Palmetto Goodwill and
Palmetto Goodwill Services, Inc.

Report on Combined Financial Statements

For the years ended December 31, 2022 and 2021

Contents

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, 2022 and 2021, 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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 opinions.

Adoption of New Accounting Standards

As discussed in Note 1, the Organization adopted new accounting guidance, Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842) and ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), as of January 1, 2022. Our opinion is not modified with respect to these matters.

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.

Responsibilities of Management for the Financial Statements, Continued

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 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 Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 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 June 21, 2023, 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.

Elliott Davis, LLC

Charleston, South Carolina
June 21, 2023

Palmetto Goodwill and Palmetto Goodwill Services, Inc.

Combined Statements of Financial Position

As of December 31, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 16,840,248	$ 21,701,752
Investments	14,425,819	-
Accounts receivable	3,452,482	2,757,014
Inventory	1,211,000	1,073,000
Prepaid expenses	220,494	123,004
Total current assets	36,150,043	25,654,770
Other assets		
Deposits	15,985	34,000
Collateral deposits	2,470,997	2,449,012
Interest rate swaps	2,581,647	-
Total other assets	5,068,629	2,483,012
Right-of-use assets - operating leases	15,595,997	-
Property and equipment, net	81,952,412	83,463,044
Total assets	$ 138,767,081	$ 111,600,826
Liabilities and Net Assets		
Current liabilities		
Current portion of bonds and notes payable, net	$ 4,641,346	$ 3,788,833
Current portion of lease liabilities - operating leases	1,915,896	-
Accounts payable	1,926,849	1,298,723
Deferred revenue	616,171	527,056
Accrued expenses	419,062	435,468
Accrued payroll and related liabilities	2,097,675	1,811,550
Total current liabilities	11,616,999	7,861,630
Long-term liabilities		
Bonds and notes payable, net	44,400,446	48,653,267
Lease liabilities - operating leases, net of current portion	13,680,101	-
Interest rate swaps	-	2,926,677
Total long-term liabilities	58,080,547	51,579,944
Total liabilities	69,697,546	59,441,574
Net assets, without donor restrictions	69,069,535	52,159,252
Total liabilities and net assets	$ 138,767,081	$ 111,600,826

See Notes to Combined Financial Statements

Palmetto Goodwill and Palmetto Goodwill Services, Inc.

Combined Statements of Activities

For the years ended December 31, 2022 and 2021

	2022	2021
Operating revenues and support		
Store sales, net	$ 43,776,139	$ 39,262,894
Federal service contracts	17,939,434	17,267,539
Contributions of donated goods (noncash)	14,384,000	13,026,000
Salvage	3,657,991	3,304,975
Federal grants	2,118,388	3,778,262
Other grants, non-federal	456,933	430,986
E-commerce revenue	3,016,966	2,674,780
Private contracts	342,104	419,722
Other operating revenue	119,370	91,622
Federal grants - in-kind contributions	102,822	99,095
Public support - charitable contributions	410,365	376,247
Donated cars	131,788	153,252
Total operating revenues and support	86,456,300	80,885,374
Operating expenses		
Program services	67,119,329	62,158,351
Support services	7,822,146	8,507,514
Fundraising	64,285	21,192
Total operating expenses	75,005,760	70,687,057
Increase in net assets without donor restrictions from operating activities	11,450,540	10,198,317
Non-operating activities		
(Loss) gain on disposal of property and equipment	(23,554)	56,946
Interest income	54,799	11,523
Net gain on interest rate swaps	5,508,324	1,708,721
Net unrealized losses on investments	(79,826)	-
Total non-operating activities	5,459,743	1,777,190
Increase in net assets without donor restrictions	16,910,283	11,975,507
Net assets without donor restrictions, beginning of year	52,159,252	40,183,745
Net assets without donor restrictions, end of year	$ 69,069,535	$ 52,159,252

See Notes to Combined Financial Statements

Palmetto Goodwill and Palmetto Goodwill Services, Inc.

Combined Statement of Functional Expenses

For the year ended December 31, 2022

	Program Services						
	Work Contracts	Retail Operations	Workforce Activities	Total Program Services	Support Services	Fundraising	Total
Operating expenses							
Salaries and wages	$ 9,511,681	$ 14,843,178	$ 3,281,255	$ 27,636,114	$ 3,326,904	$ -	$ 30,963,018
Payroll taxes and fringe benefits	3,034,792	2,972,401	616,369	6,623,562	1,388,311	-	8,011,873
Occupancy and overhead	19,598	5,620,888	185,787	5,826,273	154,646	-	5,980,919
Supplies	1,167,876	1,090,437	125,646	2,383,959	434,381	-	2,818,340
Depreciation	78,478	2,802,379	70,407	2,951,264	313,642	-	3,264,906
Interest	1,756	1,621,634	94,238	1,717,628	159,906	-	1,877,534
Telephone, internet and mobile communications	66,479	340,212	50,549	457,240	154,146	-	611,386
Professional fees	547,292	347,730	28,152	923,174	624,357	-	1,547,531
Vehicle	119,361	852,581	92,350	1,064,292	277,918	-	1,342,210
Advertising	-	-	150	150	471,654	-	471,804
Bank charges and credit card merchant fees	(28)	1,062,794	-	1,062,766	15,515	-	1,078,281
In-kind	-	-	102,822	102,822	-	-	102,822
Equipment rental and maintenance	37,175	329,582	2,184	368,941	62,232	-	431,173
Supportive assistance to clients under grants	939	-	430,491	431,430	5,305	-	436,735
Development and staff training	34,707	46,404	21,235	102,346	143,029	61,885	307,260
Dues and subscriptions	1,683	-	40	1,723	187,778	-	189,501
Outside services	176,420	22,798	465	199,683	56,203	-	255,886
Staff travel	35,383	97,445	53,016	185,844	29,691	2,400	217,935
Postage and shipping	72,519	460,371	225	533,115	3,424	-	536,539
Other	56,256	88,919	5,604	150,779	13,104	-	163,883
Total expenses before cost of goods sold	14,962,367	32,599,753	5,160,985	52,723,105	7,822,146	64,285	60,609,536
Valuation of donated goods (noncash)	-	14,246,000	-	14,246,000	-	-	14,246,000
Goods purchased for resale	-	150,224	-	150,224	-	-	150,224
Total operating expenses	$ 14,962,367	$ 46,995,977	$ 5,160,985	$ 67,119,329	$ 7,822,146	$ 64,285	$ 75,005,760

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						
	Work Contracts	Retail Operations	Workforce Activities	Total Program Services	Support Services	Fundraising	Total
Operating expenses							
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
Interest	4,147	1,613,516	91,744	1,709,407	180,587	-	1,889,994
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	$ 13,647,159	$ 42,914,612	$ 5,596,580	$ 62,158,351	$ 8,507,514	$ 21,192	$ 70,687,057

See Notes to Combined Financial Statements

Palmetto Goodwill and Palmetto Goodwill Services, Inc.

Combined Statements of Cash Flows

For the years ended December 31, 2022 and 2021

	2022	2021
Operating activities		
Increase in net assets without donor restrictions	$ 16,910,283	$ 11,975,507
Adjustments to reconcile increase in net assets without donor restrictions to net cash provided by operating activities:		
Noncash contributions - donated inventory	(14,384,000)	(13,026,000)
Cost of goods sold - donated inventory	14,246,000	12,969,000
Loss (gain) on sale and disposal of property and equipment	23,554	(56,946)
Net unrealized losses on investments	79,826	-
Net gain on interest rate swaps	(5,508,324)	(1,708,721)
Depreciation expense	3,264,906	2,943,069
Amortization of debt issuance costs	89,063	74,936
Changes in operating assets and liabilities:		
Accounts receivable	(695,468)	265,827
Inventory	-	16,916
Prepaid expenses	(97,490)	274,451
Deposits	18,015	(13,617)
Collateral deposits	(21,985)	(508)
Accounts payable	628,126	82,737
Deferred revenue	89,115	280,885
Accrued expenses	(16,406)	114,599
Accrued payroll and related liabilities	286,125	(801,263)
Net cash provided by operating activities	14,911,340	13,390,872
Investing activities		
Purchases of investments	(14,505,645)	-
Purchases of property and equipment	(1,841,472)	(11,159,723)
Proceeds from sale of property and equipment	63,644	302,268
Net cash used for investing activities	(16,283,473)	(10,857,455)
Financing activities		
Principal payments on bonds and notes payable	(3,720,070)	(7,174,415)
Proceeds from issuance of bonds and notes payable	230,699	13,459,138
Debt issuance costs paid	-	(290,132)
Net cash (used for) provided by financing activities	(3,489,371)	5,994,591
Net (decrease) increase in cash and cash equivalents	(4,861,504)	8,528,008
Cash and cash equivalents, beginning of year	21,701,752	13,173,744
Cash and cash equivalents, end of year	$ 16,840,248	$ 21,701,752
Supplemental disclosures		
Interest paid	$ 1,877,534	$ 1,796,338

See Notes to Combined Financial Statements

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 is changing lives by providing equitable access to training, education, and employment. Refer to the Organization website for more information: 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, 2022 and 2021 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.

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, 2022 or 2021.

Use of estimates:

The preparation of financial statements in conformity with 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 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, 2022 and 2021 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).

Investments:

Investments, which consist of certificates of deposit and debt securities with readily determinable fair values, are carried at fair market value. Unrealized gains and losses are included in the change in net assets in the accompanying combined statements of activities.

Investments are exposed to various risks, such as interest rate, market, credit, and liquidity risk. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the accompanying financial statements.

Fair value measurement:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establish a fair value hierarchy, which gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to inputs from observable data other than quoted prices (Level 2) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability.

Note 1. Summary of Significant Accounting Policies, Continued

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, 2022 and 2021, 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.

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, 2022 or 2021.

Leases, right-of-use assets and related liabilities:

The Organization enters into various arrangements which constitute leases as defined by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases*, as part of its ongoing operations. Leases represent a contract or part of a contract that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. Such contracts result in both (a) right-of-use assets, which represent the Organization's right to use an underlying asset for the term of the contract; and (b) a corresponding liability which represents the Organization's obligation to make the lease payments arising from the contract, measured on a discounted basis. See Note 7.

Compensated absences:

Employees of the Organization are entitled to paid leave, depending on length of service. Liabilities of $615,990 and $538,229 for estimated unused leave at December 31, 2022 and 2021, respectively, are included in accrued payroll and related liabilities in the accompanying combined statements of financial position.

Note 1. Summary of Significant Accounting Policies, Continued

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 FASB 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.

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 FASB ASC 606 is disaggregated by timing of satisfaction of performance obligations for the years ended December 31:

	2022	2021
Performance obligations satisfied at a point in time	$ 53,325,285	$ 49,687,504
Performance obligations satisfied over time	18,102,040	17,543,276
	$ 71,427,325	$ 67,230,780

Note 1. Summary of Significant Accounting Policies, Continued

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:

	2022	2021	2020
Contract assets	$ 3,452,482	$ 2,757,014	$ 3,022,841
Contract liabilities	$ 616,171	$ 527,056	$ 246,171

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 $471,804 and $818,591 for the years ended December 31, 2022 and 2021, 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, 2022 or 2021. 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.

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 8 on interest rate swaps.

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, 2022 and 2021 totaled $89,063 and $74,936 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.

Note 1. Summary of Significant Accounting Policies, Continued

New accounting pronouncements:

Effective January 1, 2022, the Organization adopted FASB ASC 842, *Leases.* The Organization determines if an arrangement contains a lease at inception based on whether the Organization has the right to control the asset during the contract period and other facts and circumstances. The Organization elected the package of practical expedients under the transaction guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

The adoption of FASB ASC 842 resulted in the recognition of right-of-use-assets and operating lease liabilities of $17,511,907 as of January 1, 2022. Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with the historical accounting treatment under FASB ASC 840. The adoption of FASB ASC 842 did not have a material impact on the Organization’s results of operations, cash flows, or debt covenants. See Note 7.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, an update to increase the transparency of the measurement of contributed nonfinancial assets through enhancements to presentation and disclosure. The Organization adopted this new standard on January 1, 2022, and it was applied retroactively to the financial statements as of and for the year ended December 31, 2021. See Note 3 for the presentation and disclosures of contributions of nonfinancial assets.

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 June 21, 2023, which is the date these financial statements were available to be issued.

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, 2022 and 2021, are comprised of the following:

	2022	2021
Total assets at year end	$ 138,767,081	$ 111,600,826
Less: amounts not available to be used within one year due to illiquidity:		
Prepaid expenses	(220,494)	(123,004)
Deposits	(15,985)	(34,000)
Collateral deposits	(2,470,997)	(2,449,012)
Interest rate swaps	(2,581,647)	-
Right-of-use assets – operating leases	(15,595,997)	-
Property and equipment, net	(81,952,412)	(83,463,044)
Financial assets available to meet cash needs for general expenditures within one year	$ 35,929,549	$ 25,531,766

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. Contributed Nonfinancial Assets

Contributed nonfinancial assets recognized within the combined statements of activities include the following for the year ended December 31:

	2022	2021
Contributions of donated goods	$ 14,384,000	$ 13,026,000
Federal grants - in-kind contributions	102,822	99,095
Donated cars	131,788	153,252
	$ 14,618,610	$ 13,278,347

Contributed nonfinancial assets did not have donor-imposed restrictions.

Contributions of donated goods are comprised of various items donated to the stores to sell. Donated goods are valued and reported at the estimated fair value in the financial statements using a standard model developed by Goodwill Industries International, Inc. and the historical experience of the Organization. This model takes into account the cost of goods produced, as well as estimated inventory turns of the Organization.

Note 3. Contributed Nonfinancial Assets, Continued

Palmetto Goodwill as a subgrantee to the U.S. Department of Labor Senior Community Service Employment Program is required to provide 10% of the total contract as in-kind or cash contributions or a combination of the two. Most contributed services come in the form of time spent supervising participants. Contributed services are valued and reported in the financial statements based on the matched wages paid to participants in the federal program for their services. The revenue from federal grants is recognized on a reimbursement basis as allowable activities are expended and incurred.

The Organization also receives donated cars from time to time. The Organization engages with a third-party to work with the donor, receive the car, sell the car on behalf of the Organization, and send receipt of money to the Organization. It is the Organization's policy to sell all contributed cars immediately upon receipt at auction or for salvage unless the car is restricted for use in a specific program by the donor. No cars received during the period were restricted for use. All cars were sold and valued according to actual cash proceeds on their disposition.

Note 4. Investments

Investments consist of certificates of deposit and U.S. Treasury bills reported at fair value at December 31, 2022 are as follows:

	Cost	Unrealized Gain (Loss)	Fair Value
Certificates of deposit	$ 9,809,830	$ (82,723)	$ 9,727,107
U.S. Treasury bills	4,695,815	2,897	4,698,712
	$ 14,505,645	$ (79,826)	$ 14,425,819

Note 5. 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.

Note 5. Fair Value Measurements, Continued

Following is a description of the valuation methodologies used for assets measured at fair value:

Certificates of deposit and U.S. Treasury bills - Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Interest rate swaps - Valued using bank inputs derived from economic modeling and from secondary markets.

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

	2022		
	Level 1	**Level 2**	**Level 3**
Certificates of deposit	$ -	$ 9,727,107	$ -
U.S. Treasury bills	-	4,698,712	-
Interest rate swaps	-	2,581,647	-
	$ -	$ 17,007,466	$ -

	2021		
	Level 1	**Level 2**	**Level 3**
Interest rate swaps	$ -	$ (2,926,677)	$ -

Note 6. Property and Equipment, Net

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

	2022	**2021**
Buildings and improvements	$ 71,177,114	$ 71,166,696
Land	25,381,649	25,381,649
Furniture and equipment	10,402,302	10,241,030
Leasehold improvements	1,141,679	1,177,234
Vehicles	1,633,597	1,590,387
Construction in progress	1,357,942	24,870
	111,094,283	109,582,316
Less: accumulated depreciation	(29,141,871)	(26,119,272)
	$ 81,952,412	$ 83,463,044

Depreciation expense for the years ended December 31, 2022 and 2021 was $3,264,906 and $2,943,069 respectively.

Note 7. Leases

The Organization leases buildings used as store locations and training centers throughout lower South Carolina under long-term non-cancellable operating lease agreements. These leases expire at various terms over the next 14 years, and several have options for extension after the expiration of their initial term. Monthly payments range from $13,325 to $39,583 and some have escalating fee schedules which range from 2% to 10% increase each year. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Organization also leases vehicles and office equipment under long-term non-cancellable operating leases which expire over various terms over the next 5 years. Monthly payments range from $137 to $12,694.

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term and lease obligations represent the Organization's obligation to make lease payments arising from the lease. Lease obligations are recognized at the implementation date based on the present value of the lease payments over the lease term. Right-of-use assets are recognized at the implementation date as the initial measurement of the lease liability, plus payments made prior to the lease implementation and any initial direct costs. As most of the Organization's leases do not provide an implicit rate, the Organization uses its incremental borrowing rate based on the information available at the implementation date in determining the present value of the lease payments. Expenses are recognized on a straight-line basis over the lease term for operating leases. Short-term leases have a lease term of twelve months or less. The Organization recognizes short-term leases on a straight-line basis and does not record a related right-of-use asset or lease obligation for such contracts.

Lease expense relating to these leases for the year ended December 31, 2022 was $2,410,880 and is included in occupancy and overhead expenses in the combined statement of functional expenses.

The weighted average discount rate for operating leases as of December 31, 2022 was 3%. The weighted average remaining lease term for operating leases as of December 31, 2022 was 10 years.

Future payments under these leases for the year ended December 31, 2022 are as follows:

	Operating
2023	$ 2,336,662
2024	2,334,937
2025	1,921,379
2026	1,688,575
2027	1,557,458
Thereafter	8,207,016
Total future undiscounted lease payments	18,046,027
Less amounts representing imputed interest	(2,450,030)
Lease liability	15,595,997
Less current portion	(1,915,896)
Long-term portion	$ 13,680,101

Note 8. 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 9). 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 (4.39% and 0.10% as of December 31, 2022 and 2021, respectively) plus 1.896%. As of December 31, 2022 and 2021, the notional amount of the swap was $10,928,760 and $12,236,135, respectively. The estimated fair value of the swap asset (liability) as of December 31, 2022 and 2021 was $258,676 and $(815,102), respectively. During the years ended December 31, 2022 and 2021, a gain was recognized on the change in the interest rate swap asset of $1,073,778 and interest rate swap liability of $614,716, respectively.

In December 2015, the Organization entered into an interest rate swap agreement related to an $18,106,107 bond issuance (see Note 9). 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 (4.39% and 0.10% as of December 31, 2022 and 2021, respectively) plus 1.39%, maturing June 16, 2028. As of December 31, 2022 and 2021, the notional amount of the swap was $8,886,923 and $10,336,696, respectively. The estimated fair value of the swap asset (liability) as of December 31, 2022 and 2021 was $371,063 and ($266,319), respectively. During the years ended December 31, 2022 and 2021, a gain was recognized on the change in the interest rate swap asset of $637,382 and interest rate swap liability of $362,917 respectively.

In September 2018, the Organization entered into an interest rate swap agreement related to a $19,300,000 bond issuance (see Note 9). 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 (4.39% and 0.10% as of December 31, 2022 and 2021, respectively) plus 1.55%, maturing on September 16, 2031. As of December 31, 2022 and 2021, the notional amount of the swap was $16,546,481 and $17,231,386, respectively. The estimated fair value of the swap asset (liability) as of December 31, 2022 and 2021 was $449,631 and ($1,614,134), respectively. During the years ended December 31, 2022 and 2021, a gain was recognized on the change in the interest rate swap asset of $2,063,764 and interest rate swap liability of $962,210 , respectively.

Note 8. Interest Rate Swaps, Continued

In October 2021, the Organization entered into an interest rate swap agreement related to a $16,000,000 bond issuance (see Note 9). 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 Secured Overnight Financing Rate ("SOFR") (4.06% and 0.05% as of December 31, 2022 and 2021, respectively) plus 1.185%, maturing on October 16, 2036. As of December 31, 2022 and 2021, the notional amount of the swap was $15,834,602 and $16,000,000, respectively. The estimated fair value of the swap asset (liability) as of December 31, 2022 and 2021 was $1,502,278 and ($231,122), respectively. During the years ended December 21, 2022 and 2021, a gain was recognized on the interest rate swap asset of $1,733,400 and a loss was recognized on the interest rate swap liability of ($231,122), respectively.

Note 9. 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 (4.39% and 0.10% as of December 31, 2022 and 2021, 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, 2022 and 2021, the outstanding balance on this bond payable is $11,005,424 and $12,417,138, 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 (4.39% and 0.10% as of December 31, 2022 and 2021, respectively) plus 1.39%. Interest and principal are payable monthly and mature June 16, 2028. As of December 31, 2022 and 2021, the outstanding balance on this bond payable is $8,889,922 and $10,340,184, respectively.

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 (4.39% and 0.10% as of December 31, 2022 and 2021, 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, 2022 and 2021, the outstanding balance on this bond payable was $16,546,481 and $17,231,386, respectively.

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 $13,459,128 up front, and drew an additional $231,699 in October 2022. The Organization will draw the remaining $2,310,173 throughout 2023. 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 (4.06% and 0.05% as of December 31, 2022 and 2021, respectively) 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, 2022 and 2021, the outstanding balance on this bond payable was $13,524,429 and $13,459,128, respectively.

Note 9. Bonds and Notes Payable, Continued

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

2023	$ 4,641,346
2024	4,693,644
2025	4,865,973
2026	5,040,319
2027	5,220,980
Thereafter	25,503,994
	$ 49,966,256

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

	2022	2021
Bonds and notes payable	$ 49,966,256	$ 53,447,836
Less: current portion	(4,641,346)	(3,788,836)
	45,324,910	49,659,003
Less: unamortized debt issuance costs	(924,464)	(1,005,736)
	$ 44,400,446	$ 48,653,267

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, 2022 or 2021.

Note 10. 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 $113,978 and $62,101 to PGS on behalf of PG during the years ended December 31, 2022 and 2021, respectively. The total amount charged for the years ended December 31, 2022 and 2021 totaled $1,367,734 and $745,217, 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, 2022 and 2021.

On February 16, 2018, Palmetto Excel, Inc. was created as a separate 501(c)(3) organization. The purpose of this organization is for an adult high school, which is scheduled to open in August 2023. On April 27, 2022, the State Charter Board approved Palmetto Excel, Inc.'s charter application. As of and for the years ended December 31, 2022 and 2021, Palmetto Excel, Inc., had no activity.

Note 11. 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 12. Concentrations

Federal government contracts comprised 25% of the Organization's support and revenue (excluding noncash donated goods) for the years ended December 31, 2022 and 2021 and 87% and 63% of accounts receivable at December 31, 2022 and 2021, respectively. 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 13. 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. During the years ended December 31, 2022 and 2021, the Organization matched 100% of the participants' contributions up to 3% each payroll period. During the year ended December 31, 2022, the match became discretionary. Other discretionary contributions can also be made by the Organization. Contributions for 2022 and 2021 totaled $674,904 and $616,243, respectively. The Organization has a specific match for Service Contract Act employees that is $1.00 for every hour worked for 2022 and 2021. 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 2022 and 2021 were $170,966 and $170,497 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, 2022 and 2021.

Note 14. Subsequent Events

During 2023, the Organization has drawn the remaining $2,310,173 on the $16,000,000 note agreement. See Note 9.

During 2023, the Organization's bond agreements were amended to change the interest rate index from the one-month LIBOR to an index rate based on SOFR.

Supplementary Information

Palmetto Goodwill and Palmetto Goodwill Services, Inc.

Combining Statement of Financial Position

As of December 31, 2022

	Palmetto Goodwill	Palmetto Goodwill Services, Inc.	Eliminations	Combined
Assets				
Current assets				
Cash and cash equivalents	$ 11,330,929	$ 5,509,319	$ -	$ 16,840,248
Investments	9,687,069	4,738,750	-	14,425,819
Accounts receivable	451,830	3,000,652	-	3,452,482
Inventory	1,211,000	-	-	1,211,000
Prepaid expenses	192,503	27,991	-	220,494
Intercompany receivable	3,666,935	-	(3,666,935)	-
Total current assets	26,540,266	13,276,712	(3,666,935)	36,150,043
Other assets				
Deposits	15,985	-	-	15,985
Collateral deposits	-	2,470,997	-	2,470,997
Interest rate swaps	2,581,647	-	-	2,581,647
Total other assets	2,597,632	2,470,997	-	5,068,629
Right-of-use assets - operating leases	15,559,877	36,120	-	15,595,997
Property and equipment, net	81,746,587	205,825	-	81,952,412
Total assets	$ 126,444,362	$ 15,989,654	$ (3,666,935)	$ 138,767,081
Liabilities and Net Assets				
Current liabilities				
Current portion of bonds and notes payable, net	$ 4,641,346	$ -	$ -	$ 4,641,346
Current portion of lease liabilities - operating leases	1,897,853	18,043	-	1,915,896
Accounts payable	1,798,676	128,173	-	1,926,849
Deferred revenue	596,123	20,048	-	616,171
Accrued expenses	64,653	354,409	-	419,062
Accrued payroll and related liabilities	1,221,542	876,133	-	2,097,675
Intercompany payable	-	3,666,935	(3,666,935)	-
Total current liabilities	10,220,193	5,063,741	(3,666,935)	11,616,999
Long-term liabilities				
Bonds and notes payable, net	44,400,446	-	-	44,400,446
Lease liabilities - operating leases, net of current portion	13,662,024	18,077	-	13,680,101
Total long-term liabilities	58,062,470	18,077	-	58,080,547
Total liabilities	68,282,663	5,081,818	(3,666,935)	69,697,546
Net assets, without donor restrictions	58,161,699	10,907,836	-	69,069,535
Total liabilities and net assets	$ 126,444,362	$ 15,989,654	$ (3,666,935)	$ 138,767,081

Palmetto Goodwill and Palmetto Goodwill Services, Inc.

Combining Statement of Activities

For the year ended December 31, 2022

	Palmetto Goodwill	Palmetto Goodwill Services, Inc.	Eliminations	Combined
Operating revenues and support				
Store sales, net	$ 43,776,139	$ -	$ -	$ 43,776,139
Federal service contracts	-	17,939,434	-	17,939,434
Contributions of donated goods (noncash)	14,384,000	-	-	14,384,000
Salvage	3,657,991	-	-	3,657,991
Federal grants	2,118,388	-	-	2,118,388
Other grants, non-federal	456,933	-	-	456,933
E-commerce revenue	3,016,966	-	-	3,016,966
Private contracts	162,606	179,498	-	342,104
Other operating revenue	110,440	8,930	-	119,370
Federal grants - in-kind contributions	102,822	-	-	102,822
Public support - charitable contributions	410,350	15	-	410,365
Donated cars	131,788	-	-	131,788
Total operating revenues and support	68,328,423	18,127,877	-	86,456,300
Operating expenses				
Program services	52,344,012	16,143,051	(1,367,734)	67,119,329
Support services	6,531,491	1,290,655	-	7,822,146
Fundraising	64,285	-	-	64,285
Total operating expenses	58,939,788	17,433,706	(1,367,734)	75,005,760
Increase in net assets without donor restrictions from operating activities	9,388,635	694,171	1,367,734	11,450,540
Non-operating activities				
Loss on disposal of property and equipment	(23,554)	-	-	(23,554)
Interest income	25,393	29,406	-	54,799
Net gain on interest rate swaps	5,508,324	-	-	5,508,324
Net unrealized losses on investments	(67,012)	(12,814)	-	(79,826)
Reimbursable income from related organization	1,367,734	-	(1,367,734)	-
Total non-operating activities	6,810,885	16,592	(1,367,734)	5,459,743
Increase in net assets without donor restrictions	16,199,520	710,763	-	16,910,283
Net assets without donor restrictions, beginning of year	41,962,179	10,197,073	-	52,159,252
Net assets without donor restrictions, end of year	$ 58,161,699	$ 10,907,836	$ -	$ 69,069,535

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
Assets				
Current assets				
Cash and cash equivalents	$ 12,504,044	$ 9,197,708	$ -	$ 21,701,752
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	16,828,038	10,941,867	(2,115,135)	25,654,770
Other assets				
Deposits	34,000	-	-	34,000
Collateral deposits	-	2,449,012	-	2,449,012
Total other assets	34,000	2,449,012	-	2,483,012
Property and equipment, net	83,252,105	210,939	-	83,463,044
Total assets	$ 100,114,143	$ 13,601,818	$ (2,115,135)	$ 111,600,826
Liabilities and Net Assets				
Current liabilities				
Current portion of bonds and notes 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	6,572,020	3,404,745	(2,115,135)	7,861,630
Long-term liabilities				
Bonds and notes payable, net	48,653,267	-	-	48,653,267
Interest rate swaps	2,926,677	-	-	2,926,677
Total long-term liabilities	51,579,944	-	-	51,579,944
Total liabilities	58,151,964	3,404,745	(2,115,135)	59,441,574
Net assets, without donor restrictions	41,962,179	10,197,073	-	52,159,252
Total liabilities and net assets	$ 100,114,143	$ 13,601,818	$ (2,115,135)	$ 111,600,826

Palmetto Goodwill and Palmetto Goodwill Services, Inc.

Combining Statement of Activities

For the year ended December 31, 2021

	Palmetto Goodwill	Palmetto Goodwill Services, Inc.	Eliminations	Combined
Operating revenues and support				
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	63,466,280	17,419,094	-	80,885,374
Operating expenses				
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	55,244,929	16,187,345	(745,217)	70,687,057
Increase in net assets without donor restrictions from operating activities	8,221,351	1,231,749	745,217	10,198,317
Non-operating activities				
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	2,512,059	10,348	(745,217)	1,777,190
Increase in net assets without donor restrictions	10,733,410	1,242,097	-	11,975,507
Net assets without donor restrictions, beginning of year	31,228,769	8,954,976	-	40,183,745
Net assets without donor restrictions, end of year	$ 41,962,179	$ 10,197,073	$ -	$ 52,159,252

Single Audit Section

Palmetto Goodwill and Palmetto Goodwill Services, Inc.

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2022

Fed. Grantor/Pass-Through Grantor/Program of Cluster Title	Federal Assistance Listing Number	Pass-Through Grantor's Award Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Labor				
Passed through Goodwill Industries International, Inc.				
Senior Community Service Employment Program: cash assistance	17.235	AD-35214-20-60-A-24	$ -	$ 1,987,989
Total U.S. Department of Labor			-	1,987,989
U.S. Department of Agriculture				
Passed through South Carolina Department of Social Services				
SNAP Employment and Training Program	10.537	4400025184	-	275,171
Total U.S. Department of Agriculture			-	275,171
Total expenditures of federal awards			$ -	$ 2,263,160

See Notes to the Schedule of Expenditures of Federal Awards

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, 2022. 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 not 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, 2022 and 2021, 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, and have issued our report thereon dated June 21, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the combined 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 combined 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.

Elliott Davis, LLC

Charleston, South Carolina
June 21, 2023

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

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 identified as subject to audit 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, 2022. 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, 2022.

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.

Report on Internal Control over Compliance, Continued

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 repot is not suitable for any other purpose.

Elliott Davis, LLC

Charleston, South Carolina
June 21, 2023

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):	

CFDA Number(s)	Name of Federal Program or Cluster
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