

Financial Statements and Report of
Independent Certified Public
Accountants

Morgan Memorial Goodwill Industries, Inc.

June 30, 2022 and 2021

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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. (a nonprofit organization) and its subsidiary (“Goodwill”), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Goodwill as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits 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.

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 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 21, 2022

Morgan Memorial Goodwill Industries, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30,

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,903,916	\$ 6,945,957
Accounts receivable	1,084,460	1,360,247
Inventory	695,102	652,917
Prepaid expenses	457,550	591,582
Total current assets	10,141,028	9,550,703
Noncurrent assets		
Land, buildings and equipment, net	5,909,729	5,295,509
Investments	22,343,497	24,735,632
Beneficial interests in trusts and split-interest agreements	6,092,620	7,332,090
Other noncurrent assets	442,761	474,468
Total noncurrent assets	34,788,607	37,837,699
Total assets	\$ 44,929,635	\$ 47,388,402
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 808,371	\$ 979,615
Accrued payroll and employee benefits	1,090,312	1,791,048
Current portion of long-term debt	127,735	122,052
Total current liabilities	2,026,418	2,892,715
Long-term liabilities		
Long-term debt	3,971,883	4,099,208
Paycheck Protection Program (PPP) loan	295,877	3,393,607
Other long-term liabilities	1,284,704	1,127,249
Total long-term liabilities	5,552,464	8,620,064
Total liabilities	7,578,882	11,512,779
Net assets		
Without donor restrictions	18,753,463	15,058,251
With donor restrictions	18,597,290	20,817,372
Total net assets	37,350,753	35,875,623
Total liabilities and net assets	\$ 44,929,635	\$ 47,388,402

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, 2022 (with summarized information for the year ended June 30, 2021)

	2022		Total	2021 Total
	Without Donor Restrictions	With Donor Restrictions		
Operating revenues and other support				
Retail sales	\$ 20,967,810	\$ -	\$ 20,967,810	\$ 16,942,376
Donated goods	7,723,356	17,270	7,740,626	7,254,635
Government contracts and grants	5,756,913	-	5,756,913	4,733,438
Worksite revenue	3,354,908	-	3,354,908	3,616,045
Contributions and bequests	1,342,915	236,832	1,579,747	2,167,561
Trust income	271,685	-	271,685	263,038
Income appropriated under total return spending policy	725,000	-	725,000	664,000
Net assets released from restrictions	122,000	(122,000)	-	-
Other revenue	8,173	-	8,173	46,184
Total operating revenues and other support	40,272,760	132,102	40,404,862	35,687,277
Operating expenses				
Program services				
Retail enterprise				
Cost of goods sold - retail	7,681,171	-	7,681,171	7,272,918
Other retail	18,421,785	-	18,421,785	16,333,572
Total retail enterprise	26,102,956	-	26,102,956	23,606,490
Job training and career services	7,337,152	-	7,337,152	6,704,948
Total program services	33,440,108	-	33,440,108	30,311,438
Support services				
Management and general	3,413,386	-	3,413,386	3,270,444
Fundraising	828,858	-	828,858	649,306
Total support services	4,242,244	-	4,242,244	3,919,750
Total operating expenses	37,682,352	-	37,682,352	34,231,188
Change in net assets from operating activities	2,590,408	132,102	2,722,510	1,456,089
Non-operating activities				
Investment (loss) return, net of amounts appropriated under total return spending policy	(1,992,926)	(1,112,714)	(3,105,640)	3,889,866
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)	1,001,576
Change in net assets from non-operating activities	1,104,804	(2,352,184)	(1,247,380)	4,891,442
CHANGE IN NET ASSETS	3,695,212	(2,220,082)	1,475,130	6,347,531
Net assets beginning of year	15,058,251	20,817,372	35,875,623	29,528,092
Net assets end of year	\$ 18,753,463	\$ 18,597,290	\$ 37,350,753	\$ 35,875,623

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, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and other support			
Retail sales	\$ 16,942,376	\$ -	\$ 16,942,376
Donated goods	7,254,635	-	7,254,635
Government contracts and grants	4,733,438	-	4,733,438
Worksite revenue	3,616,045	-	3,616,045
Contributions and bequests	1,422,825	744,736	2,167,561
Trust income	263,038	-	263,038
Income appropriated under total return spending policy	664,000	-	664,000
Net assets released from restrictions	403,356	(403,356)	-
Other revenue	46,184	-	46,184
	<u>35,345,897</u>	<u>341,380</u>	<u>35,687,277</u>
Operating expenses			
Program services			
Retail enterprise			
Cost of goods sold - retail	7,272,918	-	7,272,918
Other retail	16,333,572	-	16,333,572
Total retail enterprise	23,606,490	-	23,606,490
Job training and career services	6,704,948	-	6,704,948
Total program services	30,311,438	-	30,311,438
Support services			
Management and general	3,270,444	-	3,270,444
Fundraising	649,306	-	649,306
Total support services	3,919,750	-	3,919,750
Total operating expenses	34,231,188	-	34,231,188
Change in net assets from operating activities	1,114,709	341,380	1,456,089
Non-operating activities			
Investment return, net of amounts appropriated under total return spending policy	2,450,084	1,439,782	3,889,866
Changes in fair value of beneficial interests in trusts and split-interest agreements	-	1,001,576	1,001,576
Change in net assets from non-operating activities	2,450,084	2,441,358	4,891,442
CHANGE IN NET ASSETS	3,564,793	2,782,738	6,347,531
Net assets beginning of year	11,493,458	18,034,634	29,528,092
Net assets end of year	<u>\$ 15,058,251</u>	<u>\$ 20,817,372</u>	<u>\$ 35,875,623</u>

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

Morgan Memorial Goodwill Industries, Inc.

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 1,475,130	\$ 6,347,531
Adjustments to reconcile change in net assets to net cash provided by operations:		
Gain on forgiveness of debt	(3,097,730)	-
Net realized and unrealized losses (gains) on investments	2,975,615	(4,144,065)
Changes in fair value of beneficial interests in trusts and split-interest agreements	1,239,470	(1,001,576)
Depreciation	1,034,749	957,246
Donated leasehold improvements	(17,270)	(278,356)
Changes in operating assets and liabilities:		
Accounts receivable	275,787	(434,597)
Inventory	(42,185)	18,283
Prepaid expenses	134,032	123,685
Other assets	31,707	(19,093)
Accounts payable and accrued expenses	(171,244)	(653,080)
Accrued payroll and employee benefits	(700,736)	407,332
Other long-term liabilities	157,455	226,515
	<u>3,294,780</u>	<u>1,549,825</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(1,631,699)	(134,100)
Purchases of investments	(3,664,614)	(4,277,369)
Proceeds from sales of investments	3,081,134	3,874,928
	<u>(2,215,179)</u>	<u>(536,541)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from Paycheck Protection Program (PPP) loan	-	3,393,607
Principal payments on note payable	(121,642)	(67,701)
	<u>(121,642)</u>	<u>3,325,906</u>
Net cash (used in) provided by financing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>957,959</u>	<u>4,339,190</u>
Cash and cash equivalents, beginning of year	<u>6,945,957</u>	<u>2,606,767</u>
Cash and cash equivalents, end of year	<u>\$ 7,903,916</u>	<u>\$ 6,945,957</u>
Supplemental disclosures:		
Contributions of donated goods and purchased goods	\$ 7,723,356	\$ 7,254,635
Noncash changes to inventory	42,185	(18,283)
Cash paid for interest	214,473	214,678
Donated leasehold improvements	17,270	278,356

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, 2022 (with summarized information for the year ended June 30, 2021)

	Program Services			Support Services			2022 Total	2021 Total
	Retail Enterprise	Job Training and Career Services	Total Program Services	Management and General	Fundraising	Total Support Services		
Cost of goods sold - retail	\$ 7,681,171	\$ -	\$ 7,681,171	\$ -	\$ -	\$ -	\$ 7,681,171	\$ 7,272,918
Salaries and wages	7,776,949	4,041,992	11,818,941	2,136,071	376,935	2,513,006	14,331,947	12,334,234
Employee benefits	1,364,380	957,212	2,321,592	314,469	55,799	370,268	2,691,860	2,791,882
Non-payroll - temporary help	77,617	139,603	217,220	105,041	17,244	122,285	339,505	97,487
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	15,223,603
Occupancy	5,746,038	918,893	6,664,931	195,665	13,972	209,637	6,874,568	6,200,883
Professional fees and contracts	235,836	266,503	502,339	302,261	102,655	404,916	907,255	1,007,341
Events	5,937	1,664	7,601	1,746	45,974	47,720	55,321	45,120
Goods and supplies	903,266	440,574	1,343,840	127,432	76,425	203,857	1,547,697	1,235,948
Vehicle and travel expenses	1,141,603	106,308	1,247,911	20,444	96	20,540	1,268,451	1,479,260
Real and maintenance of equipment	214,802	76,848	291,650	44,303	4,906	49,209	340,859	280,073
Printing, advertising and publications	26,240	20,161	46,401	17,289	113,980	131,269	177,670	147,303
Meetings and dues	96,176	42,803	138,979	71,758	4,409	76,167	215,146	163,555
Bad debt expense	-	-	-	-	1,680	1,680	1,680	3,260
Interest expense	118,214	45,832	164,046	44,106	6,321	50,427	214,473	214,678
Depreciation	714,727	278,759	993,486	32,801	8,462	41,263	1,034,749	957,246
Total other expenses	9,202,839	2,198,345	11,401,184	857,805	378,880	1,236,685	12,637,869	11,734,667
Total operating expenses	\$ 26,102,956	\$ 7,337,152	\$ 33,440,108	\$ 3,413,386	\$ 828,858	\$ 4,242,244	\$ 37,682,352	\$ 34,231,188

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, 2021

	Program Services			Support Services			2021 Total
	Retail Enterprise	Job Training and Career Services	Total Program Services	Management and General	Fundraising	Total Support Services	
Cost of goods sold - retail	\$ 7,272,918	\$ -	\$ 7,272,918	\$ -	\$ -	\$ -	\$ 7,272,918
Salaries and wages	6,251,834	3,740,132	9,991,966	2,010,263	332,005	2,342,268	12,334,234
Employee benefits	1,338,523	1,072,859	2,411,382	331,985	48,515	380,500	2,791,882
Non-payroll - temporary help	29,368	37,418	66,786	30,291	410	30,701	97,487
Total salaries and related expenses	7,619,725	4,850,409	12,470,134	2,372,539	380,930	2,753,469	15,223,603
Occupancy	5,252,815	746,873	5,999,688	186,289	14,906	201,195	6,200,883
Professional fees and contracts	269,287	268,187	537,474	410,249	59,618	469,867	1,007,341
Events	4,159	5,510	9,669	636	34,815	35,451	45,120
Goods and supplies	772,890	290,521	1,063,411	111,397	61,140	172,537	1,235,948
Vehicle and travel expenses	1,364,040	105,384	1,469,424	9,818	18	9,836	1,479,260
Real and maintenance of equipment	174,933	61,408	236,341	39,077	4,655	43,732	280,073
Printing, advertising and publications	27,771	30,697	58,468	15,292	73,543	88,835	147,303
Meetings and dues	77,816	35,437	113,253	47,543	2,759	50,302	163,555
Bad debt expense	-	2,260	2,260	-	1,000	1,000	3,260
Interest expense	116,165	46,791	162,956	44,719	7,003	51,722	214,678
Depreciation	653,971	261,471	915,442	32,885	8,919	41,804	957,246
Total other expenses	8,713,847	1,854,539	10,568,386	897,905	268,376	1,166,281	11,734,667
Total operating expenses	\$ 23,606,490	\$ 6,704,948	\$ 30,311,438	\$ 3,270,444	\$ 649,306	\$ 3,919,750	\$ 34,231,188

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

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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 (71%), government contracts and grants (including federal, state, and local governments) (14%), worksite revenue (8%), contributions and bequests (4%), and other sources (3%) for the year ended June 30, 2022.

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. 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 as of June 30, 2021, are \$900,508 of net assets designated by the Board of Directors, including \$250,000 for the new Springfield Operations and Training Center project, and \$650,508 for the Fresh Air Camp. As of June 30, 2022, there were no net asset amounts designated by the Board of Directors.

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.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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 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 \$7,740,626 and \$7,254,635 for the years ended June 30, 2022 and 2021, 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.

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, 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, 2022 and 2021

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 \$1,552,000 for programs and \$1,600,000 for the Headquarters Upgrade Project at June 30, 2022 and \$1,135,000 for programs at June 30, 2021.

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

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which improves transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. Goodwill adopted this standard in fiscal year 2022.

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 approximately \$17,270 and \$278,000 during the years ended June 30, 2022 and 2021, 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.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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, 2022 or 2021.

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 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

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases* (Topic 842). The new standard requires the recognition of assets (right-of-use assets) and liabilities arising from lease transactions on the statement of financial position and the disclosure of key information about leasing arrangements. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Both the asset and liability will initially be measured at the present value of the future minimum lease payments over the lease term. The new guidance will classify leases as either finance or operating leases, with classification determining the presentation of expenses and cash flows on Goodwill's financial statements. For non-public entities, the amendment is effective for financial periods beginning after December 15, 2021 with early adoption permitted. Goodwill is in the process of evaluating the impact of this pronouncement, which is expected to result in an increase in assets and liabilities on the statement of financial position. Goodwill's lease commitments are included in Note 12.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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:

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 7,903,916	\$ 6,945,957
Accounts receivable to be collected during the year	1,084,460	1,360,247
Future fiscal year spending policy allocation	804,000	725,000
Total financial assets available within one year	9,792,376	9,031,204
Liquidity resources:		
Bank lines of credit	5,500,000	5,500,000
Total financial assets and liquidity resources available within one year	\$ 15,292,376	\$ 14,531,204

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 its funds functioning as endowment could be made available if necessary.

NOTE 4 - LAND, BUILDINGS AND EQUIPMENT

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

	2022	2021
Land and land improvements	\$ 1,336,160	\$ 1,336,160
Buildings and building improvements	16,860,202	16,818,539
Leasehold improvements	4,456,543	3,338,873
Construction in progress	334,036	90,721
Equipment	10,708,421	10,462,100
	33,695,362	32,046,393
Less: accumulated depreciation	27,785,633	26,750,884
	\$ 5,909,729	\$ 5,295,509

Depreciation expense was \$1,034,749 and \$957,246 for the years ended June 30, 2022 and 2021, respectively.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE 5 - INVESTMENTS

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

	2022	2021
Marketable equity securities (common stocks, mutual funds, exchange traded funds)	\$ 14,177,346	\$ 16,409,498
Corporate bonds and government securities	7,816,001	7,827,230
Cash and cash equivalents	350,150	498,904
	\$ 22,343,497	\$ 24,735,632

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

Goodwill has beneficial interests in perpetual trusts valued at \$5,742,579 and \$6,954,198 at June 30, 2022 and 2021, 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 \$271,685 and \$263,038 for the years ended June 30, 2022 and 2021, respectively, and are reflected as trust income in the accompanying statements of activities. Goodwill has other split-interest agreements (primarily charitable trusts) valued at \$350,041 and \$377,892 at June 30, 2022 and 2021, respectively.

Increases (or decreases) in the value of the trust assets (including unrealized gains and losses), amounted to (\$1,239,470) and \$960,769 for the years ended June 30, 2022 and 2021, respectively.

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 (3.324% at June 30, 2022). There was no balance outstanding at either June 30, 2022 or 2021. There was no interest expense related to the line of credit for either of the years ended June 30, 2022 and 2021.

Former Construction Line of Credit/Term Loan

A former construction line of credit was converted to a \$281,000 note in April 2021, payable with interest fluctuating per annum rate equal to the One Month Term SOFR, plus 2.11% (3.324% at June 30, 2022), to be repaid based upon a 10-year amortization schedule with a final maturity of March 31, 2031. The balance outstanding was \$249,708 and \$275,013 as of June 30, 2022 and 2021, respectively.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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, 2022.

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

Under these line of credit agreements, Goodwill must adhere to certain financial and non-financial covenants. Goodwill was in compliance with these covenants as of June 30, 2022.

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 \$3,849,910 and \$3,946,247 as June 30, 2022 and 2021, respectively.

Scheduled principal payments as of June 30, 2022 on the borrowings are as follows:

	Amount
2023	\$ 127,735
2024	133,304
2025	140,275
2026	147,050
2027	154,177
Thereafter	<u>3,397,076</u>
Total	<u>\$ 4,099,618</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").

The loan, which was in the form of a note dated February 12, 2021, matures on February 12, 2026 and bears interest at a rate of 1.00% per annum, payable monthly commencing on December 2021. The note may be prepaid by Goodwill at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for certain costs, such as payroll costs and occupancy expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are based on and used for qualifying expenses as described in the CARES Act. On June 6, 2022, Goodwill was informed by the Small Business Administration ("SBA") that \$3,097,730 of the PPP loan had been forgiven. Management believes that Goodwill was eligible for and utilized \$236,764 of the non-forgiven amount for allowable expenditures under the PPP program, and has appealed the SBA's decision.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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 \$85,984 and \$117,340 to the 403(b) Plan for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, the fair value of the assets and the related obligation of the 457(b) Plan were \$373,855 and \$406,453, 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:

	2022	2021
Programs	\$ 4,623,724	\$ 4,482,403
Beneficial interest in charitable unitrusts	350,041	377,892
Cumulative appreciation and reinvestment gains on net assets restricted in perpetuity	2,514,717	3,636,650
	\$ 7,488,482	\$ 8,496,945

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

	2022	2021
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	5,742,579	6,954,198
	\$ 11,108,808	\$ 12,320,427
Total net assets with donor restrictions	\$ 18,597,290	\$ 20,817,372

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.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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 \$725,000 and \$664,000 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, 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, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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, 2022 and 2021

Endowment fund activity for the year ended June 30, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 12,532,666	\$ 7,571,650	\$ 20,104,316
Investment return, net	3,484,187	1,681,932	5,166,119
Additions	97,500	-	97,500
Appropriation of endowment assets for operations (spending policy)	(413,296)	(250,704)	(664,000)
Endowment net assets, end of year	\$ 15,700,057	\$ 9,002,878	\$ 24,703,935

NOTE 12 - 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, 2022:

Year Ending June 30,					
2023			\$	3,011,216	
2024				2,187,681	
2025				1,621,166	
2026				1,439,630	
2027				1,382,521	
Thereafter				5,121,224	
			\$	14,763,438	

Under the terms of certain leases, Goodwill pays for insurance, ordinary repairs and maintenance, utilities, 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 \$522,036 and \$333,781 at June 30, 2022 and 2021, respectively. Rent and lease expenses were \$3,500,275 and \$3,373,918 for the years ended June 30, 2022 and 2021, 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 financial statements of Goodwill.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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 \$1,037,617 and \$1,137,748 for medical and dental insurance for the years ended June 30, 2022 and 2021, 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 \$38,419 and \$19,141 for the years ended June 30, 2022 and 2021, 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 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.

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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.

Goodwill's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2022 and 2021, 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, 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	<u>\$ 14,527,496</u>	<u>\$ 7,816,001</u>	<u>\$ 6,092,620</u>

Description	As of June 30, 2021		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities	\$ 16,409,498	\$ -	\$ -
Corporate bonds and government securities	-	7,827,230	-
Cash and cash equivalents	498,904	-	-
Beneficial interest in perpetual trusts	-	-	6,954,198
Charitable trusts	-	-	377,892
Total	<u>\$ 16,908,402</u>	<u>\$ 7,827,230</u>	<u>\$ 7,332,090</u>

Morgan Memorial Goodwill Industries, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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.

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, 2021:

	<u>Charitable Trusts</u>	<u>Perpetual Trusts</u>	<u>Total</u>
Beginning balance	\$ 337,085	\$ 5,993,429	\$ 6,330,514
Net gains and distributions included in change in net assets	<u>40,807</u>	<u>960,769</u>	<u>1,001,576</u>
Ending balance	<u>\$ 377,892</u>	<u>\$ 6,954,198</u>	<u>\$ 7,332,090</u>

NOTE 15 - SUBSEQUENT EVENTS

Goodwill has evaluated all subsequent events through September 21, 2022, the date that the financial statements were available to be issued.