# Goodwill Industries of South Florida, Inc. and Subsidiary

## Consolidated Financial Statements
Years Ended December 31, 2020 and 2019

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARY**

## TABLE OF CONTENTS

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# INDEPENDENT AUDITOR'S REPORT

Goodwill Industries of South Florida, Inc. and Subsidiary
Miami, Florida

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Goodwill Industries of South Florida, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

## Management's Responsibility for the Consolidated Financial Statements

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

## Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Goodwill Industries of South Florida, Inc. and Subsidiary as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter – Prior Year Consolidated Financial Statements**

The consolidated financial statements of Goodwill Industries of South Florida, Inc. and Subsidiary as of and for the year ended December 31, 2019 were audited by Morrison, Brown, Argiz & Farra, LLC ("MBAF"), whose partners and professional staff joined BDO USA, LLP as of January 16, 2021, and has subsequently ceased operations. MBAF expressed an unmodified opinion on those statements in their report dated June 12, 2020.

**Emphasis of Matter – Coronavirus**

As discussed further in NOTE 23, Goodwill Industries of South Florida, Inc. and Subsidiary is subject to the current economic and health conditions in the United States, including the coronavirus which was designated a global pandemic by the World Health Organization on March 11, 2020. Management is currently assessing the impact of these conditions and continues to explore various options to minimize the financial impact, however, the ultimate outcome is not known as of the date these consolidated financial statements were available to be issued. Our opinion is not modified with respect to this matter.

BDO USA, LLP

Certified Public Accountants
May 21, 2021

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**
**AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31,

| **ASSETS** | | **2020** | | **2019** |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 7,868,791 | $ | 6,872,956 |
| Accounts and other receivables, net | | 8,391,469 | | 10,688,345 |
| Pledges receivable | | 76,445 | | 360,249 |
| Inventories | | 16,621,655 | | 8,722,531 |
| Prepaid expenses | | 497,753 | | 388,209 |
| Other assets | | 698,837 | | 2,669,554 |
| Goodwill | | 1,392,000 | | 1,392,000 |
| Property and equipment, net | | 37,256,663 | | 37,773,220 |
| TOTAL ASSETS | **$** | **72,803,613** | **$** | **68,867,064** |
| **LIABILITIES AND NET ASSETS** | | | | |
| LIABILITIES | | | | |
| Accounts payable | $ | 9,422,891 | $ | 5,672,734 |
| Accrued expenses and other liabilities | | 10,735,400 | | 10,297,538 |
| Deferred revenue | | 8,078,528 | | - |
| Mortgage notes, notes payable and lines of credit, net | | 12,937,486 | | 14,431,093 |
| Obligations under capital leases, net | | - | | 1,036,603 |
| TOTAL LIABILITIES | | 41,174,305 | | 31,437,968 |
| COMMITMENTS AND CONTINGENCIES (NOTE 22) | | | | |
| NET ASSETS | | | | |
| Without donor restrictions | | 31,552,863 | | 37,068,847 |
| With donor restrictions | | 76,445 | | 360,249 |
| TOTAL NET ASSETS | | 31,629,308 | | 37,429,096 |
| TOTAL LIABILITIES AND NET ASSETS | **$** | **72,803,613** | **$** | **68,867,064** |

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

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31,

| | | 2020 | | 2019 |
|---|---|---|---|---|
| CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS: | | | | |
| REVENUES, SUPPORT AND GAIN: | | | | |
| Contributions: | | | | |
| Donated goods sales, net of sales discounts | $ | 48,139,766 | $ | 62,555,082 |
| Contributions | | 858,376 | | 1,521,012 |
| United Way allocation | | 342,878 | | 367,398 |
| TOTAL CONTRIBUTIONS | | 49,341,020 | | 64,443,492 |
| Apparel manufacturing | | 47,963,899 | | 65,434,346 |
| Custodial contracts | | 10,654,256 | | 9,497,490 |
| Business services | | 1,457,622 | | 60,036 |
| Laundry services | | 15,394,991 | | 14,846,320 |
| Mission services | | 2,104,789 | | 2,608,467 |
| Gain from New Market Tax Credit unwind | | 894,525 | | - |
| Miscellaneous income | | 81,380 | | 86,523 |
| Releases from restrictions | | 305,000 | | 55,000 |
| TOTAL REVENUES, SUPPORT AND GAIN | | 128,197,482 | | 157,031,674 |
| EXPENSES: | | | | |
| Program services: | | | | |
| Donated goods operations | | 47,184,790 | | 53,849,162 |
| Apparel manufacturing | | 49,369,286 | | 66,082,996 |
| Custodial contracts | | 9,279,462 | | 8,906,499 |
| Business services | | 2,012,323 | | 582,401 |
| Laundry services | | 15,510,718 | | 14,922,301 |
| Mission services | | 4,751,203 | | 5,586,365 |
| TOTAL PROGRAM SERVICES | | 128,107,782 | | 149,929,724 |
| Supporting services: | | | | |
| Management and general | | 5,199,291 | | 5,425,594 |
| Fundraising | | 406,393 | | 609,485 |
| TOTAL EXPENSES | | 133,713,466 | | 155,964,803 |
| (DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS | | (5,515,984) | | 1,066,871 |
| CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS: | | | | |
| Contributions | | 21,196 | | 330,325 |
| Releases from restrictions | | (305,000) | | (55,000) |
| (DECREASE) INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS | | (283,804) | | 275,325 |
| (DECREASE) INCREASE IN NET ASSETS | | (5,799,788) | | 1,342,196 |
| NET ASSETS - BEGINNING OF YEAR | | 37,429,096 | | 36,086,900 |
| NET ASSETS - END OF YEAR | **$** | **31,629,308** | **$** | **37,429,096** |

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

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**
**AND SUBSIDIARY**

# CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
## FOR THE YEAR ENDED DECEMBER 31, 2020

| | Program Services | | | | | | Supporting Services | | |
|---|---|---|---|---|---|---|---|---|---|
| | Donated Goods Operations | Apparel Manufacturing | Custodial Contracts | Business Services | Laundry Services | Mission Services | Management and General | Fundraising | Total Expenses |
| PAYROLL AND RELATED COSTS | | | | | | | | | |
| Disabled wages | $ 1,120,296 | $ 11,250,308 | $ 3,032,188 | $ 68,307 | $ 881,703 | $ 222,981 | $ 103,722 | $ 1,246 | $ 16,680,751 |
| Non-disabled wages | 17,748,057 | 8,779,808 | 3,090,415 | 354,001 | 5,077,107 | 2,993,100 | 2,671,176 | 67,209 | 40,780,873 |
| Employee health and welfare benefits | 986,235 | 944,125 | 844,268 | 56,611 | 282,810 | 231,137 | 206,216 | 4,004 | 3,555,406 |
| Other payroll-related expenses | 2,189,629 | 2,223,023 | 738,140 | 49,030 | 698,336 | 271,150 | 236,426 | 6,466 | 6,412,200 |
| Total payroll and related costs | 22,044,217 | 23,197,264 | 7,705,011 | 527,949 | 6,939,956 | 3,718,368 | 3,217,540 | 78,925 | 67,429,230 |
| EXPENSES | | | | | | | | | |
| Occupancy | 16,339,722 | 1,108,282 | 262,758 | 103,768 | 1,283,148 | 188,217 | 203,948 | 10,584 | 19,500,427 |
| Professional fees | 1,227,862 | 3,556,046 | 460,401 | 155,798 | 2,002,891 | 292,958 | 1,026,620 | 293,424 | 9,016,000 |
| Materials and supplies (office and commercial) | 2,212,114 | 19,300,337 | 646,708 | 1,111,273 | 3,823,874 | 295,709 | 104,381 | 9,796 | 27,504,192 |
| Telephone | 620,844 | 256,829 | 46,851 | 15,610 | 29,366 | 71,450 | 162,192 | 1,605 | 1,204,747 |
| Postage and freight | 1,245,105 | 520,848 | 839 | 45,657 | 25,911 | 3,489 | 13,084 | 3,074 | 1,858,007 |
| Equipment rental and maintenance | 84,602 | 75,494 | 14,656 | 21,032 | 214,041 | 23,124 | 39,263 | 190 | 472,402 |
| Printing and advertising | 51,192 | 89,413 | 5,902 | 4,352 | 6,029 | 11,850 | 21,196 | 592 | 190,526 |
| Travel | 76,318 | 20,328 | 50,062 | 3,652 | 405 | 18,553 | 9,366 | 1,237 | 179,921 |
| Fleet and transportation costs | 961,109 | 17,866 | 45,671 | 446 | 495,849 | 2,365 | 3,071 | 86 | 1,526,463 |
| Conferences and meetings | 5,483 | 4,048 | 621 | 2,181 | 12,714 | 297 | 4,602 | 640 | 30,586 |
| Special assistance to individuals | - | - | - | - | - | 763 | - | - | 763 |
| Membership dues | 599 | 1,356 | 3,840 | 42 | 8 | 43,784 | 222,224 | 433 | 272,286 |
| Awards and grants | 162 | 1,762 | 3 | 5 | 217 | 20 | 220 | 1 | 2,390 |
| Interest (including amortization of debt issuance costs of $18,523) | 73,976 | 162,899 | 3,082 | 5,137 | 203,172 | 19,110 | 32,200 | 1,027 | 500,603 |
| Miscellaneous | 1,342,915 | 575 | 1,529 | 91 | 79,568 | 4,118 | 43,294 | 1,713 | 1,473,803 |
| Total expenses before depreciation and amortization | 46,286,220 | 48,313,347 | 9,247,934 | 1,996,993 | 15,117,149 | 4,694,175 | 5,103,201 | 403,327 | 131,162,346 |
| Depreciation and amortization | 898,570 | 1,055,939 | 31,528 | 15,330 | 393,569 | 57,028 | 96,090 | 3,066 | 2,551,120 |
| **Total expenses** | **$ 47,184,790** | **$ 49,369,286** | **$ 9,279,462** | **$ 2,012,323** | **$ 15,510,718** | **$ 4,751,203** | **$ 5,199,291** | **$ 406,393** | **$ 133,713,466** |

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

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARY**

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

| | Program Services | | | | | | Supporting Services | | |
|---|---|---|---|---|---|---|---|---|---|
| | Donated Goods Operations | Apparel Manufacturing | Custodial Contracts | Business Services | Laundry Services | Mission Services | Management and General | Fundraising | Total Expenses |
| PAYROLL AND RELATED COSTS | | | | | | | | | |
| Disabled wages | $ 1,510,684 | $ 13,503,368 | $ 3,018,924 | $ 21,010 | $ 1,096,455 | $ 316,036 | $ 108,878 | $ 1,394 | $ 19,576,749 |
| Non-disabled wages | 22,688,847 | 9,872,371 | 2,644,775 | 91,650 | 5,027,840 | 3,480,229 | 2,689,738 | 66,871 | 46,562,321 |
| Employee health and welfare benefits | 1,184,161 | 1,151,781 | 793,063 | 6,341 | 304,850 | 279,528 | 221,887 | 3,997 | 3,945,608 |
| Other payroll-related expenses | 2,342,315 | 2,139,570 | 568,590 | 9,704 | 545,284 | 239,203 | 165,127 | 5,238 | 6,015,031 |
| Total payroll and related costs | 27,726,007 | 26,667,090 | 7,025,352 | 128,705 | 6,974,429 | 4,314,996 | 3,185,630 | 77,500 | 76,099,709 |
| EXPENSES | | | | | | | | | |
| Occupancy | 16,663,937 | 1,136,425 | 297,729 | 35,389 | 1,246,163 | 200,386 | 207,243 | 8,425 | 19,795,697 |
| Professional fees | 948,632 | 7,531,031 | 580,756 | 30,739 | 1,329,476 | 438,768 | 1,164,218 | 368,667 | 12,392,287 |
| Materials and supplies (office and commercial) | 3,031,072 | 28,442,506 | 800,824 | 313,951 | 4,094,154 | 325,999 | 134,121 | 141,799 | 37,284,426 |
| Telephone | 588,563 | 230,480 | 43,318 | 6,876 | 24,425 | 69,888 | 183,820 | 1,375 | 1,148,745 |
| Postage and freight | 1,024,865 | 507,121 | 373 | 6,048 | 1,839 | 2,109 | 9,258 | 368 | 1,551,981 |
| Equipment rental and maintenance | 109,687 | 88,197 | 5,828 | 11,325 | 214,592 | 12,849 | 42,405 | 254 | 485,137 |
| Printing and advertising | 75,802 | 115,489 | 12,376 | 3,359 | 4,810 | 15,171 | 21,697 | 4,814 | 253,518 |
| Travel | 87,469 | 81,279 | 44,521 | 23,065 | 2,172 | 46,723 | 39,872 | 523 | 325,624 |
| Fleet and transportation costs | 1,061,773 | 23,530 | 48,946 | 524 | 344,402 | 5,926 | 3,473 | 105 | 1,488,679 |
| Conferences and meetings | 18,966 | 14,073 | 2,077 | 942 | 10,219 | 2,339 | 15,764 | 720 | 65,100 |
| Special assistance to individuals | 707 | - | - | - | 750 | 127 | - | - | 1,584 |
| Membership dues | 2,308 | 4,311 | 3,490 | 136 | 27 | 71,330 | 268,344 | 452 | 350,398 |
| Awards and grants | 684 | 684 | 13 | 22 | 4 | 80 | 636 | 4 | 2,127 |
| Interest (including amortization of debt issuance costs of $37,045) | 94,251 | 207,545 | 3,927 | 6,545 | 280,486 | 24,348 | 41,024 | 1,309 | 659,435 |
| Miscellaneous | 1,433,305 | 7,830 | 939 | 8 | 897 | 394 | 15,531 | 217 | 1,459,121 |
| Total expenses before depreciation and amortization | 52,868,028 | 65,057,591 | 8,870,469 | 567,634 | 14,528,845 | 5,531,433 | 5,333,036 | 606,532 | 153,363,568 |
| Depreciation and amortization | 981,134 | 1,025,405 | 36,030 | 14,767 | 393,456 | 54,932 | 92,558 | 2,953 | 2,601,235 |
| **Total expenses** | **$ 53,849,162** | **$ 66,082,996** | **$ 8,906,499** | **$ 582,401** | **$ 14,922,301** | **$ 5,586,365** | **$ 5,425,594** | **$ 609,485** | **$ 155,964,803** |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

| | 2020 | 2019 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | $ (5,799,788) | $ 1,342,196 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,551,120 | 2,601,235 |
| Amortization of debt issuance costs | 18,523 | 37,045 |
| Gain from New Market Tax Credit unwind | (894,525) | - |
| Non-cash contribution of used goods | (97,433) | (237,235) |
| Decrease (increase) in assets: | | |
| Accounts and other receivables, net | 2,296,876 | (1,981,480) |
| Pledges receivable | 283,804 | (275,325) |
| Inventories | (7,801,691) | 4,285,545 |
| Prepaid expenses | (109,544) | (111,669) |
| Other assets | 1,970,717 | (1,980,262) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 3,750,157 | (1,294,805) |
| Accrued expenses and other liabilities | 437,862 | 1,046,029 |
| Deferred revenue | 8,078,528 | - |
| TOTAL ADJUSTMENTS | 10,484,394 | 2,089,078 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 4,684,606 | 3,431,274 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (2,034,563) | (1,111,134) |
| NET CASH USED IN INVESTING ACTIVITIES | (2,034,563) | (1,111,134) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from mortgage notes, notes payable and lines of credit, net | 44,511,398 | 48,140,632 |
| Payments on mortgage notes, notes payable and lines of credit, net | (45,129,003) | (47,865,885) |
| Payments on obligations under capital leases | (1,036,603) | (1,195,850) |
| NET CASH USED IN FINANCING ACTIVITIES | (1,654,208) | (921,103) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 995,835 | 1,399,037 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 6,872,956 | 5,473,919 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | **$ 7,868,791** | **$ 6,872,956** |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | **$ 481,980** | **$ 622,376** |

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

## 1. ORGANIZATION

Goodwill Industries of South Florida, Inc. is a not-for-profit organization established in 1959. Goodwill South Florida TEP, LLC ("Goodwill TEP"), a Florida limited liability company, was formed in December 2015 to operate for the benefit of its sole member, Goodwill Industries of South Florida, Inc. Goodwill TEP and Goodwill Industries of South Florida, Inc. are collectively referred to as "Goodwill" in the accompanying consolidated financial statements.

The purpose of Goodwill is to help people with disabilities and special needs make the transition to independence. Goodwill provides vocational rehabilitation, training, employment and placement to help people achieve employment and self-sufficiency. Goodwill operates numerous entrepreneurial activities such as collecting and selling donated materials, manufacturing and contracting services with the private and public sectors. These activities serve as tools for the training and employment of individuals with disabilities and special needs as well as providing revenues to support Goodwill's mission.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Goodwill Industries of South Florida, Inc. and the accounts of Goodwill TEP. All intercompany balances and transactions have been eliminated in consolidation.

### Basis of Presentation

The consolidated financial statements of Goodwill have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Assets are presented in the Consolidated Statements of Financial Position according to their nearness of their conversion to cash and liabilities according to their nearness of their maturity and resulting use of cash.

Net assets and revenues, gains and losses are classified into two classes of net assets based on the existence or absence of donor-imposed restrictions. The two classes of net asset categories are as follows:

**Net assets without donor restrictions**: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Goodwill's management and the Board of Directors.

**Net assets with donor restrictions**: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Goodwill or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Consolidated Statements of Activities.

### Significant Customers and Concentrations

Goodwill has several large contracts with Defense Supply Center Philadelphia ("DSCP") and US Army Natick Soldier System Center ("Natick") for the production of military apparel. Sales to DSCP and Natick accounted for approximately $45,180,000 or 94% and approximately $62,126,000 or 95% of total apparel manufacturing sales during the years ended December 31, 2020 and 2019, respectively. Additionally, the amounts due from DSCP and Natick for the production of military apparel accounted for approximately $1,748,000 or 64% and approximately $4,706,000 or 94% of the total manufacturing accounts receivable balance of approximately $2,722,000 and $5,023,000 at December 31, 2020 and 2019, respectively. During the years ended December 31, 2020 and 2019, three customers represented approximately 92% and 87%, respectively, of revenues generated from laundry services.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash Equivalents**

For purposes of reporting on the Consolidated Statements of Cash Flows, cash and cash equivalents include cash on hand, amounts due from banks and money market accounts with initial maturities of 90 days or less which are readily convertible into cash excluding amounts designated or restricted for long-term purposes.

**Accounts and Other Receivables, Net**

Accounts and other receivables are stated at the amount Goodwill expects to collect. Management monitors the collection status of its receivable balance on an ongoing basis. Based on management's analysis of possible bad debts, the allowance for doubtful accounts is $100,000 as of December 31, 2020 and 2019. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

**Inventories**

Inventories consist of contributed goods and merchandise purchased and used in Goodwill's store operations as well as its manufacturing process, including the production of aprons, flags, garrison caps, army combat uniforms, army combat pants, improved hot weather combat uniforms, and fleece jackets. Inventories also include purchased linens such as bed linens, patient gowns, lab coats and rags used in the laundry operation. Inventories, except for donated goods, are stated at the lower of cost (first-in, first-out basis) or net realizable value ("NRV"). Finished goods inventory includes the cost of applicable labor and materials. In addition, Goodwill records inventory for donated goods at estimated fair value, which is determined based on its future economic benefit.

**Prepaid Expenses**

Prepaid expenses consist primarily of prepaid insurance and other professional fees incurred in connection with Goodwill's stores and future projects. These costs are amortized over the period benefitted.

**Goodwill**

Goodwill evaluates its goodwill on an annual basis in the fourth quarter for impairment. Such indicators could include but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. Goodwill assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including its goodwill by comparing the fair value of the applicable reporting unit with its carrying value. Goodwill estimates the fair values of its reporting units using discounted cash flows. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, management records an impairment charge for the difference. Goodwill's evaluation of its goodwill completed during each of the years ended December 31, 2020 and 2019 resulted in no impairment losses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property and Equipment, Net

Property and equipment are stated at cost or, if donated to Goodwill, at fair value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as net assets with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as net assets without donor restrictions. Depreciation and amortization of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets. Goodwill's policy is to capitalize all individual expenditures for land, buildings and equipment which are at least $500 and have a useful life greater than one year.

Maintenance and repair costs are expensed as incurred. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is included in the Consolidated Statements of Activities.

Estimated useful lives of property and equipment are as follows:

| Asset | Life |
|---|---|
| Buildings and improvements | 39 - 50 years |
| Equipment | 5 - 15 years |
| Leasehold improvements | Shorter of useful life or lease term |
| Other improvements | 10 years |
| Equipment under capital leases | Shorter of useful life or lease term |

### Long-Lived Assets

Goodwill reviews its long-lived assets for possible impairment at least annually, and more frequently if circumstances warrant. Impairment is determined to exist when estimated amounts recoverable through future cash flows from operations on an undiscounted basis are less than the long-lived asset carrying values. If a long-lived asset is determined to be impaired, it is written down to its estimated fair value to the extent that the carrying amount exceeds the fair value of the long-lived asset. No write-downs for impairment of long-lived assets were recorded during the years ended December 31, 2020 or 2019.

### Deferred Revenue

Deferred revenue consists of funds received in advance to purchase inventory for apparel manufacturing. Revenue will be recognized as finished goods are shipped to customers. As of December 31, 2020, deferred revenue was $ 8,078,528. The was no deferred revenue as of December 31, 2019.

### Revenue Recognition – Contributions

Transfers of cash or other assets or settlement of liabilities that are both voluntary and nonreciprocal are recognized as contributions. Contributions may either be conditional or unconditional. A contribution is considered conditional when the donor imposes both a barrier and a right of return. Conditional contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific and measurable outcomes, limitations on the performance of an activity and other stipulations related to the contribution. A donor has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event Goodwill fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as refundable advances.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Revenue Recognition – Contributions (Continued)**

Unconditional contributions may or may not be subject to donor-imposed restrictions. Donor-imposed restrictions limit the use of the donated assets but are less specific than donor-imposed conditions. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Goodwill reports gifts of cash and other assets as restricted support if they are received with donor stipulations about the use of the donated assets, or if they are designated as support for future periods.

When a donor 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.” Donor-restricted contributions whose restrictions are met in the same reporting period in which received are reported as net assets without donor restrictions.

Goodwill receives donations from several sources including private foundations and other donors. Donations are evaluated as to whether they qualify as exchange transactions or contributions as defined by U.S. GAAP.

**Revenue Recognition – Exchange Transactions**

Reciprocal transfers in which each party receives and sacrifices goods or services with approximate commensurate value are recognized as exchange transactions. Goodwill adopted Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“Topic 606”) on January 1, 2020 using the modified retrospective method applied to all contracts not completed as of the date of the adoption. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The modified retrospective adoption method requires Goodwill to record a transition adjustment for the new revenue standard, if any, as a cumulative effect adjustment to beginning net assets as of the date of adoption. Therefore, comparative information has not been adjusted. No adjustments to Goodwill’s beginning net assets were required as a result of adopting Topic 606.

Goodwill applies Topic 606 to exchange transactions in which it receives consideration for products or services offered. Under U.S. GAAP, these arrangements are exchange transactions between Goodwill and the customers participating in Goodwill’s programs or using their services.

The following is a discussion of key revenues streams within the scope of Topic 606. Goodwill provide services to customers which have related performance obligations that Goodwill completes in order to recognize revenue. Goodwill’s revenues are generally recognized either immediately upon the completion of the service or over time as Goodwill performs the services. Any services performed over time generally require that Goodwill render services each period and therefore Goodwill measure progress in completing these services based upon the passage of time.

The major operating departments are donated goods operation, apparel manufacturing, custodial contracts, business services, laundry services and mission services. All operating revenues are recognized when the transaction occurs or over time on a pro-rata basis as the products or services are provided and are reported at the amount that reflects the consideration to which Goodwill expects to be entitled in exchange for providing products or services to their customers. Fees collected in advance for these products or services where the performance obligation is not met at the end of the reporting period are recognized as deferred revenue.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue Recognition – Exchange Transactions (Continued)

Apparel Manufacturing Sales

Apparel manufacturing sales consist of products manufactured for a fixed or determinable fee based on contractual terms. Product revenue is recognized at a point in time when shipping has occurred, and collectability is probable. Goodwill does not offer price concessions or discounts. Goodwill is generally not contractually obligated to accept returns, except for defective products. Based on management's analysis of historical returns, it has been determined that an allowance for estimated returns is not necessary.

Donated Goods Sales

Donated goods sales consist of sales of donated items, which are recorded at the point of sale, at stores and online. The price is fixed and determinable as each item is labeled with a selling price. The performance obligation is met at a point in time when the customer takes possession of the items after payment has been received. Goodwill offers upfront sales discounts, which are recognized at the point of sale. Sales discounts are netted with Donated goods sales on the Consolidated Statements of Activities.

Custodial Contracts, Business Services, Laundry Services and Mission Services

Program services are supported by grants and/or contracts. Revenues are recorded as related expenditures are incurred and services are performed under the provisions of the agreements. Revenue for training contracts that require certain performance standards to be met by the participants is recognized as performance obligations are met, which approximately matches the expenses incurred in the program.

Goodwill's reciprocal revenue sources shown in disaggregated form are as follows, for the year ended December 31,:

| | 2020 | 2019 |
|---|---|---|
| Donated goods sales | $ 48,139,766 | $ 62,555,082 |
| Apparel manufacturing | 47,963,899 | 65,434,346 |
| Custodial contracts | 10,654,256 | 9,497,490 |
| Business services | 1,457,622 | 60,036 |
| Laundry services | 15,394,991 | 14,846,320 |
| Mission services | 2,104,789 | 2,608,467 |
| | $ 125,715,323 | $ 155,001,741 |

### Functional Allocation of Expenses

The costs of providing services have been allocated on a functional basis among donated goods operations, apparel manufacturing, custodial contracts, business services, laundry services, mission services, management and general and fundraising expenses. Allocations are generally made on a specific identification basis by program activity and supporting services benefited. Expenses such as occupancy, depreciation and amortization, equipment rental and maintenance, interest and telephone are allocated to the program centers, donated goods operations, apparel manufacturing, custodial contracts, business services, laundry services, and mission services, based on square footage. Personnel expenses are allocated on the basis of estimated time and effort.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxes Collected from Customers and Remitted to Governmental Authorities

Goodwill records taxes collected from customers, which are directly imposed on a transaction with that customer, on a net basis. That is, in instances in which Goodwill acts as a collection agent for a taxing authority by collecting taxes that are the responsibility of the customer, Goodwill records the amount collected as a liability and relieves such liability upon remittance to the taxing authority without impacting revenues or expenses.

### Shipping and Handling Costs

Shipping and handling costs of approximately $1,832,000 and $1,542,000 are included in program services within “Postage and freight” in the Consolidated Statements of Functional Expenses for the years ended December 31, 2020 and 2019, respectively. Shipping and handling are considered activities to fulfill the transfer of products to customers and are not separate performance obligations.

### Deferred Debt and Lease Costs

Goodwill capitalizes costs associated with the issuance of debt and lease agreements. These costs are amortized on a straight-line method, which approximates the effective interest rate method, over the term of the debt or lease. Amortization expense for the years ended December 31, 2020 and 2019, included in “Interest” in the Consolidated Statements of Functional Expenses was $18,523 and $37,045, respectively.

### Income Taxes

Goodwill Industries of South Florida, Inc. is registered with the Internal Revenue Service (“IRS”) as a non-profit organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes, except for any taxes which may arise from unrelated business income and from state income taxes under similar provisions of the Florida Statutes. Goodwill TEP is a Florida limited liability company and has as its sole member, Goodwill Industries of South Florida, Inc. Goodwill TEP is a disregarded entity for tax purposes. Management believes there is no unrelated business income.

Collectively, Goodwill identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the Consolidated Statements of Financial Position. Goodwill has not recognized a liability for uncertain tax positions. If there were an unrecognized tax benefit, Goodwill would recognize interested accrued related to unrecognized tax benefits in interest expenses and penalties in operating expenses. Goodwill’s tax years subject to examination by the Internal Revenue Service generally remain open for three years from the date of filing.

### Adopted Accounting Pronouncements

Revenue from Contracts with Customers

Goodwill adopted ASC Topic 606, beginning January 1, 2020, using the modified retrospective method. Under Topic 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the update requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Goodwill determined that the adoption of Topic 606 did not have a material effect on beginning net asset balances because revenue is recognized as services are provided under both the current and prior accounting rules and as such no cumulative-effect adjustment in net assets was recorded as a result of the adoption of Topic 606.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Adopted Accounting Pronouncements (Continued)

Simplifying the Test for Goodwill Impairment

In January 2017, the Financial Accounting Standards Board ("FASB") issued an accounting standard update ("ASU") 2017-04, *Intangibles - Goodwill and Other (Topic 350) Simplifying the Test for Goodwill impairment*. The update removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. The update specifies that a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. Goodwill adopted this accounting standard update during the year ended December 31, 2020. The adoption of this update had no effect on Goodwill's consolidated financial statements.

Relief on Goodwill Impairment Triggering Event Evaluation

In March 2021, the FASB issued accounting standard update 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*. The amendments in ASU 2021-03 provide private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required in FASB Accounting Standards Codification (FASB ASC) 350-20, Intangibles—Goodwill and Other—Goodwill, as of the end of the reporting period, whether the reporting period is an interim or annual period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. The amendments in this update are effective on a prospective basis for fiscal years beginning after December 15, 2019. The adoption of this update had no effect on Goodwill's consolidated financial statements.

### Recent Accounting Pronouncements

Lease Accounting

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements and lessor accounting. Goodwill is currently evaluating the effect the update will have on its consolidated financial statements but expects upon adoption that the update will have a material effect on Goodwill's consolidated financial condition due to the recognition of a right-of-use asset and related lease liability. Goodwill does not anticipate the update having a material effect on Goodwill's consolidated results of operations or cash flows, though such an effect is possible.

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, Goodwill's presentation of comparative periods in the consolidated financial statements will continue to be in accordance with current lease accounting. Goodwill is evaluating the method of adoption it will elect. The update is effective beginning after December 15, 2021, and for interim periods within fiscal years beginning after December 15, 2022, with early application permitted.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Recent Accounting Pronouncements (Continued)**

Simplifying the Accounting for Goodwill and Identifiable Intangible Assets

On May 30, 2019, FASB issued accounting standard update 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958)*: The update extends the Private Company Accounting Alternatives on goodwill and certain identifiable intangible assets to not-for-profit entities, which extends to all non-profits certain simplifying accounting alternatives previously offered only to private companies. ASU 2019-06 permits all non-profits to elect the accounting alternatives described in ASU 2014-02, *Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill* and ASU 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*. Under the new standard, non-profits are no longer precluded from amortizing goodwill. If they elect the accounting alternative in Topic 350, they can amortize goodwill on a straight-line basis over 10 years (or a shorter period if more appropriate) and would have to elect an accounting policy for impairment testing at either the entity or reporting-unit level. This simplification allows nonprofits to test goodwill for impairment based on a triggering event, instead of annually. ASU 2019-06 is effective upon issuance. Goodwill is currently evaluating the effect the update will have on its consolidated financial statements.

Reference Rate Reform

In March 2020, the FASB issued an accounting standard update 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting to provide guidance related to recognizing the effects of reference rate reform on financial reporting*. The update applies to all entities that have contracts, hedging relationships, or other transactions that reference LIBOR or another reference rate expected to be discontinued. The update is effective for all entities as of March 12, 2020 through December 31, 2022. Goodwill is currently evaluating the potential accounting, transition, and disclosure effects the update will have on its consolidated financial statements.

Contributed Nonfinancial Assets

In September 2020, the FASB issued an accounting standard update 2020-07, *Not-For-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU amends guidance for not-for-profit entities that receive contributed nonfinancial assets. The update requires not-for-profits to present contributed nonfinancial assets as a separate line item in the consolidated statement of activities, and to disclose information regarding each type of contributed nonfinancial asset. The update is to be applied on a retrospective basis and is effective for annual reporting periods beginning after June 15, 2021, and for interim reporting periods beginning after June 15, 2022. Goodwill is currently evaluating the effect the update will have on its consolidated financial statements.

**Reclassifications**

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

**Subsequent Events**

Goodwill has evaluated subsequent events through May 21, 2021, which is the date the consolidated financial statements were available to be issued (See Note 24).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Liquidity Management and Availability of Resources**

Goodwill maintains a policy of structuring its financial assets to be available as general expenditures, liabilities and other obligations come due.

In managing its liquidity needs, Goodwill monitors and maintains a cash float to cover general operating expenditures as well as establish a strict budget. Goodwill also has a line of credit available with borrowing capacity of up to $6,000,000, which can be used to meet general expenditures within a year (NOTE 10).

Goodwill's financial assets available within one year of the Consolidated Statement of Financial Position date for general expenditures as of December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents | $ 7,868,791 | $ 6,872,956 |
| Accounts and other receivables, net | 8,391,469 | 10,688,345 |
| Pledges receivable | 76,445 | 360,249 |
| Total financial assets | 16,336,705 | 17,921,550 |
| Less amounts unavailable for general expenditures within one year due to: | | |
| Restricted by donors with purpose/time restrictions | - | 155,249 |
| Less amounts unavailable to management without Board approval | | |
| Designated fund | 2,248,669 | 1,708,795 |
| Quasi-endowment fund | 260,000 | 247,500 |
| Total Board designated | 2,508,669 | 1,956,295 |
| Total financial assets available to management for general expenditures within one year | **$ 13,828,036** | **$ 15,810,006** |

Goodwill has approximately $16,600,000 and $8,700,000 of inventory at December 31, 2020 and 2019, respectively, which is excluded from the financial assets listed above because the inventory does not meet the definition of a financial asset. However, Goodwill expects to sell the inventory and have the proceeds available for its general expenditures within the next year.

## 3. ACCOUNTS AND OTHER RECEIVABLES, NET

Accounts and other receivables, net consists of the following at December 31,:

| | 2020 | 2019 |
|---|---|---|
| Federal government | $ 2,774,674 | $ 4,106,674 |
| State government | 1,430,641 | 1,381,505 |
| Commercial | 4,286,154 | 5,300,166 |
| | 8,491,469 | 10,788,345 |
| Less allowance for doubtful accounts | (100,000) | (100,000) |
| | **$ 8,391,469** | **$ 10,688,345** |

There was no bad debt expense for the years ended December 31, 2020 and 2019.

## 4. PLEDGES RECEIVABLE

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The present value discount is not material to the consolidated financial statements. At December 31, 2020 and 2019, respectively, pledges receivable totaled $76,445 and $360,249 and are payable over the next year. All pledges receivable are expected to be collected; therefore, no allowance for doubtful accounts is recorded in these consolidated financial statements.

## 5. INVENTORIES

Inventories consist of the following at December 31,:

| | 2020 | 2019 |
|---|---|---|
| Raw materials | $ 2,391,719 | $ 2,637,539 |
| Work in progress | 210,071 | 536,773 |
| Finished goods | 9,611,882 | 921,633 |
| Supplies | 35,315 | 28,502 |
| | 12,248,987 | 4,124,447 |
| Donated goods | 3,609,937 | 3,512,504 |
| New goods | 249,004 | 271,853 |
| Linen | 513,727 | 813,727 |
| | **$ 16,621,655** | **$ 8,722,531** |

## 6. OTHER ASSETS

Other assets consist of the following at December 31,:

| | 2020 | 2019 |
|---|---|---|
| Security deposits | $ 148,837 | $ 152,717 |
| Payroll deposit | - | 1,966,837 |
| Split-dollar insurance plan | 550,000 | 550,000 |
| | **$ 698,837** | **$ 2,669,554** |

## 6. OTHER ASSETS (CONTINUED)

**Split-dollar Insurance Plan**

In 2003, the Board of Directors of Goodwill approved a split-dollar life insurance plan to provide retirement income to the former President and CEO of Goodwill. The retirement income arrangement was provided for his services of over twenty years in the absence of an adequate retirement plan available through standard arrangements. The split-dollar arrangement provides for the periodic premiums required under the life insurance contract which are treated as a series of loans secured by the life insurance policy.

The former President and CEO of Goodwill (the “insured”) owns the insurance policy. Goodwill (the “employer”) reflects an asset for its secured interest equal to the total of all premiums paid on behalf of the insured which totaled $550,000 as of December 31, 2020 and 2019. The face value of the life insurance policy is $1,800,000. The repayment of the premiums will be made from death benefits on the insured. The loans are collateralized by the life insurance policy for which the net cash surrender value of the policy at December 31, 2020 and 2019 was $1,144,284 and $1,017,767, respectively.

In the event that the insured voluntarily terminates his participation in the plan, the insured is to repay the employer the cumulative premiums plus accumulated interest at the applicable federal rate through the date the premiums were funded.

The repayment will be accomplished first through the cash surrender value of the insurance policy and the remaining portion will be paid in cash from the insured. The plan meets IRS applicable requirements and is considered a common practice among non-profit organizations in order to retain valuable executives.

Although the plan is expected to be for an indefinite period of time, the employer also retains the right to terminate the plan, provided that the policy continues in effect in accordance with its terms, and as such, termination by the employer will not accelerate the recovery of the cumulative premiums made. The planned periodic annual premium is $40,000. Failure to pay a planned periodic premium will not, in itself, cause the policy to terminate so long as the excess amounts funded over the periodic annual premium in previous years cover the annual premium required under the policy for any particular year not funded. The employer has no obligation to make any premium payments for the plan.

## 7. GOODWILL

Goodwill represents the excess of the purchase price over the fair values of the net assets of the businesses acquired. Goodwill acquired two companies on May 13, 2003 and May 15, 2003. The companies were purchased for a total of $2,500,000.

The transactions were accounted for as purchases and the cost of the transactions exceeded the fair value of assets acquired by $1,392,000. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually.

## 8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following at December 31,:

| | 2020 | 2019 |
|---|---|---|
| Land | $ 4,582,013 | $ 4,582,013 |
| Buildings and improvements | 29,481,639 | 28,281,295 |
| Equipment | 28,585,381 | 27,821,701 |
| Leasehold improvements | 6,900,017 | 6,897,492 |
| Other improvements | 395,276 | 395,276 |
| Equipment under capital leases | 8,199,470 | 8,131,457 |
| | 78,143,796 | 76,109,234 |
| Less accumulated depreciation and amortization (including accumulated amortization for capital leases of $3,206,170 and $2,815,668 in 2020 and 2019, respectively) | (40,887,133) | (38,336,014) |
| | **$ 37,256,663** | **$ 37,773,220** |

Total depreciation and amortization expense of property and equipment for the years ended December 31, 2020 and 2019 was approximately $2,551,000 and $2,601,000, respectively.

## 9. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consists of the following at December 31,:

| | 2020 | 2019 |
|---|---|---|
| Accrued payroll | $ 981,138 | $ 3,308,721 |
| Reserve for worker's compensation (NOTE 20) | 939,790 | 975,015 |
| Sales tax payable | 294,742 | 340,518 |
| Retirement plan employer match (NOTE 19) | 573,512 | 557,362 |
| State unemployment tax | 463,144 | - |
| Deferred compensation (NOTE 21) | 46,000 | 336,758 |
| Deferred rent (NOTE 13) | 4,369,608 | 4,144,063 |
| Deferred Social Security Tax | 2,440,736 | - |
| Other liabilities | 626,730 | 635,101 |
| | **$ 10,735,400** | **$ 10,297,538** |

## 10. MORTGAGE NOTES, NOTES PAYABLE AND LINES OF CREDIT, NET

Mortgage notes, notes payable and lines of credit, net consists of the following at December 31,:

| | 2020 | 2019 |
|---|---|---|
| Revolving line of credit with maximum borrowings of $6,000,000 with a balloon payment due September 22, 2021 with interest due monthly at LIBOR plus 2.65% (4.65% and 5.13% at December 31, 2020 and 2019, respectively), collateralized by accounts receivable and inventory. | $ - | $ 1,120,572 |
| Promissory note (new market tax credit financing - A Loan), with interest due monthly at 4.75% maturing on June 30, 2021, collateralized by specific laundry related property. | 2,998,060 | 2,998,060 |
| Promissory note (new market tax credit financing - B Loan), with interest due monthly at 2.75% maturing on July 11, 2053, collateralized by specific laundry related property. | - | 895,525 |
| Industrial Development Revenue Bonds issued by the Miami-Dade County Industrial Development Authority on December 17, 2010 (Series 2010) with monthly principal and interest payments at variable rates determined on a monthly basis, maturing on December 1, 2030. Bonds are collateralized by properties and equipment (NOTE 12). The interest rate was 1.56% and 2.63% at December 31, 2020 and 2019, respectively. | 8,789,426 | 9,435,460 |
| Promissory note with interest due monthly at LIBOR plus 2.65% (4.65% at December 31, 2020) with balloon payment due on September 2, 2021. | 1,000,000 | - |
| Economic Injury Disaster Loan issued by the SBA on June 2, 2020 with monthly principal and interest payments at 2.75% starting on June 2, 2022 and maturing on June 2, 2050. | 150,000 | - |
| Total | 12,937,486 | 14,449,617 |
| Less deferred loan costs | - | (18,524) |
| Total mortgage notes, notes payable and lines of credit, net of deferred loan costs | **$ 12,937,486** | **$ 14,431,093** |

The aggregate amount of required payments on debt is as follows for the years ending December 31,:

| | |
|---|---|
| 2021 | $ 4,875,763 |
| 2022 | 893,211 |
| 2023 | 908,993 |
| 2024 | 925,056 |
| 2025 | 941,402 |
| Thereafter | 4,393,061 |
| | **$ 12,937,486** |

## 10. MORTGAGE NOTES, NOTES PAYABLE AND LINES OF CREDIT, NET (CONTINUED)

Interest expense on all obligations, including obligations under capital leases, for the years ended December 31, 2020 and 2019 was $482,083 and $622,390, respectively.

In 2013, Goodwill completed New Market Tax Credit ("NMTC") financings related to the purchase and construction of expanded facilities. The NMTC program is administered by the United States Treasury and is designed to encourage capital investment and business operations within distressed or highly distressed census tracts. The NMTC transactions provide for favorable financing typical of this type of tax credits-based deals.

The NMTCs are subject to 100% recapture for a period of seven years as described in the Internal Revenue Code. Goodwill must comply with various regulation and contractual provisions that apply to NMTC arrangements. Noncompliance could result in projected tax benefits not being realized, and therefore require Goodwill to indemnify the tax credit investors for any loss or recapture of NMTCs. Management does not anticipate that any credit recapture events will occur.

In conjunction with the NMTC transactions, Goodwill entered into put/call agreements with a lender. The put/call agreements will either obligate or entitle Goodwill to repurchase the B Loan at the end of the NMTC's mandatory seven-year compliance period of July 21, 2020. When the put/call is exercised, Goodwill would acquire the B Loan. Goodwill would then become the holder of the note effectively eliminating the liability. The put option price was set at $8,955 and the call option price was set at the fair market value of the B Loan.

The put option was exercised in 2020 and no principal payments were made by Goodwill on the B Loan. The gain on the unwind of the NMTC of $894,525 is included in the Consolidated Statements of Activities as "Gain from New Market Tax Credit unwind."

The bank loan agreements contain financial covenants that require Goodwill to maintain certain key financial ratios, including a minimum fixed charge coverage ratio of 1.10 on a quarterly basis. Goodwill was granted a waiver from the covenant requirements for the first three quarters of 2020. Pursuant to loan agreement modifications, Goodwill was required to meet a minimum fixed charge coverage ratio of 1.0 during the last quarter of 2020 and quarter period ending on March 31, 2021. The minimum fixed charge coverage ratio will be 1.05 up to September 30, 2021 and 1.10 for the period ending December 31, 2021. Management believes that Goodwill was in compliance with the financial covenants as of the date of this report.

## 11. OBLIGATIONS UNDER CAPITAL LEASES, NET

During October 2013, Goodwill leased certain machinery and equipment under agreements that are classified as capital leases at a fixed rate of 4.31% for 84 months. The cost of the equipment under capital leases was $8,131,457 at December 31, 2020 and 2019, and is included in the Consolidated Statements of Financial Position as "Property and equipment." The capital lease liability was paid in full during 2020.

## 12. BOND TRANSACTIONS

On May 13, 2003, the Miami-Dade County Industrial Development Authority ("IDA") issued Industrial Development Revenue Bonds (Goodwill Industries of South Florida, Inc. Project) Series 2003 in the amount of $9,400,000. In December 17, 2010, Goodwill retired the 2003 Bond Series and a new 2010 Bond Series was issued with a par amount of $17,480,000 and a maturity date of December 1, 2030. The proceeds were used to refinance the Series 2003, refinance several existing loans that were used to purchase facilities, inventory and equipment, and pay swap termination fees. The collateral for the bond includes facilities located at 2121 NW 21st Street, 2111 NW 22nd Avenue, 461 Palm Avenue, 24311 South Dixie Highway, 2104 W. Commercial Blvd., 550 E. Oakland Park Blvd and equipment located in the main facility.

## 12. BOND TRANSACTIONS (CONTINUED)

The financing consists of tax exempt bank qualified bonds and taxable bank loans. The tax-exempt bank qualified loans are broken down into two series. Series 2010A has a principal amount of $7,000,000 and Series 2010B has a principal amount of $7,044,600. Both series have a variable interest rate equal to 69% of one-month LIBOR plus 2.10% which was 1.56% and 2.63% at December 31, 2020 and 2019, respectively. Principal payments for both series started on August 1, 2015 and have a maturity date of December 1, 2030. The principal balance fully amortizes to zero at final maturity and monthly principal and interest payments vary as the interest rate varies. There is a call option, at the option of the bank with a required one-year notice, which includes an interest rate reset at June 30, 2016 and on June 30 of each fifth year thereafter.

## 13. OPERATING LEASE OBLIGATIONS

Goodwill is obligated under various operating leases for store facilities. These store leases provide for the payment by Goodwill of the property taxes and are subject to yearly increases, not to exceed 5%, based on the consumer price index.

At December 31, 2020, the aggregate approximate rental commitments for non-cancelable operating leases are as follows:

| | |
|---|---|
| 2021 | $ 10,233,000 |
| 2022 | 8,940,000 |
| 2023 | 8,187,000 |
| 2024 | 7,406,000 |
| 2025 | 6,904,000 |
| Thereafter | 19,245,000 |
| | **$ 60,915,000** |

Rental expense for store facilities is calculated on a straight-line basis and approximated $11,885,000 and $12,046,000 for the years ended December 31, 2020 and 2019, respectively, and is included within the caption of “Occupancy” in the Consolidated Statements of Functional Expenses. During the year ended December 31, 2020, Goodwill entered into payment plans with certain landlords for unpaid rents. As of December 31, 2020, Goodwill had approximately $1,888,000 due to landlords under these arrangements which is included within “Accounts payable” in the accompanying Consolidated Statements of Financial Position. Rent expense is deferred and amortized over the life of the leases. As of December 31, 2020 and 2019, deferred rent of $4,369,608 and $4,144,063, respectively, is included in “Accrued expenses and other liabilities” in the accompanying Consolidated Statements of Financial Position.

## 14. NET ASSETS

Net assets without donor restrictions consist of the following as of December 31,:

| | 2020 | 2019 |
|---|---|---|
| Undesignated | $ 29,044,194 | $ 35,112,552 |
| Board designated funds | | |
| Designated fund | 2,248,669 | 1,708,795 |
| Quasi-endowment fund | 260,000 | 247,500 |
| Total Board designated | 2,508,669 | 1,956,295 |
| | **$ 31,552,863** | **$ 37,068,847** |

## 14. NET ASSETS (CONTINUED)

Net assets without donor restrictions are used to support the operating activities of Goodwill. Of these funds, the Board of Directors designated $2,203,669 and $1,956,295 at December 31, 2020 and 2019, respectively, for the following:

*Undesignated*: Operating assets used to cover administrative costs and support services.

*Designated*: Goodwill advancement fund – a designated fund to advance the long-term mission of Goodwill and specific initiatives.

*Quasi-endowment*: Goodwill endowment fund – a board endowment held in perpetuity with an internal spending policy of up to 5%. The internal spending policy is established and maintained by the Board.

Net assets with donor restrictions consist of the following at December 31,:

| | 2020 | 2019 |
|---|---|---|
| Restricted by donors with specific purpose/time restrictions | | |
| General programs | $ 76,445 | $ 360,249 |

Net assets released from restrictions due to time and purpose is as follows during the years ended December 31,:

| | 2020 | 2019 |
|---|---|---|
| General programs | $ 305,000 | $ 55,000 |

## 15. BUSINESS LEASE

During October 2004, Goodwill (the "Landlord") entered into a business lease agreement with the City of Miami (the "City", "Tenant") to use the land owned by Landlord, and the building built on it with monies from the City, for a municipal parking garage and incidental storage and office uses related to such garage operations. The parking garage is to be operated, managed and administered by the Tenant in substantially the same manner as all other off-street parking facilities belonging to the City of Miami Department of Off-Street Parking. The lease is for 20 years for $1 per year. Landlord has exclusive use of one hundred fifty (150) parking spaces, for parking only, at no rental charge. Upon the termination of the lease, the Tenant agrees that it will peacefully surrender and deliver the premises to Landlord. Accordingly, at December 31, 2020 and 2019, this building is not reflected as an asset in the consolidated financial statements.

## 16. ENDOWMENT

Goodwill's endowment consists of a special fund established to aid the mission of training, employment and job placement for people with disabilities. The endowment may include donor restricted and board designated endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA"). Goodwill has interpreted the FUPMIFA 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 (a) the original value of gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund that is not classified in net assets with donor restrictions is classified as net assets without donor restrictions when those amounts are appropriated for expenditure by Goodwill in a manner consistent with the standard of prudence prescribed by FUPMIFA.

## 16. ENDOWMENT (CONTINUED)

In accordance with the FUPMIFA, Goodwill considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

For the years ended December 31, 2020 and 2019, Goodwill has elected not to add appreciation for cost of living or other spending policies to any donor restricted endowments for inflation and other economic conditions. There were no such endowments for the years ended December 31, 2020 and 2019.

**Summary of endowment net assets at December 31, 2020:**

| | Without Donor Restrictions |
|---|---|
| Board designated | $ 260,000 |
| Total endowment net assets | **$ 260,000** |

**Changes in endowment net assets for the year ended December 31, 2020:**

| | Without Donor Restrictions |
|---|---|
| Endowment net assets, beginning | $ 247,500 |
| Contributions | 12,500 |
| Endowment net assets, ending | **$ 260,000** |

**Summary of endowment net assets at December 31, 2019:**

| | Without Donor Restrictions |
|---|---|
| Board designated | $ 247,500 |
| Total endowment net assets | **$ 247,500** |

**Changes in endowment net assets for the year ended December 31, 2019:**

| | Without Donor Restrictions |
|---|---|
| Endowment net assets, beginning | $ 222,500 |
| Contributions | 25,000 |
| Endowment net assets, ending | **$ 247,500** |

## 16. ENDOWMENT (CONTINUED)

**Summary of endowment assets at December 31,:**

| | 2020 | 2019 |
|---|---|---|
| Cash | $ 260,000 | $ 247,500 |
| Total endowment assets | **$ 260,000** | **$ 247,500** |

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires Goodwill to retain as a fund of perpetual duration. There were no such deficiencies in the endowment funds as of December 31, 2020 and 2019.

**Return Objectives and Risk Parameters**

Goodwill has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Goodwill expects its endowment funds, over time, to provide a rate of return in excess of the principal. Actual returns in any given year may vary.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, Goodwill relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

Goodwill employs a total return endowment spending policy that establishes the amount of endowment investment return that is available to support current needs and restricted purposes. Goodwill has an endowment variable spending policy up to 5% of the 3-year average of fair market value at the board's discretion, which provides for steady growth in annual spending. In establishing this policy, Goodwill considered the long-term expected return on its endowment. Accordingly, over the long term, Goodwill expects to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The funds have not yet been invested.

## 17. DONATED SERVICES

Goodwill recognizes donated services from Miami-Dade and Broward Public Schools. The revenues for such services classified under "Mission services" in the Consolidated Statements of Activities totaled $107,292 and $106,230 for the years ended December 31, 2020 and 2019, respectively. Expenses for the same amount were also recognized as non-disabled wages in training programs. The value of the services donated was based on yearly teaching salaries provided by the Miami-Dade and Broward Public Schools.

## 18. MISSION SERVICES FEES

Mission services fees consisted of the following for the years ended December 31,:

| | 2020 | 2019 |
|---|---|---|
| Federal and State vendor contracts | $ 1,275,936 | $ 1,651,383 |
| Miami-Dade and Broward County Public Schools (NOTE 17) | 107,292 | 106,230 |
| Miami-Dade and Broward County general contracts | 115,216 | 148,733 |
| Other | 606,345 | 702,121 |
| | **$ 2,104,789** | **$ 2,608,467** |

## 19. RETIREMENT PLAN

Effective August 1997, Goodwill elected to change its retirement plan from a 403(b) plan to a 401(k) plan. The plan is for eligible employees who have reached the age of 21 and completed one year of service. Goodwill contributes a matching amount determined on a yearly basis. Goodwill's contribution to the plan during the years ended December 31, 2020 and 2019 was $573,512 and $557,362, respectively.

## 20. WORKERS' COMPENSATION

On June 1, 2003, Goodwill became self-insured under the laws of the State of Florida for workers' compensation. Goodwill uses the services of a third-party administrator to handle all claims. Goodwill maintains commercial excess coverage with independent insurance carriers for workers' compensation above the self-insurance retention of $500,000. Goodwill maintains a reserve for current and future claims based on historical experience and information provided by the third-party administrator. At December 31, 2020 and 2019, the reserve for workers' compensation was $939,790 and $975,015, respectively, and is included in "Accrued expenses and other liabilities" in the Consolidated Statements of Financial Position. For the years ended December 31, 2020 and 2019, worker's compensation expense was approximately $1,277,703 and $1,052,000, respectively.

## 21. DEFERRED COMPENSATION PLAN

In 2011, Goodwill's Board of Directors approved deferred compensation plans for a select group of management employees for services they have rendered and will render to Goodwill. The plans are intended to be eligible plans for purposes of Internal Revenue Code section 457(b) and 457(f) and the regulations issued thereunder. The plans were effective as of January 1, 2011. Participants are vested in the plans over a four-year service period. Expenses accrued under the plans for the years ended December 31, 2020 and 2019 totaled $46,000 and $336,758, respectively, and are included in "Accrued expenses and other liabilities" in the Consolidated Statements of Financial Position. The vested balance as of December 31, 2019 was paid in full 2020.

## 22. COMMITMENTS AND CONTINGENCIES

### Litigation

Goodwill is exposed to various asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on Goodwill's consolidated financial position or the consolidated results of its operations.

### Purchase Commitments

As a result of manufacturing contracts entered into during the year ended December 31, 2020, Goodwill entered into various inventory purchase commitments with vendors totaling approximately $3,782,000 as of December 31, 2020. Subsequent to December 31, 2020, Goodwill entered into purchase commitments with vendors totaling approximately $4,302,000.

## 23. RISKS AND UNCERTAINTIES

Financial instruments, which potentially subject Goodwill to concentrations of credit risk, consist primarily of cash and cash equivalents maintained in financial institutions in excess of the Federal Deposit Insurance Corporation insured limit of $250,000. By policy, Goodwill limits the amount of credit risk exposure from any one financial institution. Although cash balances may exceed federally insured limits at times during the year, Goodwill has not experienced and does not expect to incur any losses in such accounts.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Goodwill experienced a reduction in revenues during 2020 due to reduced operations and demand. Goodwill’s stores and manufacturing plant, which provide for most of Goodwill’s revenues, were closed for a few months, causing revenues to decrease in 2020. Further, Goodwill has taken steps to reduce expenses by delaying staff hires, deferring rent and lease payments and lowering budgeted expenditures as a result of the decreased revenues experienced in 2020. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, Goodwill is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or cash flows for future years. While the ultimate outcome of this uncertainty is unknown, it is reasonably possible the future impact may be materially adverse.

On March 27, 2020, the “Coronavirus Aid, Relief, and Economic Security (“CARES”) Act” was signed into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits and deferment of employer side social security payments. It also appropriated funds for the Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loans that are forgivable in certain situations to promote continued employment, as well as the SBA Economic Injury Disaster Loans (“EIDL”) to provide liquidity to small businesses harmed by COVID-19. On June 2, 2020, Goodwill received funding for an EIDL loan in the amount of $150,000 (NOTE 10). Goodwill also opted to defer payroll taxes in the amount of $2,440,736, which is included within “Accrued expenses and other liabilities” in the Consolidated Statements of Financial Position. Deferred payroll taxes are payable over a period of two years. Subsequent to year end, Goodwill was approved for a PPP loan in the amount of $8,700,000 (NOTE 24). Goodwill noted no material impact from the other tax provisions of the CARES Act.

## 24. SUBSEQUENT EVENTS

In May 2021, Goodwill applied and was approved for a PPP loan in the amount of $8,700,000. The application for these funds requires Goodwill to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of Goodwill. This certification further requires Goodwill to take into account its current business activity and its ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on Goodwill having initially qualified for the loan and qualifying for the forgiveness of such loan based on our future adherence to the forgiveness criteria.

The SBA has stated that all PPP loans in excess of $2 million, and other PPP loans as appropriate, will be subject to review by the SBA for compliance with program requirements. If the SBA determines in the course of its review that a borrower lacked an adequate basis for the required certification concerning the necessity of the loan request or the subsequent use of loan proceeds, the SBA will seek repayment of the PPP loan, including interest and potential penalties. While we believe our loan was properly obtained, there can be no assurance regarding the outcome of an SBA review.

The loan begins accruing interest at a rate of 1.00% on the effective date. For any portion of the loan not forgiven, principal payments are due in equal monthly installments commencing ten months after covered period. The loan matures on May 5, 2026, at which time all unpaid principal and accrued interest is due.