



Grant Thornton

Consolidated Financial Statements and Report of
Independent Certified Accountants

**Goodwill Industries of Southern California
and Affiliates**

December 31, 2014 and 2013

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Goodwill Industries of Southern California and Affiliates

We have audited the accompanying consolidated financial statements of Goodwill Industries of Southern California (a nonprofit corporation) and its affiliates, Goodwill Retail Services and Goodwill Housing of the Inland Counties (collectively, the “Organization”), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Southern California (a nonprofit corporation) and its affiliates, Goodwill Retail Services and Goodwill Industries of the Inland Counties as of December 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The classified statements of financial position as of December 31, 2014 and 2013, and the consolidating statement of financial position as of December 31, 2014, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Los Angeles, California
May 19, 2015

Goodwill Industries of Southern California and Affiliates
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31,

ASSETS	2014	2013
Cash and cash equivalents	\$ 6,922,338	\$ 13,797,424
Cash and cash equivalents intended for improvements	586,936	3,591,393
Investments (Note 4)	17,572,723	17,357,614
Accounts receivable, net	3,500,359	6,154,994
Inventory	11,156,267	8,418,246
Prepaid expenses and deposits	4,394,814	4,099,095
Other receivables (Note 5)	1,819,805	1,904,721
Property, plant and equipment, net (Note 6)	34,993,397	32,554,278
Total assets	\$ 80,946,639	\$ 87,877,765
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 11,578,893	\$ 9,128,939
Accrued compensation and related expenses	6,790,393	7,286,215
Accrued insurance claims (Note 11)	13,713,514	10,471,918
Deferred gain on sale leaseback (Note 6)	4,868,468	5,212,470
Deferred rent - construction allowance (Note 6)	3,314,154	3,280,635
Note payable (Note 7)	2,000,000	140,000
Total liabilities	42,265,422	35,520,177
NET ASSETS (Note 8)		
Unrestricted	33,151,521	46,355,474
Temporarily restricted	3,148,799	3,625,475
Permanently restricted	2,380,897	2,376,639
Total net assets	38,681,217	52,357,588
Total liabilities and net assets	\$ 80,946,639	\$ 87,877,765

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

Goodwill Industries of Southern California and Affiliates

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Operating revenues:				
Sales from stores	\$ 104,920,419	\$ -	\$ -	\$ 104,920,419
Salvage sales	3,638,509	-	-	3,638,509
Contract services	8,846,791	-	-	8,846,791
Workforce development revenues *	11,982,047	-	-	11,982,047
Food services	403,627	-	-	403,627
Other	293,882	-	-	293,882
	<u>130,085,275</u>	<u>-</u>	<u>-</u>	<u>130,085,275</u>
Other revenues and support:				
Contributions	2,091,791	1,498,165	10,000	3,599,956
Contributions to capital campaign	-	729,032	-	729,032
Interest, dividends and rents	379,726	-	-	379,726
Contributed goods	71,093,459	-	-	71,093,459
Loss on sale of property	(166,986)	-	-	(166,986)
Net assets released from restrictions	2,822,470	(2,822,470)	-	-
	<u>206,305,735</u>	<u>(595,273)</u>	<u>10,000</u>	<u>205,720,462</u>
Expenses:				
Program services	202,553,779	-	-	202,553,779
Fundraising	1,692,416	-	-	1,692,416
General and administrative	16,036,116	-	-	16,036,116
	<u>220,282,311</u>	<u>-</u>	<u>-</u>	<u>220,282,311</u>
Changes in net assets from operations	(13,976,576)	(595,273)	10,000	(14,561,849)
Other changes in net assets:				
Realized and unrealized gains (losses)	772,623	118,597	(5,742)	885,478
Changes in net assets	(13,203,953)	(476,676)	4,258	(13,676,371)
Net assets, beginning of the year	46,355,474	3,625,475	2,376,639	52,357,588
Net assets, end of year	<u>\$ 33,151,521</u>	<u>\$ 3,148,799</u>	<u>\$ 2,380,897</u>	<u>\$ 38,681,217</u>

* Includes government grants of \$5,129,341

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

Goodwill Industries of Southern California and Affiliates

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Operating revenues:				
Sales from stores	\$ 102,225,580	\$ -	\$ -	\$ 102,225,580
Salvage sales	2,632,669	-	-	2,632,669
Contract services	9,154,175	-	-	9,154,175
Workforce development revenues *	9,901,080	-	-	9,901,080
Food services	288,224	-	-	288,224
Other	219,965	-	-	219,965
	<u>124,421,693</u>	<u>-</u>	<u>-</u>	<u>124,421,693</u>
Other revenues and support:				
Contributions	829,546	1,649,570	-	2,479,116
Contributions to capital campaign	-	1,166,921	-	1,166,921
Interest, dividends and rents	350,737	-	-	350,737
Contributed goods	69,698,234	-	-	69,698,234
Gain on sale of property	447,567	-	-	447,567
Net assets released from restrictions	2,413,466	(2,411,466)	(2,000)	-
	<u>198,161,243</u>	<u>405,025</u>	<u>(2,000)</u>	<u>198,564,268</u>
Expenses:				
Program services	184,888,413	-	-	184,888,413
Fundraising	1,726,966	-	-	1,726,966
General and administrative	10,159,364	-	-	10,159,364
	<u>196,774,743</u>	<u>-</u>	<u>-</u>	<u>196,774,743</u>
Changes in net assets from operations	1,386,500	405,025	(2,000)	1,789,525
Other changes in net assets:				
Realized and unrealized gains (losses)	1,907,965	(49,852)	19,738	1,877,851
Changes in net assets	3,294,465	355,173	17,738	3,667,376
Net assets, beginning of the year	43,061,009	3,270,302	2,358,901	48,690,212
Net assets, end of year	<u>\$ 46,355,474</u>	<u>\$ 3,625,475</u>	<u>\$ 2,376,639</u>	<u>\$ 52,357,588</u>

* Includes government grants of \$4,509,300

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

Goodwill Industries of Southern California and Affiliates
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2014

	Program Services					Support Services			Total Expenses
	Material Handling	Stores	Contract Services	Workforce Development	Food Service	Total	Fundraising	General and Administrative	
Salaries and wages	\$ 15,069,886	\$ 21,215,503	\$ 3,901,396	\$ 12,064,314	\$ 577,994	\$ 52,829,093	\$ 676,944	\$ 5,847,453	\$ 59,353,490
Payroll taxes	1,128,075	1,531,262	292,049	893,838	42,280	3,887,504	47,499	360,866	4,295,869
Employee benefits	3,557,512	5,767,669	881,776	2,543,765	126,136	12,876,858	169,851	1,274,960	14,321,669
Total salaries and related expenses	19,755,473	28,514,434	5,075,221	15,501,917	746,410	69,593,455	894,294	7,483,279	77,971,028
						-			
Contributed goods - cost of goods sold	-	69,960,893	-	-	-	69,960,893	-	-	69,960,893
Rents	8,300,509	15,037,036	7,655	415,747	-	23,760,947	-	-	23,760,947
Professional fees and contract services	1,430,412	3,690,186	266,551	1,778,486	51,234	7,216,869	270,762	6,429,168	13,916,799
Occupancy	795,134	5,057,019	1,407,910	2,017,235	140,768	9,418,066	85,702	870,690	10,374,458
Depreciation	571,907	3,080,136	353,814	436,574	25,686	4,468,117	29,733	339,597	4,837,447
Transportation	2,520,936	142,454	1,178,675	194,895	1,526	4,038,486	3,382	27,653	4,069,521
Supplies	375,374	1,838,483	390,341	273,700	502,749	3,380,647	7,593	261,386	3,649,626
Utilities	904,982	1,857,099	-	108,070	-	2,870,151	-	-	2,870,151
Printing and publications	47,458	1,735,060	77,942	82,253	8,105	1,950,818	22,173	130,630	2,103,621
Postage and shipping	2,121	1,258,090	47,335	5,783	-	1,313,329	358,199	20,979	1,692,507
Trash disposal	-	1,686,402	248	-	-	1,686,650	-	-	1,686,650
Insurance	426,001	470,972	124,129	118,823	6,155	1,146,080	6,828	158,866	1,311,774
Telephone	180,547	517,506	20,509	140,324	544	859,430	3,983	18,889	882,302
Repairs and maintenance	303,111	530,514	15,760	4,405	4,967	858,757	-	2,224	860,981
Conferences and meetings	1,263	20,521	1,202	43,740	(62,570)	4,156	8,261	59,713	72,130
Other (taxes, licenses and dues)	1,552	15,448	3,774	6,154	-	26,928	1,506	226,819	255,253
Interest	-	-	-	-	-	-	-	6,223	6,223
	<u>\$ 35,616,780</u>	<u>\$ 135,412,253</u>	<u>\$ 8,971,066</u>	<u>\$ 21,128,106</u>	<u>\$ 1,425,574</u>	<u>\$ 202,553,779</u>	<u>\$ 1,692,416</u>	<u>\$ 16,036,116</u>	<u>\$ 220,282,311</u>

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

Goodwill Industries of Southern California and Affiliates
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2013

	Program Services					Support Services			Total Expenses
	Material Handling	Stores	Contract Services	Workforce Development	Food Service	Total	Fundraising	General and Administrative	
Salaries and wages	\$ 17,123,064	\$ 15,429,987	\$ 3,571,474	\$ 10,183,657	\$ 226,565	\$ 46,534,747	\$ 769,516	\$ 5,037,636	\$ 52,341,899
Payroll taxes	1,267,033	1,138,605	264,271	750,916	16,746	3,437,571	52,508	311,225	3,801,304
Employee benefits	2,374,437	3,559,535	528,425	1,947,430	54,042	8,463,869	189,021	1,048,018	9,700,908
Total salaries and related expenses	20,764,534	20,128,127	4,364,170	12,882,003	297,353	58,436,187	1,011,045	6,396,879	65,844,111
Contributed goods - cost of goods sold	-	69,450,653	-	-	-	69,450,653	-	-	69,450,653
Rents	6,251,797	15,806,020	1,820	298,604	-	22,358,241	-	-	22,358,241
Occupancy	611,174	4,690,403	522,541	1,932,335	138,462	7,894,915	132,965	834,632	8,862,512
Professional fees and contract services	1,045,472	3,435,581	317,236	1,597,829	19,768	6,415,886	98,506	1,653,789	8,168,181
Depreciation	341,471	2,808,711	369,961	402,362	44,343	3,966,848	23,359	385,481	4,375,688
Transportation	2,223,426	157,907	1,159,944	197,047	90	3,738,414	2,883	34,528	3,775,825
Supplies	149,635	1,969,435	327,318	240,837	285,676	2,972,901	9,549	89,162	3,071,612
Printing and publications	65,225	1,904,143	84,541	190,726	-	2,244,635	28,877	323,483	2,596,995
Utilities	601,041	1,724,894	-	78,914	-	2,404,849	-	-	2,404,849
Postage and shipping	2,173	1,123,218	37,552	7,807	73	1,170,823	391,099	20,789	1,582,711
Insurance	411,606	499,753	61,624	107,518	3,657	1,084,158	9,117	124,174	1,217,449
Trash disposal	2,093	1,125,745	-	-	-	1,127,838	-	-	1,127,838
Telephone	166,077	489,722	25,280	146,451	189	827,719	3,058	23,595	854,372
Repairs and maintenance	177,591	316,434	26,859	1,503	321	522,708	-	-	522,708
Conferences and meetings	5,073	73,979	6,187	121,472	-	206,711	15,721	75,889	298,321
Other (taxes, licenses and dues)	14,739	19,177	2,927	28,084	-	64,927	787	196,963	262,677
	\$ 32,833,127	\$ 125,723,902	\$ 7,307,960	\$ 18,233,492	\$ 789,932	\$ 184,888,413	\$ 1,726,966	\$ 10,159,364	\$ 196,774,743

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

Goodwill Industries of Southern California and Affiliates
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	2014	2013
Cash flows from operating activities:		
Changes in net assets	\$ (13,676,371)	\$ 3,667,376
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,837,447	4,375,688
Amortization of deferred gain from sale leaseback transaction	(344,002)	(344,003)
Loss (gain) on sale of property, plant and equipment	166,986	(447,567)
Net realized and unrealized gains on investments	(885,478)	(1,877,851)
Contributions for permanent endowment	(10,000)	-
Contributions for capital expenditures	(357,164)	(1,166,921)
Payment of pledges receivable	197,771	83,733
Forgiveness of long-term debt	(140,000)	(20,000)
Changes in assets and liabilities:		
Accounts receivable, net	2,654,635	(2,093,088)
Inventory	(2,738,021)	(1,214,635)
Prepaid expenses and deposits	(295,719)	(588,212)
Accounts payable and accrued liabilities	2,449,954	1,191,826
Accrued compensation and related expense	(495,822)	(136,063)
Accrued insurance claims	3,241,596	1,491,754
Deferred rent from construction allowance	33,519	2,920,720
Net cash (used in) provided by operating activities	(5,360,669)	5,842,757
Cash flows from investing activities:		
Cash intended for property improvements	3,004,457	5,404,775
Cash restricted for long-term purposes	-	1,383,372
Proceeds from sale of property, plant and equipment	910,702	555,827
Purchases of property, plant and equipment	(8,354,254)	(11,153,336)
Proceeds from sale of investments	5,574,225	16,775,566
Purchases of investments	(5,016,711)	(16,137,838)
Net cash used by investing activities	(3,881,581)	(3,171,634)
Cash flows from financing activities:		
Contributions for permanent endowment	10,000	-
Contributions restricted for capital expenditures	357,164	143,076
Borrowing on line of credit	2,000,000	-
Net cash provided by investing activities	2,367,164	143,076
Net (decrease) increase in cash and cash equivalents	(6,875,086)	2,814,199
Cash and cash equivalents at beginning of year	13,797,424	10,983,225
Cash and cash equivalents at end of year	\$ 6,922,338	\$ 13,797,424
Supplemental cash flow information:		
Cash paid for interest	\$ 6,223	\$ -

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

Goodwill Industries of Southern California and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

NOTE 1 – ORGANIZATION

General

Goodwill Industries of Southern California (“Goodwill” or the “Organization”) was incorporated in 1919. Goodwill is a tax-exempt 501(c)(3) public charity, incorporated under the laws of the State of California as a non-profit public benefit corporation. The mission of Goodwill is to transform lives through the power of work. Goodwill serves people with disabilities or other vocational challenges, as well as businesses, by providing education, training, work experience and job placement services. Goodwill operates a network of retail stores and attended donation centers and provides contractual services such as assembly and fulfillment, secure document management, e-recycling, custodial and building services, and workforce development programs in Los Angeles, San Bernardino, and Riverside counties.

Formation of Goodwill Retail Services

In March 2011, Goodwill’s Board of Directors authorized the creation of Goodwill Retail Services (“GRS”) as a supporting organization under Section 509(a)(3) of the Internal Revenue Code. GRS’s purpose is to support, benefit and carry out the purposes of Goodwill. Its specific purpose is to provide staffing services in the retail stores operated by Goodwill. GRS was incorporated on April 4, 2011 and received its tax exempt status determination letter as a 501(c)(3) supporting organization from the Internal Revenue Service on April 20, 2012. As the supported organization, Goodwill controls GRS, and the financial statements of the two entities are consolidated.

Goodwill Housing of the Inland Counties

In 2003, the Organization merged with Goodwill Industries of the Inland Counties. As part of the merger, the Organization became the sponsor of Goodwill Housing of the Inland Counties (“GHIC”). GHIC was a separate unconsolidated non-profit organization that owned an apartment building operated pursuant to Section 202 of the Housing Act of 1959, as amended. In March 2014, the Housing of Urban Development (“HUD”) approved the sale of substantially all the assets owned by GHIC to an unrelated third party, and GHIC ceased to be subject to the control of HUD. Members of the Board of Directors of GHIC are also members of the Board of Directors of the Organization, and therefore the remaining assets of GHIC are included in the consolidated financial statements of the Organization.

Program Services

Material Handling – These services include the collection, transportation, sorting, and processing of contributed goods, most of which are made available for sale through Goodwill’s network of stores, clearance centers and e-commerce operations. Material handling creates employment for persons with disabilities and other barriers to employment.

Stores – Goodwill operates over 78 stores where contributed goods are available to the public. Persons with disabilities or other vocational challenges work alongside traditional employees to provide the consumer with a positive shopping experience. The proceeds from store sales are used to support unfunded or partially funded program services in addition to capital and administrative expenses for the Organization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 1 – ORGANIZATION - Continued

Program Services (continued)

Contract Services – Persons with disabilities and other vocational challenges work in closely supervised teams to provide electronics recycling, shredding, document imaging, custodial services, assembly and fulfillment services to the local business community.

Workforce Development – There are over 70 program activities to provide education, training, placement and other vocational support for target populations including people with disabilities, at-risk youth, the working poor, ex-offenders, and veterans. These programs are funded through reimbursement, fee for service arrangements and private support. Workforce development also includes the operation of several career centers that provide job listings, resume assistance, telephone and computer services for all job seekers.

Food Service – Two service centers provide meals and catering for clients, employees, customers and community partners who use the Organization’s facilities. Food service programs offer the opportunity for vocational training in addition to convenience.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Reporting

The accompanying consolidated 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”). All significant intercompany transactions have been eliminated.

The Organization reports its consolidated financial position and activities into three net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein, are classified and reported as follows (see Note 8):

- *Unrestricted Net Assets* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated by the Board either for specific purposes or for investment.
- *Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulations that may, or will be, met by either actions of the Organization, and/or, the passage of time.
- *Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they must be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for general or specific purposes.

Revenues Recognition

Goodwill recognizes revenues from sales from stores and salvage sales at the time goods are sold. Contract sales are recognized when services have been provided. Workforce development fees are earned based on agreed rates for services provided or, in the case of government grants, reimbursed based on allowable costs expended for program services.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenues Recognition (continued)

Contributions, including unconditional promises to give, are recognized when made. Donated goods revenue and donated goods inventory are recorded at fair value based on the estimated value of the inventory at selling price. The fair value is derived from sales value less the cost to bring the product to market.

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments with an original maturity of three months or less at the time of purchase. Cash and cash equivalents representing assets held as endowment and as charitable gift annuities are included within investments. Cash equivalents are reported at cost, which approximates fair value.

Concentrations of Credit Risk

The Organization has cash balances that exceed the Federal Deposit Insurance Corporation (“FDIC”). The Organization has not experienced and does not anticipate any losses related to cash held in these accounts.

Accounts Receivable

Accounts receivable are comprised of grants and contracts receivable from the federal, state and local government and customer obligations due under normal trade terms requiring payment within 30 – 90 days from the invoice date. Management analyzes the collectability of these receivables and establishes an allowance for doubtful accounts that reflects its best estimate of the amounts that will not be collected. The allowance for doubtful accounts is determined by a monthly and annual review of account balances, including the age of the balance and historical collection experience. Uncollectible receivables are charged to the allowance. An expense is recorded at the time the allowance is adjusted. Management has determined substantially all government receivables are fully collectible, but has provided an allowance for approximately \$55,000 and \$87,000 for customer obligations at December 31, 2014 and 2013, respectively.

Contributions Receivable

The Organization records contributions receivable, net of allowances for estimated uncollectible amounts, when there is sufficient evidence in the form of verifiable documentation that an unconditional promise to give was received. No allowance is recorded for estimated uncollectible contributions receivable at December 31, 2014 or 2013. Multi-year contributions are recorded at fair value at the date of the contribution. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. Contributions receivable is reported within other receivables on the consolidated statements of financial position (see Note 5).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments

The Organization's investment policy is to adhere to high standards of quality in the selection of all types of investments, with reasonable diversification to be maintained at all times. Marketable securities are held by one independent custodian. The Organization has not experienced and does not anticipate any adverse impact to the investments as a result of this concentration. The fair value of investments in securities traded on national securities exchanges are valued at the closing price on the last business day of the fiscal year; securities traded on the over-the-counter market are valued at the last reported bid price.

Securities transactions are recorded on a trade-date basis. Dividend income is recorded as of the ex-dividend date, and interest income is recorded as earned using the accrual basis. Net realized and unrealized gains and losses on investments include realized and unrealized gains and losses on investments held or sold during the year. Investment income is recognized as a component of unrestricted net assets, unless its use is temporarily or permanently restricted by donors for a specified purpose or future period.

Property, Plant and Equipment

Property, plant and equipment used in the operations of the Organization are stated at cost or, if donated, at the fair value at the date of contribution. Depreciation and amortization on both purchased and donated items are recorded using the straight-line method over the shorter of the estimated useful life of the related asset or the term of the lease for leasehold improvements as follows:

Buildings and improvements	5 – 30 years
Fixtures and equipment	5 – 30 years
Transportation equipment	3 – 7 years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that increase the fixed asset values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

Expenditures for fixed assets that are purchased with government funds are expensed when acquired because the grantor retains title to such assets.

Gains and losses are recognized in the consolidated statements of activities upon disposal of property and equipment. During the year ended December 31, 2012, the Organization entered into sale leaseback transactions on three properties, for which specific analysis has been performed and gains deferred (see Note 6).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting for the Impairment of Long-Lived Assets and for the Disposal of Long-Lived Assets

The Organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the years ended December 31, 2014 and 2013, there were no events or changes in circumstances indicating that the carrying amount of the property, plant and equipment may not be recoverable.

Split-Interest Agreements

The Organization is a beneficiary of irrevocable split-interest agreements, including charitable remainder trusts, perpetual trusts and gift annuities.

The charitable remainder trust agreements generally require the Organization to make annual payments to the trust beneficiaries based on stipulated payment rates, applied to the fair value of the trust assets as determined annually. The Organization uses an interest rate commensurate with the risks involved to discount the future payments and calculate the present value of the liability. A receivable is recorded in other receivables (Note 5) at the estimated fair value of the asset, net with the present value of the liability. A receivable is recorded in other receivables for the perpetual trusts at the estimated fair value of the amount held by the trustee that is due to the Organization.

The charitable gift annuities account invests funds contributed by individuals in exchange for a lifetime annuity paid by the Organization. Investments in this account are reported at fair value in investments (Note 4), and the liability associated with these annuities is reported within accounts payable and accrued liabilities on the consolidated statements of financial position.

The amortization of this discount and changes in assumptions are reflected in the consolidated statements of activities as realized and unrealized gains (Note 3).

Donor-Restricted Contributions

Unconditional promises to give (contributions receivable) are recognized as contributions when received at their estimated fair value. Contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future period or by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

When a donor-imposed time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions. Capital campaign contributions are considered temporarily restricted until the asset is placed into service.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government and Other Grants

The Organization receives numerous grants from governmental agencies and certain foundations that are not considered contributions under GAAP. The Organization recognizes income from these grants as revenue and support only to the extent that expenditures have been made for the purposes specified by the grant agreement.

Advertising Expenses

Advertising costs are expensed as incurred. During 2014 and 2013, advertising costs were approximately \$1,929,000 and \$2,509,000, respectively, and are reported within professional fees and contract services expense on the consolidated statements of functional expenses.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that are identified with a specific program or support service are charged directly according to their natural expenditure classification. Expenses that are common to specific programs or support services are allocated to those services based on estimated level of effort or level of use. Certain shared costs are allocated: Services related to information technology are allocated based on the number of computers for each program or support service. Occupancy and related costs for the Los Angeles, Valley, San Bernardino and Ontario campus are allocated based on the number of square feet used by program and support service departments.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues, expenses and changes in net assets during the reporting period. While management believes that these estimates are adequate as of December 31, 2014 and 2013, it is possible that actual results could differ from those estimates, and the difference could be material to the consolidated financial statements.

Reclassifications

Certain items in the consolidated financial statements as of and for the year ended December 31, 2013 have been reclassified to conform to the presentation in the current period. In the prior year, revenues and expenses from food service programs were included with workforce development.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Tax Status

The Organization was organized pursuant to the General Nonprofit Corporation Law of the State of California. The Organization has been recognized by the Internal Revenue Service as an organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization has also been recognized by the California Franchise Tax Board as an organization that is exempt from California franchise and income taxes under Section 23701d of the California Revenue and Taxation Code and has qualified for the welfare exemption from certain general county real and personal property taxes. However, the Organization is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

Tax positions taken related to the Organization's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the Organization would more likely than not be sustained by examination. Accordingly, the Organization has not recorded an income tax liability for uncertain tax benefits as of December 31, 2014 and 2013 nor does it expect there will be a material change in the twelve months following the year ended December 31, 2014. As of December 31, 2014, the Organization's tax years ended December 31, 2011 through December 31, 2014 remain subject to examination in the United States federal tax jurisdiction and the tax years ended December 31, 2010 through December 31, 2014 remain subject to examination in the California state tax jurisdiction.

Contributed Services

A substantial number of volunteers have donated significant amounts of time and services to the Organization's program operations and to its fundraising campaigns. Contributed services are recognized by the Organization if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The services donated are not reflected in the accompanying consolidated financial statements as an expense or as income from donations; such services do not meet the above criteria for recording under GAAP.

NOTE 3 – FAIR VALUE

For those assets and liabilities reported at fair value, the Organization has determined their placement in the fair value hierarchy based on the nature of inputs to determine the fair value and management's assessment of risk characteristics associated with these inputs. The Organization categorizes the financial assets and liabilities, based on the priority of inputs to the valuation technique, into three-tiered hierarchy as described below.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Level 1 investments include listed equities, listed fixed income securities, and certain mutual funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 3 – FAIR VALUE - Continued

Level 2 – Observable inputs, other than Level 1 quoted prices, such as quoted prices for similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable for the asset or liability either directly or indirectly. Investments in this category include corporate and government bonds, and certain money market funds. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 – Unobservable inputs that are supportable by little or no market activity, which requires the Organization to develop its own assumptions. Investments that are included in this category include hedge funds and certain mutual funds. Contributions receivable from split-interest agreements are also included in this category.

The following methods and assumptions are used to estimate fair value:

Cash (Money Markets) Money market mutual funds are reported at cost, which approximates fair value.

Mutual funds Mutual funds held by the Organization are publicly traded and are valued at the closing price on the last business day of the fiscal year.

Other receivables Other receivables (Note 5) include charitable remainder trusts and perpetual trusts administered by other trustees, which are valued based on estimates associated with life expectancy, investment return, future inflation, and cash flows associated with real estate and untraded securities.

The following tables summarize the valuation of the Organization's investments and contributions receivable under split-interest agreements by fair value hierarchy levels as of December 31, 2014 and 2013:

	<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments					
Money market funds	\$	-	\$ 2,012,360	\$ -	\$ 2,012,360
Mutual funds - equity					
Emerging Markets - Index		558,613	-	-	558,613
Small Cap - Index		530,719	-	-	530,719
Stock - Index		4,918,598	-	-	4,918,598
Global Stock - Index		1,537,547	-	-	1,537,547
Growth		1,625,309	-	-	1,625,309
Mutual funds - fixed income					
Global Bonds Index		1,253,735	-	-	1,253,735
Intermediate Bonds		3,673,653	-	-	3,673,653
Intermediate Bonds - Index		556,499	-	-	556,499
Bond Index		905,690	-	-	905,690
Total investments		<u>15,560,363</u>	<u>2,012,360</u>	<u>-</u>	<u>17,572,723</u>
Beneficial interests in trusts					
Perpetual trusts		-	-	314,787	314,787
Charitable remainder trusts		-	-	469,601	469,601
Total beneficial interests in trusts		<u>-</u>	<u>-</u>	<u>784,388</u>	<u>784,388</u>
Assets reported at fair value	\$	<u>15,560,363</u>	\$ <u>2,012,360</u>	\$ <u>784,388</u>	\$ <u>18,357,111</u>

Goodwill Industries of Southern California and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 3 – FAIR VALUE - Continued

2013	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	\$ -	\$ 997,018	\$ -	\$ 997,018
Mutual funds - equity				
Emerging Markets	555,259	-	-	555,259
Small Cap Index	493,687	-	-	493,687
Stock Index	6,175,640	-	-	6,175,640
Global Stock	1,625,644	-	-	1,625,644
Growth	1,561,610	-	-	1,561,610
Mutual funds - fixed income				
Global Bonds	1,142,584	-	-	1,142,584
Intermediate Bonds	3,950,894	-	-	3,950,894
Bond Index	855,278	-	-	855,278
Total investments	<u>16,360,596</u>	<u>997,018</u>	<u>-</u>	<u>17,357,614</u>
Beneficial interests in trusts				
Perpetual trusts	-	-	320,529	320,529
Charitable remainder trusts	<u>-</u>	<u>-</u>	<u>351,004</u>	<u>351,004</u>
Total beneficial interests in trusts	<u>-</u>	<u>-</u>	<u>671,533</u>	<u>671,533</u>
Assets reported at fair value	<u>\$ 16,360,596</u>	<u>\$ 997,018</u>	<u>\$ 671,533</u>	<u>\$ 18,029,147</u>

The Organization's policy is to recognize transfers in and out of Levels 1, 2, and 3 as of the end of the year. There has been no transfers between levels during 2014 or 2013. The changes in value of Level 3 assets are reported within realized and unrealized gains and losses in the consolidated statements of activities.

The following table summarizes the Organization's Level 3 reconciliation as of December 31, 2014 and 2013.

	Charitable	Perpetual	Total
Balance, December 31, 2012	\$ 400,856	\$ 300,791	\$ 701,647
Increase: change in value	-	19,738	19,738
Decrease: change in value	<u>(49,852)</u>	<u>-</u>	<u>(49,852)</u>
Balance, December 31, 2013	351,004	320,529	671,533
Increase: change in value	118,597	-	118,597
Decrease: change in value	<u>-</u>	<u>(5,742)</u>	<u>(5,742)</u>
Balance, December 31, 2014	<u>\$ 469,601</u>	<u>\$ 314,787</u>	<u>\$ 784,388</u>

For the beneficial interest in the charitable remainder trusts and perpetual trusts, upon the death of the donors or other termination of the trusts as may be defined in the individual agreements, the remaining trust assets will be distributed by the Organization to itself and to other beneficiaries, as stipulated in the trust agreements.

Goodwill Industries of Southern California and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 4 – INVESTMENTS

Investments consist of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 2,012,360	\$ 997,018
Mutual funds - bond funds	6,389,577	5,948,756
Mutual funds - stock funds	<u>9,170,786</u>	<u>10,411,840</u>
	<u>\$ 17,572,723</u>	<u>\$ 17,357,614</u>

The uses of the investments as of December 31, are as follows:

	<u>2014</u>	<u>2013</u>
Charitable gift annuities	\$ 556,499	\$ 482,229
Board designated reserve	14,064,984	14,151,201
Endowment	<u>2,951,240</u>	<u>2,724,184</u>
	<u>\$ 17,572,723</u>	<u>\$ 17,357,614</u>

The investments include the assets of the charitable gift annuities account, whose funds are contributed by individuals in exchange for a lifetime annuity paid by Goodwill. Investments in this account are regulated under the California Insurance Code and by the Department of Insurance. The liability associated with these annuities of approximately \$60,000 and \$58,000 as of December 31, 2014 and 2013, respectively, is reported within accounts payable and accrued liabilities in the consolidated statements of financial position. The board designated reserve is invested as “quasi-endowment” in a specially segregated account. These funds are eligible for use for purposes that are authorized by the board.

Goodwill Industries of Southern California and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 4 – INVESTMENTS - Continued

Activity in the investments during the years ended December 31, was as follows:

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 17,357,614	\$ 16,087,377
Increases:		
Dividends and interest reinvested	377,740	346,625
Purchases of investments	<u>4,638,971</u>	<u>15,791,213</u>
	<u>5,016,711</u>	<u>16,137,838</u>
Decreases:		
Sales, redemptions and distributions	<u>(5,574,225)</u>	<u>(16,775,566)</u>
Realized gains, net	248,437	222,685
Unrealized gains, net	<u>524,186</u>	<u>1,685,280</u>
Realized and unrealized gains	<u>772,623</u>	<u>1,907,965</u>
Balance, end of year	<u>\$ 17,572,723</u>	<u>\$ 17,357,614</u>

Information about the cost basis is as follows:

	<u>Cost Basis</u>	<u>Fair Value</u>
Investments - December 31, 2014	<u>\$ 15,015,778</u>	<u>\$ 17,572,723</u>
Investments - December 31, 2013	<u>\$ 14,101,571</u>	<u>\$ 17,357,614</u>

Information about realized and unrealized gains during the years ended December 31, is as follows:

Realized and unrealized gains and losses, net

	<u>2014</u>	<u>2013</u>
From investments	\$ 772,623	\$ 1,907,965
From remainder trusts	118,597	(49,852)
From perpetual trusts	<u>(5,742)</u>	<u>19,738</u>
	<u>\$ 885,478</u>	<u>\$ 1,877,851</u>

Goodwill Industries of Southern California and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 5 – OTHER RECEIVABLES

Other receivables include the following as of December 31:

	<u>2014</u>	<u>2013</u>
Contributions receivable	\$ 1,035,417	\$ 1,233,188
Remainder trusts	469,601	351,004
Perpetual trusts beneficial interest	<u>314,787</u>	<u>320,529</u>
Total other receivables	<u>\$ 1,819,805</u>	<u>\$ 1,904,721</u>

Charitable remainder trusts and beneficial interest of perpetual trusts are presented at fair value based on significant unobservable inputs and accordingly are categorized as Level 3, whose activities are disclosed in Note 3. The beneficial interest in charitable remainder and perpetual trusts is distributed by the Organization as stipulated in the trust agreements.

Activity of contributions receivable during the years ended December 31, was as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance:	\$ 1,233,188	\$ 293,076
Increase: New contributions receivable	816,632	1,083,188
Decrease: Pledge payments	<u>(1,014,403)</u>	<u>(143,076)</u>
Ending balance:	<u>\$ 1,035,417</u>	<u>\$ 1,233,188</u>

Repayment schedule of contributions receivable are as follows as of December 31,:

	<u>2014</u>	<u>2013</u>
Less than one year	\$ 785,417	\$ 633,188
Between one year and three years	<u>250,000</u>	<u>600,000</u>
Contributions receivable, net	<u>\$ 1,035,417</u>	<u>\$ 1,233,188</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 2,144,814	\$ 2,115,029
Land held for sale	-	614,309
Buildings and improvements	42,060,946	32,102,742
Fixtures and equipment	20,905,807	19,659,948
Transportation equipment	2,534,685	2,562,276
Construction in progress	<u>56,807</u>	<u>5,280,286</u>
	67,703,059	62,334,590
Less: Accumulated depreciation	<u>(32,709,662)</u>	<u>(29,780,312)</u>
	<u>\$ 34,993,397</u>	<u>\$ 32,554,278</u>

Depreciation expense for the years ended December 31, 2014 and 2013 was approximately \$4,837,000 and \$4,376,000, respectively.

Construction Allowance

The Organization has several lease arrangements that provide for the payment of a construction allowance. The costs of improvement are included with property, plant and equipment. Typically the construction allowance is repaid when the building is opened for occupancy. The value of the allowance is amortized over the life of the lease.

The unamortized value of the construction allowance is reported in the consolidated statements of financial position as deferred rent – construction allowance as of December 31,

	<u>2014</u>	<u>2013</u>
Construction allowance	\$ 3,958,795	\$ 3,562,545
Deferred rent recognized	<u>(644,641)</u>	<u>(281,910)</u>
	<u>\$ 3,314,154</u>	<u>\$ 3,280,635</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT (Continued)

Sale Leaseback Transaction

During 2012, the Organization sold its real estate investments in three of its properties for approximately \$6,996,000. After the sale, the Organization leased back the three buildings under 15 year lease agreements. In accordance with GAAP, the Organization accounted for the transaction as a sale-leaseback and deferred a portion of the gain on the sale equal to the net present value of the Organization's future minimum lease payments of approximately \$5,700,000. The deferred gain is being amortized on a straight line basis over the 15 year life of the lease. This amount is reported as a reduction of rent expense in each year.

The unamortized gain is reported in the consolidated statements of financial position as deferred gain on sale leaseback as of December 31,

	<u>2014</u>	<u>2013</u>
Unrecognized gain	\$ 5,699,806	\$ 5,699,806
Sale leaseback deferred rent recognized	<u>(831,338)</u>	<u>(487,336)</u>
	<u>\$ 4,868,468</u>	<u>\$ 5,212,470</u>

The amortization of the deferred gain based on minimum rents is as follows:

For the year ending December 31,

2015	\$ 344,003
2016	344,003
2017	344,003
2018	344,003
2019	344,003
Thereafter	<u>3,148,453</u>
	<u>\$ 4,868,468</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 7 – DEBT

California Community Services Funds

In 2000, the City of Los Angeles (“City”) provided grant funds of \$400,000 to the Organization that was used to renovate its facilities for the purpose of providing education, training and placement services. The Organization issued a promissory note, in favor of the City for the funds received. The terms of the note provided for the Organization to repay the City \$20,000 each year by providing education, training and placement services over the life of the note, or at the option of the Organization, to repay the balance of the note at any time. The promissory note was secured by the deed of trust on the property of the Organization’s Los Angeles campus. In 2014, the City issued an amendment to the note providing for an accelerated payment schedule. As such, the terms of the note were fully satisfied in 2014.

	<u>2014</u>	<u>2013</u>
Community Development Department City of Los Angeles note payable as of December 31: Collateralized by deed of trust on the Los Angeles campus	\$ -	\$ 140,000
Less portion due within one year	-	<u>(20,000)</u>
Portion due after one year (\$20,000 each year)	<u>\$ -</u>	<u>\$ 120,000</u>

Line of Credit

The Organization has a \$6,000,000 working capital line-of-credit from a commercial bank expiring August 31, 2015. The line-of-credit is collateralized by the Organization’s equipment, accounts receivable and inventory. The interest rate was the BBA LIBOR daily floating rate plus 1.5% (1.67% as of December 31, 2014). During 2014, \$2,000,000 was borrowed on the line-of-credit. As of December 31, 2014, \$2,000,000 was outstanding under this line-of-credit. The line of credit was unused and no borrowings were outstanding as of December 31, 2013 and for the year then ended.

The Organization also has a \$3,000,000 line-of-credit expiring August 31, 2015 to be used for expansion of retail store operations or disaster relief. The line-of-credit is collateralized by real property. The interest rate was at the bank’s prime rate or BBA LIBOR plus 1.5%. The line-of-credit was unused and no borrowings were outstanding under this line-of-credit as of December 31, 2014 and 2013 and for the years then ended. In May 2015, the Organization drew \$3,000,000 on this facility. The working capital line of credit was fully repaid at this time.

The terms of the credit lines require the Organization to meet or exceed certain ratios and to communicate financial activity on a regular basis. The Organization received a waiver of specified defaults related to the credit facilities for the quarter and the year ended December 31, 2014. The Organization was in compliance with these provisions as of December 31, 2013.

The bank has issued an amendment to the credit facilities effective March 31, 2015. The amendment provides for a change to the measurement of certain covenants including debt-service coverage, debt to worth, and unrestricted liquidity. The Organization was in compliance with these amended covenants as of March 31, 2015.

Goodwill Industries of Southern California and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 8 – NET ASSETS

Unrestricted Net Assets

At December 31, unrestricted and board-designated net assets are as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted Net Assets		
Board designated reserve	\$ -	\$ 14,151,201
Unexpended earnings and appreciation on endowments	-	241,199
Invested in property, plant and equipment	<u>34,993,397</u>	<u>31,963,074</u>
Subtotal	34,993,397	46,355,474
Undesignated deficit	<u>(1,841,876)</u>	<u>-</u>
Unrestricted net assets	<u>\$ 33,151,521</u>	<u>\$ 46,355,474</u>

Temporarily Restricted Net Assets

Activity in temporarily restricted net assets during the years ended December 31, 2014 and 2013 was as follows:

	<u>Balance December 31, 2013</u>	<u>Contributions and Other Increases</u>	<u>Release from Restrictions</u>	<u>Balance December 31, 2014</u>
Capital campaign	\$ 1,491,204	\$ 729,032	\$ (1,618,736)	\$ 601,500
Program services	1,783,267	1,498,165	(1,203,734)	2,077,698
Charitable remainder trusts	<u>351,004</u>	<u>118,597</u>	<u>-</u>	<u>469,601</u>
Temporarily restricted net assets	<u>\$ 3,625,475</u>	<u>\$ 2,345,794</u>	<u>\$ (2,822,470)</u>	<u>\$ 3,148,799</u>
Purpose restrictions				\$ 1,563,331
Time restrictions				<u>1,585,468</u>
Temporarily restricted net assets				<u>\$ 3,148,799</u>

Goodwill Industries of Southern California and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 8 – NET ASSETS - Continued

Temporarily Restricted Net Assets

	Balance December 31, 2012	Contributions and Other Increases	Release from Restrictions	Balance December 31, 2013
Capital campaign	\$ 1,582,925	\$ 1,166,921	\$ (1,258,642)	\$ 1,491,204
Program services	1,286,521	1,649,570	(1,152,824)	1,783,267
Charitable remainder trusts	400,856	(49,852)	-	351,004
Temporarily restricted net assets	<u>\$ 3,270,302</u>	<u>\$ 2,766,639</u>	<u>\$ (2,411,466)</u>	<u>\$ 3,625,475</u>
Purpose restrictions				\$ 2,089,042
Time restrictions				<u>1,536,433</u>
Temporarily restricted net assets				<u>\$ 3,625,475</u>

Net assets were released from donor restrictions during the year ended December 31, 2014 and 2013 as follows:

	2014	2013
Passage of time available to support operations	\$ 1,203,734	\$ 1,152,824
Construction and capital projects	<u>1,618,736</u>	<u>1,258,642</u>
	<u>\$ 2,822,470</u>	<u>\$ 2,411,466</u>

Permanently Restricted Net Assets

Permanently restricted net assets are held by the Organization for investment in perpetuity. Donors have specified that income from these investments is expendable to support activities of the Organization. Substantially all permanently restricted net assets consist of investments, investments held in trust under split-interest agreements and contributions receivable under split-interest agreements.

At December 31, permanently restricted net assets are as follows:

	2014	2013
Permanently Restricted Net Assets		
Perpetual trusts	\$ 314,787	\$ 320,529
Named endowments	<u>2,066,110</u>	<u>2,056,110</u>
Permanently restricted net assets	<u>\$ 2,380,897</u>	<u>\$ 2,376,639</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Leases

The Organization leases certain stores, facilities and office and transportation equipment. The leases have various expiration dates through 2027. Minimum annual rental payments, excluding any future inflation adjustments, are as follows:

For the year ending December 31,

2015	\$ 22,566,716
2016	20,983,331
2017	18,794,452
2018	16,960,883
2019	11,910,325
Thereafter	<u>27,368,461</u>
	<u><u>\$118,584,168</u></u>

Rental expense for the years ended December 31, 2014 and 2013 was approximately \$23,761,000 and \$22,358,000, respectively.

Sublease Rental Income

In 2015, the Organization entered into agreements with non-profit organizations to provide subleased space in a facility in Los Angeles. Minimum annual rental payments excluding any future inflation adjustments are as follows:

2015	\$ 81,105
2016	98,905
2017	100,883
2018	102,900
2019	104,958
Thereafter	<u>18,327</u>
	<u><u>\$ 507,078</u></u>

There was no rental revenue from sublease rents during the year ended 2014 or 2013.

Litigation

In the normal course of operations, the Organization is named as defendant in lawsuits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management is of the consolidated opinion that any liabilities arising from such litigation and examinations have been properly reported in the consolidated statement of financial position with accounts payable and accrued liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 9 – COMMITMENTS AND CONTINGENCIES - Continued

Environmental Matter

An adjoining property owner has alleged that contamination at one of their properties was caused by operations taking place at one of the Organization’s sites. The ultimate outcome of this uncertainty cannot presently be determined, and management believes that any liability, if determined, will not have a material adverse impact in the Organization’s consolidated financial condition.

Government Grants

Certain programs of the Organization receive funding and support from the local, state or federal governments. Accordingly, these programs are subject to audit that could result in adjustments. Management believes that liabilities, if any, resulting from any such audits will not have a material effect on the consolidated financial statements.

NOTE 10 – RETIREMENT PLAN

The Organization has a 403(b) Retirement Plan (“Plan”) for the benefit of its employees. All employees are eligible to make contributions from their pre-tax salary. At the discretion of management, and after one year of service, certain full-time employees receive an employer contribution of 5% of eligible compensation. The employer contribution was discontinued November 1, 2014. Participants are fully vested in their own contributions. Employees are vested in the employer contributions as follows:

<u>Years of service</u>	<u>% Vested</u>
2	25%
3	50%
4	75%
5 or more	100%

For the years ended December 31, 2014 and 2013, the Organization contributed approximately \$865,000 and \$931,000, respectively, to the Plan.

In addition, the Organization has a Supplemental Executive Retirement Plan (“SERP”) for certain executives. For the years ended December 31, 2014 and 2013, the Organization contributed approximately \$220,000 and \$229,000, respectively, to the SERP.

NOTE 11 – SELF-INSURANCE

The Organization has elected not to pay state unemployment insurance (“SUI”) taxes and, instead, is charged for its share of unemployment benefits actually paid by the State of California to former employees.

Goodwill Industries of Southern California and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 11 – SELF-INSURANCE - Continued

The Organization is self-insured under its worker's compensation insurance program. Excess policies provide insurance coverage on individual claims which exceed specified amounts. Each year, the Organization estimates its liability for any claims outstanding, including claims incurred but not reported. The ultimate liability for claims is estimated based on historical data related to the timing and nature of claims paid and current payroll data.

Accrued insurance claims reported in the consolidated statements of financial position include estimated obligations for state unemployment insurance and worker's compensation.

The estimated claims payable and changes in the claims payable amount for fiscal years 2014 and 2013 are listed below:

<u>2014</u>	<u>Worker's Compensation</u>	<u>CA SUI</u>	<u>Accrued Insurance</u>
Claims payable at beginning of year	\$ 9,494,809	\$ 977,109	\$ 10,471,918
Claims incurred/changes in estimate	9,404,875	1,679,337	11,084,212
Claim payments	<u>(6,676,497)</u>	<u>(1,166,119)</u>	<u>(7,842,616)</u>
	<u>\$ 12,223,187</u>	<u>\$ 1,490,327</u>	<u>\$ 13,713,514</u>
<u>2013</u>	<u>Worker's Compensation</u>	<u>CA SUI</u>	<u>Accrued Insurance</u>
Claims payable at beginning of year	\$ 8,142,376	\$ 837,788	\$ 8,980,164
Claims incurred/changes in estimate	5,048,358	1,478,210	6,526,568
Claim payments	<u>(3,695,925)</u>	<u>(1,338,889)</u>	<u>(5,034,814)</u>
	<u>\$ 9,494,809</u>	<u>\$ 977,109</u>	<u>\$ 10,471,918</u>

NOTE 12 – ENDOWMENTS

The Organization's endowment consists of individual funds established for a variety of purposes. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 12 – ENDOWMENTS - Continued

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) the fair value of the Organization’s interest in split interest agreements at the time of termination of the trust as stipulated by the trust agreement to be permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Additionally, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Investment Return Objectives, Risk Parameters and Strategies

The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve investment income with minimum risk. Endowment assets are invested in mutual funds.

Spending Policy

Although UPMIFA permits a more aggressive spending policy, funds will only be transferred out of the endowment fund when approved specifically by the finance committee provided that this is consistent with the wishes of the donors.

Goodwill Industries of Southern California and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 12 – ENDOWMENTS – Continued

Endowment Net Asset Composition by Type of Fund

For the year ended December 31, 2014 endowment net assets have been classified as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Board designated reserve	\$ 13,638,109	\$ -	\$ -	\$ 13,638,109
Perpetual trusts	-	-	314,787	314,787
Named investments endowments	885,130	-	2,066,110	2,951,240
Subtotal	14,523,239	-	2,380,897	16,904,136
Release from designation	<u>(14,523,239)</u>	<u>-</u>	<u>-</u>	<u>(14,523,239)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,380,897</u>	<u>\$ 2,380,897</u>

Named investments endowments are as follows:

	<u>Unexpended Earning and Appreciation During the Year</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Lawrence Page	\$ 16,538	\$ -	\$ 33,700	\$ 50,238
Garret Family	163,340	-	384,139	547,479
Ludwig EG Erb	697,470	-	1,628,021	2,325,491
Thomas Barry	-	-	10,000	10,000
Capital Campaign	7,782	-	10,250	18,032
	<u>\$ 885,130</u>	<u>\$ -</u>	<u>\$ 2,066,110</u>	<u>\$ 2,951,240</u>

Goodwill Industries of Southern California and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 12 – ENDOWMENTS - Continued

For the year ended December 31, 2013 endowment net assets have been classified as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Board designated reserve	\$ 14,151,201	\$ -	\$ -	\$ 14,151,201
Perpetual trusts	-	-	320,529	320,529
Named investments endowments	<u>668,074</u>	<u>-</u>	<u>2,056,110</u>	<u>2,724,184</u>
Subtotal	14,819,275	-	2,376,639	17,195,914
Release from designation	<u>(426,875)</u>	<u>-</u>	<u>-</u>	<u>(426,875)</u>
	<u>\$ 14,392,400</u>	<u>\$ -</u>	<u>\$ 2,376,639</u>	<u>\$ 16,769,039</u>

Named investments endowments are as follows:

	<u>Unexpended Earning and Appreciation During the Year</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Lawrence Page	\$ 12,830	\$ -	\$ 33,700	\$ 46,530
Garret Family	122,938	-	384,139	507,077
Ludwig EG Erb	525,854	-	1,628,021	2,153,875
Capital Campaign	<u>6,452</u>	<u>-</u>	<u>10,250</u>	<u>16,702</u>
	<u>\$ 668,074</u>	<u>\$ -</u>	<u>\$ 2,056,110</u>	<u>\$ 2,724,184</u>

Goodwill Industries of Southern California and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 12 – ENDOWMENTS - Continued

Changes in Endowment Net Assets during the Year

Activity in the endowments during the year was as follows:

2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Balance December 31, 2013	\$ 14,392,400	\$ -	\$ 2,376,639	\$ 16,769,039
Contributions	-	-	10,000	10,000
Dividends and interest	362,847	-	-	362,847
Realized and unrealized gains (losses)	753,246	-	(5,742)	747,504
Distribution and expense	<u>(985,254)</u>	<u>-</u>	<u>-</u>	<u>(985,254)</u>
	14,523,239	-	2,380,897	16,904,136
Release from designation	<u>(14,523,239)</u>	<u>-</u>	<u>-</u>	<u>(14,523,239)</u>
Balance December 31, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,380,897</u>	<u>\$ 2,380,897</u>

2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Balance December 31, 2012	\$ 13,549,083	\$ 1,400	\$ 2,358,901	\$ 15,909,384
Transfers - in (out)	19,580	(1,400)	(2,000)	16,180
Dividends and interest	332,647	-	-	332,647
Realized and unrealized gains	1,907,965	-	19,738	1,927,703
Distribution and expense	(990,000)	-	-	(990,000)
Subtotal	<u>14,819,275</u>	<u>-</u>	<u>2,376,639</u>	<u>17,195,914</u>
Release from designation	<u>(426,875)</u>	<u>-</u>	<u>-</u>	<u>(426,875)</u>
Balance December 31, 2013	<u>\$ 14,392,400</u>	<u>\$ -</u>	<u>\$ 2,376,639</u>	<u>\$ 16,769,039</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2014 and 2013

NOTE 13 – SUBSEQUENT EVENTS

The Organization evaluated its December 31, 2014 consolidated financial statements for subsequent events through May 19, 2015, the date the consolidated financial statements were available to be issued. The Organization is not aware of any additional subsequent events which would require recording or disclosure in the consolidated financial statements.

Goodwill Industries of Southern California and Affiliates

SUPPLEMENTAL SCHEDULE – CLASSIFIED CONSOLIDATED STATEMENTS
OF FINANCIAL POSITION

As of December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Current assets		
Cash and cash equivalents	\$ 6,922,338	\$ 13,797,424
Cash and cash equivalents intended for improvements	586,936	3,591,393
Accounts receivable	4,285,776	6,788,182
Inventory	11,156,267	8,418,246
Prepaid expenses and deposits	4,394,814	4,099,095
Total current assets	<u>27,346,131</u>	<u>36,694,340</u>
Investments	17,572,723	17,357,614
Other receivables, net of current	1,034,388	1,271,533
Property, plant and equipment, net	34,993,397	32,554,278
Total assets	<u>\$ 80,946,639</u>	<u>\$ 87,877,765</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 11,578,893	\$ 9,128,939
Accrued compensation and related expenses	6,790,393	7,286,215
Current portion of note payable	-	20,000
Line of credit	2,000,000	-
Current portion of deferred gain	344,000	344,000
Current portion of deferred rent	331,415	328,063
Current portion of accrued insurance claims	7,842,616	5,034,814
Total current liabilities	<u>28,887,317</u>	<u>22,142,031</u>
Note payable	-	120,000
Deferred gain and sale leaseback	4,524,468	4,868,470
Deferred rent from construction allowance	2,982,739	2,952,572
Insurance claims estimated to be paid after one year	5,870,898	5,437,104
Total liabilities	<u>42,265,422</u>	<u>35,520,177</u>
Net assets		
Unrestricted	33,151,521	46,355,474
Temporarily restricted	3,148,799	3,625,475
Permanently restricted	2,380,897	2,376,639
Total net assets	<u>38,681,217</u>	<u>52,357,588</u>
Total liabilities and net assets	<u>\$ 80,946,639</u>	<u>\$ 87,877,765</u>

Goodwill Industries of Southern California and Affiliates

SUPPLEMENTAL SCHEDULE – CONSOLIDATING STATEMENT
OF FINANCIAL POSITION

As of December 31, 2014

	ASSETS		
	Goodwill Southern California and Goodwill Retail Services	Goodwill Housing of the Inland Counties	Consolidated Balance Sheet
Cash and cash equivalents	\$ 6,922,338	\$ -	\$ 6,922,338
Cash and cash equivalents intended for improvements	358,030	228,906	586,936
Investments	17,572,723	-	17,572,723
Accounts receivable, net	3,500,359	-	3,500,359
Inventory	11,156,267	-	11,156,267
Prepaid expenses and deposits	4,394,814	-	4,394,814
Other receivables	1,819,805	-	1,819,805
Property, plant and equipment, net	34,993,397	-	34,993,397
Total assets	<u>\$ 80,717,733</u>	<u>\$ 228,906</u>	<u>\$ 80,946,639</u>
	LIABILITIES AND NET ASSETS		
LIABILITIES			
Accounts payable and accrued liabilities	\$ 11,578,893	\$ -	\$ 11,578,893
Accrued compensation and related expenses	6,790,393	-	6,790,393
Accrued insurance claims	13,713,514	-	13,713,514
Deferred gain on sale leaseback	4,868,468	-	4,868,468
Deferred rent - construction allowance	3,314,154	-	3,314,154
Note payable	2,000,000	-	2,000,000
Total liabilities	<u>42,265,422</u>	<u>-</u>	<u>42,265,422</u>
NET ASSETS			
Unrestricted	32,922,615	228,906	33,151,521
Temporarily restricted	3,148,799	-	3,148,799
Permanently restricted	2,380,897	-	2,380,897
Total net assets	<u>38,452,311</u>	<u>228,906</u>	<u>38,681,217</u>
Total liabilities and net assets	<u>\$ 80,717,733</u>	<u>\$ 228,906</u>	<u>\$ 80,946,639</u>