

**Palmetto Goodwill and  
Palmetto Goodwill Services, Inc.**

*Report on Combined Financial Statements*

*For the years ended December 31, 2021 and 2020*

# Palmetto Goodwill and Palmetto Goodwill Services, Inc.

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## Independent Auditor's Report

To the Board of Directors  
Palmetto Goodwill and Palmetto Goodwill Services, Inc.  
North Charleston, South Carolina

### Opinion

We have audited the accompanying combined financial statements of Palmetto Goodwill and Palmetto Goodwill Services, Inc., (the "Organization"), which comprise the combined statements of financial position as of December 31, 2021 and 2020, and the related combined statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the combined financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, 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 and the standards applicable to the financial audits contained in the *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 the Organization 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 the Organization'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 generally accepted auditing standards 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 generally accepted auditing standards 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 the Organization'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 the Organization'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.

## **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying combining schedules and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2022 on our consideration of the Organization’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 the Organization’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 the Organization’s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina  
May 18, 2022

# Palmetto Goodwill and Palmetto Goodwill Services, Inc.

## Combined Statements of Financial Position

As of December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 24,150,764	\$ 15,622,248
Accounts receivable	2,757,014	3,022,841
Inventory	1,073,000	1,032,916
Prepaid expenses	123,004	397,455
Total current assets	<u>28,103,782</u>	<u>20,075,460</u>
<b>Other assets</b>		
Deposits	34,000	20,383
Total other assets	<u>34,000</u>	<u>20,383</u>
<b>Property and equipment, net</b>	83,463,044	75,491,712
Total assets	<u>\$ 111,600,826</u>	<u>\$ 95,587,555</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Current portion of bonds and notes payable, net	\$ 3,788,833	\$ 3,513,713
Accounts payable	1,298,723	1,215,986
Deferred revenue	527,056	246,171
Accrued expenses	435,468	320,869
Accrued payroll and related liabilities	1,811,550	2,612,813
Total current liabilities	<u>7,861,630</u>	<u>7,909,552</u>
<b>Long-term liabilities</b>		
Bonds and notes payable, net	48,653,267	42,858,860
Interest rate swaps	2,926,677	4,635,398
Total long-term liabilities	<u>51,579,944</u>	<u>47,494,258</u>
Total liabilities	<u>59,441,574</u>	<u>55,403,810</u>
<b>Net assets, without donor restrictions</b>	52,159,252	40,183,745
Total liabilities and net assets	<u>\$ 111,600,826</u>	<u>\$ 95,587,555</u>

See Notes to Combined Financial Statements

# Palmetto Goodwill and Palmetto Goodwill Services, Inc.

## Combined Statements of Activities

For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Operating revenues and support</b>		
Store sales, net	\$ 39,262,894	\$ 29,512,501
Federal service contracts	17,267,539	16,358,711
Contributions of donated goods (noncash)	13,026,000	11,211,000
Salvage	3,304,975	1,940,641
Federal grants	3,778,262	4,607,332
Other grants, non-federal	430,986	713,111
E-commerce revenue	2,674,780	1,244,754
Private contracts	419,722	209,784
Other operating revenue	91,622	80,407
Federal grants - in-kind contributions	99,095	82,045
Public support - charitable contributions	376,247	342,707
Donated cars	153,252	114,230
Total operating revenues and support	<u>80,885,374</u>	<u>66,417,223</u>
<b>Operating expenses</b>		
Program services	62,158,351	55,530,773
Support services	8,507,514	7,047,803
Fundraising	21,192	37,028
Total operating expenses	<u>70,687,057</u>	<u>62,615,604</u>
Increase in net assets without donor restrictions from operating activities	<u>10,198,317</u>	<u>3,801,619</u>
<b>Non-operating activities</b>		
Gain on disposal of property and equipment	56,946	117,113
Interest income	11,523	141,271
Net gain (loss) on interest rate swaps	1,708,721	(1,984,564)
Total non-operating activities	<u>1,777,190</u>	<u>(1,726,180)</u>
Increase in net assets without donor restrictions	11,975,507	2,075,439
<b>Net assets without donor restrictions, beginning of year</b>	<u>40,183,745</u>	<u>38,108,306</u>
<b>Net assets without donor restrictions, end of year</b>	<u>\$ 52,159,252</u>	<u>\$ 40,183,745</u>

See Notes to Combined Financial Statements

**Palmetto Goodwill and Palmetto Goodwill Services, Inc.**

*Combined Statement of Functional Expenses*

*For the year ended December 31, 2021*

	Program Services			Total Program Services	Support Services	Fundraising	Total
	Work Contracts	Retail Operations	Workforce Activities				
<b>Operating expenses</b>							
Salaries and wages	\$ 8,590,852	\$ 13,456,020	\$ 3,039,583	\$ 25,086,455	\$ 3,945,189	\$ -	\$ 29,031,644
Payroll taxes and fringe benefits	2,873,988	2,935,076	520,280	6,329,344	1,178,990	-	7,508,334
Occupancy and overhead	21,084	5,298,701	177,478	5,497,263	167,841	-	5,665,104
Supplies	1,004,689	937,425	181,685	2,123,799	542,302	76	2,666,177
Depreciation	70,699	2,467,334	58,451	2,596,484	346,585	-	2,943,069
Amortization	-	-	-	-	74,936	-	74,936
Interest	4,147	1,613,516	91,744	1,709,407	105,651	-	1,815,058
Telephone, internet and mobile communications	59,822	407,104	46,364	513,290	181,458	-	694,748
Professional fees	576,164	361,889	6,761	944,814	558,412	-	1,503,226
Vehicle	97,515	753,313	82,104	932,932	146,333	-	1,079,265
Advertising	-	1,694	6,627	8,321	810,270	-	818,591
Bank charges and credit card merchant fees	9	784,494	-	784,503	35,751	-	820,254
In-kind	-	-	99,095	99,095	-	-	99,095
Equipment rental and maintenance	47,041	138,853	2,148	188,042	52,819	-	240,861
Supportive assistance to clients under grants	2,827	-	1,211,793	1,214,620	10,390	-	1,225,010
Development and staff training	32,503	43,915	28,601	105,019	48,212	21,116	174,347
Dues and subscriptions	-	-	878	878	185,153	-	186,031
Outside services	152,859	15,639	-	168,498	55,637	-	224,135
Staff travel	12,895	21,038	33,277	67,210	32,527	-	99,737
Postage and shipping	46,524	450,423	3,032	499,979	5,939	-	505,918
Other	53,541	66,125	6,579	126,245	23,119	-	149,364
Awards	-	-	100	100	-	-	100
Bad debt	-	1,493	-	1,493	-	-	1,493
Total expenses before cost of goods sold	13,647,159	29,754,052	5,596,580	48,997,791	8,507,514	21,192	57,526,497
Valuation of donated goods (noncash)	-	12,969,000	-	12,969,000	-	-	12,969,000
Goods purchased for resale	-	191,560	-	191,560	-	-	191,560
Total operating expenses	<u>\$ 13,647,159</u>	<u>\$ 42,914,612</u>	<u>\$ 5,596,580</u>	<u>\$ 62,158,351</u>	<u>\$ 8,507,514</u>	<u>\$ 21,192</u>	<u>\$ 70,687,057</u>

**See Notes to Combined Financial Statements**



**Palmetto Goodwill and Palmetto Goodwill Services, Inc.**

*Combined Statement of Functional Expenses*

*For the year ended December 31, 2020*

	Program Services			Total Program Services	Support Services	Fundraising	Total
	Work Contracts	Retail Operations	Workforce Activities				
<b>Operating expenses</b>							
Salaries and wages	\$ 7,686,260	\$ 10,919,883	\$ 2,947,152	\$ 21,553,295	\$ 2,666,046	\$ -	\$ 24,219,341
Payroll taxes and fringe benefits	2,874,560	2,685,469	481,829	6,041,858	1,487,955	-	7,529,813
Occupancy and overhead	16,804	4,768,399	172,159	4,957,362	127,215	-	5,084,577
Supplies	875,771	721,817	131,144	1,728,732	472,411	792	2,201,935
Depreciation	95,629	2,358,692	59,072	2,513,393	323,998	-	2,837,391
Amortization	-	-	-	-	73,361	-	73,361
Interest	1,410	1,660,119	100,376	1,761,905	131,534	-	1,893,439
Telephone, internet and mobile communications	60,255	643,427	42,342	746,024	150,192	-	896,216
Professional fees	538,069	86,607	10,588	635,264	353,905	-	989,169
Vehicle	77,733	631,155	70,777	779,665	125,829	-	905,494
Advertising	461	41	48,434	48,936	716,404	-	765,340
Bank charges and credit card merchant fees	30	578,517	-	578,547	38,297	-	616,844
In-kind	-	-	82,045	82,045	-	-	82,045
Equipment rental and maintenance	21,744	199,025	6,856	227,625	48,768	-	276,393
Supportive assistance to clients under grants	1,340	89	2,050,298	2,051,727	14,233	-	2,065,960
Development and staff training	20,072	44,361	33,619	98,052	28,094	36,196	162,342
Dues and subscriptions	-	-	16	16	182,586	-	182,602
Outside services	138,050	7,809	264	146,123	49,292	-	195,415
Staff travel	4,045	3,562	24,688	32,295	4,425	40	36,760
Postage and shipping	45,104	183,616	3,416	232,136	4,663	-	236,799
Other	49,844	68,805	12,456	131,105	24,051	-	155,156
Awards	-	-	959	959	-	-	959
Bad debt	-	-	-	-	24,544	-	24,544
Total expenses before cost of goods sold	12,507,181	25,561,393	6,278,490	44,347,064	7,047,803	37,028	51,431,895
Valuation of donated goods (noncash)	-	11,118,000	-	11,118,000	-	-	11,118,000
Goods purchased for resale	-	65,709	-	65,709	-	-	65,709
Total operating expenses	<u>\$ 12,507,181</u>	<u>\$ 36,745,102</u>	<u>\$ 6,278,490</u>	<u>\$ 55,530,773</u>	<u>\$ 7,047,803</u>	<u>\$ 37,028</u>	<u>\$ 62,615,604</u>

**See Notes to Combined Financial Statements**

## Palmetto Goodwill and Palmetto Goodwill Services, Inc.

### Combined Statements of Cash Flows

For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Operating activities</b>		
Increase in net assets without donor restrictions	\$ 11,975,507	\$ 2,075,439
Adjustments to reconcile increase in net assets without donor restrictions to net cash provided by operating activities:		
Noncash contributions - donated inventory	(13,026,000)	(11,211,000)
Cost of goods sold - donated inventory	12,969,000	11,118,000
Gain on sale and disposal of property and equipment	(56,946)	(117,113)
Net (gain) loss on interest rate swaps	(1,708,721)	1,984,564
Depreciation expense	2,943,069	2,837,391
Amortization of debt issuance costs	74,936	73,361
Changes in operating assets and liabilities:		
Accounts receivable	265,827	615,477
Inventory	16,916	(448)
Prepaid expenses	274,451	(124,415)
Deposits	(13,617)	19,579
Accounts payable	82,737	120,490
Deferred revenue	280,885	(262,349)
Accrued expenses	114,599	(76,185)
Accrued payroll and related liabilities	(801,263)	735,281
Net cash provided by operating activities	<u>13,391,380</u>	<u>7,788,072</u>
<b>Investing activities</b>		
Purchases of property and equipment	(11,159,723)	(1,404,251)
Proceeds from sale of property and equipment	302,268	213,568
Net cash used for investing activities	<u>(10,857,455)</u>	<u>(1,190,683)</u>
<b>Financing activities</b>		
Principal payments on bonds and notes payable	(7,174,415)	(3,256,258)
Proceeds from issuance of bonds and notes payable	13,459,138	437,885
Debt issuance costs paid	(290,132)	-
Net cash provided by (used for) financing activities	<u>5,994,591</u>	<u>(2,818,373)</u>
Net increase in cash and cash equivalents	8,528,516	3,779,016
<b>Cash and cash equivalents, beginning of year</b>	15,622,248	11,843,232
<b>Cash and cash equivalents, end of year</b>	<u>\$ 24,150,764</u>	<u>\$ 15,622,248</u>
<b>Supplemental disclosures</b>		
Interest paid	<u>\$ 1,796,338</u>	<u>\$ 1,919,062</u>

See Notes to Combined Financial Statements

# Palmetto Goodwill and Palmetto Goodwill Services, Inc.

## Notes to Combined Financial Statements

December 31, 2021 and 2020

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### Note 1. Summary of Significant Accounting Policies

#### Nature of activities:

Palmetto Goodwill and Palmetto Goodwill Services, Inc. (the "Organization") are not-for-profit 501(c)(3) organizations. They are organized under the laws of South Carolina as charitable and educational corporations for individuals who are disabled and disadvantaged. The mission of the Organization overall is to help people achieve their full potential through the dignity and power of work. Refer to the Organization website for more information: [www.palmettogoodwill.org](http://www.palmettogoodwill.org).

Palmetto Goodwill operates its charitable thrift stores and related facilities that support its mission of providing jobs and job training to people with disabilities and other disadvantages. Palmetto Goodwill generates revenue through a variety of sources, including sales of donated goods, contracts for job training, rehabilitation, and other employment related services, contracts for commercial services and monetary donations. Palmetto Goodwill Services, Inc. generates revenue from governmental contracts related to the employment of individuals with disabilities.

#### Combined financial statements:

The combined financial statements (the "financial statements") as of and for the years ended December 31, 2021 and 2020 include the assets, liabilities, and operations of Palmetto Goodwill and Palmetto Goodwill Services, Inc., which are affiliated through common management. Significant intercompany accounts and transactions have been eliminated in combination.

#### Basis of accounting:

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

#### Basis of presentation:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in *Financial Statements of Not-for-Profit Organizations*.

The Organization's net assets are classified 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 the Organization's management and the board of directors.

**Net assets with donor restrictions:** Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time (that is, when a stipulated time restriction ends or purpose restriction is accomplished). Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

## Palmetto Goodwill and Palmetto Goodwill Services, Inc.

### Notes to Combined Financial Statements

December 31, 2021 and 2020

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Basis of presentation, continued:

The Organization does not have any net assets with donor restrictions at December 31, 2021 or 2020.

##### Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amount of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

##### Cash and cash equivalents:

The Organization considers all unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

##### Availability of funds for general expenditures:

The Organization has certain net assets that are available for general expenditures within one year of December 31, 2021 and 2020 based on conducting the normal activities of its programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year (See Note 2).

##### Accounts receivable:

Accounts receivable are comprised of amounts due from private and federal contracts. The Organization uses the allowance method to account for bad debts. This allowance is estimated based on a review of specific accounts by management, as well as historical experience. At December 31, 2021 and 2020, the Organization considers all accounts fully collectible and has not recorded an allowance for doubtful accounts.

##### Inventory:

The reported value of donated inventory is estimated at fair value using a standard model developed by Goodwill Industries International, Inc. and the historical experience of the Organization.

##### Property and equipment, net:

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of the donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 40 years. It is the Organization's policy to capitalize assets with a cost of \$1,000 or more and a useful life of greater than a year.

## Palmetto Goodwill and Palmetto Goodwill Services, Inc.

### Notes to Combined Financial Statements

December 31, 2021 and 2020

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Property and equipment, net, continued:

Property and equipment and long-lived assets to be held and used are reviewed for events or changes in circumstances that indicate that their carrying values may not be recoverable. The Organization periodically reviews the carrying value of long-lived assets to determine whether or not an impairment to such value has occurred by assessing their net realizable values based on estimated undiscounted cash flows over their remaining useful lives. Based on its analysis, management believes that no such impairment existed at December 31, 2021 or 2020.

##### Compensated absences:

Employees of the Organization are entitled to paid leave, depending on length of service. Liabilities of \$538,229 and \$494,891 for estimated unused leave at December 31, 2021 and 2020, respectively, are included in accrued payroll and related liabilities in the accompanying combined statements of financial position.

##### Revenue recognition:

Contributions and grants received are recorded as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor restrictions, when the donation is received or unconditionally pledged, as long as there are no performance obligations attached to the contribution. These contributions would not fall under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606 guidance. In the instance where there is a performance obligation attached to the contribution, the portion that is attached to a performance obligation is recorded as deferred revenue until the underlying performance obligation is met, and the portion that is considered to be a contribution is recorded as revenue when received or unconditionally pledged. 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 combined statements of activities as net assets released from restrictions.

The Organization reports gifts of property and equipment as support without donor restrictions unless explicit donor stipulations specify how the assets must be used. The Organization reports donated inventory as support without donor restrictions at the point in time it is received.

Store, salvage and E-commerce are earned and recorded as revenue at a point in time when the goods are transferred or shipped to the purchaser.

# Palmetto Goodwill and Palmetto Goodwill Services, Inc.

## Notes to Combined Financial Statements

December 31, 2021 and 2020

### Note 1. Summary of Significant Accounting Policies, Continued

#### Revenue recognition, continued:

Revenue from federal and private service contracts (Good People Staffing) is recognized over time (on a monthly basis) as services are provided based on the terms of the contract.

Revenue from federal grants is recognized on a reimbursement basis as allowable activities are expended and incurred.

Revenue from non-federal grants is recognized as performance obligations are met based on the underlying terms of the grants.

Amounts received in exchange transactions in advance of satisfaction of performance obligations are accounted for as deferred revenue. At the time that such amounts have been earned, revenue is recorded in the combined statement of activities.

#### Disaggregation of revenue:

In the following table, net revenue subject to ASC 606 is disaggregated by timing of satisfaction of performance obligations for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Performance obligations satisfied at a point in time	\$ 49,687,504	\$ 38,268,069
Performance obligations satisfied over time	<u>17,543,276</u>	<u>16,399,172</u>
	<u>\$ 67,230,780</u>	<u>\$ 54,667,241</u>

#### Contract assets and liabilities:

Contract assets represent amounts due from private and federal contracts. Contract liabilities include amounts received in excess of revenue recognized. The balance of contract assets and contract liabilities as of December 31:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contract assets	\$ 2,757,014	\$ 3,022,841	\$ 3,638,318
Contract liabilities	\$ 527,056	\$ 246,171	\$ 508,520

## Palmetto Goodwill and Palmetto Goodwill Services, Inc.

### Notes to Combined Financial Statements

December 31, 2021 and 2020

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Donated services:

Donated services received that either create or enhance non-financial assets or require specialized skills which would need to be purchased if not donated, are recorded as revenue and expense at their estimated fair value.

##### Advertising costs:

Advertising costs are charged to operations when incurred and totaled \$818,591 and \$765,340 for the years ended December 31, 2021 and 2020, respectively.

##### Income taxes:

Both Palmetto Goodwill and Palmetto Goodwill Services, Inc. are exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, both organizations qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations that are not private foundations under Section 509(a)(1).

Management has evaluated the tax positions of the Organization and does not believe that any uncertain tax positions or unrecognized tax benefits exist for the years ended December 31, 2021 or 2020. The Organization's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense.

##### Fair value:

The Organization utilizes a three-tier fair value hierarchy that clarifies fair value as an exit price, representing 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 (see Note 3).

##### Derivative instruments:

The Organization uses derivative instruments to manage risks related to interest rate movement on the Organization's debt, not for trading or speculative purposes. Interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment to interest expense. The Organization records derivative instruments at fair market value at year-end in the combined statements of financial position, with changes in market value included in the combined statements of activities as a gain or loss on interest rate swaps. Values are measured based on estimates of the amount needed to settle the agreement, as calculated by the counterparties to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying valuation models. See Note 5 on interest rate swaps.

## Palmetto Goodwill and Palmetto Goodwill Services, Inc.

### Notes to Combined Financial Statements

December 31, 2021 and 2020

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Loan costs:

Debt issuance costs related to the acquisition of financing are capitalized and amortized over the term of the related debt. Bonds and notes payable are shown net of loan costs. Total loan amortization expense for the years ended December 31, 2021 and 2020 totaled \$74,936 and \$73,361, respectively.

##### Expense allocation:

The costs of providing various programs and activities are summarized on a functional basis in the combined statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses of the Organization include:

**Program services** - Program services include payroll and operational expenses for work contract services, retail operations, and workforce activities.

**Support services** - Support services include the general, administrative, and operating costs of the Organization.

**Fundraising** - These expenses include direct and indirect activities undertaken to solicit material and monetary contributions from donors.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses are allocated by the following methods of allocation:

Salaries and wages and payroll taxes and fringe benefits are allocated based on time and effort.

Occupancy and overhead, depreciation, and interest are allocated based on a combination of direct costs and square footage.

Advertising, professional fees, development and staff training, and outside services are allocated based on a combination of direct costs and time and effort.

Supplies, telephone, internet and mobile communications, equipment rental and maintenance, vehicle, bank charges and credit card merchant fees, in-kind expenses, dues and subscriptions, supportive assistance to clients under grants, other expenses, staff travel, postage and shipping, awards, and bad debts are allocated based on direct costs to the program or supporting services.



## **Palmetto Goodwill and Palmetto Goodwill Services, Inc.**

### ***Notes to Combined Financial Statements***

***December 31, 2021 and 2020***

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#### **Note 1. Summary of Significant Accounting Policies, Continued**

##### ***New accounting pronouncements:***

In February 2016, the FASB amended the Leases topic (“ASC 842”) of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. In May 2020, the FASB deferred the effective date of ASC 842. As a result of the deferral, the guidance in ASC 842 will be effective for the Organization for reporting periods beginning after December 15, 2021. The Organization is currently evaluating the impact of this new guidance on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Organization's net assets or changes in net assets.

##### ***Reclassifications:***

Certain prior year amounts have been reclassified to conform to the current year presentation.

##### ***Subsequent events:***

The Organization has evaluated subsequent events through May 18, 2022, which is the date these financial statements were available to be issued.

## Palmetto Goodwill and Palmetto Goodwill Services, Inc.

### Notes to Combined Financial Statements

December 31, 2021 and 2020

#### Note 2. Availability and Liquidity

Financial assets available for general expenditure, that are without donor or other restrictions limiting their use within one year of the combined statement of financial position date of December 31, 2021 and 2020, are comprised of the following:

	<u>2021</u>	<u>2020</u>
Total assets at year end	\$ 111,600,826	\$ 95,587,555
Less: amounts not available to be used within one year due to illiquidity:		
Prepaid expenses	(123,004)	(397,455)
Property and equipment, net	(83,463,044)	(75,491,712)
Deposits	<u>(34,000)</u>	<u>(20,383)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 27,980,778</u>	<u>\$ 19,678,005</u>

As part of its liquidity plan, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Organization invests excess cash in short-term investments, including money market accounts, and has the ability to redeem these investments as necessary to meet its obligations.

#### Note 3. Fair Value Measurements

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

## Palmetto Goodwill and Palmetto Goodwill Services, Inc.

### Notes to Combined Financial Statements

December 31, 2021 and 2020

#### Note 3. Fair Value Measurements, Continued

In determining the appropriate levels, the Organization performs an analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. Interest rate swap holdings are valued using bank inputs derived from economic modeling and from secondary markets and are classified as Level 2 because they are not traded in an active market via public exchanges.

Fair values of assets (liabilities) measured on a recurring basis at December 31 are as follows:

	2021			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swaps	\$ (2,926,677)	\$ -	\$ (2,926,677)	\$ -
	2020			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swaps	\$ (4,635,398)	\$ -	\$ (4,635,398)	\$ -

#### Note 4. Property and Equipment, Net

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

	<u>2021</u>	<u>2020</u>
Buildings and improvements	\$ 71,166,696	\$ 63,377,124
Land	25,381,649	23,664,149
Furniture and equipment	10,241,030	9,128,624
Leasehold improvements	1,177,234	1,158,442
Vehicles	1,590,837	1,498,709
Construction in progress	24,870	95,299
	<u>109,582,316</u>	<u>98,922,347</u>
Less: accumulated depreciation	<u>(26,119,272)</u>	<u>(23,430,635)</u>
	<u>\$ 83,463,044</u>	<u>\$ 75,491,712</u>

Depreciation expense for the years ended December 31, 2021 and 2020 was \$2,943,069 and \$2,837,391, respectively.

## Palmetto Goodwill and Palmetto Goodwill Services, Inc.

### Notes to Combined Financial Statements

December 31, 2021 and 2020

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#### Note 5. Interest Rate Swaps

The Organization maintains an interest-rate risk-management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest-rate volatility. The Organization's specific goal is to limit its interest expense to a fixed maximum rate. The differential to be paid or received on a swap agreement is accrued as interest rates change and is recognized over the life of the agreement as interest expense.

In December 2009, the Organization entered into an interest rate swap agreement related to a \$24,200,000 bond issuance (see Note 6). Upon entering into the swap agreement, the notional amount of the swap was \$24,200,000, with a fixed effective interest rate of 4.435% and receiving payments at 68% of one-month LIBOR plus 1.7875%, and matured on December 16, 2019. An anticipatory hedge was entered into on September 20, 2018, to extend the interest rate swap agreement ten years with an effective interest rate of 4.467% and a floating rate of 83.86% of one-month LIBOR (0.10% and 0.14% as of December 31, 2021 and 2020, respectively) plus 1.896%. As of December 31, 2021 and 2020, the notional amount of the swap was \$12,236,135 and \$13,488,211, respectively. The estimated fair value of the swap liability as of December 31, 2021 and 2020 was \$815,102 and \$1,429,818, respectively. During the years ended December 31, 2021 and 2020, a gain/(loss) was recognized on the change in the interest rate swap liability of \$614,716 and (\$524,979), respectively.

In December 2015, the Organization entered into an interest rate swap agreement related to an \$18,106,107 bond issuance (see Note 6). Upon entering into the swap agreement, the notional amount of the swap was \$18,100,000, with a fixed interest rate of 3.23% and receiving payments at 78% of one-month LIBOR plus 1.64%. In August 2018, this swap agreement was replaced by a new swap agreement with a notional amount of \$14,833,645, with a fixed interest rate of 3.025% and receiving payments at 79% of one-month LIBOR (0.10% and 0.14% as of December 31, 2021 and 2020, respectively) plus 1.39%, maturing June 16, 2028. As of December 31, 2021 and 2020, the notional amount of the swap was \$10,336,696 and \$11,739,471, respectively. The estimated fair value of the swap liability as of December 31, 2021 and 2020 was \$266,319 and \$629,263, respectively. During the years ended December 31, 2021 and 2020, a gain/(loss) was recognized on the change in the interest rate swap liability of \$362,917 and (\$426,079), respectively.

In September 2018, the Organization entered into an interest rate swap agreement related to a \$19,300,000 bond issuance (see Note 6). Upon entering into the swap agreement, the notional amount of the swap was \$19,300,000, with a fixed interest rate of 3.97% and receiving payments at 79% of one-month LIBOR (0.10% and 0.14% as of December 31, 2021 and 2020, respectively) plus 1.55%, maturing on September 16, 2031. As of December 31, 2021 and 2020, the notional amount of the swap was \$17,231,386 and \$17,891,863, respectively. The estimated fair value of the swap liability as of December 31, 2021 and 2020 is \$1,614,134 and \$2,576,317, respectively. During the years ended December 31, 2021 and 2020, a gain/(loss) was recognized on the change in the interest rate swap liability of \$962,210 and (\$1,033,506), respectively.

In October 2021, the Organization entered into an interest rate swap agreement related to a \$16,000,000 bond issuance (see Note 6). Upon entering into the swap agreement, the notional amount of the swap was \$16,000,000, with a fixed interest rate of 2.473% and receiving payments beginning October 16, 2022 at 79% of Daily Weighted Average SOFR (0.05% as of December 31, 2021) plus 1.185%, maturing on October 16, 2036. As of December 31, 2021, the notional amount of the swap was \$16,000,000. The estimated fair value of the swap liability as of December 31, 2021 is \$231,122. During the year ended December 21, 2021, a loss was recognized on the interest rate swap liability of \$231,122.

## **Palmetto Goodwill and Palmetto Goodwill Services, Inc.**

### ***Notes to Combined Financial Statements***

***December 31, 2021 and 2020***

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#### **Note 6. Bonds and Notes Payable, Net**

On December 16, 2009, the Organization entered into a \$24,200,000 economic development revenue bond agreement for the payoff of a bond and the acquisition of retail properties. The tax-exempt bond was issued by the South Carolina Jobs and Economic Development Authority and carries interest at 83.866% of one-month LIBOR (0.10% and 0.14% as of December 31, 2021 and 2020, respectively) plus 1.89624%. Interest and principal are payable monthly and mature December 16, 2029. The bond is collateralized by the underlying real property. As of December 31, 2021 and 2020, the outstanding balance on this bond payable is \$12,417,138 and \$13,538,780, respectively.

On December 16, 2015, the Organization entered into an \$18,106,107 economic development revenue bond agreement to refinance mortgages payable related to retail facilities. The tax-exempt bond was issued by the South Carolina Jobs and Economic Development Authority and carries interest at 79% of one-month LIBOR (0.10% and 0.14% as of December 31, 2021 and 2020, respectively) plus 1.39%. Interest and principal are payable monthly and mature June 16, 2028. As of December 31, 2021 and 2020, the outstanding balance on this bond payable is \$10,340,184 and \$11,743,431, respectively.

On June 22, 2018, the Organization entered into a \$2,184,500 note agreement for the purchase of land and building properties in Pawley's Island, South Carolina. The note carried interest at a fixed rate of 4.62%. Beginning July 22, 2019, interest and principal were payable monthly. As of December 31, 2020, the outstanding balance on this note payable was \$2,082,343. During October 2021, the Organization paid off this note using the proceeds from the new bonds payable.

On September 1, 2018, the Organization entered into a \$19,300,000 economic development revenue bond agreement to refinance bond and mortgage payables. The tax-exempt bond was issued by the South Carolina Jobs and Economic Development Authority and carries interest at 79% of one-month LIBOR (0.10% and 0.14% as of December 31, 2021 and 2020, respectively) plus 1.55%. Interest and principal are payable monthly and mature September 16, 2031. The bond is collateralized by the underlying real property. As of December 31, 2021 and 2020, the outstanding balance on this bond payable was \$17,231,386 and \$17,891,863, respectively.

On November 1, 2019, the Organization entered into a \$1,912,500 note agreement for the purchase of land and building properties in Hilton Head Island, South Carolina. The note carried interest at a fixed rate of 3.10%. The note had a draw period of twelve months during which the Organization could borrow up to the maximum principal amount for building renovations and make consecutive payments of interest only. Beginning December 1, 2020, interest and principal were payable monthly. As of December 31, 2020, the outstanding balance on this note payable was \$1,906,696. During October 2021, the Organization paid off this note using the proceeds from the new bonds payable.

On October 1, 2021, the Organization entered into a \$16,000,000 note agreement for the payoff of notes payable, acquisition of retail properties, and construction of a warehouse. The Organization received \$13,459,138 up front, and will draw the remaining \$2,540,862 by October 2022. The tax-exempt bond was issued by the South Carolina Jobs and Economic Development Authority and carries interest at 79% of Daily Weighted Average SOFR (0.05% as of December 31, 2021) plus 1.185%. Beginning November 16, 2022, interest and principal are payable monthly and mature October 16, 2036. The bond is collateralized by the underlying real property. As of December 31, 2021, the outstanding balance on this bond payable was \$13,459,128.

## Palmetto Goodwill and Palmetto Goodwill Services, Inc.

### Notes to Combined Financial Statements

December 31, 2021 and 2020

#### Note 6. Bonds and Notes Payable, Net, Continued

Future maturities of these bonds payable for the years ended December 31, are as follows:

2022	\$ 3,788,833
2023	4,564,791
2024	4,693,644
2025	4,865,973
2026	5,040,319
Thereafter	<u>30,494,276</u>
	<u>\$ 53,447,836</u>

The Organization will draw on the remaining amount of the 2021 bond by October 2022.

Bonds and notes payable have been presented net of related debt issuance costs as follows at December 31:

	<u>2021</u>	<u>2020</u>
Bonds and notes payable	\$ 53,447,836	\$ 47,163,113
Less: current portion	<u>(3,788,833)</u>	<u>(3,513,713)</u>
	49,659,003	43,649,400
Less: unamortized debt issuance costs	<u>(1,005,736)</u>	<u>(790,540)</u>
	<u>\$ 48,653,267</u>	<u>\$ 42,858,860</u>

The bonds and note payable have several financial and non-financial restrictive covenants, including a debt service coverage ratio requirement and a funded debt to net worth ratio. The Organization is not aware of any violations of these restrictive covenants at December 31, 2021 or 2020.

#### Note 7. Line of Credit

The Organization has available a bank line of credit of up to \$2,000,000 maturing July 31, 2023. Interest is payable monthly at the bank's prime rate (3.25% at December 31, 2021 and 2020). The line of credit is collateralized by the Organization's accounts receivable, some related minor collateral, and second mortgages on ten properties. The line of credit has the same financial and non-financial restrictive covenants described in Note 6. At December 31, 2021 and 2020, there was no balance outstanding on the line of credit.

## Palmetto Goodwill and Palmetto Goodwill Services, Inc.

### Notes to Combined Financial Statements

December 31, 2021 and 2020

#### Note 8. Operating Leases

The Organization leases buildings used as store locations and training centers throughout lower South Carolina. These leases expire at various terms over the next 13 years, and several have options for extension after the expiration of their initial term. Rent expense, excluding taxes and common area maintenance fees, for these buildings during the years ended December 31, 2021 and 2020 totaled \$2,011,198 and \$1,868,566, respectively.

The Organization also leases vehicles and office equipment under various operating leases which expire over various terms over the next 5 years. Lease expense for these leases for the years ended December 31, 2021 and 2020 totaled \$465,589 and \$477,771, respectively.

Future minimum lease payments required under these operating leases for the years ending December 31, are as follows:

	<u>Buildings</u>	<u>Vehicles and Equipment</u>
2022	\$ 1,899,636	\$ 399,598
2023	1,911,341	343,278
2024	1,875,270	295,242
2025	1,773,189	170,283
2026	1,514,475	-
Thereafter	<u>4,646,749</u>	<u>-</u>
	<u>\$ 13,620,660</u>	<u>\$ 1,208,401</u>

#### Note 9. Related Parties

As of January 1, 2016, an agreement between Palmetto Goodwill Services, Inc. (PGS) and Palmetto Goodwill (PG) was entered into to charge a monthly administrative and overhead expense fee of \$62,101 and \$93,200 to PGS on behalf of PG during the years ended December 31, 2021 and 2020, respectively. The total amount charged for the years ended December 31, 2021 and 2020 totaled \$745,217 and \$1,118,399, respectively. Revenue received by PG and expense incurred by PGS have been eliminated in combination of the two organizations for the years ended December 31, 2021 and 2020.

On February 16, 2018, Palmetto Excel, Inc. was created as a separate 501(c)(3) organization. The purpose of this organization is for adult workforce development schools, which are scheduled to open in 2023. As of and for the years ended December 31, 2021 and 2020, Palmetto Excel, Inc., had no activity. See Note 14.

## **Palmetto Goodwill and Palmetto Goodwill Services, Inc.**

### ***Notes to Combined Financial Statements***

***December 31, 2021 and 2020***

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#### **Note 10. Government Contracts**

One of the Organization's primary sources of revenue is its contracts with the federal government to supply manpower for food services, custodial services, and administrative services. Most are fixed-price contracts with the Department of Defense under the Ability One Program to provide employment opportunities for individuals with disabilities. Accordingly, the Organization is responsible for compliance with all federal laws and regulations applicable to federal contractors.

#### **Note 11. Concentrations**

Federal government contracts comprised 25% of the Organization's support and revenue (excluding noncash donated goods) and 63% of accounts receivable during 2021, and 31% of the Organization's support and revenue (excluding noncash donated goods) and 49% of accounts receivable during 2020. Significant changes in this revenue source could have a significant effect upon the Organization's operations and financial position.

The Organization maintains its cash balances at several financial institutions that are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 in aggregate per institution. From time to time, deposits may exceed federally insured limits.

#### **Note 12. Retirement Plans**

The Organization has a 401(k) plan (the "Plan") covering all eligible employees. Employees may contribute a percentage of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Organization matches 100% of the participants' contributions up to 3% each payroll period. Discretionary contributions can also be made by the Organization. Contributions for 2021 and 2020 totaled \$616,243 and \$627,441, respectively. The Organization has a specific match for Service Contract Act employees that is \$1.00 and \$1.25 for every hour worked for 2021 and 2020, respectively. Any unused health and welfare dollars are placed into the 401(k) plan on a quarterly basis for these employees.

The Organization also sponsors a 457(b) defined contribution plan for upper management employees. The plan is funded by discretionary employer-only contributions, up to a maximum of annual amount as set periodically by the Internal Revenue Service. The Organization's contributions for 2021 and 2020 were \$170,497 and \$89,710, respectively.

The Organization also sponsors a 403(b) tax-deferred annuity plan for certain key employees. The Organization does not contribute to the plan on behalf of the qualified employees. Only employee contributions are made to the plan. There are no associated plan expenses for the years ended December 31, 2021 and 2020.

#### **Note 13. Uncertainty**

COVID-19 has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may have the potential to negatively impact the Organization's donors, retail customers, and its overall business. The Organization's mission remains vital as the economy recovers and the effort to return people to work continues. The Organization is currently not experiencing adverse operational effects from COVID-19 and its overall activity remains strong.



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**Palmetto Goodwill and Palmetto Goodwill Services, Inc.**

*Notes to Combined Financial Statements*

*December 31, 2021 and 2020*

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**Note 14. Subsequent Events**

On April 27, 2022, the State Charter Board approved Palmetto Excel, Inc.'s charter application. Palmetto Excel, Inc. is a related organization with its own board of directors. There has not been any activity for the organization to date, and the school is scheduled to open in 2023.

## **Supplementary Information**

## Palmetto Goodwill and Palmetto Goodwill Services, Inc.

### Combining Statement of Financial Position

As of December 31, 2021

	Palmetto Goodwill	Palmetto Goodwill Services, Inc.	Eliminations	Combined
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 12,504,044	\$ 11,646,720	\$ -	\$ 24,150,764
Accounts receivable	1,029,427	1,727,587	-	2,757,014
Inventory	1,073,000	-	-	1,073,000
Prepaid expenses	106,432	16,572	-	123,004
Intercompany receivable	2,115,135	-	(2,115,135)	-
Total current assets	<u>16,828,038</u>	<u>13,390,879</u>	<u>(2,115,135)</u>	<u>28,103,782</u>
<b>Other assets</b>				
Deposits	34,000	-	-	34,000
Total other assets	<u>34,000</u>	<u>-</u>	<u>-</u>	<u>34,000</u>
<b>Property and equipment, net</b>	83,252,105	210,939	-	83,463,044
Total assets	<u>\$ 100,114,143</u>	<u>\$ 13,601,818</u>	<u>\$ (2,115,135)</u>	<u>\$ 111,600,826</u>
<b>Liabilities and Net Assets</b>				
<b>Current liabilities</b>				
Current portion of bonds and note payable, net	\$ 3,788,833	\$ -	\$ -	\$ 3,788,833
Accounts payable	1,085,271	213,452	-	1,298,723
Deferred revenue	507,008	20,048	-	527,056
Accrued expenses	68,429	367,039	-	435,468
Accrued payroll and related liabilities	1,122,479	689,071	-	1,811,550
Intercompany payable	-	2,115,135	(2,115,135)	-
Total current liabilities	<u>6,572,020</u>	<u>3,404,745</u>	<u>(2,115,135)</u>	<u>7,861,630</u>
<b>Long-term liabilities</b>				
Bonds and notes payable, net	48,653,267	-	-	48,653,267
Interest rate swaps	2,926,677	-	-	2,926,677
Total long-term liabilities	<u>51,579,944</u>	<u>-</u>	<u>-</u>	<u>51,579,944</u>
Total liabilities	<u>58,151,964</u>	<u>3,404,745</u>	<u>(2,115,135)</u>	<u>59,441,574</u>
<b>Net assets, without donor restrictions</b>	41,962,179	10,197,073	-	52,159,252
Total liabilities and net assets	<u>\$ 100,114,143</u>	<u>\$ 13,601,818</u>	<u>\$ (2,115,135)</u>	<u>\$ 111,600,826</u>

**Palmetto Goodwill and Palmetto Goodwill Services, Inc.**

*Combining Statement of Activities*

*For the year ended December 31, 2021*

	<b>Palmetto Goodwill</b>	<b>Palmetto Goodwill Services, Inc.</b>	<b>Eliminations</b>	<b>Combined</b>
<b>Operating revenues and support</b>				
Store sales, net	\$ 39,262,894	\$ -	\$ -	\$ 39,262,894
Federal service contracts	-	17,267,539	-	17,267,539
Contributions of donated goods (noncash)	13,026,000	-	-	13,026,000
Salvage	3,304,975	-	-	3,304,975
Federal grants	3,778,262	-	-	3,778,262
Other grants, non-federal	430,986	-	-	430,986
E-commerce revenue	2,674,780	-	-	2,674,780
Private contracts	275,737	143,985	-	419,722
Other operating revenue	85,409	6,213	-	91,622
Federal grants - in-kind contributions	99,095	-	-	99,095
Public support - charitable contributions	374,890	1,357	-	376,247
Donated cars	153,252	-	-	153,252
Total operating revenues and support	<u>63,466,280</u>	<u>17,419,094</u>	<u>-</u>	<u>80,885,374</u>
<b>Operating expenses</b>				
Program services	48,780,064	14,123,504	(745,217)	62,158,351
Support services	6,443,673	2,063,841	-	8,507,514
Fundraising	21,192	-	-	21,192
Total operating expenses	<u>55,244,929</u>	<u>16,187,345</u>	<u>(745,217)</u>	<u>70,687,057</u>
Increase in net assets without donor restrictions from operating activities	<u>8,221,351</u>	<u>1,231,749</u>	<u>745,217</u>	<u>10,198,317</u>
<b>Non-operating activities</b>				
Gain on disposal of property and equipment	50,752	6,194	-	56,946
Interest income	7,369	4,154	-	11,523
Net gain on interest rate swaps	1,708,721	-	-	1,708,721
Reimbursable income from related organization	745,217	-	(745,217)	-
Total non-operating activities	<u>2,512,059</u>	<u>10,348</u>	<u>(745,217)</u>	<u>1,777,190</u>
Increase in net assets without donor restrictions	<u>10,733,410</u>	<u>1,242,097</u>	<u>-</u>	<u>11,975,507</u>
<b>Net assets without donor restrictions, beginning of year</b>	<u>31,228,769</u>	<u>8,954,976</u>	<u>-</u>	<u>40,183,745</u>
<b>Net assets without donor restrictions, end of year</b>	<u>\$ 41,962,179</u>	<u>\$ 10,197,073</u>	<u>\$ -</u>	<u>\$ 52,159,252</u>

## Palmetto Goodwill and Palmetto Goodwill Services, Inc.

### Combining Statement of Financial Position

As of December 31, 2020

	Palmetto Goodwill	Palmetto Goodwill Services, Inc.	Eliminations	Combined
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 5,618,709	\$ 10,003,539	\$ -	\$ 15,622,248
Accounts receivable	1,544,416	1,478,425	-	3,022,841
Inventory	1,032,916	-	-	1,032,916
Prepaid expenses	396,693	762	-	397,455
Intercompany receivable	1,375,301	-	(1,375,301)	-
Total current assets	<u>9,968,035</u>	<u>11,482,726</u>	<u>(1,375,301)</u>	<u>20,075,460</u>
<b>Other assets</b>				
Deposits	20,383	-	-	20,383
Total other assets	<u>20,383</u>	<u>-</u>	<u>-</u>	<u>20,383</u>
<b>Property and equipment, net</b>				
Total assets	<u>75,281,724</u>	<u>209,988</u>	<u>-</u>	<u>75,491,712</u>
	<u>\$ 85,270,142</u>	<u>\$ 11,692,714</u>	<u>\$ (1,375,301)</u>	<u>\$ 95,587,555</u>
<b>Liabilities and Net Assets</b>				
<b>Current liabilities</b>				
Current portion of bonds and notes payable, net	\$ 3,513,713	\$ -	\$ -	\$ 3,513,713
Accounts payable	974,372	241,614	-	1,215,986
Deferred revenue	226,123	20,048	-	246,171
Accrued expenses	119,056	201,813	-	320,869
Accrued payroll and related liabilities	1,713,851	898,962	-	2,612,813
Intercompany payable	-	1,375,301	(1,375,301)	-
Total current liabilities	<u>6,547,115</u>	<u>2,737,738</u>	<u>(1,375,301)</u>	<u>7,909,552</u>
<b>Long-term liabilities</b>				
Bonds and notes payable, net	42,858,860	-	-	42,858,860
Interest rate swaps	4,635,398	-	-	4,635,398
Total long-term liabilities	<u>47,494,258</u>	<u>-</u>	<u>-</u>	<u>47,494,258</u>
Total liabilities	<u>54,041,373</u>	<u>2,737,738</u>	<u>(1,375,301)</u>	<u>55,403,810</u>
<b>Net assets, without donor restrictions</b>				
Total liabilities and net assets	<u>31,228,769</u>	<u>8,954,976</u>	<u>-</u>	<u>40,183,745</u>
	<u>\$ 85,270,142</u>	<u>\$ 11,692,714</u>	<u>\$ (1,375,301)</u>	<u>\$ 95,587,555</u>

**Palmetto Goodwill and Palmetto Goodwill Services, Inc.**

*Combining Statement of Activities*

*For the year ended December 31, 2020*

	<b>Palmetto Goodwill</b>	<b>Palmetto Goodwill Services, Inc.</b>	<b>Eliminations</b>	<b>Combined</b>
<b><i>Operating revenues and support</i></b>				
Store sales, net	\$ 29,512,501	\$ -	\$ -	\$ 29,512,501
Federal service contracts	-	16,358,711	-	16,358,711
Contributions of donated goods (noncash)	11,211,000	-	-	11,211,000
Salvage	1,940,641	-	-	1,940,641
Federal grants	4,607,332	-	-	4,607,332
Other grants, non-federal	703,883	9,228	-	713,111
E-commerce revenue	1,244,754	-	-	1,244,754
Private contracts	40,461	169,323	-	209,784
Other operating revenue	73,608	6,799	-	80,407
Federal grants - in-kind contributions	82,045	-	-	82,045
Public support - charitable contributions	328,693	14,014	-	342,707
Donated cars	114,230	-	-	114,230
Total operating revenues and support	<u>49,859,148</u>	<u>16,558,075</u>	<u>-</u>	<u>66,417,223</u>
<b><i>Operating expenses</i></b>				
Program services	43,045,099	13,604,073	(1,118,399)	55,530,773
Support services	5,798,142	1,249,661	-	7,047,803
Fundraising	37,028	-	-	37,028
Total operating expenses	<u>48,880,269</u>	<u>14,853,734</u>	<u>(1,118,399)</u>	<u>62,615,604</u>
Increase in net assets without donor restrictions from operating activities	<u>978,879</u>	<u>1,704,341</u>	<u>1,118,399</u>	<u>3,801,619</u>
<b><i>Non-operating activities</i></b>				
Gain on disposal of property and equipment	117,113	-	-	117,113
Interest income	105,246	36,025	-	141,271
Net loss on interest rate swaps	(1,984,564)	-	-	(1,984,564)
Reimbursable income from related organization	1,118,399	-	(1,118,399)	-
Total non-operating activities	<u>(643,806)</u>	<u>36,025</u>	<u>(1,118,399)</u>	<u>(1,726,180)</u>
Increase in net assets without donor restrictions	<u>335,073</u>	<u>1,740,366</u>	<u>-</u>	<u>2,075,439</u>
<b><i>Net assets without donor restrictions, beginning of year</i></b>	<u>30,893,696</u>	<u>7,214,610</u>	<u>-</u>	<u>38,108,306</u>
<b><i>Net assets without donor restrictions, end of year</i></b>	<u>\$ 31,228,769</u>	<u>\$ 8,954,976</u>	<u>\$ -</u>	<u>\$ 40,183,745</u>

## **Single Audit Section**

**Palmetto Goodwill and Palmetto Goodwill Services, Inc.****Schedule of Expenditures of Federal Awards****For the year ended December 31, 2021**

<b>Fed. Grantor/Pass-Through Grantor/Program of Cluster Title</b>	<b>Federal Assistance Listing Number</b>	<b>Pass-Through Grantor's Award Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Labor</b>				
Workforce Innovation and Opportunity Act ("WIOA") Cluster:				
WIOA National Dislocated Worker Grants	17.277	N/A	\$ -	\$ 1,462,386
Total WIOA Cluster			-	1,462,386
<b>Passed through Goodwill Industries International, Inc.</b>				
Senior Community Service Employment Program: cash assistance	17.235	AD-35214-20-60-A-24	-	1,889,806
<b>Total U.S. Department of Labor</b>			-	<b>3,352,192</b>
<b>U.S. Department of Agriculture</b>				
<b>Passed through South Carolina Department of Social Services</b>				
SNAP Employment and Training Program	10.537	4400025184	-	507,954
<b>Total U.S. Department of Agriculture</b>			-	<b>507,954</b>
<b>Total expenditures of federal awards</b>			<b>\$ -</b>	<b>\$ 3,860,146</b>

**See Notes to the Schedule of Expenditures of Federal Awards**



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## **Palmetto Goodwill and Palmetto Goodwill Services, Inc.**

### ***Notes to the Schedule of Expenditures of Federal Awards***

***December 31, 2021***

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#### **I. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Organization under the programs of the federal government for the year ended December 31, 2021. 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 operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

#### **II. 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

#### **III. Indirect Cost Rate**

The Organization has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



**Independent Auditor's 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**

To the Board of Directors  
Palmetto Goodwill and Palmetto Goodwill Services, Inc.  
North Charleston, South Carolina

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, the combined financial statements of Palmetto Goodwill and Palmetto Goodwill Services, Inc. (collectively, the Organization), which comprise the combined statements of financial position as of December 31, 2021 and 2020, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated May 18, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 have not been identified.

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 determination of financial statement amounts. 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina  
May 18, 2022



## **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance**

To the Board of Directors  
Palmetto Goodwill and Palmetto Goodwill Services, Inc.  
North Charleston, South Carolina

### **Report on Compliance for Each Major Federal Program**

#### **Opinion on Each Major Federal Program**

We have audited Palmetto Goodwill and Palmetto Goodwill Services, Inc.'s (collectively, the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2021. The Organization'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, the Organization complied, in all material respects, with the types of 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, 2021.

#### **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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 the Organization 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 the Organization'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 the Organization'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 the Organization'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 generally accepted audit standards, *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, individual or in aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 the Organization'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 the Organization'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 the Organization'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 a 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 the testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina  
May 18, 2022

**Palmetto Goodwill and Palmetto Goodwill Services, Inc.**

*Schedule of Findings and Questioned Costs*

*December 31, 2021*

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**I. Summary of Auditor’s Results**

***Financial Statements***

- (a.) Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified
- (b.) Internal control over financial reporting:
  - 1) Material weakness(es) identified: No
  - 2) Significant deficiency(ies) identified: None reported
- (c.) Noncompliance material to financial statements noted: No

***Federal Awards***

- (a.) Internal control over major programs:
  - 1) Material weakness(es) identified: No
  - 2) Significant deficiency(ies) identified: None reported
- (b.) Type of auditors’ report issued on compliance for major federal programs: Unmodified
- (c.) Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? No
- (d.) Identification of major program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
17.235	Senior Community Service Employment Program

- (e.) Dollar threshold used to distinguish between type A and type B Programs: \$750,000
- (f.) Auditee qualified as low risk auditee? Yes

**II. Financial Statement Findings** None noted

**III. Findings and Questioned Costs for Federal Award** None noted

**IV. Summary Schedule of Prior Year Findings** None noted