule with a final maturity of March 15, 2031. The balance outstanding was \$223,217 and \$249,708 as of June 30, 2023 and 2022, respectively.

Non-revolving Construction Line of Credit

Goodwill also has available a non-revolving line of credit facility that allows for up to \$500,000 of total advances through June 28, 2024. Borrowings are to be used for building-out new retail stores or renovating existing retail stores. Interest-only payments are due monthly from July 2021 through June 2024. Commencing monthly in July 2024 through March 2031, interest on the unpaid principal then outstanding and principal shall be paid, based upon a 10-year amortization schedule with any outstanding principal and accrued interest due in June 2034. There were no amounts outstanding under this line of credit as of June 30, 2023.

These borrowings are cross collateralized with all deposit accounts with the bank and certain marketable securities as defined in the agreements.

Under these agreements, Goodwill must adhere to certain financial and non-financial covenants. Goodwill was in compliance with these covenants as of June 30, 2023.

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. The note is secured by the land and buildings of Goodwill's headquarters in Boston. The balance outstanding on the note payable was \$3,748,295 and \$3,849,910 as June 30, 2023 and 2022, respectively.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Scheduled principal payments as of June 30, 2023 on the borrowings are as follows:

	Amount
2024	\$ 133,360
2025	140,333
2026	147,111
2027	154,240
2028	161,260
Thereafter	3,235,208
Total	<u>\$ 3,971,512</u>

NOTE 8 - PAYCHECK PROTECTION PROGRAM ("PPP") LOAN

In February 2021, Goodwill was granted a loan in the aggregate amount of \$3,393,607, pursuant to the Paycheck Protection Program (PPP) of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). On June 6, 2022 the Small Business Administration (SBA) forgave \$3,097,730. On October 7, 2022, by appeal, the SBA forgave an additional \$237,765. The unforgiven balance of the loan was paid by Goodwill on October 24, 2022.

NOTE 9 - 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 \$92,630 and \$85,984 to the 403(b) Plan for the years ended June 30, 2023 and 2022, respectively.

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.

Goodwill also maintains a deferred compensation plan ("457(b) Plan") for key members of management. As of June 30, 2023 and 2022, the fair value of the assets and the related obligation of the 457(b) Plan were \$454,930 and \$373,855, respectively, and are included in other noncurrent assets and other long-term liabilities in the accompanying statements of financial position.

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

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

	2023	2022
Programs	\$ 5,133,658	\$ 4,623,724
Beneficial interest in charitable unitrusts	363,000	350,041
Cumulative appreciation and reinvestment gains on net assets restricted in perpetuity	<u>3,100,601</u>	<u>2,514,717</u>
	<u>\$ 8,597,259</u>	<u>\$ 7,488,482</u>

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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

	2023	2022
Income to be used for general purposes	\$ 3,168,295	\$ 3,168,295
Income restricted for various purposes	2,197,934	2,197,934
Beneficial interests in perpetual trusts	6,002,170	5,742,579
	<u>\$ 11,368,399</u>	<u>\$ 11,108,808</u>
Total net assets with donor restrictions	<u>\$ 19,965,657</u>	<u>\$ 18,597,290</u>

NOTE 11 - ENDOWMENTS AND ENDOWMENT ACTIVITY

Interpretation of Relevant Law

Goodwill manages its donor-restricted endowment funds consistent with 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 10). The net appreciation is also classified as net assets with donor restrictions until appropriated for expenditure consistent with donor restrictions and Goodwill's spending policy as further described below.

Endowment Investment Policy

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

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 regular 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 that is, in general, 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 \$804,000 and \$725,000 for the years ended June 30, 2023 and 2022, respectively, which was not withdrawn from the investment portfolio.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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, 2023 and 2022, Goodwill had no funds with deficiencies.

Endowment Fund Activity and Net Asset Balances

Goodwill has an endowment comprised of both donor-restricted funds and funds functioning as endowment (which have no donor-restrictions). Beneficial interests in perpetual trusts are not included in the endowment.

Endowment fund activity for the year ended June 30, 2023 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 14,424,966	\$ 7,880,946	\$ 22,305,912
Investment return	2,443,430	869,470	3,312,899
Appropriation of endowment assets for operations (spending policy)	<u>(520,415)</u>	<u>(283,585)</u>	<u>(804,000)</u>
Endowment net assets, end of year	<u>\$ 16,347,981</u>	<u>\$ 8,466,830</u>	<u>\$ 24,814,810</u>

Endowment fund activity for the year ended June 30, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 15,700,057	\$ 9,002,878	\$ 24,703,935
Investment loss, net	(813,965)	(858,058)	(1,672,023)
Appropriation of endowment assets for operations (spending policy)	<u>(461,126)</u>	<u>(263,874)</u>	<u>(725,000)</u>
Endowment net assets, end of year	<u>\$ 14,424,966</u>	<u>\$ 7,880,946</u>	<u>\$ 22,305,912</u>

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE 12 - LEASE COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain facilities and equipment under operating leases. Future undiscounted lease payments for the Company's operating lease liabilities are as follows as of June 30, 2023:

<u>Year Ending June 30,</u>	<u>Year</u>
2024	\$ 3,139,024
2025	2,305,846
2026	2,245,978
2027	2,220,629
2028	2,005,445
Thereafter	<u>4,619,282</u>
Total future lease payments	\$ 16,536,204
Less: imputed interest	<u>2,064,010</u>
Present value of lease liabilities	<u>\$ 14,472,194</u>

For the operating leases as of June 30, 2023, the weighted-average remaining lease term was 7.08 years and the weighted-average discount rate was 3.38%. Cash paid for amounts included in the measurement of lease liabilities was \$3,218,191 for the year ended June 30, 2023. During the years ended June 30, 2023 and 2022, Goodwill recognized \$3,199,572 and \$3,500,275 of rent expense, respectively. Prior to the implementation of Topic 842, the difference between lease expense and cash payments was recorded as deferred rent in other long-term liabilities. Total deferred rent amounted to \$522,036 at June 30, 2022.

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 financial statements of Goodwill.

NOTE 13 - 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.

One current director is an officer of one of Goodwill's benefit providers that received premiums totaling \$1,208,845 and \$1,037,617 for medical and dental insurance for the years ended June 30, 2023 and 2022, 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 \$77,440 and \$38,419 for the years ended June 30, 2023 and 2022, respectively.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE 14 - 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 financial statements.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Goodwill's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2023 and 2022, 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, 2023		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities	\$ 16,426,929	\$ -	\$ -
Corporate bonds and government securities	-	7,899,094	-
Cash and cash equivalents	527,003	-	-
Beneficial interest in perpetual trusts	-	-	6,002,170
Charitable trusts	-	-	363,000
Total	\$ 16,953,932	\$ 7,899,094	\$ 6,365,170

Description	As of June 30, 2022		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities	\$ 14,177,346	\$ -	\$ -
Corporate bonds and government securities	-	7,816,001	-
Cash and cash equivalents	350,150	-	-
Beneficial interest in perpetual trusts	-	-	5,742,579
Charitable trusts	-	-	350,041
Total	\$ 14,527,496	\$ 7,816,001	\$ 6,092,620

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, 2023:

	Charitable Trusts	Perpetual Trusts	Total
Beginning balance	\$ 350,041	\$ 5,742,579	\$ 6,092,620
Distributions and net increases in value	12,959	259,591	272,550
Ending balance	<u>\$ 363,000</u>	<u>\$ 6,002,170</u>	<u>\$ 6,365,169</u>

Distributions are reflected as trust income in the accompanying statements of activities.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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, 2022:

	<u>Charitable Trusts</u>	<u>Perpetual Trusts</u>	<u>Total</u>
Beginning balance	\$ 377,892	\$ 6,954,198	\$ 7,332,090
Distributions and net decreases in value	<u>(27,851)</u>	<u>(1,211,619)</u>	<u>(1,239,470)</u>
Ending balance	<u>\$ 350,041</u>	<u>\$ 5,742,579</u>	<u>\$ 6,092,620</u>

Distributions are reflected as trust income in the accompanying statements of activities.

NOTE 15 - SUBSEQUENT EVENTS

Goodwill has evaluated all subsequent events through September 20, 2023, the date that the financial statements were available to be issued. No events were noted that would require adjustment to, or disclosure within these financial statements.