GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

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AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Goodwill Industries of Southern California and Affiliates
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Goodwill Industries of Southern California and Affiliates (collectively, the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, 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.

(Continued)

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 Affiliates as of December 31, 2019 and 2018, 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.

Emphasis of Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 14 to the consolidated financial statements, the Organization temporarily closed all of its retail locations as a result of the COVID-19 pandemic on March 18, 2020. The closure caused a material adverse effect on the Organization's revenues, results of operations, and cash flows, including the Organization's ability to comply with the debt financial covenant compliance requirements under its existing credit facility. The Organization was unable to comply with its financial covenants during the first and second quarter of 2020 and has not yet received a waiver from the lender, causing all debt under the facility to be currently due in 2020. These conditions raise substantial doubt about the Organization's ability to continue as a going concern. Management's evaluation of the events and conditions and Management's plans regarding these matters are also described in Note 14. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Organization has adopted Accounting Standards Updates 2014-09 - *Revenue from Contracts with Customers* (Topic 606) and 2018-08 – *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The classified consolidated statements of financial position are presented for purposes of additional analysis of the consolidated financial statements, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information and other information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole

Crowe LLP

Crowe LLP

Los Angeles, California
July 21, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 7,992,666	$ 9,923,075
Cash and cash equivalents designated for improvements	-	331,690
Restricted cash	4,423,375	4,367,311
Investments (Note 5)	23,130,464	19,890,051
Accounts receivable, net	4,063,455	4,363,474
Inventory	11,701,359	8,731,781
Prepaid expenses and deposits	2,329,072	2,249,575
Other receivables (Note 6)	1,711,622	2,386,600
Property, plant and equipment, net (Note 7)	26,252,857	28,957,183
Total assets	$ 81,604,870	$ 81,200,740
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 10,727,725	$ 10,719,638
Accrued compensation and related expenses	6,425,742	6,113,988
Accrued insurance claims (Note 12)	16,250,883	16,378,596
Deferred rent	4,060,981	4,036,979
Deferred gain on sale-leaseback (Note 7)	3,075,966	3,454,974
Deferred rent - construction allowance (Note 7)	2,260,389	2,697,727
Capitalized lease obligation (Note 8)	323,128	386,368
Note payable (Note 8)	8,471,542	8,805,148
Total liabilities	51,596,356	52,593,418
Net assets (Note 9)		
Net assets without donor restrictions	24,150,907	20,973,294
Net assets with donor restrictions	5,857,607	7,634,028
Total net assets	30,008,514	28,607,322
Total liabilities and net assets	$ 81,604,870	$ 81,200,740

See accompanying notes to consolidated financial statements.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended December 31, 2019

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues			
Operating revenues			
Retail sales	$ 137,115,393	$ -	$ 137,115,393
Commodities sales	402,385	-	402,385
Contract services	7,185,893	-	7,185,893
Workforce development	10,555,200	-	10,555,200
Workforce development – government grants	6,404,024	-	6,404,024
Other	658,457	-	658,457
	162,321,352	-	162,321,352
Other revenues and support			
Contributions	1,757,768	1,483,538	3,241,306
Interest and dividends	534,959	-	534,959
Contributed goods	87,342,912	-	87,342,912
(Loss) on sale of property	(17,904)	-	(17,904)
Net assets released from restriction	3,630,846	(3,630,846)	-
Total revenues and support	255,569,933	(2,147,308)	253,422,625
Expenses			
Program services	242,271,666	-	242,271,666
Fundraising	2,672,231	-	2,672,231
General and administrative	10,334,399	-	10,334,399
Total operating expense	255,278,296	-	255,278,296
Changes in net assets from operations	291,637	(2,147,308)	(1,855,671)
Other changes in net assets			
Realized and unrealized gain on investments, net	2,885,976	370,887	3,256,863
Changes in net assets	3,177,613	(1,776,421)	1,401,192
Net assets, beginning of the year	20,973,294	7,634,028	28,607,322
Net assets, end of year	$ 24,150,907	$ 5,857,607	$ 30,008,514

See accompanying notes to consolidated financial statements.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended December 31, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues			
Operating revenues			
Retail sales	$ 128,714,001	$ -	$ 128,714,001
Commodities sales	583,872	-	583,872
Contract services	7,233,080	-	7,233,080
Workforce development	7,953,141	-	7,953,141
Workforce development – government grants	5,079,657	-	5,079,657
Other	922,047	-	922,047
	150,485,798	-	150,485,798
Other revenues and support			
Contributions	4,264,474	3,494,790	7,759,264
Contributions to capital campaign	-	381	381
Interest and dividends	508,996	-	508,996
Contributed goods	83,068,092	-	83,068,092
Gain on sale of property	97,990	-	97,990
Net assets released from restriction	2,835,904	(2,835,904)	-
Total revenues and support	241,261,254	659,267	241,920,521
Expenses			
Program services	228,685,896	-	228,685,896
Fundraising	2,440,690	-	2,440,690
General and administrative	9,733,559	-	9,733,559
Total operating expense	240,860,145	-	240,860,145
Changes in net assets from operations	401,109	659,267	1,060,376
Other changes in net assets			
Realized and unrealized (loss) on investments, net	(571,972)	(483,973)	(1,055,945)
Changes in net assets	(170,863)	175,294	4,431
Net assets, beginning of the year	21,144,157	7,458,734	28,602,891
Net assets, end of year	$ 20,973,294	$ 7,634,028	$ 28,607,322

See accompanying notes to consolidated financial statements.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	Program Services					Support Services		
	Material Handling	Stores	Contract Services	Workforce Development	Total	Fundraising	General Administrative	Total Expenses
Salaries and wages	$ 22,020,835	$ 28,376,172	$ 5,102,601	$ 13,671,004	$ 69,170,612	$ 1,505,659	$ 4,325,304	$ 75,001,575
Payroll taxes	1,654,863	2,130,217	381,376	1,018,402	5,184,858	94,617	247,354	5,526,829
Employee benefits	3,191,209	2,957,395	687,557	1,724,967	8,561,128	203,945	525,687	9,290,760
Total salaries and related expenses	26,866,907	33,463,784	6,171,534	16,414,373	82,916,598	1,804,221	5,098,345	89,819,164
Contributed goods - cost of goods sold	-	85,140,044	-	-	85,140,044	-	-	85,140,044
Purchased goods - cost of goods sold	-	3,423,485	-	-	3,423,485	-	-	3,423,485
Rent and maintenance	7,346,049	21,520,065	6,000	340,819	29,212,933	-	-	29,212,933
Occupancy	3,752,919	5,043,248	(453,376)	2,431,370	10,774,161	247,444	800,398	11,822,003
Professional services and temporary labor	1,479,237	2,086,587	262,857	725,227	4,553,908	281,151	1,357,901	6,192,960
Participant training and support	-	-	-	2,380,221	2,380,221	-	-	2,380,221
Technology and communication	422,302	1,677,369	146,095	321,398	2,567,164	64,217	1,276,212	3,907,593
Utilities	169,449	2,504,700	-	38,991	2,713,140	-	-	2,713,140
Supplies	370,826	1,442,892	690,157	283,205	2,787,080	12,360	29,372	2,828,812
Trash disposal	3,000,804	14,504	-	-	3,015,308	-	-	3,015,308
Transportation	2,535,666	186,735	87,231	12,658	2,822,290	12,759	3,610	2,838,659
Banking and finance fees	60,682	1,360,277	7,943	3,399	1,432,301	48	(63,973)	1,368,376
Insurance	327,540	578,775	61,562	107,716	1,075,593	15,399	703,239	1,794,231
Postage and shipping	1,459	1,464,010	1,431	4,771	1,471,671	69,713	18,793	1,560,177
Repairs and maintenance	169,493	826,770	8,940	29,593	1,034,796	-	-	1,034,796
Travel, conference and meetings	7,525	48,903	62,999	397,096	516,523	32,382	56,525	605,430
Printing, publications and media	-	152,689	-	13,216	165,905	112,627	4,357	282,889
Other (taxes, licenses and dues)	7,633	19,357	5,188	9,889	42,067	8,681	283,191	333,939
Interest	17,027	-	-		17,027	-	321,035	338,062
Depreciation	950,428	2,494,631	353,220	411,172	4,209,451	11,229	445,394	4,666,074
	$ 47,485,946	$ 163,448,825	$ 7,411,781	$ 23,925,114	$ 242,271,666	$ 2,672,231	$ 10,334,399	$ 255,278,296

See accompanying notes to consolidated financial statements.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Program Services					Support Services		
	Material Handling	Stores	Contract Services	Workforce Development	Total	Fundraising	General Administrative	Total Expenses
Salaries and wages	$ 20,761,327	$ 25,554,600	$ 4,542,560	$ 10,418,376	$ 61,276,863	$ 1,337,184	$ 4,618,834	$ 67,232,881
Payroll taxes	1,528,254	1,927,270	337,308	779,014	4,571,846	94,279	256,858	4,922,983
Employee benefits	3,178,546	4,024,521	686,807	1,502,730	9,392,604	191,871	612,476	10,196,951
Total salaries and related expenses	25,468,127	31,506,391	5,566,675	12,700,120	75,241,313	1,623,334	5,488,168	82,352,815
Contributed goods - cost of goods sold	-	81,617,577	-	-	81,617,577	-	-	81,617,577
Purchased goods - cost of goods sold	-	3,732,679	-	-	3,732,679	-	-	3,732,679
Rent and maintenance	7,118,865	20,411,893	6,500	438,762	27,976,020	-	-	27,976,020
Occupancy	3,480,550	4,558,417	466,865	1,942,414	10,448,246	209,383	706,851	11,364,480
Professional services and temporary labor	1,771,526	1,783,435	260,174	415,487	4,230,622	180,013	733,713	5,144,348
Participant training and support	-	-	-	2,793,443	2,793,443	-	-	2,793,443
Technology and communication	424,876	1,518,187	144,533	368,020	2,455,616	85,777	1,188,262	3,729,655
Utilities	163,517	2,440,599	-	7,736	2,611,852	-	-	2,611,852
Supplies	225,770	1,552,409	570,395	257,785	2,606,359	10,056	37,414	2,653,829
Trash disposal	2,849,709	6,118	-	697	2,856,524	-	-	2,856,524
Transportation	2,445,578	103,321	98,743	11,685	2,659,327	1,224	8,730	2,669,281
Banking and finance fees	43,579	1,304,547	7,373	3,353	1,358,852	-	(34,885)	1,323,967
Insurance	359,931	752,314	110,048	142,809	1,365,102	15,785	531,010	1,911,897
Postage and shipping	6,642	1,192,516	1,701	2,334	1,203,193	135,199	23,946	1,362,338
Repairs and maintenance	161,958	718,729	20,664	20,687	922,038	3,818	10,258	936,114
Travel, conference and meetings	11,012	71,047	54,995	312,513	449,567	73,876	46,308	569,751
Printing, publications and media	412	148,500	134	33,921	182,967	90,958	1,674	275,599
Other (taxes, licenses and dues)	4,492	7,018	11,590	17,995	41,095	2,237	244,854	288,186
Interest	20,138	-	-	-	20,138	-	333,190	353,328
Depreciation	934,708	2,235,494	346,968	396,196	3,913,366	9,030	414,066	4,336,462
	$ 45,491,390	$ 155,661,191	$ 7,667,358	$ 19,865,957	$ 228,685,896	$ 2,440,690	$ 9,733,559	$ 240,860,145

See accompanying notes to consolidated financial statements.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Changes in net assets	$ 1,401,192	$ 4,431
Adjustments to reconcile changes in net assets to net cash providedby operating activities:		
Depreciation	4,666,074	4,336,462
Recognize deferred gain with sale-leaseback	(379,008)	(381,490)
Loss (gain) on sale of plant property and equipment	17,904	(97,990)
Net realized and unrealized (gain) loss on investments	(3,256,863)	1,055,945
Contributions for capital expenditures	-	(381)
Changes in assets and liabilities:		
Accounts receivable, net	306,019	(159,027)
Pledges receivable	768,388	(874,916)
Inventory	(2,969,578)	(1,101,017)
Prepaid expenses and deposits	(85,497)	428,664
Accounts payable and accrued liabilities	8,087	358,647
Accrued compensation and related expenses	311,754	372,907
Accrued insurance claims	(127,713)	542,601
Deferred rent	24,002	(43,827)
Deferred rent from construction allowance	(437,338)	(307,689)
Net cash provided by operating activities	247,423	4,133,320
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	21,838	97,990
Purchases of property, plant and equipment	(2,001,490)	(3,083,675)
Proceeds from sale of investments	1,316,968	2,467,929
Purchases of investments	(1,393,928)	(2,339,238)
Net cash used in investing activities	(2,056,612)	(2,856,994)
Cash flows from financing activities		
Contributions restricted for capital expenditures	-	381
Repayment of capitalized lease	(63,240)	(60,127)
Repayment of term loan	(333,606)	(321,472)
Net cash used in financing activities	(396,846)	(381,218)
Net increase (decrease) in cash and cash equivalents and restricted cash	(2,206,035)	895,108
Cash and cash equivalents and restricted cash at beginning of year	14,622,076	13,726,968
Cash and cash equivalents and restricted cash at end of year	$ 12,416,041	$ 14,622,076
Supplemental cash flow information:		
Cash paid for interest	$ 338,062	$ 353,328

See accompanying notes to 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, secure document management, e-recycling, printing, 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 122 stores where contributed goods and a limited selection of new 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, document imaging, printing, custodial services, and assembly and fulfillment services to the local business community.

Workforce Development – There are over 50 program activities to provide education, training, placement and other vocational support for target populations including persons with disabilities, at-risk youth, the working poor, ex-offenders, veterans, and the homeless. These programs are funded through reimbursement, fee for service arrangements, and private support. Workforce development also includes the operation of a cafeteria for vocational training and 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 significant intercompany transactions have been eliminated.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Organization reports its consolidated financial position and activities into two 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):

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated by the Board either for specific purposes or for investment.

- *Net assets with donor restrictions* – 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.

Revenue Recognition: Goodwill recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers ("ASC Topic 606"). ASC 606 is a comprehensive revenue recognition model that requires revenue to be recognized when control of the promised goods or services are transferred to customers at an amount that reflects the consideration that expect to be received.

The Organization elected the modified retrospective approach of adoption; therefore, prior period balances are presented under legacy GAAP and may not be comparable to current year presentation.

A description of the Organization's revenue streams accounted for under ASC 606 follows:

Retail Sales: Goodwill sells donated goods and purchased new goods either in retail stores or online. All payments are received upon items sold and no refund is granted. Revenue is recognized when the items are sold or shipped on a gross basis.

Commodity Sales: Goodwill sells old computers and waste paper in bulk. Revenue is recognized when items are sold.

Contract Services: Goodwill provides certain services to customers, such as printing, shredding, custodial services, and building janitorial service. Revenue is recognized at the time of service provided or over the service period based on contract terms to be either by piece or flat monthly rate. Invoices are issued at each month. The usual collection period is 1-2 months.

Workforce Development Revenues: Certain government entities or nonprofit organizations hire Goodwill to provide career service trainings to eligible participants. Revenue is recognized when training occurs on a gross basis.

The Organization also receives contribution revenue, including unconditional promises to give, which are recognized when received. 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 and certificates of deposit 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.

Restricted Cash: Cash of $4,423,375 and $4,367,311 has been contractually designated for specific purposes, as of December 31, 2019 and 2018, respectively.

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") insurance coverage. The Organization has not experienced and does not anticipate any losses related to cash held in these accounts.

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 net assets without donor restrictions, unless its use is temporarily or permanently restricted by donors for a specified purpose or future period.

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 $120,000 and $275,000 for customer obligations at December 31, 2019 and 2018, 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 was recorded for estimated uncollectible contributions receivable at December 31, 2019 or 2018. 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 met. Contributions receivable is reported within other receivables on the consolidated statements of financial position (see Note 6).

Inventory: Inventory is comprised of donated goods inventory and new product inventory. Donated goods inventory is recorded at fair value as noted in the revenue accounting policy above. New product inventory is valued at the lower of cost or net realizable value, using the weighed-average cost method.

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. Property, plant and equipment with a cost of at least $5,000 and a useful life of three years or more is capitalized. 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:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2019 and 2018, 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, net of the present value of the liability, is recorded in other receivables (Note 6) at the estimated fair value of the asset. 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 Organization invests funds contributed by individuals in exchange for a lifetime annuity paid by the Organization. These investments are reported at fair value and reported with investments (Note 5). The liability associated with these annuities is reported with accounts payable and accrued liabilities on the consolidated statements of financial position.

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 donor-restricted support that increases those net asset classes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When a donor-imposed time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statements of activities as net assets released from restrictions. Capital campaign contributions are considered to be net assets with donor restrictions until the asset is placed into service.

Government and Other Grants: The Organization receives numerous grants from governmental agencies and certain foundations. 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 2019 and 2018, advertising costs were approximately $266,000 and $247,000, respectively, and are reported with printing, publication and media 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, San Fernando 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 consolidated financial statements 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, 2019 and 2018, it is possible that actual results could differ from those estimates, and the difference could be material to the consolidated financial statements.

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, 2019 and 2018, nor does it expect there will be a material change in the twelve months following the year ended December 31, 2019.

(Continued)

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 consolidated 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 Standards: On January 1, 2019, Goodwill adopted Accounting Standards Update (ASU) 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets. Some of the Organization's revenues come from other sources, including contributions, leases and investment income which are outside the scope of ASC 606. The Organization's services that fall within the scope of ASC 606 are recognized as revenue as the entity satisfies its obligation to the customer. Services within the scope of ASC 606 include retail sales, commodity sales, contract services, and workforce development revenues. Goodwill adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy accounting practices. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded. There were no material changes to the statement of activities presentation or changes in the timing of when revenue is being recognized under the new standard.

On January 1, 2019, Goodwill adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update provides not-for-profit organizations with new guidance on characterizing grants and similar contracts as either reciprocal or nonreciprocal transactions, and it provides a framework for distinguishing between conditional and unconditional contributions. There were no material changes to the recognition or presentation of revenue due to the application of this standard.

Recent Accounting Guidance: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a corresponding liability. The ASU is effective for fiscal years beginning after December 15, 2021. The Organization has not yet implemented this ASU and is in the process of assessing the effect on the financial statements.

Reclassifications: Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. Such reclassifications did not have an effect on net assets or change in net assets.

(Continued)

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2019	2018
Cash and cash equivalents	$ 7,992,666	$ 9,923,075
Accounts receivable	4,063,455	4,363,474
Endowment spending-rate distributions and appropriations	405,121	393,266
Investments	19,604,487	16,553,054
Total	$ 32,065,729	$ 31,232,869

The Organization's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use, which on an annual basis is calculated as 7% of the average balance of the prior twelve quarters. Otherwise, donor-restricted endowment funds are not available for general expenditure.

The Organization's investments of $19,604,487 and $16,553,054 are accessible upon board approval, and are not subject to an annual spending maximum. Although the Organization does not intend to spend from these board-designated amounts, these amounts could be made available by the board if necessary. In addition, the Organization has available a revolving line of credit totaling $5,000,000, as further described in Note 8.

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 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. 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. Contributions receivable from split-interest agreements are included in this category.

The following methods and assumptions are used to estimate 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.

(Continued)

NOTE 4 – FAIR VALUE (Continued)

Beneficial interests in trusts - Beneficial interests in trusts (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.

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, 2019 and 2018.

2019	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 2,485,001	-	-	$ 2,485,001
Mutual funds - equity				
Emerging Markets - Index	649,321	-	-	649,321
Small Cap - Index	235,020	-	-	235,020
Stock - Index	8,234,633	-	-	8,234,633
Global Stock - Index	1,531,989	-	-	1,531,989
Growth	1,634,780	-	-	1,634,780
Mutual funds - fixed income				
Global Bonds	1,373,006	-	-	1,373,006
Global Bonds Index	497,107	-	-	497,107
Intermediate Bonds	5,374,543	-	-	5,374,543
Intermediate Bonds - Index	571,172	-	-	571,172
Bond Index	543,892	-	-	543,892
Total investments	23,130,464	-	-	23,130,464
Beneficial interests in trusts				
Perpetual trusts	-	-	306,531	306,531
Charitable remainder trusts	-	-	742,531	742,531
Total beneficial interests in trusts	-	-	1,049,062	1,049,062
Assets reported at fair value	$ 23,130,464	$ -	$ 1,049,062	$ 24,179,526

2018	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 2,540,410	$ -	$ -	$ 2,540,410
Mutual funds - equity				
Emerging Markets - Index	539,726	-	-	539,726
Small Cap - Index	210,053	-	-	210,053
Stock - Index	6,399,972	-	-	6,399,972
Global Stock - Index	1,280,818	-	-	1,280,818
Growth	1,244,108	-	-	1,244,108
Mutual funds - fixed income				
Global Bonds Index	1,385,918	-	-	1,385,918
Intermediate Bonds	4,550,352	-	-	4,550,352
Intermediate Bonds - Index	518,390	-	-	518,390
Bond Index	1,220,304	-	-	1,220,304
Total investments	19,890,051	-	-	19,890,051
Beneficial interests in trusts				
Perpetual trusts	-	-	271,688	271,688
Charitable remainder trusts	-	-	683,964	683,964
Total beneficial interests in trusts	-	-	955,652	955,652
Assets reported at fair value	$ 19,890,051	$ -	$ 955,652	$ 20,845,703

(Continued)

NOTE 4 – FAIR VALUE (Continued)

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 were no transfers between levels during 2019 or 2018. 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, 2019 and 2018:

	Charitable	Perpetual	Total
Balance January 1, 2018	$ 626,674	$ 312,477	$ 939,151
Increase (decrease) in fair value	57,290	(40,789)	16,501
Balance December 31, 2018	683,964	271,688	955,652
Increase in fair value	58,567	34,843	93,410
Balance December 31, 2019	$ 742,531	$ 306,531	$ 1,049,062

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:

	2019	2018
Money market funds	$ 2,485,001	$ 2,540,410
Mutual funds - bond funds	8,359,720	7,674,964
Mutual funds - stock funds	12,285,743	9,674,677
	$ 23,130,464	$ 19,890,051

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

	2019	2018
Charitable gift annuities	$ 571,172	$ 518,390
Board designated reserve	6,692,720	1,207,627
Other investments	12,921,767	15,345,427
Endowment	2,954,805	2,818,607
	$ 23,130,464	$ 19,890,051

(Continued)

NOTE 5 – INVESTMENTS (Continued)

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 $3,000 and $10,000 as of December 31, 2019 and 2018, 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.

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

	2019	2018
Balance, beginning of year	$ 19,890,051	$ 21,091,188
Increases:		
Dividends and interest reinvested	534,959	474,029
Purchase of investments	858,969	1,865,209
	1,393,928	2,339,238
Decreases:		
Sales, redemptions and distributions	(1,316,968)	(2,467,929)
Realized gains	88,868	62,390
Unrealized gains (losses)	3,074,585	(1,134,836)
Realized and unrealized (losses) gains, net	3,163,453	(1,072,446)
Balance, end of year	$ 23,130,464	$ 19,890,051

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

	2019	2018
From investments	$ 3,163,453	$ (1,072,446)
From charitable remainder trust	58,567	57,290
From perpetual trust	34,843	(40,789)
	$ 3,256,863	$ (1,055,945)

NOTE 6 – OTHER RECEIVABLES

Other receivables include the following as of December 31:

	2019	2018
Pledges receivable	$ 662,560	$ 1,430,947
Charitable remainder trusts	742,531	683,964
Perpetual trusts beneficial interest	306,531	271,689
Total other receivables	$ 1,711,622	$ 2,386,600

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 5. 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:

	2019	2018
Beginning balance:	$ 1,430,947	$ 556,031
New contributions promised	1,367,731	4,531,166
Pledge payments received	(2,136,118)	(3,656,250)
Ending balance:	$ 662,560	$ 1,430,947

Repayment schedule of contributions receivable are as follows as of December 31, 2019 and 2018:

	2019	2018
Less than one year	$ 562,560	$ 1,230,947
Between one year and three years	100,000	200,000
Pledges receivable, net	$ 662,560	$ 1,430,947

(Continued)

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

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

	2019	2018
Land	$ 2,034,821	$ 2,034,821
Buildings and improvements	43,798,896	43,263,835
Fixtures and equipment	29,424,409	27,922,736
Transportation equipment	3,398,016	3,406,558
Construction in progress	-	254,655
	78,656,142	76,882,605
Less accumulated depreciation	(52,403,285)	(47,925,422)
	$ 26,252,857	$ 28,957,183

Depreciation expense for the years ended December 31, 2019 and 2018, was approximately $4,666,000 and $4,336,000, 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:

	2019	2018
Construction allowance	$ 5,083,860	$ 5,071,660
Deferred rent recognized	(2,823,471)	(2,373,933)
	$ 2,260,389	$ 2,697,727

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:

	2019	2018
Unrecognized gain	$ 5,699,806	$ 5,699,806
Sale-leaseback deferred rent recognized	(2,623,840)	(2,244,832)
	$ 3,075,966	$ 3,454,974

(Continued)

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (Continued)

The future amortization of the deferred gain based on minimum rents for years ending December 31 is as follows:

2020	378,839
2021	378,839
2022	378,839
2023	378,839
2024	378,839
Thereafter	1,181,771
	$ 3,075,966

NOTE 8 – NOTE PAYABLE

The Organization maintains borrowing facilities with a commercial bank. The arrangement provides for a term loan for $10,000,000 and, access to a revolving line-of-credit for $5,000,000. The term loan required payment of principal and interest monthly through October 31, 2022. In January 2020, the term loan was amended, adjusting the monthly payments and extended the maturity to February, 2027 when the remaining principal balance plus any interest is due. The revolving line-of-credit expires September 1, 2020. Both the term loan and the revolving line-of-credit are collateralized by real property. The interest rate on the term loan was fixed at 3.66% at December 31, 2019 and 2018. In January 2020, as part of the amendment to the term loan, the interest rate was decreased to a fixed rate 3.24%. The interest rate on the revolving line-of-credit is the LIBOR daily floating rate plus 1.5% (3.04% and 3.88% at December 31, 2019 and 2018, respectively). At December 31, 2019 and 2018, $8,471,542 and $8,805,148, respectively, was outstanding on the term loan. At December 31, 2019 and 2018, the revolving line-of-credit was unused. The terms of the credit facilities and master lease require the Organization to meet or exceed certain ratios and to communicate financial results to the bank on a regular basis. Management believes they were in compliance with such covenants as of December 31, 2019 and 2018.

Subsequent to December 31, 2019, the Organization was unable to comply with its 2020 first and second quarter financial covenant requirements under its existing credit facility. As of the date of this report, the lender has not yet issued a waiver for these measurement periods (Note 14). The lender has not assessed a default interest rate, penalties or fees related to the covenant violations, but reserves the right to do so. Consequences of default imposed by the lender may include debt becoming immediately due and/or interest rate increases to 6.0 percentage points over the current rate. The entire outstanding balance of $8,471,542 at December 31, 2019 is considered as a current liability due to the uncured subsequent default. See Note 14 for further discussion of subsequent events, going concern, and management's plans.

In 2016 the Organization negotiated a master lease with a commercial bank not to exceed $500,000. The master lease provides for the Organization to enter into distinct and separate leases for the purchase of capitalized equipment. The lease requires payment of principal and interest monthly through October 2024. The interest rate on the lease is 4.68%.

(Continued)

NOTE 8 – NOTE PAYABLE (Continued)

Future payments to be made through to the expiration date as of December 31, 2019, are as follows:

2020	85,769
2021	85,769
2022	85,769
2023	70,870
2024	21,161
Total payments	349,338
Less amount representing interest	(26,210)
Net present value of minimum payments	$ 323,128

NOTE 9 – NET ASSETS

Net assets without donor restrictions: At December 31, unrestricted and board-designated net assets are as follows:

	2019	2018
Net assets without donor restrictions		
Board designated reserve	$ 6,692,720	$ 1,207,627
Invested in property, plant and equipment	17,458,187	19,765,667
	$ 24,150,907	$ 20,973,294

Net assets with donor restrictions: Activity in net assets with donor restrictions during the years ended December 31, 2019 and 2018 was as follows:

	Balance January 1, 2019	Contributions and other Increases	Release from restrictions and other decreases	Balance December 31, 2019
Program services	$ 3,859,769	$ 1,424,971	$ (3,431,001)	$ 1,853,739
Charitable remainder trusts	683,964	58,567	-	742,531
Unexpended endowment	662,497	336,044	(199,845)	798,696
Perpetual trusts	271,688	34,843	-	306,531
Named endowments	2,156,110	-	-	2,156,110
Net assets with donor restrictions	$ 7,634,028	$ 1,854,425	$ (3,630,846)	$ 5,857,607

	Balance January 1, 2018	Contributions and other Increases	Release from restrictions and other decreases	Balance December 31, 2018
Capital campaign	$ -	$ 381	$ (381)	$ -
Program services	3,200,501	3,494,790	(2,835,522)	3,859,769
Charitable remainder trusts	626,674	57,290	-	683,964
Unexpended endowment	1,162,972	-	(500,475)	662,497
Perpetual trusts	312,477	-	(40,789)	271,688
Named endowments	2,156,110	-	-	2,156,110
Net assets with donor restrictions	$ 7,458,734	$ 3,552,461	$ (3,377,167)	$ 7,634,028

(Continued)

NOTE 9 – NET ASSETS (Continued)

	2019	2018
Purpose and time restrictions	$ 1,853,7439	$ 3,659,769
Time restrictions	742,531	883,964
Unexpended endowment	798,696	662,497
Perpetual trusts	306,531	271,688
Named endowments	2,156,110	2,156,110
Net assets with donor restrictions	$ 5,857,607	$ 7,634,028

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

	2019	2018
Passage of time available to support operations and programs	$ 3,630,846	$ 2,835,522
Completion of construction or acquisition of property and equipment	-	381
	$ 3,630,846	$ 2,835,904

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Leases: The Organization leases certain stores, facilities and office and transportation equipment. The leases have various expiration dates through 2031. Minimum annual rental payments, excluding any future inflation adjustments, are as follows:

2020	25,405,577
2021	22,124,384
2022	18,367,545
2023	14,113,164
2024	9,606,181
Thereafter	19,574,606
	$ 109,191,457

Rental expense for the years ended December 31, 2019 and 2018, was approximately $25,485,000 and $24,641,000, respectively.

Sublease Rental Income: The Organization has 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:

2020	82,169
2021	68,024
2022	7,751
	$ 157,944

(Continued)

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

Rental revenue from sublease rents during the year ended December 31, 2019 and 2018, was both approximately $163,000 and $161,000, respectively.

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 any probable and measurable liabilities arising from such litigation and examinations have been properly reported in the consolidated statements of financial position within accounts payable and accrued liabilities.

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 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 and/or post-tax salary. At the discretion of management, and after one year of service, certain full-time employees may receive an employer contribution of up to 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:

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

For the year ended December 31, 2019 the Organization contributed approximately $153,000 and to the plan. During the year ended December 31, 2018, the Organization did not contribute to the plan.

In addition, the Organization has a Supplemental Executive Retirement Plan ("SERP") for certain executives. The Organization did not contribute to the SERP for the year ended December 31, 2019 and 2018.

(Continued)

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 workers' 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. The workers' compensation accrual has been discounted with a rate of 3%. The discounted amount of the liability was $16,251,000 and $16,379,000, respectively, as of December 31, 2019 and 2018.

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

The estimated claims payable and changes in the claims payable amount for fiscal years 2019 and 2018 are listed below:

	Workers' Compensation	CA SUI	Insurance Claims
2019			
Claims payable at beginning of year	$ 15,399,061	$ 979,535	$ 16,378,596
Claims incurred/changes in estimate	7,405,140	510,440	7,915,580
Claim payments	(7,554,242)	(489,051)	(8,043,293)
	$ 15,249,959	$ 1,000,924	$ 16,250,883

	Workers' Compensation	CA SUI	Insurance Claims
2018			
Claims payable at beginning of year	$ 14,778,030	$ 1,057,965	$ 15,835,995
Claims incurred/changes in estimate	7,264,496	694,538	7,959,034
Claim payments	(6,643,465)	(772,968)	(7,416,433)
	$ 15,399,061	$ 979,535	$ 16,378,596

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.

(Continued)

NOTE 13 – 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 net assets with donor restrictions (a) the original value of gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment, (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 restricted endowment and (d) accumulations to the restricted 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. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use, which on an annual basis is calculated as 7% of the average balance of the prior twelve quarters.

Endowment Net Asset Composition by Type of Fund: For the year ended December 31, 2019, endowment net assets have been classified as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Board designated reserve	$ 19,604,487	$ -	$ 19,604,487
Perpetual trusts	-	306,531	306,531
Unexpended endowment	-	798,696	798,696
Named endowments	-	2,156,110	2,156,110
Subtotal	19,604,487	3,261,337	22,865,824
Change in designation	(12,911,767)	-	(12,911,767)
	$ 6,692,720	$ 3,261,337	$ 9,954,057

(Continued)

NOTE 13 – ENDOWMENTS (Continued)

For the year ended December 31, 2018 endowment net assets have been classified as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Board designated reserve	$ 16,553,054	$ -	$ 16,553,054
Perpetual trusts	-	271,688	271,688
Unexpended endowment	-	662,497	662,497
Named endowments	-	2,156,110	2,156,110
Subtotal	16,553,054	3,090,295	19,643,349
Change in designation	(15,345,427)	-	(15,350,427)
	$ 1,207,627	$ 3,090,295	$ 4,297,922

Unexpended and named investment endowments as of December 31, 2019 and 2018, are as follows:

	2019	2018
Lawrence Page	$ 48,288	$ 46,385
Garret Family	523,743	503,121
Ludwig EG Erb	2,224,681	2,137,087
Thomas Barry	132,524	110,663
Capital Campaign	25,570	21,351
	$ 2,954,806	$ 2,818,607

Changes in Endowment Net Assets During the Year:

Activity in the endowment during the year was as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total Endowment
2019			
Balance December 31, 2018	$ 1,207,627	$ 3,090,295	$ 4,297,922
Dividends and interest	534,959	-	534,959
Realized and unrealized gains	2,885,976	370,887	3,256,863
Distribution and expense	199,845	(199,845)	-
	4,828,407	3,261,337	8,089,744
Change in designation	1,864,313	-	1,864,313
Balance December 31, 2019	$ 6,692,720	$ 3,261,337	$ 9,954,057

(Continued)

NOTE 13 – ENDOWMENTS (Continued)

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total Endowment
2018			
Balance December 31, 2017	$ 507,302	$ 3,631,559	$ 4,138,861
Dividends and interest	489,114	-	489,114
Realized and unrealized losses	(872,405)	(541,264)	(1,413,669)
Distribution and expense	-	-	-
	124,011	3,090,295	3,214,306
Change in designation	1,083,616	-	1,083,616
Balance December 31, 2018	$ 1,207,627	$ 3,090,295	$ 4,297,922

NOTE 14 – SUBSEQUENT EVENTS, GOING CONCERN, AND MANAGEMENT'S PLANS

The Organization has evaluated subsequent events after the balance sheet date for appropriate accounting and disclosure, through July 21, 2020, the date on which the consolidated financial statements were available to be issued.

As of the Organization's balance sheet date of December 31, 2019, there were a limited number of cases of an unknown virus reported to the World Health Organization ("WHO"). However, since that time, the WHO has declared COVID-19 ("Coronavirus") a worldwide pandemic with a significant impact on the global economy and businesses like those of the Organization's. The Coronavirus was declared a Public Health Emergency of International Concern by the WHO on January 30, 2020. On March 13, 2020, the President of the United States declared the COVID-19 outbreak a national emergency.

Due to the stay-at-home requirements enacted by the State of California and the related social distancing protocol advisories, the Organization's sales were significantly impacted toward the end of the first quarter of 2020. The Organization implemented measures of temporarily closing all of its retail locations commencing March 18, 2020. In addition, in early April 2020, the Organization laid off the vast majority of its employees, reduced executive compensation, deferred all bonuses and compensation increases and deferred or significantly reduced payments to the Organization's landlords, licensors, vendors, consultants and other outside partners. Local government officials declared the Organization's Workforce and Career Development, E-Commerce, and Contract Services operations "essential" to the community, so those divisions continued to operate during the COVID-19 crisis. When the State of California and local authorities lifted the stay-at-home requirements in late May 2020, the Organization began to gradually reopen its retail locations. As of the date on which the consolidated financial statements were available to be issued, 89 of 122 retail locations were open. It is unknown at this time whether further reclosures for retail locations will be instituted.

The COVID-19 pandemic has caused a material adverse effect on the Organization's revenues, results of operations, and cash flows, including the Organization's ability to comply with the debt covenant compliance requirements under its existing credit facility. While management believes that the Organization will return to positive cash flow from operations during the second quarter of 2021, the actual outcome is still unknown. In the meantime, Management intends to fund operations by utilizing available cash reserves. The Organization entered a new SBA loan in June 2020 for $150,000. The loan will be due in monthly principal and interest payments over 30 years, beginning 12 months from the date of the promissory note, with interest at a rate of 2.75% per annum.

(Continued)

NOTE 14 – SUBSEQUENT EVENTS, GOING CONCERN, AND MANAGEMENT'S PLANS (Continued)

In May 2020, upon approval by the Board of Directors, the Organization borrowed the full amount of the donor-restricted endowment, totaling approximately $2.5 million, to be repaid in the future, the timing of which is to be determined subsequently. The Board also approved that the Organization may utilize the Board Designated reserve of approximately $16 million (as of March 31, 2020) for operations, after fully utilizing certain other liquidity sources, down to a floor of $5 million. Also, the available line of credit of $5 million (Note 8) was fully drawn upon in March 2020 and is due for renewal in September 2020. Management is seeking additional financing from various parties in order to enhance liquidity. There is no assurance that Management's plans to secure additional financing will be successfully implemented, or implemented on terms favorable to the Organization.

The Organization was unable to comply with its 2020 first and second quarter financial covenant requirements under its existing credit facility. As of the date of this report, the lender has not yet issued a waiver for these measurement periods. At this time, the lender has not assessed a default interest rate, penalties, or fees related to the covenant violations, but reserves the right to do so. Consequences of default the bank may impose include debt becoming immediately due, and/ or a default interest rate of 6.0 percentage points over the current rate. Management believes the lender's Distressed Assets Group is re-evaluating the language and terms in the credit facility, however any changes in terms are unknown at this time. The Organization may not be able to comply with its financial covenant requirements for several quarters beyond June 30, 2020 absent relief from its lender, and accordingly, combined with the aforementioned factors, there is substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued.

The impacts of Coronavirus on operations over the next 12 months are difficult to assess or predict with meaningful precision and actual effects will depend on many factors beyond the control and knowledge of the Organization. No adjustments have been made to the financial statements as a result of this uncertainty.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATES
SUPPLEMENTAL SCHEDULE – CLASSIFIED CONSOLIDATED STATEMENTS
OF FINANCIAL POSITION
As of December 31, 2019 and 2018

	2019	2018
Current assets		
Cash and cash equivalents	$ 7,992,666	$ 9,923,075
Cash and cash equivalents designated for improvements	-	331,690
Restricted cash	4,423,375	4,367,311
Accounts and other receivables, net	4,063,455	4,363,474
Inventory	11,701,359	8,731,781
Prepaid expenses and deposits	2,329,072	2,249,575
Other receivables	562,560	1,230,947
Total current assets	31,072,487	31,197,853
Investments	23,130,464	19,890,051
Other receivables, net of current	1,149,062	1,155,653
Property, plant and equipment, net	26,252,857	28,957,183
Total assets	$ 81,604,870	$ 81,200,740
Current liabilities		
Accounts payable and accrued liabilities	$ 10,727,725	$ 10,719,638
Accrued compensation and related expenses	6,425,742	6,113,988
Current portion of capitalized lease obligation	71,519	68,239
Current portion of note payable	8,471,542	356,508
Current portion of deferred gain on sale-leaseback	378,839	378,839
Current portion of deferred rent from construction allowance	307,689	307,689
Current portion of accrued insurance claims	6,590,423	7,416,432
Total current liabilities	32,973,479	25,361,333
Capitalized lease obligation	251,609	318,129
Note payable	-	8,448,640
Deferred gain on sale-leaseback	2,697,127	3,076,135
Deferred rent	4,060,981	4,036,979
Deferred rent from construction allowance	1,952,700	2,390,038
Insurance claims estimated to be paid after one year	9,660,460	8,962,164
Total liabilities	51,596,356	52,593,418
Net assets		
Net assets without donor restrictions	24,150,907	20,973,294
Net Assets with donor restrictions	5,857,607	7,634,028
Total net assets	30,008,514	28,607,322
Total liabilities and net assets	$ 81,604,870	$ 81,200,740