Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Goodwill Industries of Southern California and Affiliate

December 31, 2013 and 2012

Contents

Grant Thornton

Audit – Tax – Advisory

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Report of Independent Certified Public Accountants

Board of Directors
Goodwill Industries of Southern California and Affiliate

Report on the financial statements

We have audited the accompanying consolidated financial statements of Goodwill Industries of Southern California (a nonprofit corporation) and its affiliate, Goodwill Retail Services, (collectively, the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, 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 Organization'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 Organization'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 and its affiliate, Goodwill Retail Services, as of December 31, 2013 and 2012, and the changes in their net assets and 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, 2013 and 2012, 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 7, 2014

Goodwill Industries of Southern California and Affiliate

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31,

ASSETS	2013	2012
Cash and cash equivalents	$ 13,797,424	$ 10,983,225
Cash and cash equivalents intended for improvements	3,591,393	8,996,168
Cash designated or restricted for long-term use	-	1,383,372
Investments (Note 5)	17,357,614	16,087,377
Accounts receivable, net	6,154,994	4,061,906
Inventory	8,418,246	7,203,611
Prepaid expenses and deposits	4,099,095	3,510,883
Other receivables (Note 6)	1,904,721	994,723
Property, plant and equipment, net (Note 7)	32,554,278	24,656,890
Total assets	$ 87,877,765	$ 77,878,155
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	$ 9,128,939	$ 6,709,113
Accrued compensation and related expenses	7,286,215	7,422,278
Accrued insurance claims (Note 12)	10,471,918	8,980,164
Deferred gain on sale leaseback (Note 7)	5,212,470	5,556,473
Deferred rent - construction allowance (Note 7)	3,280,635	359,915
Note payable	140,000	160,000
Total liabilities	35,520,177	29,187,943
NET ASSETS (Note 9)		
Unrestricted	46,355,474	43,061,009
Temporarily restricted	3,625,475	3,270,302
Permanently restricted	2,376,639	2,358,901
Total net assets	52,357,588	48,690,212
Total liabilities and net assets	$ 87,877,765	$ 77,878,155

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

Goodwill Industries of Southern California and Affiliate

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 fees *	10,189,304	-	-	10,189,304
Other	219,965	-	-	219,965
	124,421,693	-	-	124,421,693
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 properties	447,567	-	-	447,567
Net assets released from restrictions	2,413,466	(2,411,466)	(2,000)	-
Total revenues and support	198,161,243	405,025	(2,000)	198,564,268
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
Total operating expenses	196,774,743	-	-	196,774,743
Changes in net assets from operations	1,386,500	405,025	(2,000)	1,789,525
Other changes in net assets:				
Realized and unrealized investment gains	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	$ 46,355,474	$ 3,625,475	$ 2,376,639	$ 52,357,588

* Includes government grants for $4,509,300

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

Goodwill Industries of Southern California and Affiliate

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Operating revenues				
Sales from stores	$ 99,960,638	$ -	$ -	$ 99,960,638
Salvage sales	859,496	-	-	859,496
Contract services	9,329,090	-	-	9,329,090
Workforce development fees *	11,383,062	-	-	11,383,062
Other	421,124	-	-	421,124
	121,953,410	-	-	121,953,410
Other revenues and support:				
Contributions	1,203,857	1,112,013	-	2,315,870
Contributions to capital campaign	-	1,215,231	-	1,215,231
Interest, dividends and rents	246,549	310	-	246,859
Contributed goods	67,814,853	-	-	67,814,853
Gain on sale of properties	1,130,118	-	-	1,130,118
Net assets released from restrictions	1,625,448	(1,625,448)	-	-
Total revenues and support	193,974,235	702,106	-	194,676,341
Expenses:				
Program services	177,571,017	-	-	177,571,017
Fundraising	1,667,377	-	-	1,667,377
General and administrative	9,850,846	-	-	9,850,846
Total operating expenses	189,089,240	-	-	189,089,240
Changes in net assets from operations	4,884,995	702,106	-	5,587,101
Other changes in net assets:				
Realized and unrealized investment gains	1,306,876	147,452	19,817	1,474,145
Changes in net assets	6,191,871	849,558	19,817	7,061,246
Net assets, beginning of the year	36,869,138	2,420,744	2,339,084	41,628,966
Net assets, end of year	$ 43,061,009	$ 3,270,302	$ 2,358,901	$ 48,690,212

* Includes government grants for $6,494,241

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

Goodwill Industries of Southern California and Affiliate

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2013

	Program Services					Support Services		
	Material Handling	Stores	Contract Services	Workforce Development	Total	Fundraising	General Administrative	Total Expenses
Salaries and wages	$ 17,123,064	$ 15,429,987	$ 3,571,474	$ 10,410,222	$ 46,534,747	$ 769,516	$ 5,037,636	$ 52,341,899
Payroll taxes	1,267,033	1,138,605	264,271	767,662	3,437,571	52,508	311,225	3,801,304
Employee benefits	2,374,437	3,559,535	528,425	2,001,472	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	13,179,356	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	2,070,797	7,894,915	132,965	834,632	8,862,512
Professional fees and contract services	1,045,472	3,435,581	317,236	1,617,597	6,415,886	98,506	1,653,789	8,168,181
Depreciation	341,471	2,808,711	369,961	446,705	3,966,848	23,359	385,481	4,375,688
Transportation	2,223,426	157,907	1,159,944	197,137	3,738,414	2,883	34,528	3,775,825
Supplies	149,635	1,969,435	327,318	526,513	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	7,880	1,170,823	391,099	20,789	1,582,711
Insurance	411,606	499,753	61,624	111,175	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	146,640	827,719	3,058	23,595	854,372
Repairs and maintenance	177,591	316,434	26,859	1,824	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	$ 19,023,424	$ 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 Affiliate

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012

	Program Services					Support Services		
	Material Handling	Stores	Contract Services	Workforce Development	Program Total	Fundraising	General and Administrative	Total Expenses
Salaries and wages	$ 15,895,627	$ 15,170,435	$ 3,985,406	$ 10,486,583	$ 45,538,051	$ 694,316	$ 5,179,806	$ 51,412,173
Payroll taxes	1,172,578	1,110,363	288,383	775,741	3,347,065	47,990	309,320	3,704,375
Employee benefits	1,773,717	3,518,210	523,383	1,825,924	7,641,234	170,500	1,074,079	8,885,813
Total salaries and related expenses	18,841,922	19,799,008	4,797,172	13,088,248	56,526,350	912,806	6,563,205	64,002,361
Contributed goods - cost of goods sold	-	67,520,982	-	-	67,520,982	-	-	67,520,982
Rents	5,560,994	14,577,215	-	235,399	20,373,608	-	-	20,373,608
Occupancy	998,849	3,666,119	545,362	1,769,439	6,979,769	125,537	756,744	7,862,050
Professional fees and contract services	1,129,885	3,456,098	233,957	2,320,802	7,140,742	168,834	1,371,718	8,681,294
Depreciation	299,428	2,470,087	391,460	324,793	3,485,768	16,015	323,943	3,825,726
Transportation	2,307,440	228,743	1,171,839	260,539	3,968,561	3,564	38,295	4,010,420
Supplies	167,044	1,519,781	316,652	557,377	2,560,854	5,360	106,845	2,673,059
Printing and publications	210,713	1,740,594	2,445	176,772	2,130,524	38,974	222,515	2,392,013
Utilities	543,956	1,602,344	-	70,247	2,216,547	-	-	2,216,547
Postage and shipping	2,683	930,685	8,970	6,533	948,871	356,741	26,661	1,332,273
Insurance	370,656	581,728	75,389	92,734	1,120,507	7,839	109,998	1,238,344
Trash disposal	1,092,066	14,522	26	-	1,106,614	-	-	1,106,614
Telephone	104,953	322,571	16,334	138,021	581,879	3,311	31,875	617,065
Conferences and meetings	9,546	113,167	7,247	255,713	385,673	27,446	89,179	502,298
Repairs and maintenance	184,441	238,590	12,083	20,186	455,300	-	5,438	460,738
Other (taxes, licenses and dues)	3,438	28,676	7,129	29,225	68,468	950	180,652	250,070
Interest	-	-	-	-	-	-	23,778	23,778
Total Expenses	$ 31,828,014	$ 118,810,910	$ 7,586,065	$ 19,346,028	$ 177,571,017	$ 1,667,377	$ 9,850,846	$ 189,089,240

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

Goodwill Industries of Southern California and Affiliate

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Changes in net assets	$ 3,667,376	$ 7,061,246
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,375,688	3,825,726
Recognize deferred gain associated with sales leaseback	(344,003)	(143,333)
Gain on sale of plant property and equipment	(447,567)	(1,130,118)
Net realized and unrealized gains and losses on investments	(1,877,851)	(1,474,145)
Contributions for capital expenditures	(1,166,921)	(1,215,231)
Increase in pledges receivable	83,733	117,195
Forgiveness of long-term debt	(20,000)	(20,000)
Changes in assets and liabilities:		
Accounts receivable, net	(2,093,088)	(1,404,191)
Inventory	(1,214,635)	(684,145)
Prepaid expenses and deposits	(588,212)	41,169
Accounts payable and accrued liabilities	1,191,826	1,309,195
Accrued compensation and related expense	(136,063)	930,881
Accrued insurance claims	1,491,754	915,090
Deferred rent from construction allowance	2,920,720	359,915
Net cash provided by operating activities	5,842,757	8,489,254
Cash flows from investing activities:		
Decrease (increase) in cash intended for property improvements	5,404,775	(7,996,168)
Decrease (increase) in cash restricted for long-term purposes	1,383,372	(137,859)
Proceeds from sale of property, plant and equipment	555,827	2,151,023
Purchases of property, plant and equipment	(11,153,336)	(6,406,307)
Proceeds from sale of investments	16,775,566	3,569,023
Purchases of investments	(16,137,838)	(4,816,241)
Net cash used in investing activities	(3,171,634)	(13,636,529)
Cash flows from financing activities:		
Contributions restricted for capital expenditures	143,076	1,256,902
Repayment of long-term debt	-	(291,626)
Proceeds received and deferred gain associated with sales leaseback	-	5,699,806
Net cash provided by investing activities	143,076	6,665,082
Net increase in cash and cash equivalents	2,814,199	1,517,807
Cash and cash equivalents at beginning of year	10,983,225	9,465,418
Cash and cash equivalents at end of year	$ 13,797,424	$ 10,983,225
Supplemental cash flow information:		
Cash paid for interest	$ -	$ 23,778

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

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, shredding, 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.

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 77 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.

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

Workforce Development – A family of 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 and fee for service arrangements. Workforce development also includes the operation of several career centers that provide job listings, resume assistance, telephone and computer services for all job seekers.

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 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 9):

- *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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. As of year end management has determined substantially all government receivables are fully collectible, but has provided an allowance for approximately $87,000 and $34,000 for customer obligations as of December 31, 2013 and 2012, 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 was received. Multi-year contributions are recorded at fair value at the date of the contribution. Allowances for uncollectible amounts are based on specific identification of uncollectible accounts. Uncollectible contributions are charged to the allowance. An expense is recorded at the time the allowance is adjusted. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 statement 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 7).

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, 2013 and 2012, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Asset Retirement Obligations

A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing, and/or, method of settlement are conditional on a future event that may or may not be within the control of the Organization. Uncertainty with respect to the timing, and/or method of settlement of the asset retirement obligation does not defer recognition of the liability. The obligation to perform the net asset retirement activity is unconditional, and accordingly, a liability should be recognized. The recording of the liability for an asset retirement obligation is recorded by the Organization as an asset and a liability when there is a legal obligation associated with the retirement of a long-lived asset and the amount can be reasonably estimated. As of December 31, 2013 and 2012, there were $81,000 and $95,000, respectively, of estimated asset retirement costs in accounts payable and accrued liabilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 6) 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 5), and the liability associated with these annuities is reported within accounts payable and accrued liabilities on the statements of financial position.

The amortization of this discount and changes in assumptions are reflected in the statements of activities as realized and unrealized gains (see Note 5).

Donor-Restricted Contributions

Unconditional promises to give (contributions receivables) 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 periods 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 statement of activities as net assets released from restrictions. Capital campaign contributions are considered temporarily restricted until the asset is placed into service.

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 2013 and 2012, advertising costs were approximately $2,509,000 and $2,295,000, respectively, and are reported within professional fees and contract services expense on the consolidated statement of functional expense.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 campuses are allocated based on the number of square feet used by program and support service departments.

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 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, 2013 and 2012, it is possible that actual results could differ from those estimates, and the difference would be material to the financial statements.

Reclassifications

Certain items in the financial statements for the year ended December 31, 2012 have been reclassified to conform to the presentation in the current period. In the prior year, deferred rent from construction allowance was reported with accounts payable.

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 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, 2013 or as of December 31, 2012. As of December 31, 2013, the Organization’s tax years ended December 31, 2010 through December 31, 2013 remain subject to examination in the United States federal tax jurisdiction and the tax years ended December 31, 2009 through December 31, 2013 remain subject to examination in the California state tax jurisdiction. Management has concluded that no reserve for uncertain tax positions is required as of December 31, 2013 or 2012, and no material change is anticipated in the twelve months following the year ended December 31, 2013.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 financial statements as an expense or as income from donations; such services do not meet the above criteria for recording under GAAP.

Adoption of New Accounting Guidance

In January 2010, Financial Accounting Standards Board ("FASB") amended the guidance concerning disclosures about fair value measurements. Specifically, guidance requires the disclosure of transfers between Level 1 and Level 2 and into or out of Level 3, a description of the Organization's policy as to when it recognizes the transfers between levels, and a gross presentation of activity within the Level 3 roll forward. This guidance also clarifies that the information should be presented by class of financial asset or liability and that a discussion of valuation techniques and inputs is required for Level 2 and Level 3 recurring and nonrecurring fair value measurements. The guidance was effective for the year ended December 31, 2012. The Organization adopted all of this guidance effective in the year ended December 31, 2012. The adoption of this guidance did not have a material impact on the Organization's financial condition or results of its operations. The additional disclosures required under this guidance are detailed in Note 4.

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2011-04, or ASU 2011-04, *Fair Value Measurements – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 modified the wording used to describe many requirements for measuring fair value and for disclosing information about fair value measurements. Additionally, the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Amendments under ASU 2011-04 became effective for the annual periods beginning after December 15, 2011. The guidance was adopted by the Organization during the year ended December 31, 2012, and did not have a material impact on its financial statements.

Recently Issued Accounting Pronouncements

In October 2012, the FASB issued Accounting Standards Update No. 2012-05 or ASU 2012-05, *Not for Profit Entities ("NFP"): Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires an NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposed, in which case those cash receipts should be classified as cash flows from financing activities. Management does not believe adoption of this ASU will have a material impact on the Organization's financial statements.

NOTE 3 – 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 is a separate unconsolidated non-profit organization that owns an apartment building operated pursuant to Section 202 of the Housing Act of 1959, as amended. The apartment building is located on land owned by the Organization. In March 2014, Housing and Urban Development (HUD) approved the sale of the apartment building owned by GHIC and the land owned by the Organization to an unrelated third party. The land is listed as held for sale in Note 7. The sale was completed in March 2014, and the Organization received cash proceeds of approximately $916,000 in exchange for the land.

NOTE 4 – 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.

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 6) 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.

NOTE 4 – FAIR VALUE - Continued

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, 2013 and 2012:

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	16,360,596	997,018	-	17,357,614
Beneficial interests in trusts				
Perpetual trusts	-	-	320,529	320,529
Charitable remainder trusts	-	-	351,004	351,004
Total beneficial interests in trusts	-	-	671,533	671,533
Assets reported at fair value	$ 16,360,596	$ 997,018	$ 671,533	$ 18,029,147

The Organization's policy is to recognize transfers in and out of Levels 1, 2, and 3 as of the end of the year or change in circumstances that caused the transfer. There have been no transfers from the Level 1 and Level 2 assets to Level 3 during 2013.

NOTE 4 – FAIR VALUE - Continued

2012	Level 1	Level 2	Level 3	Total
Cash segregated for long term use				
Money market funds	$ -	$ 1,383,372	$ -	$ 1,383,372
Investments				
Money market funds	-	1,990,954	-	1,990,954
Mutual funds - equity				
Small Cap	1,607,173	-	-	1,607,173
Stock Index	836,659	-	-	836,659
International Stock	2,009,681	-	-	2,009,681
Growth	4,214,542	-	-	4,214,542
Mutual funds - fixed income				
Corporate Bonds	478,784	-	-	478,784
Moderate Bonds	4,075,556	-	-	4,075,556
Bond Index	874,028	-	-	874,028
Total investments	14,096,423	1,990,954	-	16,087,377
Beneficial interests in trusts				
Perpetual trusts	-	-	300,791	300,791
Charitable remainder trusts	-	-	400,856	400,856
Total beneficial interests in trusts	-	-	701,647	701,647
Assets reported at fair value	$ 14,096,423	$ 3,374,326	$ 701,647	$ 18,172,396

The Organization's policy is to recognize transfers in and out of Levels 1, 2, and 3 as of the end of the year or change in circumstances that caused the transfer. There have been no transfers from the Level 1 and Level 2 assets to Level 3 during 2012. The changes in value of Level 3 assets are reported with realized and unrealized gains and losses.

The following table summarizes the Organization's Level 3 reconciliation as of December 31, 2013 and 2012.

	Charitable	Perpetual	Total
Balance, December 31, 2011	$ 371,689	$ 280,974	$ 652,663
Increase: Change in Value	146,362	19,817	166,179
Decrease: Distribution	(117,195)	-	(117,195)
Balance, December 31, 2012	400,856	300,791	701,647
Increase: Change in Value	-	19,738	19,738
Decrease: Change in Value	(49,852)	-	(49,852)
Balance, December 31, 2013	$ 351,004	$ 320,529	$ 671,533

NOTE 4 – FAIR VALUE - Continued

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.

NOTE 5 – INVESTMENTS

Investments consist of the following as of December 31:

	2013	2012
Cash and cash equivalents	$ 997,018	$ 1,990,954
Mutual funds - fixed income	5,948,756	5,428,369
Mutual funds - equities	10,411,840	8,668,054
	$ 17,357,614	$ 16,087,377

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

	2013	2012
Charitable gift annuities	$ 482,229	$ 478,784
Board designated reserve	14,151,201	13,315,237
Endowment and investments	2,724,184	2,293,356
	$ 17,357,614	$ 16,087,377

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 $58,000 and $70,000 for the years ended December 31, 2013 and 2012, respectively, is reported within accounts payable and accrued liabilities on the 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 specially authorized by the Board.

NOTE 5 – INVESTMENTS - Continued

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

	2013	2012
Balance, beginning of year	$ 16,087,377	$ 13,532,193
Increases:		
Dividends and interest reinvested	346,625	246,568
Purchase of investments	15,791,213	4,569,673
Realized gains	222,685	19,355
Unrealized gains	1,685,280	1,288,611
	18,045,803	6,124,207
Decreases:		
Sales, redemptions and distributions	(16,775,566)	(3,569,023)
Balance, end of year	$ 17,357,614	$ 16,087,377

Information about the cost basis is as follows:

	Cost Basis	Fair Value
As of December 31, 2013	$ 14,101,571	$ 17,357,614
As of December 31, 2012	$ 14,516,614	$ 16,087,377

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

Realized and unrealized gains and losses, net	2013	2012
from investments	$ 1,907,965	$ 1,307,966
from remainder trusts	(49,852)	146,362
from perpetual trusts	19,738	19,817
	$ 1,877,851	$ 1,474,145

NOTE 6 – OTHER RECEIVABLES

Other receivables include the following as of December 31:

	2013	2012
Contributions receivable	$ 1,233,188	$ 293,076
Charitable remainder trusts	351,004	400,856
Perpetual trusts, beneficial interest	320,529	300,791
Total other receivable	$ 1,904,721	$ 994,723

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 4.

Activity of contributions receivables during the year ended December 31, was as follows:

	2013	2012
Beginning balance:	$ 293,076	$ 334,747
Increase: New contributions receivable	1,083,188	143,076
Decrease: Pledge payments	(143,076)	(184,747)
Ending balance:	$ 1,233,188	$ 293,076

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

	2013	2012
Less than one year	$ 633,188	$ 193,076
Between one year and three years	600,000	100,000
Contributions receivable	$ 1,233,188	$ 293,076

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

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

	2013	2012
Land	$ 2,115,029	$ 2,729,338
Land held for sale	614,309	-
Buildings and improvements	32,102,742	26,521,011
Fixtures and equipment	19,659,948	18,785,319
Transportation equipment	2,562,276	2,488,390
Construction in progress	5,280,286	1,462,578
	62,334,590	51,986,636
Less: Accumulated depreciation	(29,780,312)	(27,329,746)
	$ 32,554,278	$ 24,656,890

Depreciation expense for the years ended December 31, 2013 and 2012 was approximately $4,376,000 and $3,826,000, respectively.

Construction Allowance

The Organization has several lease arrangements that provide for the payment of a construction allowance. The cost of improvements 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 as deferred rent - construction allowance for $3,280,635 and $359,915 as of December 31, 2013 and 2012, respectively.

	2013	2012
Construction allowance	$ 3,562,545	$ 445,017
Deferred rent recognized	(281,910)	(85,102)
Total deferred rent - construction allowance	$ 3,280,635	$ 359,915

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT - Continued

Sale Leaseback Transaction

During 2012, the Organization sold its real estate investments in three of its properties for $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 $5,700,000. The deferred gain is being amortized on a straight line basis over the 15-year life of the lease. This amount will be reported as a reduction of rent expense in each year.

	2013	2012
Unrecognized gain upon sale leaseback transactions	$ 5,699,806	$ 5,699,806
Gain recognized	(487,336)	(143,333)
Deferred gain as of December 31	$ 5,212,470	$ 5,556,473

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

2014	$ 344,003
2015	344,003
2016	344,003
2017	344,003
2018	344,003
Thereafter	3,492,455
	$ 5,212,470

NOTE 8 – 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 provide 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 is secured by the deed of trust of the property of the Organization's Los Angeles campus. The balance of the note as of December 31, and the future repayment schedule are as follows:

	2013	2012
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	$ 160,000
Less portion due within one year	(20,000)	(20,000)
Due after December 31, 2013 ($20,000 each year)	$ 120,000	$ 140,000

Line of Credit

The Organization has a $6,000,000 working capital line-of-credit from a commercial bank expiring August 31, 2014. 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 1.75%. The line-of-credit was unused and no borrowings were outstanding under this line-of-credit for the years ended and as of December 31, 2013 and 2012.

The Organization also has a $3,000,000 line-of-credit expiring August 31, 2014 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 for the years ended and as of December 31, 2013 and 2012.

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 was in compliance with these provisions as of December 31, 2013.

NOTE 9 – NET ASSETS

Unrestricted Net Assets

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

	2013	2012
Unrestricted Net Assets		
Board designated		
Board designated reserve	$ 14,151,201	$ 13,315,237
Unexpended earnings and appreciation on endowments	241,199	233,846
Board designated capital campaign	-	359,773
Invested in property, plant and equipment	31,963,074	24,100,833
Total board designated	46,355,474	38,009,689
Undesignated surplus	-	5,051,320
Unrestricted net assets	$ 46,355,474	$ 43,061,009

Temporarily Restricted Net Assets

Activity in temporarily restricted net assets during the years ended December 31, 2013 and 2012 was as follows:

	Balance December 31, 2012	Contributions and Other Changes	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	$ 3,270,302	$ 2,766,639	$ (2,411,466)	$ 3,625,475

Purpose restrictions	$ 2,089,042
Time restrictions	1,536,433
Temporarily restricted net assets	$ 3,625,475

NOTE 9 – NET ASSETS - Continued

Temporarily Restricted Net Assets (continued)

Net assets were released from donor restrictions during the years ended December 31, 2013 and 2012 as follows:

	2013	2012
Passage of time available to support operations	$ 1,152,824	$ 711,214
Contruction and capital projects	1,258,642	914,234
	$ 2,411,466	$ 1,625,448

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. Permanently restricted net assets totaled $2,376,639 and $2,358,901 as of December 31, 2013 and 2012, respectively.

NOTE 10 – 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:

2014	$ 20,136,926
2015	18,075,524
2016	16,475,715
2017	14,317,872
2018	12,676,474
Thereafter	34,275,078
	$ 115,957,589

Rental expense for the years ended December 31, 2013 and 2012 was approximately $22,358,000 and $20,374,000, respectively.

NOTE 10 – COMMITMENTS AND CONTINGENCIES - Continued

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 opinion that liabilities, if any, arising from such litigation and examinations would not have a material adverse effect on the financial position of the Organization.

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 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 financial statements.

NOTE 11 – 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. After one year of service, certain full-time employees receive an employer contribution of 5% of eligible compensation. Participants are fully vested in their own contributions. Employees are vested in the employer contributions as follows:

Years of service	% Vested
2	25%
3	50%
4	75%
5 or more	100%

For the years ended December 31, 2013 and 2012, the Organization contributed approximately $931,000 and $945,000, respectively, to the Plan.

In addition, the Organization has a Supplemental Executive Retirement Plan ("SERP") for certain executives. For the years ended December 31, 2013 and 2012, the Organization contributed approximately $229,000 and $258,000, respectively, to the SERP.

NOTE 12 – 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.

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 on the 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 the years ended December 31, 2013 and 2012 are listed below:

2013

	Worker's Compensation	CA SUI	Accrued Insurance Claims
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	(3,695,925)	(1,338,889)	(5,034,814)
	$ 9,494,809	$ 977,109	$ 10,471,918

2012

	Worker's Compensation	CA SUI	Accrued Insurance Claims
Claims payable at beginning of year	$ 7,562,000	$ 556,446	$ 8,118,446
Claims incurred / changes in estimate	3,981,978	1,328,013	5,309,991
Claim payments	(3,401,602)	(1,046,671)	(4,448,273)
	$ 8,142,376	$ 837,788	$ 8,980,164

NOTE 13 – 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.

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.

NOTE 13 – ENDOWMENTS - Continued

Endowment Net Asset Composition by Type of Fund

At December 31, 2013 endowment net assets have been classified as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated reserve	$ 14,151,201	$ -	$ -	$ 14,151,201
Perpetual trusts	-	-	320,529	320,529
Named endowments and unrestricted investments	668,074	-	2,056,110	2,724,184
	$ 14,819,275	$ -	$ 2,376,639	$ 17,195,914

Named endowments and unrestricted investments are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	6,452	-	10,250	16,702
	$ 668,074	$ -	$ 2,056,110	$ 2,724,184

At December 31, 2012 endowment net assets have been classified as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated reserve	$ 13,315,237	$ -	$ -	$ 13,315,237
Perpetual trusts	-	-	300,791	300,791
Named endowments	233,846	1,400	2,058,110	2,293,356
	$ 13,549,083	$ 1,400	$ 2,358,901	$ 15,909,384

NOTE 13 – ENDOWMENTS - Continued

Named endowments are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Lawrence Page	$ 3,852	$ -	$ 33,700	$ 37,552
Garret Family	43,908	-	384,139	428,047
Ludwig EG Erb	186,086	-	1,628,021	1,814,107
Capital Campaign	-	1,400	12,250	13,650
	$ 233,846	$ 1,400	$ 2,058,110	$ 2,293,356

With the exception of the endowment described as capital campaign, each of the named endowments provides for amounts in excess of the principal contribution to be made available for general operating expenditures. Because these earnings and appreciation remain invested, and not distributed for use, they are shown as unrestricted endowment.

The named endowments and unrestricted investments are comprised of the following as of December 31:

	2013	2012
Unexpended earnings and appreciation on endowments	$ 241,199	$ 233,846
Unrestricted earnings	426,875	-
	$ 668,074	$ 233,846

NOTE 13 – ENDOWMENTS - Continued

Changes in Endowment Net Assets during the Year

Activity in the endowments during the year was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated reserve	$ 13,315,237	$ -	$ -	$ 13,315,237
Perpetual trusts	-	-	300,791	300,791
Named endowments	233,846	1,400	2,058,110	2,293,356
	$ 13,549,083	$ 1,400	$ 2,358,901	$ 15,909,384
Balance December 31, 2012	$ 13,549,083	$ 1,400	$ 2,358,901	$ 15,909,384
Transfers - in (out)	17,580	(1,400)	-	16,180
Dividends and interest	332,647	-	-	332,647
Realized and unrealized gains	1,909,965	-	17,738	1,927,703
Distribution and expense	(990,000)	-	-	(990,000)
Balance December 31, 2013	$ 14,819,275	$ -	$ 2,376,639	$ 17,195,914

NOTE 14 – SUBSEQUENT EVENTS

The Organization evaluated its December 31, 2013 financial statements for subsequent events through May 7, 2014, the date the 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 financial statements. Also see Note 3.

Goodwill Industries of Southern California and Affiliate

SUPPLEMENTAL SCHEDULE – CLASSIFIED STATEMENTS OF FINANCIAL POSITION

As of December 31,

	2013	2012
Current assets		
Cash and cash equivalents	$ 13,797,424	$ 10,983,225
Cash and cash equivalents intended for improvements	3,591,393	8,996,168
Accounts receivable, net	6,154,994	4,061,906
Other receivables, current	633,188	193,076
Inventory	8,418,246	7,203,611
Prepaid expenses and deposits	3,151,437	2,535,851
Total current assets	35,746,682	33,973,837
Cash designated or restricted for long-term use	-	1,383,372
Investments	17,357,614	16,087,377
Other receivables, net of current	1,271,533	801,647
Prepaid expenses and deposits, net of current	947,658	975,032
Property, plant and equipment, net	32,554,278	24,656,890
Total assets	$ 87,877,765	$ 77,878,155
Current liabilities		
Accounts payable and accrued liabilities	$ 9,128,939	$ 6,709,113
Accrued compensation and related expenses	7,286,215	7,422,278
Current portion of note payable	20,000	20,000
Current portion of deferred gain	344,000	344,000
Current portion of deferred rent	328,063	35,991
Current portion of accrued insurance claims	5,034,814	4,448,273
Total current liabilities	22,142,031	18,979,655
Note payable	120,000	140,000
Deferred gain	4,868,470	5,212,473
Deferred rent from construction allowance	2,952,572	323,924
Insurance claims estimated to be paid after one year	5,437,104	4,531,891
Total liabilities	35,520,177	29,187,943
Net assets		
Unrestricted	46,355,474	43,061,009
Temporarily restricted	3,625,475	3,270,302
Permanently restricted	2,376,639	2,358,901
Total net assets	52,357,588	48,690,212
Total liabilities and net assets	$ 87,877,765	$ 77,878,155