REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

GOODWILL INDUSTRIES OF ORANGE COUNTY, CALIFORNIA AND AFFILIATE

December 31, 2018 and 2017

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Report of Independent Auditors

The Board of Directors
Goodwill Industries of Orange County, California and Affiliate

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Goodwill Industries of Orange County, California and Affiliate (the "Organization") as of December 31, 2018, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Orange County, California and Affiliate as of December 31, 2018, and the change in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, as of and for the year ended December 31, 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs to programmatic and other support information, and direction for consistency about information provided on investment return. The adoption of the standard resulted in additional footnote disclosures and changes to the classification of net assets, and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented, with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

Also as discussed in Note 2 to the consolidated financial statements, as of and for the year ended December 31, 2018, the Organization adopted *Topic 606 – Revenue from Contracts with Customers* using the modified retrospective method applied to all contracts. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Summarized Comparative Financial Statements

The summarized comparative information of Goodwill Industries of Orange County, California and Affiliate, as of and for the year ended December 31, 2017, was derived from consolidated financial statements that were audited by other auditors whose report thereon, dated June 18, 2018, expressed an unmodified opinion. As discussed in Note 2 to the consolidated financial statements, the Organization has adjusted certain comparative information from what was reported in its 2017 consolidated financial statements to retrospectively apply ASU 2016-14. The other auditors reported on the consolidated financial statements before this retrospective adoption.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included on pages 35 through 38 is presented for purposes of additional analysis, and is 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 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.

Moss Adams LLP

Irvine, California
May 30, 2019

Goodwill Industries of Orange County, California and Affiliate
Consolidated Statement of Financial Position
December 31, 2018

(With summarized comparative financial information for December 31, 2017)

ASSETS

	Without Donor Restrictions	With Donor Restrictions	Totals 2018	Totals 2017
CURRENT ASSETS				
Cash and cash equivalents	$ 4,024,152	$ -	$ 4,024,152	$ 2,757,833
Investments	13,598,781	95,845	13,694,626	15,728,315
Accounts receivable, net	3,855,344	-	3,855,344	3,674,176
Contributions receivable, net	-	259,480	259,480	265,119
Inventory	1,942,491	-	1,942,491	1,731,455
Prepaid expenses and other assets	982,677	-	982,677	971,551
Total current assets	24,403,445	355,325	24,758,770	25,128,449
RESTRICTED CASH	300,000	-	300,000	300,000
CONTRIBUTIONS RECEIVABLE, net	-	781,979	781,979	1,070,171
DEPOSITS	395,371	-	395,371	421,722
LAND, BUILDINGS, AND EQUIPMENT, net	24,482,552	-	24,482,552	23,426,785
Total assets	$ 49,581,368	$ 1,137,304	$ 50,718,672	$ 50,347,127

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions	Totals 2018	Totals 2017
CURRENT LIABILITIES				
Accounts payable	$ 4,893,790	$ -	$ 4,893,790	$ 2,000,353
Accrued salaries, wages, and vacation payable	3,107,402	-	3,107,402	2,759,000
Current portion of note payable, net	396,000	-	396,000	396,000
Current portion of bonds payable, net	357,633	-	357,633	342,633
Other current accrued liabilities	2,238,455	-	2,238,455	2,245,696
Total current liabilities	10,993,280	-	10,993,280	7,743,682
DERIVATIVE INSTRUMENTS	51,458	-	51,458	143,805
NOTE PAYABLE, net	494,000	-	494,000	890,000
BONDS PAYABLE, net	3,666,908	-	3,666,908	4,024,541
OTHER ACCRUED LIABILITIES, net	3,074,839	-	3,074,839	2,921,759
Total liabilities	18,280,485	-	18,280,485	15,723,787
Commitments and contingencies and related party transactions (Notes 14 and 15)				
Without donor restrictions	31,300,883	-	31,300,883	33,234,320
With donor restrictions	-	1,137,304	1,137,304	1,389,020
Total net assets	31,300,883	1,137,304	32,438,187	34,623,340
Total liabilities and net assets	$ 49,581,368	$ 1,137,304	$ 50,718,672	$ 50,347,127

Goodwill Industries of Orange County, California and Affiliate
Consolidated Statement of Activities
Year Ended December 31, 2018

(With summarized comparative financial information for the year ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017
PUBLIC SUPPORT AND REVENUE				
Public support				
Indirect public support	$ -	$ -	$ -	$ 5,111
Contributions	1,676,804	-	1,676,804	1,502,950
Donated merchandise	35,327,939	-	35,327,939	35,548,535
Total public support	37,004,743	-	37,004,743	37,056,596
Revenue				
Thrift store sales	59,930,504	-	59,930,504	57,696,333
Other sales	2,581,874	-	2,581,874	2,260,840
Contract services	5,186,873	-	5,186,873	5,210,565
Rehabilitation revenue	23,218,107	-	23,218,107	21,761,352
Technology services	5,349,345	-	5,349,345	4,212,584
Interest and other income	536,286	-	536,286	463,357
Realized and unrealized (losses) gains on investments, net	(1,627,663)	(3,388)	(1,631,051)	1,881,541
Realized gains on assets disposed of through restructuring	196,002	-	196,002	99,240
Unrealized gains on derivative instruments	92,347	-	92,347	115,476
Total revenue	95,463,675	(3,388)	95,460,287	93,701,288
Net assets released from restrictions and reclassifications	248,328	(248,328)	-	-
Total public support and revenue	132,716,746	(251,716)	132,465,030	130,757,884
EXPENSES				
Program services				
Store operations	77,340,721	-	77,340,721	76,535,503
Processing of donated merchandise	10,954,016	-	10,954,016	9,337,295
Solicitation and transportation	7,749,324	-	7,749,324	7,377,092
Rehabilitation	23,140,775	-	23,140,775	20,681,935
Contract services	5,004,796	-	5,004,796	5,477,014
Technology services	2,129,020	-	2,129,020	1,632,356
Total program services	126,318,652	-	126,318,652	121,041,195
Supporting services				
General and administrative	7,306,040	-	7,306,040	7,035,856
Fundraising	1,025,491	-	1,025,491	2,964,047
Total supporting services	8,331,531	-	8,331,531	9,999,903
Total expenses	134,650,183	-	134,650,183	131,041,098
Change in net assets	(1,933,437)	(251,716)	(2,185,153)	(283,214)
NET ASSETS AT BEGINNING OF YEAR	33,234,320	1,389,020	34,623,340	34,906,554
NET ASSETS AT END OF YEAR	$ 31,300,883	$ 1,137,304	$ 32,438,187	$ 34,623,340

See accompanying notes.

Goodwill Industries of Orange County, California and Affiliate
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

(With summarized comparative financial information for the year ended December 31, 2017)

	Program Services						
	Store Operations	Processing of Donated Merchandise	Solicitation and Transportation	Rehabilitation	Contract Services	Technology Services	Total Program Services
SALARIES AND RELATED EXPENSES							
Salaries and wages	$ 15,813,120	$ 5,528,072	$ 3,910,918	$ 15,944,802	$ 2,729,870	$ 631,534	$ 44,558,316
Employee benefits	955,093	1,078,101	427,535	1,749,480	597,632	54,950	4,862,791
Payroll taxes	1,069,927	343,790	265,050	1,152,803	185,221	46,262	3,063,053
Workers' compensation	801,445	317,625	294,207	459,329	134,201	18,566	2,025,373
Total salaries and related expenses	18,639,585	7,267,588	4,897,710	19,306,414	3,646,924	751,312	54,509,533
OTHER EXPENSES							
Cost of goods sold	43,451,070	205,888	-	-	-	-	43,656,958
Professional services	1,967,033	131,020	11,444	983,501	172,744	172,762	3,438,504
Supplies	800,384	339,784	166,492	125,221	300,776	10,255	1,742,912
Telephone	172,857	41,238	95,244	232,085	111,712	252,599	905,735
Postage	1,048,357	19,269	1,147	4,375	501	712	1,074,361
Occupancy	8,253,995	2,253,694	1,179,367	655,567	426,685	137,697	12,907,005
Equipment rent and maintenance	128,474	53,089	150,899	24,215	22,969	63,212	442,858
Advertising	467,279	-	-	150,546	-	207,651	825,476
Printing and publishing	150,026	17,816	5,377	151,856	5,562	1,604	332,241
Travel and vehicle	58,679	67,709	883,248	989,988	65,196	43,345	2,108,165
Conferences, conventions and meetings	84,139	23,807	4,681	66,710	8,224	38,501	226,062
Membership and dues to national organization	150,394	-	-	46,210	7,361	7,849	211,814
Awards, grants, and special assistance	3,916	4,347	1,153	45,403	580	-	55,399
Interest expense	-	-	-	-	-	-	-
Bad debt losses	-	-	-	42,067	504	-	42,571
Other operating expenses	60	-	-	-	-	-	60
Income tax expense	-	-	-	-	-	348,654	348,654
Total expenses before depreciation	75,376,248	10,425,249	7,396,762	22,824,158	4,769,738	2,036,153	122,828,308
DEPRECIATION	1,964,473	528,767	352,562	316,617	235,058	92,867	3,490,344
Total expenses	$ 77,340,721	$ 10,954,016	$ 7,749,324	$ 23,140,775	$ 5,004,796	$ 2,129,020	$ 126,318,652

See accompanying notes.

Goodwill Industries of Orange County, California and Affiliate
Consolidated Statement of Functional Expenses (Continued)
Year Ended December 31, 2018
(With summarized comparative financial information for the year ended December 31, 2017)

		Supporting Services			Total	
	Total Program Services	General and Administration	Fundraising	Total Supporting Services	2018	2017
SALARIES AND RELATED EXPENSES						
Salaries and wages	$ 44,558,316	$ 3,977,702	$ 407,016	$ 4,384,718	$ 48,943,034	$ 47,032,111
Employee benefits	4,862,791	401,277	19,690	420,967	5,283,758	4,603,934
Payroll taxes	3,063,053	277,326	19,445	296,771	3,359,824	3,315,388
Workers' compensation	2,025,373	119,554	7,764	127,318	2,152,691	1,941,086
Total salaries and related expenses	54,509,533	4,775,859	453,915	5,229,774	59,739,307	56,892,519
OTHER EXPENSES						
Cost of goods sold	43,656,958	-	-	-	43,656,958	42,880,683
Professional services	3,438,504	1,211,460	47,292	1,258,752	4,697,256	3,867,038
Supplies	1,742,912	133,708	4,687	138,395	1,881,307	1,929,404
Telephone	905,735	86,093	7,807	93,900	999,635	895,194
Postage	1,074,361	15,909	1,570	17,479	1,091,840	1,084,092
Occupancy	12,907,005	240,074	194,446	434,520	13,341,525	12,569,454
Equipment rent and maintenance	442,858	148,185	3,581	151,766	594,624	608,802
Advertising	825,476	3,749	38,561	42,310	867,786	644,382
Printing and publishing	332,241	72,690	33,145	105,835	438,076	426,337
Travel and vehicle	2,108,165	34,241	3,601	37,842	2,146,007	1,976,420
Conferences, conventions, and meetings	226,062	154,272	141,251	295,523	521,585	628,505
Membership and dues to national organization	211,814	32,873	3,055	35,928	247,742	242,125
Awards, grants, and special assistance	55,399	21,808	7,028	28,836	84,235	120,903
Interest expense	-	182,429	-	182,429	182,429	219,087
Bad debt losses	42,571	-	81,250	81,250	123,821	2,048,457
Other operating expenses	60	-	-	-	60	2,446
Income tax expense	348,654	-	-	-	348,654	216,600
Total expenses before depreciation	122,828,308	7,113,350	1,021,189	8,134,539	130,962,847	127,252,448
DEPRECIATION	3,490,344	192,690	4,302	196,992	3,687,336	3,788,650
Total expenses	$ 126,318,652	$ 7,306,040	$ 1,025,491	$ 8,331,531	$ 134,650,183	$ 131,041,098

See accompanying notes.

Goodwill Industries of Orange County, California and Affiliate
Consolidated Statements of Cash Flow
Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,185,153)	$ (283,214)
Adjustments to reconcile change in net asset to		
net cash provided by operations		
Provision for bad debts	16,894	2,036,852
Depreciation	3,687,336	3,788,650
Amortization of debt issuance costs	16,367	16,366
Realized and unrealized losses (gains) on investments, net	1,631,051	(2,311,241)
Unrealized (gains) on derivative instruments	(92,347)	(115,476)
Changes in operating assets and liabilities		
Accounts receivable	(184,495)	(539,924)
Contributions receivable	280,264	73,306
Inventory	(211,036)	(96,955)
Prepaid expenses and other assets	(11,126)	(72,922)
Deposits	26,351	(9,641)
Accounts payable	2,893,437	405,162
Accrued salaries, wages, and vacation payable	348,402	(389,299)
Other accrued liabilities	145,839	1,180,749
Net cash provided by operating activities	6,361,784	3,682,413
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(8,216,640)	(122,291)
Proceeds from sale of investments	8,619,278	9,181
Purchase of land, building, and equipment	(4,743,103)	(3,149,696)
Net cash used in investing activities	(4,340,465)	(3,262,806)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments of note payable	(400,000)	(400,000)
Principal repayments of bonds payable	(355,000)	(335,000)
Net cash used in financing activities	(755,000)	(735,000)
Change in cash, cash equivalents, and restricted cash	1,266,319	(315,393)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	3,057,833	3,373,226
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	$ 4,324,152	$ 3,057,833
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 180,125	$ 207,101
RECONCILIATION TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	$ 4,024,152	$ 2,757,833
Restricted cash	300,000	300,000
Total cash, cash equivalents, and restricted cash	$ 4,324,152	$ 3,057,833

Note 1 – Organization

Goodwill Industries or Orange County, California ("Goodwill") provides evaluation, rehabilitation, training, and employment services for people with disabilities and other barriers in the local community. Revenue to fund these services is derived from thrift store sales, donated merchandise, rehabilitation services, contract services, job placement, veteran services, contributions, fund-raising activities, grants from federal and state agencies, and other charitable organizations, technology services, and indirect public support.

Goodwill operates thrift stores and provides services throughout Orange County.

Programs and services offered include:

- **Employment Training and Job Readiness programs** – provides communication, technology, education, and training to people with disabilities or other barriers to be more independent and successful in the workplace;

- **Goodwill Fitness Center** – Orange County's only facility specially designed for people suffering from chronic illness and physical disabilities;

- **The Tierney Center for Veteran Services** – helping veterans and their families find resources and services they need;

- **The Assistive Technology Exchange Center (ATEC)** – which provides access to more than 1,000 state-of-the-art technology devices for children and adults with disabilities;

- and many more programs that serve those facing barriers in Orange County.

In 2001, Goodwill formed Landmark Services, Inc. ("Landmark"), an affiliate, as a non-profit public benefit corporation. Landmark is dedicated to assisting individuals with severe disabilities in obtaining productive and valuable training and employment under federal set-aside programs and other commercial ventures. Goodwill has determined that they have control through a majority voting interest in Landmark, and an economic interest in Landmark, as Goodwill is entitled to any remaining net assets or responsible for any remaining net deficits upon dissolution of Landmark.

Goodwill and Landmark are collectively referred to as the "Organization."

Note 2 – Summary of Significant Accounting Policies

Principles of consolidation – The consolidated financial statements include the accounts of Goodwill and Landmark. All inter-entity accounts and transactions have been eliminated upon consolidation.

Basis of presentation – The 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 (U.S. GAAP).

Note 2 – Summary of Significant Accounting Policies (continued)

Recently adopted accounting standards – The Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* as of January 1, 2018, and has adjusted the presentation of these consolidated financial statements accordingly. This ASU revises the net asset classification requirements and information presented in past financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU has been applied retrospectively to all periods presented.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASC 606"). As compared to existing guidance on revenue recognition, ASU 2014-09 significantly enhances comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The largely principle-based guidance in ASU 2014-09 provides a framework for addressing revenue recognition issues comprehensively for entities that apply U.S. GAAP, in addition to those entities that apply International Financial Reporting Standards. The guidance in ASU No. 2014-09 also improves U.S. GAAP by reducing the number of requirements which an entity must consider in recognizing revenue, as well as requiring improved disclosure to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. On January 1, 2018, the Organization adopted ASU 2014-09, applying the modified retrospective method. The adoption did not have a material impact on the measurement or the recognition of revenue.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies guidance on revenue recognition of grants and contracts received by not-for-profit entities. The ASU scopes out grants and similar contracts that have no reciprocal exchanges with the resource provider, and requires the Organization to evaluate non-reciprocal transactions as either conditional or unconditional for meeting revenue recognition criteria. A transaction is considered conditional (and therefore not eligible for revenue recognition) if a barrier must be overcome and either a right of return of the asset is required or a right of release to a promisor's obligation to transfer assets is required. The Organization adopted ASU 2018-08 as of and for the year ended December 31, 2018, and has applied it prospectively.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU intended to improve consistency in presenting changes in restricted cash and cash equivalents on the consolidated statements of cash flows, and requires the statement of cash flows to explain the change during the period of the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash and cash equivalents. The Organization adopted ASU 2016-18 as of and for the year ended December 31, 2018, and has applied it for all years presented.

Note 2 – Summary of Significant Accounting Policies (continued)

In August 2018, the FASB issued ASU No. 2018-15, *Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The ASU clarifies costs eligible for capitalization that are associated with implementing a hosting arrangement, and permits amortization of such costs over the term of the hosting arrangement. The Organization adopted ASU 2018-15 as of and for the year ended December 31, 2018, which resulted in the capitalization of approximately $495,000 classified within computer hardware and software.

In June 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to Disclosure Requirements for Fair Value Measurements,* which removes disclosure requirements for transfers between Level 1 and Level 2 of the fair value hierarchy (see Note 3); policy for timing of transfers between levels; valuation process for Level 3 fair value measurements; and changes in unrealized gains and losses for Level 3 investments. It also modifies certain disclosures by eliminating the requirement to report a rollforward of Level 3 investments, and instead requires only disclosure of transfers into and out of Level 3 and purchases of and issues of Level 3 assets and liabilities. The Organization adopted ASU 2018-13 as of and for the year ended December 31, 2018, and has applied it for all years presented.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities, Financial Instruments – Overall (Subtopic 825-10)*, which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the consolidated statement of financial position. On January 1, 2018, the Organization adopted ASU No. 2016-01, and applied it to all years presented.

Use of estimates – The preparation of the consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – The Organization considers all highly-liquid investments with original maturity of three months or less from the date of acquisition and money market funds to be cash equivalents. Cash and cash equivalents invested in accounts intended for investment purposes are classified separately under investments.

Note 2 – Summary of Significant Accounting Policies (continued)

Investments – The Organization accounts for its investments using the fair value in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*. Alternative investments such as hedge funds, funds held in trust with the Orange County Community Foundation (OCCF), and master limited partnership funds are not readily marketable. Investments in these categories are valued utilizing the most current information provided by the manager of the fund. Because these alternative investments are not readily marketable, their estimated value is subject to judgment and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material. The Organization has the ability to liquidate its alternative investments on a periodic basis, in accordance with the provisions of the respective investment fund agreements.

The net appreciation (depreciation) of the fair value of investments is included in realized and unrealized gains and losses, net of investment expenses, on the consolidated statement of activities.

Realized and unrealized gains and losses on investments, net of related investment expenses, are reflected on the consolidated statement of activities and are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by donor stipulation or law.

The Organization has adopted policies for its investments that are intended to produce results that exceed the price and yield results of custom benchmarks while assuming a moderate level of risk.

Fair value measurements – The carrying value of financial instruments in the consolidated financial statements approximates fair value.

For fair value measurements of financial assets and financial liabilities, and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the consolidated financial statements on a recurring basis, the Organization has adopted U.S. GAAP standards that define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

U.S. GAAP establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair value of respective assets and liabilities:

Level 1 – Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities, quoted market prices that are not in an active market, or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset.

Note 2 – Summary of Significant Accounting Policies (continued)

Level 3 – Fair values are derived from unobservable inputs due to limited if any market activity for the investments. Fair values are estimated by the Organization using valuation methodologies that consider a range of factors, but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for similar securities, current and projected operating performance, financial condition, and financial transactions subsequent to the acquisition of the investment.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset or liability. Also, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time, or the entire holding of a particular financial asset. Potential taxes and other expenses would be incurred in an actual sale or settlement, and are not reflected in amounts disclosed.

Accounts receivable – Accounts receivable consist of reimbursements due from various government program funding sources for services performed prior to year-end and amounts due from customers for various transactions such as online retail sales, payment for services provided, and online advertising. The Organization carries its receivables at invoiced amounts, less allowance for doubtful accounts. The Organization does not accrue interest on its receivables. On a periodic basis, the Organization evaluates its accounts receivable and establishes allowances based on overdue accounts and a history of past write-offs. Management believes that an allowance for doubtful accounts of approximately $112,000 and $116,000 at December 31, 2018 and 2017, respectively, is adequate.

Contributions receivable – Unconditional promises to give are recorded as contributions receivable and revenue in the period such promises are made by the donor. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise becomes unconditional. Contributions receivable are classified as with donor restrictions based on time restrictions. Unconditional promises to give due in subsequent years are reported at their net realizable value using a present value technique, determined using a risk-free interest rate of 5%. A discount of approximately $94,000 and $80,000 was recorded at December 31, 2018 and 2017, respectively. There were no conditional promises to give as of December 31, 2018 and 2017.

The Organization uses the allowance method to record uncollectable unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. The reserve for uncollectible amounts was approximately $60,000 and $75,000 as of December 31, 2018 and 2017, respectively.

Inventory – Inventory is comprised primarily of donated goods that have been processed and are ready for sale. The value for contributed inventory is estimated based on the selling price.

Note 2 – Summary of Significant Accounting Policies (continued)

Restricted cash – The Organization has restricted cash of $300,000 at December 31, 2018 and 2017, respectively, held with a financial institution in conjunction with the cash collateral interest rate swap agreement (Note 9). The deposited amount can fluctuate based on interest rates. The minimum collateral deposit is $300,000, and the funds cannot be used by the Organization until the termination or expiration of the agreement.

Land, buildings, and equipment – Land, buildings, and equipment in excess of $2,500 with an expected value useful life in excess of one year are stated at cost. Depreciation expenses are calculated on the straight-line method. The depreciation methods are designed to amortize the cost of the assets over the estimated useful lives, in years, of the respective assets as follows:

	Useful Lives
Buildings	10 – 30 years
Building improvements	5 – 10 years
Furniture and equipment	3 – 10 years
Vehicles	3 – 10 years
Computer hardware and software	2 – 2½ years

Maintenance and repairs are charged to expense as incurred. Renewals and improvements of a major nature are capitalized. At the time of retirement or other disposition of land, buildings, and equipment, or once buildings and equipment have been fully depreciated, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are reflected in changes to net assets.

Impairment of long-lived assets and long-lived assets to be disposed of – Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Derivative instruments – Interest rate swap contracts are reported at fair value and are recognized in the consolidated statement of financial position as either assets or liabilities, depending on the rights or obligations under the contracts. Such derivative instruments are used to hedge against the risk resulting from variability of interest rates. Changes in fair value of derivative instruments are recognized as a change in net assets in the period of change.

Deferred rent – The Organization recognizes rent expense on a straight-line basis over the terms of each lease. The difference between rent expense and the actual cash rent payments is classified as a deferred rent liability and is included within other accrued liabilities in the consolidated statement of financial position.

Note 2 – Summary of Significant Accounting Policies (continued)

Accrued vacation payable – Employees may accumulate accrued vacation during their employment with the Organization and redeem unused earned time in cash upon termination of employment, subject to certain limitations. The estimated amount of accrued vacation as of December 31, 2018 and 2017, totaled approximately $1,828,000 and $1,725,000, respectively.

Net asset classification – Based on the existence or absence of donor-imposed restrictions, the Organization classifies resources into two categories: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and types of transactions affecting each category follow:

Net assets without donor restrictions – Net assets without donor restrictions are free of donor-imposed restrictions and may be expended for any purpose performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and Board of Directors ("Board"). All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the use of restricted contributions in accordance with donors' stipulations results in the release of such restrictions.

Net assets with donor restrictions – Net assets with donor restrictions are limited as to use by donor-imposed stipulations that may expire with the passage of time, or that may be satisfied by action of the Organization. Net assets with donor restrictions are designated by donors for specific purposes, and include unconditional pledges and accumulated appreciation on donor-restricted endowments which have not been appropriated by the Board for distribution. Some net assets with donor restrictions may be required by donors to be held in perpetuity. The donors of substantially all net assets to be held in perpetuity permit the Organization to use a portion of the income earned on the related investments for specific purposes.

Expiration of donor-imposed restrictions – Net assets are released from donor restrictions by incurring expenses to satisfy the restricted purposes and by occurrence of events specified by the donors, including the passage of time. Donor restrictions on long-lived assets or cash to construct or acquire long-lived assets are considered to have expired when the assets are placed in service or expenditures exceed the amount of the gift.

Note 2 – Summary of Significant Accounting Policies (continued)

In accordance with adoption of ASU 2016-14 as described above, net assets at December 31, 2017, have been reclassed as follows:

	Without Donor Restrictions	With Donor Restrictions
Unrestricted	$ 33,234,320	$ -
Temporarily restricted	-	1,336,040
Permanently restricted	-	52,980
Total net assets	$ 33,234,320	$ 1,389,020

The Organization's policy is to record donor restricted gifts that are received and spent in the same year as contributions without donor restrictions.

Revenue recognition

Contributions – Contributions consist principally of donations from individuals and organizations. Contributions are recognized as revenue when received or unconditionally promised. Contributions are recorded as increases to net assets without donor restrictions or net assets with donor restrictions on the existence and/or nature of any donor purpose or time restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported as net assets released from restrictions in the consolidated statement of activities.

Donated merchandise – The Organization recognizes revenue from its donated merchandise at fair value at the date of the contribution.

Thrift store sales – Almost all thrift store sales revenue is recorded at point of sale. Sales originated through shopgoodwill.com are recorded upon delivery to the buyer and may include revenue for shipping and handling. Total revenues do not include sales tax because the Organization is a pass-through conduit for collecting and remitting sales taxes. Generally, guests may return merchandise within 7 days of purchase for store credit delivered in the form of a gift card. Sales are recognized net of expected returns, which the Organization estimates using historical return patterns and management's expectation for future returns. As of December 31, 2018 and 2017, the liability for estimated returns including unused gift cards totaled approximately $165,000 and $134,000, respectively, and is included in other accrued liabilities on the statement of financial position.

Revenues from gift card sales are recognized upon gift card redemption, which is typically within one year of issuance. The Organization's gift cards do not expire. Based on historical redemption rates, a small percentage of gift cards will never be redeemed, referred to as "breakage." Estimated breakage revenue is recognized over time in proportion to actual gift card redemptions.

Note 2 – Summary of Significant Accounting Policies (continued)

Other sales – Other sales consist primarily of revenue earned from recycling materials that were not conditioned for sale in a store. Revenue is recognized at the time of each sale. There are no long-term contracts associated with any one buyer.

Contract services – As part of its mission, the Organization has entered into service contracts with third parties for the specific purpose of employing people with disabilities or other challenges in finding gainful employment. The performance obligation is met at the date service is rendered. Third parties are billed monthly and revenue is recognized in the month the services were rendered.

Rehabilitation revenue – The Organization has various grant arrangements and contracts with the State of California to provide people with disabilities and other barriers the opportunity to achieve their highest levels of personal and economic independence by offering evaluation, rehabilitation, training, and employment services to get and keep jobs. The amount earned is based on contractual hourly rates based on the type of services provided by the Organization's program staff. The arrangements are non-reciprocal, meaning the granting agency has not received a direct benefit in exchange for the resources provided. Certain conditions must be met, such as compliance requirements established by the terms of each agreement; therefore, revenue is recognized when the certain conditions are met. The Organization has recorded deferred revenue for amounts received in advance of when such conditions were met. At December 31, 2018 and 2017, the Organization's deferred revenue totaled approximately $85,000 and $257,000, respectively and is included within other accrued liabilities on the statement of financial position.

Additionally, the Organization owns and manages a rehabilitation center that provides physical therapy and exercise facilities for individuals with disabilities. Members are billed monthly and revenue is recognized in the month that services were made available.

Technology services – The Organization hosts an online auction website known as shopgoodwill.com that sells donated merchandise and other goods. Other Goodwill organizations sell their own merchandise through the website and pay the Organization a monthly fee for hosting. Revenue is recognized monthly as services are provided.

Technology services also include revenues earned from third-party advertisers for advertising displayed on the shopgoodwill.com. Revenue is recognized monthly during the month that the advertisements were displayed.

Interest and other income – Investment income and gains and losses on investments are reported as increases to net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law.

Note 2 – Summary of Significant Accounting Policies (continued)

Contributed services – A number of volunteers have made significant contributions of their time to support the Organization's functions. Only those amounts for which an objective basis is available to measure the value of such services are reflected in the consolidated financial statements. Contributed services are recognized if the services (a) create or enhance long-lived assets, or (b) require specialized skills, which are provided by individuals possessing those skills and would need to be purchased if not provided by donation. For the years ended December 31, 2018 and 2017, the value of this contributed time did not meet the criteria for recognition of contributed services and, accordingly, is not reflected in the accompanying consolidated financial statements.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted based on square footage or time and effort. Expenses directly identifiable with programs are charged to program services based on employee's time for each function, purpose of expenditures, and/or services provided for each program. Costs which provide overall support and direction and cannot be specifically identified with a particular function are charged to supporting services.

Concentration of credit risk – The Organization maintains cash deposits with a major bank. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2018 and 2017, the Organization had amounts that were in excess of the FDIC insurance limit. The Organization performs ongoing evaluations to limit its concentration of credit risk exposure. The Organization has not sustained a loss of funds maintained in commercial banks.

Investments are exposed to various risks such as interest rates, market, and credit risk. Risk is managed through evaluation before an investment is made and regular communication with investment managers. It is at least reasonably possible, given the level of risk associated with investments, that changes in the near term could materially affect the amounts reported in the consolidated financial statements.

Sales taxes – The Organization collects sales taxes from customers on certain nonexempt sales and remits the entire amount to governmental authorities. The Organization's accounting policy is to exclude the taxes collected and remitted from revenue and expenses.

On June 21, 2018, the U.S. Supreme Court overturned the South Dakota v. Wayfair Inc. case ("Wayfair"), reversing the long-standing physical presence nexus standard for sales and use tax. States can now utilize the economic nexus standard established in Wayfair to require remote sellers to begin collecting and remitting sales and use tax, which creates economic nexus and in turn additional state tax liabilities for remote sellers such as the Organization. Management is assessing the impact of the Wayfair matter will have on tax expenses and liabilities in future years.

Note 2 – Summary of Significant Accounting Policies (continued)

Income taxes – Goodwill Industries of Orange County, California and Landmark Services, Inc. are exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (the "Code"), and are exempt from state income taxes under the comparable state tax code, as charitable organizations whereby only unrelated income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. Both entities file an exempt organization return in the U.S. federal jurisdiction and the state of California.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. The guidance prescribes recognition threshold principles for consolidated financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of December 31, 2018 or 2017.

Advertising costs – All advertising costs, which include direct response advertising costs, are expensed by the Organization as they are incurred. Advertising costs for the years ended December 31, 2018 and 2017, totaled approximately $868,000 and $644,000, respectively.

Reclassifications – Certain amounts presented in the prior year financial statements have been reclassified to conform to the current year presentation. Reclassifications of prior year amounts had no impact on net assets beyond that described above for the adoption of ASU 2016-14.

Prior year summarized comparative information – The consolidated financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2017, from which summarized information was derived.

Recently issued accounting pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among entities by recognizing lease assets and lease liabilities on the statement of financial position, and requiring disclosure of key information about leasing arrangements in the financial statements of lessees. This update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The adoption is effective for the Organization for the calendar year ending December 31, 2019. Management is currently evaluating the impact of the provisions of ASU 2016-02 on the consolidated financial statements.

Note 2 – Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on eight specific cash flow issues including: debt repayment on debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after business combination, proceeds from settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The amendments of this ASU are effective for fiscal years beginning after December 15, 2018. The adoption is effective for the Organization for the calendar year ending December 31, 2019. Management is currently evaluating the impact of ASU 2016-15 on the consolidated financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated statement of financial position date, but before financial statements are available to be issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position, but arose after the statement of financial position date and before financial statements are available to be issued.

The Organization has evaluated subsequent events through May 30, 2019, which is the date the financial statements are available for issuance, and concluded that other than the item in Note 15 there were no events or transactions that need to be disclosed.

Note 3 – Fair Value of Financial Instruments

The following tables summarize the fair value of the Organization's investments and other financial instruments as of December 31, 2018 and 2017, in accordance with their fair value levels:

2018	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Investments:					
Cash and cash equivalents	$ 440,384	$ -	$ -	$ -	$ 440,384
Mutual funds					
Bond funds	2,796,702	-	-	-	2,796,702
Equity funds	1,703,989	-	-	-	1,703,989
Exchange traded funds	635,425	-	-	-	635,425
Funds held with OCCF	-	-	430,384	-	430,384
Master limited partnership fund	-	-	6,309	-	6,309
Hedge funds:					
Absolute return funds	-	-	-	2,588,194	2,588,194
Global equity	-	-	-	5,093,239	5,093,239
Total investments	$ 5,576,500	$ -	$ 436,693	$ 7,681,433	$ 13,694,626
Derivative instruments	$ -	$ 51,458	$ -	$ -	$ 51,458

2017	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Investments:					
Cash and cash equivalents	$ 8,073	$ -	$ -	$ -	$ 8,073
Mutual funds					
Bond funds	3,035,452	-	-	-	3,035,452
Equity funds	6,891,951	-	-	-	6,891,951
Exchange traded funds	343,897	-	-	-	343,897
Charitable gift annuities	-	-	750	-	750
Funds held in trust by OCCF	-	-	463,951	-	463,951
Master limited partnership fund	-	-	278,434	-	278,434
Hedge funds:					
Absolute return fund	-	-	-	2,971,815	2,971,815
Global equity fund	-	-	-	1,733,992	1,733,992
Total investments	$ 10,279,373	$ -	$ 743,135	$ 4,705,807	$ 15,728,315
Derivative instruments	$ -	$ 143,805	$ -	$ -	$ 143,805

Note 3 – Fair Value of Financial Instruments (continued)

The investments in hedge funds for which fair value is determined using net asset value (NAV) reported by fund managers as a practical expedient is based on the Organization's ability to redeem its interest at or near December 31, 2018 and 2017. The Organization's determination of fair value is based upon the best available information provided by the investment manager, and may incorporate management assumptions and best estimates after considering internal or external factors. Such value generally represents the Organization's proportionate share of the partner's capital of the investment partnerships as reported by their general partners. For these investments, the Organization has determined, through its monitoring activities, to rely on the fair value as determined by the investment managers.

The inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments, or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

The following table presents the liquidity and redemption restrictions of the above investments that do not have a readily determinable fair value or utilize NAV per share (or equivalent) to determine the fair value as of December 31, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Funds held with OCCF	$ 430,384	$ -	Daily	Daily
Master limited partnership fund	6,309	-	Monthly	30 Days
Hedge funds:				
Absolute return funds	2,588,194	-	Quarterly after 1 Year Lock	90 Days
Global equity	5,093,239	-	Monthly	16 Days
	$ 8,118,126	$ -		

For the years ended December 31, 2018 and 2017, the Organization received new contributions of and/or purchased approximately $0 and $355,000, respectively, and liquidated approximately $272,000 and $0, respectively, of investments reported within Level 3 of the fair value hierarchy.

Funds held with OCCF – The Organization has funds held at OCCF under a custodial agreement. The funds are invested in a pool which is primarily invested in equities, fixed income funds, and real estate. OCCF manages the investments in the pool. OCCF reports the fair value of the amounts due to the Organization on a regular basis. The underlying investments in the OCCF pool are exposed to various risks, such as interest rate, market, and credit risks. The Organization did not grant variance power to OCCF. Distributions from the funds can only be made with written authorization from the Organization.

Master limited partnership fund – These funds are primarily invested in equity securities and amounts held with brokers for collateral on open derivative positions, and are exposed to various risks including interest rate, market, and credit risk. The fund is not unitized; however, the fund manager reports the fair value due to the Organization on a regular basis. The Organization redeemed its investments in this fund in 2018 and was awaiting its final distribution at December 31, 2018.

Note 3 – Fair Value of Financial Instruments (continued)

Hedge funds – The strategy of hedge funds is to gain hedge fund exposure through an efficient and diversified structure. The goal of the fund is to generate superior risk-adjusted returns with moderate volatility by investing in funds sponsored by historically successful managers pursuing a cross-section of absolute return strategies, mitigate losses in falling markets, exhibit relatively low correlation to traditional asset classes, and provide a range of exposure across sectors, regions, strategies, and managers.

Note 4 – Contributions Receivable

The Organization has recognized uncollected unconditional promises to give as contributions receivable. Contributions receivable are recognized at their estimated net realizable value. Future collections of the contributions receivable are scheduled as follows at December 31, 2018:

Amounts due in:	
Less than one year	$ 273,137
One to five years	852,000
More than five years	70,000
	1,195,137
Less allowance for uncollectible amounts	(59,757)
Less unamortized discount for net present value	(93,921)
Contributions receivable, net	1,041,459
Less current portion receivable, net discount and allowances	(259,480)
	$ 781,979

Note 5 – Land, Buildings, and Equipment

Land, buildings, and equipment, net of accumulated depreciation, are summarized as follows at December 31, 2018 and 2017:

	2018	2017
Buildings and improvements	$ 27,793,378	$ 26,165,653
Furniture and equipment	7,284,883	7,976,441
Vehicles	907,457	808,123
Computer hardware and software	221,107	635,183
	36,206,825	35,585,400
Less accumulated depreciation	(16,220,065)	(15,856,679)
	19,986,760	19,728,721
Land	3,491,389	3,550,563
Construction-in-progress	1,004,403	147,501
Land, buildings, and equipment, net	$ 24,482,552	$ 23,426,785

Total depreciation expense for the years ended December 31, 2018 and 2017, was approximately $3,687,000 and $3,789,000, respectively.

Note 6 – Lines and Letters of Credit

At December 31, 2018 and 2017, the Organization had a $3,510,000 revolving line of credit with a bank to be drawn upon as needed with an interest rate of 0.5% above prime rate (prime rate at December 31, 2018 was 5.5%). This bank borrowing is collateralized by accounts receivable; inventory; and land, buildings, and equipment, and expires on August 1, 2019. There was no outstanding balance on this line of credit at December 31, 2018 or 2017.

The Organization had a $4,236,767 direct-pay letter of credit with the bank, independent of the revolving line of credit, in connection with the Organization’s 2006 Bonds (Note 10). At December 31, 2018 and 2017, respectively, the Organization did not have any balances outstanding on this credit facility. The letter of credit is renewed annually on March 9, unless notice is given by either party. This bank borrowing is collateralized by real property at the main campus in Santa Ana, California.

Under the terms of the above agreement, the Organization is subject to maintaining a maximum debt to tangible net worth ratio; a minimum fixed charge coverage ratio; a minimum change in net assets; capital expenditures; and unencumbered liquid assets. The Organization was not in compliance with two covenants at December 31, 2018, and obtained a bank waiver from the bank on March 5, 2019.

Note 6 – Lines and Letters of Credit (continued)

At December 31, 2018 and 2018, respectively, the Organization had $2,119,000 and $2,225,000 of stand-by letters of credit held with a bank in connection with its workers' compensation policy (Note 8), which is part of the total indebtedness allowed under the revolving line of credit and subject to the same terms and conditions. At December 31, 2018 and 2017, respectively, the Organization did not have any balances outstanding on these credit facilities. These letters of credit reduce the available amount which can be borrowed against the bank's revolving line of credit as discussed above. Accordingly, availability on the line of credit was $1,391,000 and $1,285,000 at December 31, 2018 and 2017, respectively.

Note 7 – Note Payable

At December 31, 2018, the Organization had a note payable to a bank due in quarterly installments of $100,000 and monthly payments of interest due at either the prime rate in effect or the London Inter-Bank Offered Rate (LIBOR) (2.80% at December 31, 2018) plus 3%, that matures in March 2021. The note is secured by accounts receivable, inventory, and equipment. The annual aggregate maturity of the note payable is as follows:

Years ending December 31:	
2019	$ 400,000
2020	400,000
2021	100,000
	900,000
Less unamortized debt issuance costs	(10,000)
	890,000
Less current portion due, net amortization	(396,000)
	$ 494,000

For the years ended December 31, 2018 and 2017, interest expense incurred on the aforementioned note payable amounted to approximately $57,000 and $64,000, respectively.

Amortization associated with the cost of issuing the note payable amounts to approximately $4,000 for both the years ended December 31, 2018 and 2017.

Note 8 – Self Insurance

The Organization carried a large-deductible workers' compensation policy and is responsible for paying the first $350,000 of each claim occurrence up to $4,588,000 in aggregate per policy plan year. The Organization has paid certain amounts of the claims known to date and has provided additional accrued liabilities for an estimate of the ultimate claims known to date. In developing these estimates, the Organization uses estimated losses (loss picks) provided by its insurance broker to estimate the ultimate claim exposure. Given the estimation nature of this area, it is reasonably possible that future adjustments to these estimates will be required. Based upon the information known at December 31, 2018, management believes it has provided adequate reserves that will be paid by the Organization.

Accrued liabilities for workers' compensation for the year ended December 31, 2018, was approximately $3,073,000, which includes a current portion of approximately $833,000 and a long-term portion of approximately $2,240,000. Accrued liabilities for workers' compensation for the year ended December 31, 2017, was approximately $2,906,000, which includes a current portion of approximately $786,000 and a long-term portion of approximately $2,120,000. These amounts are included in other current accrued liabilities and other accrued liabilities, respectively, in the Organization's consolidated statement of financial position and as summarized in Note 11. The following is a reconciliation of the changes in the Organization's accrual for workers' compensation for the years ended December 31, 2018 and 2017.

	2018	2017
Balance, beginning of the year	$ 2,906,406	$ 2,659,874
Cash payments made on open claims	(1,160,499)	(1,531,958)
Cash payments made for premiums and fees	(201,213)	(451,711)
Current claims and changes to prior estimates	1,528,401	2,230,201
Balance, end of year	$ 3,073,095	$ 2,906,406

The Organization has elected to be self-insured for the purposes of employees' unemployment claims and has elected to reimburse the Employment Development Department, under the prorated cost of benefits method, for all claims filed by its employees. The Organization recorded an estimated accrued unemployment liability of $80,000 and $160,000 at December 31, 2018 and 2017, respectively, which represents future claims arising from payroll paid up to each respective year end. These amounts are included in other accrued liabilities in the Organization's consolidated statement of financial position.

Note 9 – Derivative Instruments

The Organization used a variable interest-rate debt to finance the $9,850,000 Variable Rate Demand Revenue Bonds issued in 2006 ("2006 Bonds") (Note 10). The debt obligations expose the Organization to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of its interest payments. To meet this objective, management entered into an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. The swap agreement changed the variable-rate cash flows exposure on the debt obligations to fixed-rate cash flows. Under the terms of the interest rate swap agreement, the Organization receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of a fixed-rate debt.

By using the financial instruments to hedge its exposure to changes in interest rates, the Organization exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Organization, which creates credit risk for the Organization. When the fair value of a derivative is negative, the Organization owes the counterparty and, therefore, it does not possess credit risk. The Organization minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing the monitoring parameters that limit the types and degree of market risk that may be undertaken.

On February 12, 2010, the Organization entered into an interest rate swap transaction, collateralized by cash, with an effective date of February 12, 2010, and a termination date of January 1, 2020. The swap contract was executed with the purpose of fixing the interest rate on approximately 50% of the 2006 Bonds (Note 10). Under the terms of the agreement, the Organization pays interest at a fixed rate of 3.06%, and receives interest at 70% of 3-month LIBOR. The difference between interest earned and the interest obligation accrued is received or paid the first day of each month, and is recorded as interest expense. During the years ended December 31, 2018 and 2017, total interest expense paid through the arrangement was approximately $65,000 and $105,000, respectively. At December 31, 2018 and 2017, the notional amount was approximately $4,380,000 and $4,988,000, respectively, and the estimated liability on the contract reflected on the consolidated statement of financial position was approximately $51,000 and $144,000, respectively. A cumulative gain of approximately $92,000 and $115,000 from changes in the swap's contract fair value has been recognized as a change in net assets in the respective periods. At December 31, 2018 and 2017, the required cash on deposit with a financial institution totaled $300,000, and is included as restricted cash in the consolidated statement of financial position.

Note 10 – Bonds Payable

On March 9, 2006, the Organization authorized the issuance of $9,850,000 of Variable Rate Demand Revenue Bonds, payable to the California Infrastructure and Economic Development Bank. The bonds mature on March 1, 2031, and bear interest at a Weekly Interest Rate as determined by the Remarketing Agent. The debt repayment schedule provides for principal payments commencing March 1, 2007. The bonds are supported by a direct-pay letter of credit with a bank (Note 6). The costs associated with this bond issue are being amortized over twenty-five years, and are net against the long-term portion of bonds payable on the accompanying consolidated statement of financial position. The proceeds of these bonds were used to finance the renovation and expansion of the Organization's retail and wholesale store facilities, to make certain improvements related to street beautification and parking lot lighting, and to purchase equipment and fixtures to be used or installed in conjunction with the project.

The annual aggregate maturities of bond obligations are as follows:

Years ending December 31:	
2019	$ 370,000
2020	390,000
2021	410,000
2022	430,000
2023	450,000
Thereafter	2,125,000
	4,175,000
Less unamortized debt issuance costs	(150,459)
	4,024,541
Less current portion due, net amortization	(357,633)
	$ 3,666,908

For the years ended December 31, 2018 and 2017, interest expense incurred on the aforementioned bonds payable amounted to approximately $60,000 and $38,000, respectively.

Amortization associated with the cost of issuing the bonds payable amounts to approximately $12,000 for both the years ended December 31, 2018 and 2017.

Note 11 – Other Accrued Liabilities

Aggregate other current accrued liabilities and other accrued liabilities consist of the following at December 31:

	2018	2017
Deferred rent	$ 805,378	$ 799,881
Loss contingencies (Note 14)	755,866	894,235
Unemployment benefits (Note 8)	80,000	160,000
Workers' compensation (Note 8)	3,073,095	2,906,406
Other	598,955	406,933
	5,313,294	5,167,455
Less: other current accrued liabilities	(2,238,455)	(2,245,696)
	$ 3,074,839	$ 2,921,759

Note 12 – Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, consist of the following:

	2018	2017
Charitable gift annuity investments in which the Organization is given beneficial interest upon the death of the donor	$ -	$ 750
Uncollected contributions receivable	1,041,459	1,335,290
Endowments held in perpetuity	95,845	52,980
Total net assets with donor restrictions	$ 1,137,304	$ 1,389,020

Note 13 – Endowments

The endowment consists of various individual funds established for a variety of purposes, consisting of both donor-restricted endowment funds and funds designated by the Board to function as endowment. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 13 – Endowments (continued)

Interpretation of relevant law – The Board has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which the State of California has enacted, as requiring the preservation of the historic dollar 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:

- The original value of gifts donated to the perpetual endowment,
- The original value of subsequent gifts to the perpetual endowment, and
- Accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time accumulation is added to the fund.

Endowment spending policy – In accordance with the UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Note 13 – Endowments (continued)

The composition of endowment net assets during the years ended December 31, 2018 and 2017, are as follows:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 95,845	$ 95,845
Board-designated endowment fund	430,384	-	430,384
	$ 430,384	$ 95,845	$ 526,229

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 99,233	$ 99,233
Board-designated endowment fund	463,951	-	463,951
	$ 463,951	$ 99,233	$ 563,184

The changes in endowment net assets during the years ended December 31, 2018 and 2017, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at January 1, 2017	$ 410,737	$ 86,529	$ 497,266
Investment income, net	2,455	-	2,455
Net appreciation (realized and unrealized)	50,759	12,704	63,463
Endowment net assets at December 31, 2017	463,951	99,233	563,184
Investment loss	(9,559)	-	(9,559)
Net depreciation (realized and unrealized)	(24,008)	(3,388)	(27,396)
Endowment net assets at December 31, 2018	$ 430,384	$ 95,845	$ 526,229

Note 13 – Endowments (continued)

Return objectives and risk parameters – The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of major indices (e.g., S&P 500) while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average annual rate of return of the National Consumer Price Index plus 5% for the aggregate investments over a period of five years. Actual returns in any given year may vary from this amount.

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies at December 31, 2018 and 2017, respectively.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term objectives within prudent risk constraints.

Spending policy and investment objectives – The Organization has a policy that allows for the appropriation for distribution each year of up to 5% of its endowment fund's average year-end value over the past three years, provided that such payout shall not cause the total value of the endowment account to decline below the cumulative value of the original amounts donated. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 2% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 14 – Commitments and Contingencies

Operating leases – The Organization leases certain trucks, equipment, and retail stores under non-cancelable operating leases. The annual rents on the aforementioned leases range from $8,000 to $1,420,000, expiring at various dates through May 2026. The rental agreements include escalation clauses based on increased operating costs. Under the leasing arrangements for the retail stores, the Organization is required to pay property taxes and common area charges (maintenance, utilities, and property insurance) attributable to the leases.

Note 14 – Commitments and Contingencies (continued)

Future minimum lease commitments under such leases at December 31, 2018, are as follows:

Years ending December 31:	
2019	$ 6,730,954
2020	7,051,236
2021	6,634,389
2022	6,626,652
2023	5,824,924
Thereafter	16,240,540
	$ 49,108,695

Additionally, the Organization leases space for various attended donation reception centers. The operating lease arrangements are renewed month-to-month and require monthly payments ranging from $160 to $1,093.

Rent expense under operating leases was approximately $8,437,000 and $8,120,00 for the years ended December 31, 2018 and 2017, respectively.

Loss contingencies – The Organization is subject to certain outside claims and litigation arising in the ordinary course of business. The Organization's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Organization's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

Government grants – Certain government grants which the Organization administers and for which it receives reimbursements are subject to audit and final acceptance by state and local granting agencies. Current and prior year costs of such grants are subject to adjustments upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be documented at the time, although the Organization expects such amounts, if any, would not have a significant impact on the financial position of the Organization.

Note 15 – Related-Party Transactions

Landmark Services, Inc. reimburses Goodwill Industries of Orange County, California each month for administrative services. The total amount received for such administrative and other services for the years ended December 31, 2018 and 2017, is approximately $272,000 and $259,000, respectively. These payments have been eliminated during the consolidation of the financial statements.

In addition, during 2016, Landmark Services, Inc. made a subordinated advance of $1,000,000 to Goodwill Industries of Orange County, California, primarily to accommodate expansion and other financing needs. Payments of $17,440 are made monthly and bear an annual interest rate of 1.80% through the maturity date of March 2021. Interest charged to Goodwill Industries of Orange County, California for the year ended December 31, 2018 was $13,795, and the balance of the note for the year ended December 31, 2018 was approximately $462,000. These amounts have been eliminated during the consolidation of the financial statements.

Subsequent to December 31, 2018, on March 1, 2019, Goodwill Industries of Orange County, California, and Landmark Services, Inc. entered into a $1,500,000 subordinated Revolving Line Note (the “Note”) to be drawn upon as needed. The Note accrues interest at the monthly short-term Applicable Federal Rate, as defined in the agreement and has no expiration date.

Note 16 – Retirement Plans

Effective January 1, 1989, the Organization adopted a contributed retirement plan (the “Plan”) covering all employees over 21 years of age, who generally work 20 or more hours per week and who are not student employees. The Plan, as amended in July 2017, provides for an employer matching contribution up to a maximum of 3.5%. Under the employer matching formula, a participant is matched at a rate of 100% of the first 1% followed by 50% of the next 5% of eligible wages contributed to the Plan. Participating employees may contribute up to a maximum allowable limit established annually by the Internal Revenue Service. Participants become fully invested in employer matching contributions after one year of service. Effective May 1, 2016, the Plan was amended to exclude employees who normally work less than 20 hours per week, and student employees. Until the Plan was further amended in July 2017, all employer contributions were eliminated through an amendment in July 2016. Amounts charged to expense related to the years ended December 31, 2018 and 2017, totaled approximately $470,000 and $614,000, respectively.

Note 17 – Liquidity and Availability

The following table reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date:

Cash and cash equivalents	$ 4,024,152
Investments without donor restrictions	13,598,781
Accounts receivable	3,855,344
Contributions receivable due within one year	259,480
Inventory	1,942,491
Total financial assets	23,680,248
Less:	
Funds restricted by bond holder liquidity requirements	(5,250,000)
Board-designated endowment	(430,384)
Financial assets available to meet cash needs for general expenditures within one year	$ 17,999,864

Endowment funds consist of donor-restricted endowments and funds designated by the Board. Income from donor-restricted endowments is restricted for specific purposes, and is not available for general expenditure. Income from the Board-designated endowment has been internally designated. The Organization does not intend to spend from the Board-designated endowment other than for internally designated purposes, and has deducted the funds from financial assets available in the table above. However, these amounts could be made available if necessary. As part of the Organization's liquidity management plan, it structures its financial assets to be available as obligations come due. Cash is held in interest bearing bank accounts and is invested in short-term fixed income investments. As discussed in Note 6, the Organization has a committed line of credit which it could draw upon in the event of an unanticipated liquidity need.

Supplementary Information

Goodwill Industries of Orange County, California
Statement of Financial Position
December 31, 2018

ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
CURRENT ASSETS			
Cash and cash equivalents	$ 2,051,740	$ -	$ 2,051,740
Investments	13,598,781	95,845	13,694,626
Accounts receivable (net of allowance for doubtful accounts of $103,100)	3,481,647	-	3,481,647
Contributions receivable, net	-	259,480	259,480
Due from affiliate	52,881	-	52,881
Inventory	1,942,491	-	1,942,491
Prepaid expenses and other assets	923,235	-	923,235
Total current assets	22,050,775	355,325	22,406,100
RESTRICTED CASH	300,000	-	300,000
CONTRIBUTIONS RECEIVABLE, net	-	781,979	781,979
DEPOSITS	395,371	-	395,371
LAND, BUILDINGS, AND EQUIPMENT, net	24,350,440	-	24,350,440
Total assets	$ 47,096,586	$ 1,137,304	$ 48,233,890

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
CURRENT LIABILITIES			
Accounts payable	$ 4,763,950	$ -	$ 4,763,950
Accrued salaries, wages, and vacation payable	2,954,262	-	2,954,262
Note payable to affiliate	203,343	-	203,343
Current portion of notes payable, net	396,000	-	396,000
Current portion of bonds payable, net	357,633	-	357,633
Other current accrued liabilities	1,936,676	-	1,936,676
Total current liabilities	10,611,864	-	10,611,864
DERIVATIVE INSTRUMENTS	51,458	-	51,458
NOTE PAYABLE TO AFFILIATE, net	258,493	-	258,493
NOTES PAYABLE, net	494,000	-	494,000
BONDS PAYABLE, net	3,666,908	-	3,666,908
OTHER ACCRUED LIABILITIES, net	2,909,030	-	2,909,030
Total liabilities	17,991,753	-	17,991,753
Without donor restrictions	29,104,833	-	29,104,833
With donor restrictions	-	1,137,304	1,137,304
Total net assets	29,104,833	1,137,304	30,242,137
Total liabilities and net assets	$ 47,096,586	$ 1,137,304	$ 48,233,890

See accompanying report of independent auditors.

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUE			
Public support:			
Contributions	$ 1,676,804	$ -	$ 1,676,804
Donated merchandise	35,327,939	-	35,327,939
Total public support	37,004,743	-	37,004,743
Revenue:			
Thrift store sales	59,930,504	-	59,930,504
Other sales	2,581,874	-	2,581,874
Contract services	1,424,408	-	1,424,408
Rehabilitation revenue	23,177,523	-	23,177,523
Technology services	5,349,345	-	5,349,345
Interest and other income	532,683	-	532,683
Realized and unrealized (losses) on investments, net	(1,627,663)	(3,388)	(1,631,051)
Realized gains on assets disposed of through restructuring	196,002	-	196,002
Unrealized gains on derivative instruments	92,347	-	92,347
Total revenue	91,657,023	(3,388)	91,653,635
Net assets released from restrictions and reclassifications	248,328	(248,328)	-
Total public support and revenue	128,910,094	(251,716)	128,658,378
EXPENSES			
Program services:			
Store operations	77,340,721	-	77,340,721
Processing of donated merchandise	10,954,016	-	10,954,016
Solicitation and transportation	7,749,324	-	7,749,324
Rehabilitation	23,140,775	-	23,140,775
Contract services	1,924,470	-	1,924,470
Technology services	2,129,020	-	2,129,020
Total program services	123,238,326	-	123,238,326
Supporting services:			
General and administrative	7,044,366	-	7,044,366
Fundraising	1,025,491	-	1,025,491
Total supporting services	8,069,857	-	8,069,857
Total expenses	131,308,183	-	131,308,183
Change in net assets	(2,398,089)	(251,716)	(2,649,805)
NET ASSETS AT BEGINNING OF YEAR	31,502,922	1,389,020	32,891,942
NET ASSETS AT END OF YEAR	$ 29,104,833	$ 1,137,304	$ 30,242,137

Landmark Services, Inc.
Statement of Financial Position
December 31, 2018

ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
CURRENT ASSETS:			
Cash and cash equivalents	$ 1,972,412	$ -	$ 1,972,412
Accounts receivable (net of allowance for doubtful accounts of $9,276)	373,697	-	373,697
Note receivable from affiliate	203,343	-	203,343
Prepaid expenses and other assets	59,442	-	59,442
Total current assets	2,608,894	-	2,608,894
NOTE RECEIVABLE FROM AFFILIATE, net	258,493	-	258,493
LAND, BUILDINGS, AND EQUIPMENT, net	132,112	-	132,112
Total assets	$ 2,999,499	$ -	$ 2,999,499

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
CURRENT LIABILITIES			
Accounts payable	$ 129,840	$ -	$ 129,840
Accrued salaries, wages, and vacation payable	153,140	-	153,140
Due to affiliate	52,881	-	52,881
Other current accrued liabilities	301,779	-	301,779
Total current liabilities	637,640	-	637,640
OTHER ACCRUED LIABILITIES, net	165,809	-	165,809
Total liabilities	803,449	-	803,449
WITHOUT DONOR RESTRICTIONS	2,196,050	-	2,196,050
Total net assets	2,196,050	-	2,196,050
Total liabilities and net assets	$ 2,999,499	$ -	$ 2,999,499

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contract services	$ 4,034,386	$ -	$ 4,034,386
Rehabilitation revenue	40,584	-	40,584
Interest and other income	13,850	-	13,850
Total revenue	4,088,820	-	4,088,820
EXPENSES			
Program services:			
Contract services	3,223,123	-	3,223,123
Total program services	3,223,123	-	3,223,123
Supporting services:			
General and administrative	401,045	-	401,045
Total supporting services	401,045	-	401,045
Total expenses	3,624,168	-	3,624,168
Change in net assets	464,652	-	464,652
NET ASSETS AT BEGINNING OF YEAR	1,731,398	-	1,731,398
NET ASSETS AT END OF YEAR	$ 2,196,050	$ -	$ 2,196,050