Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Financial Report
December 31, 2023

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Independent Auditor's Report

Board of Directors
Goodwill Industries of the Chesapeake, Incorporated

Opinion

We have audited the consolidated financial statements of Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries (collectively, Goodwill) which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Goodwill as of December 31, 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 in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Goodwill and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Goodwill's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Goodwill's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2024, on our consideration of Goodwill's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Goodwill's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Goodwill's internal control over financial reporting and compliance.

RSM US LLP

Baltimore, Maryland
July 18, 2024

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statements of Financial Position
December 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	**$ 11,862,610**	$ 10,341,843
Restricted cash	**540,537**	517,950
Accounts receivable, net	**3,799,839**	3,296,714
Inventory	**163,032**	59,672
Prepaid expenses and other assets	**1,210,818**	378,043
Investments (Notes 2, 3 and 6)	**35,169,406**	31,542,580
Land, buildings and equipment, net (Note 4)	**9,772,998**	7,413,729
Right-of-use assets, net (Note 8)	**43,529,805**	44,555,827
Restricted investments (Notes 6 and 9)	**962,610**	1,110,759
Total assets	**$ 107,011,655**	$ 99,217,117
Liabilities and Net Assets		
Liabilities:		
Accounts payable	**$ 920,958**	$ 907,548
Accrued expenses (Notes 6, 9 and 10)	**3,898,805**	3,784,550
Lease liabilities (Note 8)	**45,122,332**	45,897,294
Total liabilities	**49,942,095**	50,589,392
Commitments and contingencies (Notes 8, 9 and 10)		
Net assets:		
Without donor restrictions:		
Operating	**11,880,794**	9,602,379
Designated for long-term investment (Note 3)	**34,691,007**	31,134,932
Investment in plant	**9,772,998**	7,413,729
	56,344,799	48,151,040
With donor restrictions (Notes 3 and 5)	**724,761**	476,685
Total net assets	**57,069,560**	48,627,725
Total liabilities and net assets	**$ 107,011,655**	$ 99,217,117

See notes to consolidated financial statements.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statement of Activities
Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Public support:			
General support	$ 501,084	$ 177,500	$ 678,584
In-kind contributions	305,504	-	305,504
In-kind contributions of inventory	38,606,864	-	38,606,864
Special events	5,749	-	5,749
Bequests	-	-	-
Total public support	39,419,201	177,500	39,596,701
Other revenue and losses:			
Donated goods—sales	41,056,319	-	41,056,319
Contracted services (Note 7)	11,655,997	-	11,655,997
Career development	7,091,460	-	7,091,460
Investment income (Note 2)	4,015,728	70,576	4,086,304
Loss on disposal of property and equipment	(27,741)	-	(27,741)
Miscellaneous	(3,206)	-	(3,206)
Total other revenue and losses	63,788,557	70,576	63,859,133
Total public support, revenue and losses	103,207,758	248,076	103,455,834
Expenses:			
Program services:			
Donated goods	72,254,317	-	72,254,317
Contracted services	8,490,308	-	8,490,308
Career development	7,581,898	-	7,581,898
Total program services	88,326,523	-	88,326,523
Supporting services:			
Management and general	6,519,415	-	6,519,415
Fundraising	168,061	-	168,061
Total supporting services	6,687,476	-	6,687,476
Total expenses	95,013,999	-	95,013,999
Change in net assets	8,193,759	248,076	8,441,835
Net assets:			
Beginning of year	48,151,040	476,685	48,627,725
End of year	$ 56,344,799	$ 724,761	$ 57,069,560

See notes to consolidated financial statements.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statement of Activities
Year Ended December 31, 2022

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

See notes to consolidated financial statements.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	**$ 8,441,835**	$ (3,149,868)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Decrease) increase in allowance for doubtful promises to give	**(54,389)**	37,356
Realized and unrealized (gain) loss on investments, net	**(2,938,616)**	5,082,080
Depreciation	**1,232,674**	1,031,453
Loss (gain) on disposal of property and equipment	**27,741**	(6,200)
Contributions received for long-term endowment	**-**	(5,000)
Amortization of right-of-use assets	**7,427,854**	7,356,389
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	**(448,736)**	(131,224)
Inventory	**(103,360)**	866
Prepaid expenses and other assets	**(82,775)**	761,256
Increase (decrease) in:		
Accounts payable	**174,779**	(21,304)
Accrued expenses	**114,255**	(200,560)
Lease liabilities	**(7,176,794)**	(6,825,921)
Net cash provided by operating activities	**6,614,468**	3,929,323
Cash flows from investing activities:		
Proceeds from sale of investments	**1,109,062**	833,350
Proceeds from sale of property and equipment	**-**	6,200
Payment of security deposit on building purchase agreement	**(750,000)**	-
Purchases of investments	**(1,797,272)**	(850,012)
Purchases of property and equipment	**(3,781,053)**	(626,709)
Decrease in restricted investments	**148,149**	596,334
Net cash used in investing activities	**(5,071,114)**	(40,837)
Cash flows from financing activities:		
Contributions received for long-term endowment	**-**	5,000
Net cash provided by financing activities	**-**	5,000
Net increase in cash and cash equivalents	**1,543,354**	3,893,486
Cash and cash equivalents (including restricted cash):		
Beginning of year	**10,859,793**	6,966,307
End of year	**$ 12,403,147**	$ 10,859,793

(Continued)

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2023 and 2022

	2023	2022
Supplemental disclosure of noncash investing activities:		
Fixed asset additions included in accounts payable	**$ -**	$ 161,369
Supplemental cash flow information related to leases is as follows:		
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	**$ 5,746,672**	$ 50,180,415
Lease liability:		
Operating leases	**$ 5,746,672**	$ 50,991,414
Deferred rent liability prior year	**$ -**	$ 810,999

See notes to consolidated financial statements.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended December 31, 2023

	Production	Stores	Donated Goods Solicitation and Transportation	Management Specifications	Total
Expenses:					
Salaries and wages	$ 622,778	$ 14,098,772	$ 363,012	$ 1,102,212	$ 16,186,774
Employee benefits (Notes 8 and 9)	41,839	78,208	26,031	61,900	207,978
Payroll taxes	64,974	116,159	38,836	97,664	317,633
Subtotal	729,591	14,293,139	427,879	1,261,776	16,712,385
Cost of goods sold	-	38,606,864	-	-	38,606,864
Contracted services and professional fees	12,461	769,416	29,806	8,018	819,701
Supplies	389,474	1,446,592	23,215	(99,349)	1,759,932
Telephone	18,744	101,998	22,242	5,611	148,595
Postage	-	429,479	-	-	429,479
Occupancy (Note 8)	361,084	9,253,153	792,604	108,061	10,514,902
Equipment maintenance	32,975	115,784	26,844	376	175,979
Advertising, print and publication	171	54,693	168	(865)	54,167
Travel and vehicle	23,770	30,468	373,893	70,720	498,851
Dues	255	-	-	2,260	2,515
Awards	-	-	-	-	-
Service charges	10,705	1,736,475	873	(150)	1,747,903
Subtotal	1,579,230	66,838,061	1,697,524	1,356,458	71,471,273
Depreciation (Note 4)	191,308	442,199	63,611	85,926	783,044
Total expenses	$ 1,770,538	$ 67,280,260	$ 1,761,135	$ 1,442,384	$ 72,254,317

See notes to consolidated financial statements.

Contracted Services	Career Development	Management and General	Fundraising	Total
$ 5,457,752	$ 3,993,730	$ 3,183,246	$ 80,767	$ 28,902,269
1,246,242	251,909	818,849	4,914	2,529,892
665,025	408,316	324,416	7,611	1,723,001
7,369,019	4,653,955	4,326,511	93,292	33,155,162
-	-	-	-	38,606,864
601,348	790,064	301,363	6,000	2,518,476
295,227	408,153	290,484	4,594	2,758,390
40,253	86,331	37,016	-	312,195
-	254	5,972	16,841	452,546
107,308	962,453	470,019	-	12,054,682
12,638	57,693	34,305	-	280,615
804	137,684	442,880	46,727	682,262
21,764	63,768	83,707	-	668,090
-	15,155	273,951	-	291,621
-	1,419	-	-	1,419
753	103,725	146,015	607	1,999,003
8,449,114	7,280,654	6,412,223	168,061	93,781,325
41,194	301,244	107,192	-	1,232,674
$ 8,490,308	$ 7,581,898	$ 6,519,415	$ 168,061	$ 95,013,999

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended December 31, 2022

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

See notes to consolidated financial statements.

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

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Goodwill Industries of the Chesapeake, Incorporated and Goodwill Works of the Chesapeake, Incorporated are voluntary health and welfare organizations which provide personal and career development services and employment opportunities for persons with disabilities and other special needs. GIC Real Estate Holdings, LLC and Goodwill Industries Excel Centers, LLC are limited liability companies supporting the same mission. Collectively, the four entities are referred to as Goodwill.

Effective January 1, 2008, Goodwill Industries of the Chesapeake, Incorporated moved its retail operation labor force, entire staffing service and state of Maryland custodial contract to a newly formed nonprofit corporation, tax-exempt under Section 501(c)(3) of the Internal Revenue Code (IRC), named Goodwill Works of the Chesapeake, Incorporated.

GIC Real Estate Holdings, LLC was formed on April 30, 2012, primarily to hold real property for the sole benefit of the Goodwill Industries of the Chesapeake, Incorporated to the extent such activities are permitted of organizations, which are exempt from federal income tax under Section 501(c)(3) of the IRC.

In April 2023, Goodwill Industries Excel Centers, LLC was formed to operate an adult high school. The Excel Center provides services as a tuition-free adult high school that serves adult learners in Baltimore and the surrounding areas.

A summary of Goodwill's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of Goodwill Industries of the Chesapeake, Incorporated, Goodwill Works of the Chesapeake, Incorporated, GIC Real Estate Holdings, LLC and Goodwill Industries Excel Centers, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents: Cash and cash equivalents include investments with an original maturity of three months or less.

Restricted cash: Restricted cash includes escrow funds for unemployment.

Accounts receivable: Accounts receivable are carried at original invoice amount. The allowance for credit losses on accounts receivable represents Goodwill's estimate of expected credit losses over the lifetime of the receivables. This estimation process is based on historical experience, current conditions, asset-specific risk characteristics and reasonable and supportable forecasts about future economic and market conditions. An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. There was no allowance for credit loss at December 31, 2023. There was an allowance for credit loss of $54,389 at December 31, 2022. Goodwill will continue to monitor and evaluate the adequacy of the allowance for credit losses on accounts receivable on a regular basis and make adjustments as necessary in response to changes in economic conditions and credit quality indicators.

Inventory: Inventories are reported at the lower of cost or net realizable value. At December 31, 2023 and 2022, contributed inventory had a nominal fair value of $1, as contributed inventory is deemed to have little value until the inventory is sold.

Investments: Goodwill values debt and equity securities at fair value. Accordingly, the net change in fair value of investments is reflected in the consolidated statements of activities.

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

Property and equipment: Property and equipment is carried at cost, if purchased, or at its fair value at the date of the gift, if donated. Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets. Building improvements for owned buildings are depreciated over their useful lives of 20 to 40 years. Building improvements for leased facilities are amortized over the shorter of the life of the asset or the remaining expected lease term. Remaining classes of assets are amortized over a period of expected use, which range from five to 10 years. Goodwill capitalizes all property and equipment purchased with a unit cost of $1,000 or more, and a useful life of more than one year.

Valuation of long-lived assets: Goodwill accounts for the valuation of long-lived and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. There was no impairment recorded for the years ended December 31, 2023 and 2022.

Net assets without donor restrictions: Net assets without donor restrictions are the net assets that are neither invested in perpetuity, nor purpose or time restricted by donor-imposed stipulations.

- Operating represents the portion of expendable net assets that are available for support of operations.

- Designated for long-term investment represents amounts principally designated as long-term investments by the Board of Directors to provide future income to supplement other revenue in support of operations.

- Investment in plant represents resources designated by the Board of Directors for asset acquisitions and net assets expended for land, buildings and equipment.

Net assets with donor restrictions: Net assets with donor restrictions are the net assets that are contributions and endowment investment earnings subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature that either expire by passage of time or can be fulfilled and removed by actions of Goodwill pursuant to these stipulations. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Support and revenue—public support: Goodwill performs an evaluation at contract inception focused on whether a performance obligation is satisfied over time or at a point in time. If a performance obligation meets certain specific criteria, the related revenue is recognized over time if Goodwill is able to reasonably measure its progress toward complete satisfaction of the performance obligation using reliable information. If certain criteria are not met, the revenue is recognized at a point in time.

Store and commodity sales are generated with individuals who purchase and pay for merchandise either in store or through ecommerce. Revenue is recognized upon shipment of merchandise (for ecommerce) and immediately upon exchange of tender/currency and product between Goodwill and the customer for store purchases.

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

Contracted services consist of services with government agencies through programs legislated to provide training and employment opportunities for individuals with severe disabilities. These service contracts are approved and funded for a period of one year, and typically have a renewal option for the four following years. The contract runs for the full timeline approved by the government and can only be cancelled if Goodwill does not meet the contract requirements, or the government cannot fund the service in future years. There are no prepayments by the government for services. Revenue is recognized straight-line over the 12-month service period based on the fixed rate contractual price. Service contract revenue is billed and recognized at the time the service is provided.

Career development revenue is generated through government fees for service and grants to support efforts to help train and find employment for individuals with special needs, typically on a cost reimbursement basis. Revenue is recognized as costs qualified under the grants are incurred. Grant funds received in excess of costs incurred are recorded as refundable advances until earned. Reimbursable grant costs incurred in excess of funds received are recorded as receivables.

Revenue recognition on contracts and grants deemed to be nonexchange transactions will follow contribution accounting as described below.

The revenue streams noted above do not include significant financing components, as the performance obligations are typically satisfied within a year of receipt of payment. Economic downturns can affect the level of revenues for all the revenue streams or can have a positive impact on cash flows in good economic times.

Support and revenue—contributions: Unconditional contributions received, including grants and contracts deemed to be nonexchange transactions, are recorded as support to net assets with or without donor restrictions, depending on the existence and/or nature of donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Conditional contributions are those contributions that contain donor-imposed rights of refund/return and barriers (performance obligations and/or controlling stipulations). Conditional contributions are recognized into revenue when conditions are satisfied and then follow the above policies for unconditional contributions. Conditional contributions received in advance of satisfying conditions are recorded as refundable advances.

Goodwill received conditional grants that have not yet been recognized as of the end of the year. Goodwill received cash advance payments from the grantor and the specified conditions of the grants were not yet met. As of December 31, 2023, $168,288 of cash advance payments were received and $1,090,798 of conditional grants payments were not yet received. As of December 31, 2022, $200,000 of cash advance payments were received and $1,705,754 of conditional grants payments were not yet received. As such, these amounts are not reported in the accompanying consolidated statements of activities.

Goodwill receives contributions of used clothing, furniture, appliances and other goods from various donors. These items are refurbished or resold by Goodwill for sale in its retail stores. It is the policy of Goodwill to record the sale price of these contributions as revenue and an increase in cost of goods sold when items are sold. Contributions of building rent are recorded at fair value.

Donated services: Goodwill receives donated services that are not reflected in the consolidated financial statements, as they do not meet the criteria for recording donated services.

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

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of Goodwill. Certain expenses are attributable to more than one program or supporting function. These expenses, consisting primarily of occupancy expenses, are allocated consistently based on the square footage occupied.

Advertising costs: Goodwill expenses advertising costs the first time the advertising takes place. Advertising expense was $54,167 and $156,318 for the years ended December 31, 2023 and 2022, respectively.

Credit risk: Goodwill has funds on deposit in financial institutions which exceed federally insured limits. Goodwill has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash.

Investment risk: Goodwill invests in mutual funds, common shares and bonds of publicly traded companies, municipalities and U.S. Treasury securities. Such investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Income taxes: Goodwill Industries of the Chesapeake, Incorporated and Goodwill Works, Incorporated are generally exempt from federal income taxes under Section 501(c)(3) of the IRC. GIC Real Estate Holdings, LLC and Goodwill Industries Excel Centers, LLC are limited liability companies wholly owned by Goodwill Industries of the Chesapeake, Incorporated and are considered disregarded entities for tax purposes. This designation requires GIC Real Estate Holdings, LLC and Goodwill Industries Excel Centers, LLC to file tax returns under Goodwill Industries of the Chesapeake, Incorporated’s tax identification number. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. Goodwill had no net unrelated business income for the years ended December 31, 2023 and 2022.

Goodwill has adopted the accounting standard on accounting for uncertainty in income taxes which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this policy, Goodwill may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated Goodwill’s tax positions and has concluded that Goodwill has taken no uncertain tax positions that require disclosure.

Goodwill would be liable for income taxes in the U.S. federal jurisdiction. Generally, Goodwill is no longer subject to U.S. federal tax examinations by tax authorities before 2019.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from those estimates.

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

Liquidity and availability: Goodwill is primarily supported by the sale of donated goods, contracted service fees and career development fees. As part of Goodwill's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, Goodwill invests cash in excess of daily requirements in short-term investments. The board has established a minimum reserve level for the organization that consists of 1.5 times current liabilities, plus budgeted capital expenditures, plus three months of operating expenses. There is a fund established by the board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2023 and 2022, are as follows:

	2023	2022
Cash and cash equivalents, and restricted cash	$ 12,403,147	$ 10,859,793
Accounts receivable	3,799,839	3,296,714
Investments	35,169,406	31,542,580
Total financial assets	51,372,392	45,699,087
Less:		
Restricted escrow funds for unemployment	(540,537)	(517,950)
Restrictions by donor with time or purpose restrictions	(248,523)	(71,023)
Donor restricted endowments	(476,238)	(405,662)
Board designated funds for endowment and operating reserves	(34,691,007)	(31,134,932)
Financial assets available to meet cash needs for general expenditures within one year	$ 15,416,087	$ 13,569,520

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

Goodwill recognizes most leases on its consolidated statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the consolidated statements of activities.

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

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

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

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

Adopted accounting pronouncement: In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The ASU introduced a new credit loss methodology, Current Expected Credit Losses, which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Goodwill adopted this ASU effective January 1, 2023. The adoption did not have a significant impact on Goodwill's consolidated financial position, results of operations or cash flows.

Subsequent events: Goodwill has evaluated subsequent events through July 18, 2024, the date on which the consolidated financial statements were available to be issued. See Note 12 for a discussion of subsequent events.

Note 2. Investments

At December 31, 2023 and 2022, fair value of investments were as follows:

	2023	2022
Cash equivalents	$ 6,896,165	$ 2,081,356
Fixed income	8,535,930	15,939,878
Common stock	8,226,888	7,329,626
Mutual funds	12,470,872	7,300,493
Charitable trusts	2,161	1,986
	$ 36,132,016	$ 32,653,339

Investment income (loss) for the years ended December 31, 2023 and 2022, are as follows:

	2023	2022
Realized and unrealized gain (loss) on investments, net of fees	$ 2,938,616	$ (5,082,080)
Interest and dividends	1,147,688	665,123
	$ 4,086,304	$ (4,416,957)

Note 3. Endowment Funds

Interpretation of relevant law: The Board of Directors of Goodwill has interpreted the Maryland enacted version of Uniform Prudent Management of Institutional Fund Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Goodwill classifies as net assets with donor restrictions in perpetuity: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions for a specific purpose, until those amounts are appropriated for expenditure by Goodwill in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Goodwill considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(a) The duration and preservation of the fund

(b) The purposes of Goodwill and the donor-restricted endowment fund

(c) General economic conditions

(d) The possible effects of inflation and deflation

(e) The expected total return from income and the appreciation of investments

(f) Other resources of Goodwill

(g) The investment policies of Goodwill

Endowment investment and spending policies: Endowment funds are invested to produce maximum total return consistent with prudent risk limits. A target total return figure is determined for internal financial planning purposes; results to market indexes and other endowment funds will also be used to evaluate performance. At present, the target total annual return objective is 4% after inflation over time. Subsequent fund growth will be derived from a combination of bequests, memorials, honorariums and investment returns. A minimum of 15% of the investment income will be reinvested in the fund annually.

The Executive Committee of the Board of Directors is the oversight committee for the uses of the endowment fund. In order to expend any of the funds, a written request must be submitted by the President to the Executive Committee. The amount available for use will be determined by calculating the average value of the fund during the immediate past three years, based on a 12-quarter rolling average. Up to 5% of this value can be expended in any given year. Approval of the request by the Board of Directors will be required prior to any expenditure. No funds shall be expended if the requested expenditure results in the market value of the corpus of the endowment fund being reduced to less than $2,500,000.

Note 3. Endowment Funds (Continued)

Endowment net asset composition by type of fund as of December 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 17,353,194	$ -	$ 17,353,194
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	301,050	301,050
Accumulated investment gains	-	175,188	175,188
Total	$ 17,353,194	$ 476,238	$ 17,829,432

Endowment net asset composition by type of fund as of December 31, 2022:

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

Note 3. Endowment Funds (Continued)

Changes in endowment net assets for the fiscal years ended December 31, 2023 and 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2021	$ 18,833,137	$ 497,826	$ 19,330,963
Investment income	209,689	4,772	214,461
Net unrealized and realized losses	(3,310,757)	(101,936)	(3,412,693)
Contributions	120,000	5,000	125,000
Appropriation of endowment assets for expenditure	(818,830)	-	(818,830)
Endowment net assets, December 31, 2022	15,033,239	405,662	15,438,901
Investment income	305,495	12,031	317,526
Net unrealized and realized gains	1,982,098	58,545	2,040,643
Contributions	971,424	-	971,424
Appropriation of endowment assets for expenditure	(939,062)	-	(939,062)
Endowment net assets, December 31, 2023	$ 17,353,194	$ 476,238	$ 17,829,432

Net assets without donor restrictions—designated for long-term investment consisted of the following as of December 31, 2023 and 2022:

	2023	2022
Endowment net assets	$ 17,353,194	$ 15,033,239
Operating investments	17,337,813	16,101,693
	$ 34,691,007	$ 31,134,932

Note 4. Land, Buildings and Equipment

Major classes of property and equipment and accumulated depreciation are as follows at December 31, 2023 and 2022:

	2023	2022
Land	$ 1,162,820	$ 1,162,820
Buildings	8,206,747	5,362,835
Building improvements	12,174,152	11,869,660
Machinery and equipment	2,965,776	2,674,255
Furniture and equipment	2,474,604	2,470,200
Vehicles	1,700,983	1,737,390
	28,685,082	25,277,160
Accumulated depreciation	(18,912,084)	(17,863,431)
	$ 9,772,998	$ 7,413,729

Note 5. Net Assets with Donor Restrictions

Net assets of $71,023 are donor-restricted for a specific purpose, the Marge Thomas Scholarship Fund, at December 31, 2023 and 2022. Net assets of $177,500 are donor-restricted for a specific purpose, the Excel Center, at December 31, 2023. There were no releases from restriction from these funds for the years ended December 31, 2023 and 2022. Net assets of $175,188 and $104,612 consist of investment income, subject to Goodwill's spending policy and appropriation resulting from net assets invested in perpetuity, for the years ended December 31, 2023 and 2022, respectively. Net assets of $301,050 are donor-restricted endowment funds at both December 31, 2023 and 2022.

Note 6. Fair Value Measurements

Goodwill defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and within a fair value hierarchy. The fair value hierarchy gives the highest rank to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest rank to unobservable inputs (Level 3). Inputs are broadly defined as data that market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Listed equities and holdings in mutual funds are types of investments included in Level 1.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 2 includes the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds and over-the-counter derivatives.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Goodwill's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The following section describes the valuation techniques used by Goodwill:

Level 1: Investments in securities traded on a national securities exchange, or reported on the NASDAQ global market, are stated at the last reported sales price on the day of valuation. Liabilities associated with Goodwill's 457(b) plan are stated at the fair value of the plan's assets.

Level 2: Investments in corporate obligations and U.S. Treasury and agency obligations are stated at the last reported sales price on the day of valuation.

Level 3: The charitable trusts income investment is recognized at the estimated net present value using a discount rate of 6% and actuarial ages of the beneficiaries.

Note 6. Fair Value Measurements (Continued)

The following table presents Goodwill's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2023:

	2023			
	Total	Level 1	Level 2	Level 3
Assets, at fair value:				
Fixed income	$ 8,535,930	$ 8,535,930	$ -	$ -
Common stock	8,226,888	8,226,888	-	-
Mutual funds	11,508,262	11,508,262	-	-
Charitable trust	2,161	-	-	2,161
Restricted investments—mutual funds:				
Equity	962,610	962,610	-	-
Total assets	$ 29,235,851	$ 29,233,690	$ -	$ 2,161
Liabilities, at fair value:				
Deferred compensation payable	$ 962,610	$ 962,610	$ -	$ -

The following table presents Goodwill's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2022:

	2022			
	Total	Level 1	Level 2	Level 3
Assets, at fair value:				
Fixed income	$ 15,939,878	$ 3,109,890	$ 12,829,988	$ -
Common stock	7,329,626	7,329,626	-	-
Mutual funds	6,189,734	6,189,734	-	-
Charitable trust	1,986	-	-	1,986
Restricted investments—mutual funds:				
Equity	1,110,759	1,110,759	-	-
Total assets	$ 30,571,983	$ 17,740,009	$ 12,829,988	$ 1,986
Liabilities, at fair value:				
Deferred compensation payable	$ 1,110,759	$ 1,110,759	$ -	$ -

Cash equivalents are excluded from the fair value hierarchy as cash is generally measured at cost. As such, $6,896,165 and $2,081,356 of cash equivalents at December 31, 2023 and 2022, respectively, have been excluded from this table.

Note 6. Fair Value Measurements (Continued)

Changes in Level 3 assets for the years ended December 31, 2023 and 2022, were as follows:

	2023	2022
Beginning balance	$ 1,986	$ 2,381
Investment income (loss)	175	(395)
Ending balance	$ 2,161	$ 1,986

Note 7. Major Support

Goodwill received $7,076,979 and $5,768,429 for contracted custodial services from the Social Security Administration for the years ended December 31, 2023 and 2022, respectively.

Note 8. Leases

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

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

	2023	2022
Operating lease cost	$ 7,427,854	$ 7,356,389
Short-term lease cost	7,652	43,376
Variable lease cost	953,950	1,510,701
Total lease cost	$ 8,389,456	$ 8,910,466

Supplemental consolidated statements of financial position information related to leases is as follows as of December 31, 2023 and 2022:

	2023	2022
Operating leases:		
Operating lease ROU assets	$ 43,529,805	$ 44,555,827
Operating lease liabilities, current	$ 6,330,810	$ 6,443,650
Operating lease liabilities, non-current	38,791,522	39,453,644
Total operating lease liabilities	$ 45,122,332	$ 45,897,294

Note 8. Leases (Continued)

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

	2023	2022
Weighted-average remaining lease term	8.16 years	8.87 years
Weighted-average discount rate	2.51%	1.86%

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

Years ending December 31:	
2024	$ 7,310,422
2025	7,053,327
2026	6,621,025
2027	5,492,378
2028	4,876,138
Thereafter	17,401,265
Total minimum obligations	48,754,555
Less amount representing interest	(3,632,223)
Total lease liabilities	$ 45,122,332

Note 9. Employee Benefit Plans

Goodwill has a 401(k) Profit Sharing Plan for its eligible employees and makes discretionary contributions to the plan. Goodwill made contributions of $518,860 and $543,273 to the plan for the years ended December 31, 2023 and 2022, respectively.

Goodwill also has a 457(b) plan for its eligible employees. Goodwill made contributions of $141,393 and $75,000 for the years ended December 31, 2023 and 2022, respectively. Under terms of the plan, Goodwill deposits the funds into a restricted investment account and pays the appropriate individual upon termination. At December 31, 2023 and 2022, the restricted investment account had a balance of $962,610 and $1,110,759, respectively. Goodwill has recorded a payable in the same amount, which is included in accrued expenses on the consolidated statements of financial position.

Note 10. Contingencies

Litigation: Goodwill has certain pending legal proceedings that generally involve employment issues. These proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by Goodwill. In the opinion of management, such proceedings are substantially covered by insurance, and the ultimate disposition of such proceedings is not expected to have a material adverse effect on Goodwill’s consolidated financial position, activities or cash flows.

Health insurance liability: Goodwill participates in a health reimbursement account and accrues claims that have incurred but not paid as of the consolidated statements of financial position date. The liability of $266,161 and $270,313 as of December 31, 2023 and 2022, respectively, is included in accrued expenses on the consolidated statements of financial position. Goodwill is also partially self-insured against medical claims with a maximum annual liability of $75,000 for each insured.

Note 11. Line of Credit

Goodwill had a $3,000,000 line of credit with a bank. Goodwill obtained this line of credit in July 2020. The amounts drawn against the line of credit were payable upon demand and accrued interest at the Secured Overnight Financing Rate (SOFR), plus 1.25%. No balance was outstanding on the line at December 31, 2022. The line of credit was collateralized by the assets of Goodwill and terminated in November 2023.

Note 12. Subsequent Events

On March 11, 2024, Goodwill purchased an industrial facility to consolidate and expand its retail operations and sustainability activities. The facility was purchased for $25,125,000 in a new subsidiary entity named Goodwill Chesapeake Sustainability Center LLC. The facility was purchased with $14,000,000 of proceeds from a Loan Management Account credit facility, $3,000,000 from long-term operating investments, and the remainder from Goodwill’s cash and cash equivalents. A security deposit of $750,000 for the purchase of the building was made on December 20, 2023 and is included within prepaid expenses and other assets on the consolidated statements of financial position.

RSM

RSM US LLP

Independent Auditor's Report on the Supplementary Information

Board of Directors
Goodwill Industries of the Chesapeake, Incorporated

We have audited the consolidated financial statements of Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries as of and for the years ended December 31, 2023 and 2022, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, or other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Baltimore, Maryland
July 18, 2024

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Consolidated Functional Expense Detail
Years Ended December 31, 2023 and 2022

	2023		2022	
	Amount	**Percent of Public Support and Revenue**	Amount	Percent of Public Support and Revenue
Expenses:				
Salaries and wages	**$ 28,902,269**	**27.9**	$ 25,792,201	30.5
Employee benefits	**2,529,892**	**2.4**	2,425,022	2.9
Payroll taxes	**1,723,001**	**1.7**	1,467,449	1.7
Subtotal	**33,155,162**	**32.0**	29,684,672	35.1
Cost of goods sold	**38,606,864**	**37.3**	36,413,028	43.1
Contracted services and professional fees	**2,518,476**	**2.4**	1,644,489	1.9
Supplies	**2,758,390**	**2.7**	2,399,994	2.8
Telephone	**312,195**	**.3**	329,143	.4
Postage	**452,546**	**.4**	380,139	.4
Occupancy	**12,054,682**	**11.7**	12,326,716	14.6
Equipment maintenance	**280,615**	**.3**	324,209	.4
Advertising, print and publication	**682,262**	**.7**	562,183	.7
Travel and vehicle	**668,090**	**.6**	711,903	.8
Dues	**291,621**	**.3**	174,008	.2
Awards	**1,419**	**-**	3,358	-
Service charges	**1,999,003**	**1.9**	1,733,625	2.0
Subtotal	**93,781,325**	**90.6**	86,687,467	102.4
Depreciation	**1,232,674**	**1.2**	1,031,453	1.2
Total expenses	**$ 95,013,999**	**91.8**	$ 87,718,920	103.6

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Uniform Guidance
Supplementary Financial Report
Year Ended December 31, 2023

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

Board of Directors
Goodwill Industries of the Chesapeake, Incorporated

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States (*Government Auditing Standards*), the consolidated financial statements of Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries (Goodwill), which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated July 18, 2024.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters
As part of obtaining reasonable assurance about whether Goodwill's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Baltimore, Maryland
July 18, 2024

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

Board of Directors
Goodwill Industries of the Chesapeake, Incorporated

Report on Compliance for the Major Federal Program

Opinion on Each Major Federal Program
We have audited Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries (Goodwill) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Goodwill's major federal programs for the year ended December 31, 2023. Goodwill's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Goodwill complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards)*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Goodwill and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Goodwill's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance
Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Goodwill's federal programs.

Auditor’s Responsibilities for the Audit of Compliance
Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Goodwill's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Goodwill's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Goodwill’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Goodwill's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Goodwill's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Goodwill as of and for the year ended December 31, 2023, and have issued our report thereon dated July 18, 2024, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Baltimore, Maryland
July 18, 2024

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Health and Human Services			
Head Start Cluster			
Passed through Maryland Family Network:			
Head Start	93.600	03CH011118-04-00	$ 715,290
Head Start	93.600	03CH011118-05	521,173
Head Start	93.600	N/A	80,238
Head Start	93.600	03CH011118-04-00	52,575
COVID-19: Head Start	93.600	N/A	32,117
Total Head Start Cluster and U.S. Department of Health and Human Services			1,401,393
Total expenditures of federal awards			$ 1,401,393

See notes to schedule of expenditures of federal awards.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries (Goodwill) under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the activities of Goodwill, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of Goodwill.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

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

Note 4. Subrecipients

There are no amounts provided to subrecipients for the year ended December 31, 2023.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Schedule of Findings and Questioned Costs
Year Ended December 31, 2023

Section I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	____ Yes __X__ No
Significant deficiency(ies) identified?	____ Yes __X__ None reported
Noncompliance material to financial statements noted?	____ Yes __X__ No

Federal Awards

Internal control over major federal programs:	
Material weakness(es) identified?	____ Yes __X__ No
Significant deficiency(ies) identified?	____ Yes __X__ None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ Yes __X__ No

Identification of major federal programs:

Assistance Listing Number	Name of Federal Program or Cluster
93.600	Head Start Cluster

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	__X__ Yes ____ No

(Continued)

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2023

Section II. Financial Statements Findings

No matters were reported.

Section III. Federal Award Findings and Questioned Costs

No matters were reported.

Goodwill Industries of the Chesapeake, Incorporated and Subsidiaries

Summary Schedule of Prior Audit Findings
Year Ended December 31, 2023

The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from the prior audit's Summary of Prior Audit Findings.