GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

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MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Goodwill Industries of South Florida, Inc. and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Goodwill Industries of South Florida, Inc. and Subsidiaries (a nonprofit 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 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 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 consolidated financial position of Goodwill Industries of South Florida, Inc. and Subsidiaries 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.

Morrison, Brown, Argiz & Farra

Miami, Florida
June 12, 2020

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31,

ASSETS	**2019**	**2018**
Cash and cash equivalents	$ 6,872,956	$ 5,473,919
Accounts and other receivables, net	10,688,345	8,706,865
Pledges receivable	360,249	84,924
Inventories	8,722,531	12,770,841
Prepaid expenses	388,209	276,540
Other assets	2,669,554	689,292
Goodwill	1,392,000	1,392,000
Property and equipment, net	37,773,220	39,263,321
TOTAL ASSETS	**$ 68,867,064**	**$ 68,657,702**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 5,672,734	$ 6,967,539
Accrued expenses and other liabilities	10,297,538	9,251,509
Mortgage notes, notes payable and lines of credit, net	14,431,093	14,119,301
Obligations under capital leases, net	1,036,603	2,232,453
TOTAL LIABILITIES	31,437,968	32,570,802
COMMITMENTS AND CONTINGENCIES (NOTE 22)		
NET ASSETS		
Without donor restrictions	37,068,847	36,001,976
With donor restrictions	360,249	84,924
TOTAL NET ASSETS	37,429,096	36,086,900
TOTAL LIABILITIES AND NET ASSETS	**$ 68,867,064**	**$ 68,657,702**

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

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31,

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES AND SUPPORT:		
Contributions:		
Donated goods sales	$ 66,166,044	$ 63,054,798
Contributions	1,521,012	600,332
United Way allocation	367,398	360,501
TOTAL CONTRIBUTIONS	68,054,454	64,015,631
Apparel manufacturing	65,434,346	50,769,776
Custodial contracts	9,497,490	9,063,839
Business services	60,036	404,482
Laundry services	14,846,320	12,940,607
Mission services	2,608,467	2,497,418
Miscellaneous income	86,523	75,452
Releases from restrictions	55,000	75,000
TOTAL REVENUES AND SUPPORT	160,642,636	139,842,205
EXPENSES:		
Program services:		
Donated goods operations	57,460,124	54,530,224
Apparel manufacturing	66,082,996	50,941,682
Custodial contracts	8,906,499	8,477,657
Business services	582,401	486,003
Laundry services	14,922,301	14,144,123
Mission services	5,586,365	5,422,163
TOTAL PROGRAM SERVICES	153,540,686	134,001,852
Supporting services:		
Management and general	5,425,594	5,154,280
Fundraising	609,485	325,546
TOTAL EXPENSES	159,575,765	139,481,678
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,066,871	360,527
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	330,325	9,924
Releases from restrictions	(55,000)	(75,000)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	275,325	(65,076)
INCREASE IN NET ASSETS	1,342,196	295,451
NET ASSETS - BEGINNING OF YEAR	36,086,900	35,791,449
NET ASSETS - END OF YEAR	**$ 37,429,096**	**$ 36,086,900**

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

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Services						Supporting Services		
	Donated Goods Operations	Apparel Manufacturing	Custodial Contracts	Business Services	Laundry Services	Mission Services	Management and General	Fundraising	Total Expenses
PAYROLL AND RELATED COSTS									
Disabled wages	$ 1,510,684	$ 13,503,368	$ 3,018,924	$ 21,010	$ 1,096,455	$ 316,036	$ 108,878	$ 1,394	$ 19,576,749
Non-disabled wages	22,688,847	9,872,371	2,644,775	91,650	5,027,840	3,480,229	2,689,738	66,871	46,562,321
Employee health and welfare benefits	1,184,161	1,151,781	793,063	6,341	304,850	279,528	221,887	3,997	3,945,608
Other payroll-related expenses	2,342,315	2,139,570	568,590	9,704	545,284	239,203	165,127	5,238	6,015,031
Total payroll and related costs	27,726,007	26,667,090	7,025,352	128,705	6,974,429	4,314,996	3,185,630	77,500	76,099,709
EXPENSES									
Occupancy	16,663,937	1,136,425	297,729	35,389	1,246,163	200,386	207,243	8,425	19,795,697
Professional fees	948,632	7,531,031	580,756	30,739	1,329,476	438,768	1,164,218	368,667	12,392,287
Materials and supplies (office and commercial)	6,642,034	28,442,506	800,824	313,951	4,094,154	325,999	134,121	141,799	40,895,388
Telephone	588,563	230,480	43,318	6,876	24,425	69,888	183,820	1,375	1,148,745
Postage and freight	1,024,865	507,121	373	6,048	1,839	2,109	9,258	368	1,551,981
Equipment rental and maintenance	109,687	88,197	5,828	11,325	214,592	12,849	42,405	254	485,137
Printing and advertising	75,802	115,489	12,376	3,359	4,810	15,171	21,697	4,814	253,518
Travel	87,469	81,279	44,521	23,065	2,172	46,723	39,872	523	325,624
Fleet and transportation costs	1,061,773	23,530	48,946	524	344,402	5,926	3,473	105	1,488,679
Conferences and meetings	18,966	14,073	2,077	942	10,219	2,339	15,764	720	65,100
Special assistance to individuals	707	-	-	-	750	127	-	-	1,584
Membership dues	2,308	4,311	3,490	136	27	71,330	268,344	452	350,398
Awards and grants	684	684	13	22	4	80	636	4	2,127
Interest (including amortization of debt issuance costs of $37,045)	94,251	207,545	3,927	6,545	280,486	24,348	41,024	1,309	659,435
Miscellaneous	1,433,305	7,830	939	8	897	394	15,531	217	1,459,121
Total expenses before depreciation and amortization	56,478,990	65,057,591	8,870,469	567,634	14,528,845	5,531,433	5,333,036	606,532	156,974,530
Depreciation and amortization	981,134	1,025,405	36,030	14,767	393,456	54,932	92,558	2,953	2,601,235
Total expenses	**$ 57,460,124**	**$ 66,082,996**	**$ 8,906,499**	**$ 582,401**	**$ 14,922,301**	**$ 5,586,365**	**$ 5,425,594**	**$ 609,485**	**$ 159,575,765**

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

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services						Supporting Services		
	Donated Goods Operations	Apparel Manufacturing	Custodial Contracts	Business Services	Laundry Services	Mission Services	Management and General	Fundraising	Total Expenses
PAYROLL AND RELATED COSTS									
Disabled wages	$ 1,441,084	$ 12,219,082	$ 2,883,798	$ 90,062	$ 1,705,769	$ 297,475	$ 103,813	$ 1,470	$ 18,742,553
Non-disabled wages	21,200,364	7,604,676	2,515,222	188,966	3,840,966	3,354,799	2,490,783	44,837	41,240,613
Employee health and welfare benefits	1,161,187	932,252	739,221	15,667	318,223	297,389	210,974	2,690	3,677,603
Other payroll-related expenses	2,210,915	2,032,897	645,405	31,328	560,872	262,124	170,440	3,689	5,917,670
Total payroll and related costs	26,013,550	22,788,907	6,783,646	326,023	6,425,830	4,211,787	2,976,010	52,686	69,578,439
EXPENSES									
Occupancy	16,292,666	1,044,878	266,075	75,396	1,260,610	201,946	205,672	7,989	19,355,232
Professional fees	805,772	1,533,793	440,352	15,987	2,124,778	346,690	1,064,787	236,833	6,568,992
Materials and supplies (office and commercial)	6,646,689	23,392,709	794,917	11,200	2,905,336	355,747	183,083	11,767	34,301,448
Telephone	517,517	188,480	51,085	12,787	21,468	67,780	180,767	1,221	1,041,105
Postage and freight	839,546	486,266	602	151	828	3,205	6,264	4,515	1,341,377
Equipment rental and maintenance	154,882	129,384	8,891	3,618	218,572	22,659	46,647	473	585,126
Printing and advertising	71,211	111,281	8,165	4,803	3,454	14,199	20,906	5,187	239,206
Travel	73,954	41,976	40,564	2,072	1,751	41,823	26,678	340	229,158
Fleet and transportation costs	977,390	31,416	37,944	1,075	397,879	6,121	4,496	141	1,456,462
Conferences and meetings	18,650	20,796	1,584	630	6,828	565	11,846	152	61,051
Special assistance to individuals	4,299	-	-	-	-	450	-	-	4,749
Membership dues	4,700	9,001	190	485	63	71,854	266,501	63	352,857
Interest (including amortization of debt issuance costs of $37,045)	86,821	171,534	3,625	9,237	330,742	22,448	37,261	1,208	662,876
Miscellaneous	954,886	2,560	305	73	106	292	32,739	32	990,993
Total expenses before depreciation and amortization	53,462,533	49,952,981	8,437,945	463,537	13,698,245	5,367,566	5,063,657	322,607	136,769,071
Depreciation and amortization	1,067,691	988,701	39,712	22,466	445,878	54,597	90,623	2,939	2,712,607
Total expenses	**$ 54,530,224**	**$ 50,941,682**	**$ 8,477,657**	**$ 486,003**	**$ 14,144,123**	**$ 5,422,163**	**$ 5,154,280**	**$ 325,546**	**$ 139,481,678**

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

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,342,196	$ 295,451
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,601,235	2,712,607
Amortization of debt issuance costs	37,045	37,045
(Increase) decrease in assets:		
Accounts and other receivables, net	(1,981,480)	(1,605,209)
Pledges receivable	(275,325)	105,076
Inventories	4,048,310	(3,115,752)
Prepaid expenses	(111,669)	(126,072)
Other assets	(1,980,262)	11,350
(Decrease) increase in liabilities:		
Accounts payable	(1,294,805)	3,772,410
Accrued expenses and other liabilities	1,046,029	650,757
TOTAL ADJUSTMENTS	2,089,078	2,442,212
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,431,274	2,737,663
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,111,134)	(1,891,598)
NET CASH USED IN INVESTING ACTIVITIES	(1,111,134)	(1,891,598)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from mortgage notes, notes payable and lines of credit, net	48,140,632	56,008,806
Payments on mortgage notes, notes payable and lines of credit, net	(47,865,885)	(57,172,907)
Payments on obligations under capital leases	(1,195,850)	(1,145,494)
NET CASH USED IN FINANCING ACTIVITIES	(921,103)	(2,309,595)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,399,037	(1,463,530)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	5,473,919	6,937,449
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 6,872,956**	**$ 5,473,919**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	**$ 622,376**	**$ 627,414**

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

1. ORGANIZATION

Goodwill Industries of South Florida, Inc. is a not-for-profit organization established in 1959. Goodwill South Florida TEP, LLC ("Goodwill TEP"), a Florida limited liability company, was formed in December 2015 to operate for the benefit of its sole member, Goodwill Industries of South Florida, Inc. Goodwill TEP and Goodwill Industries of South Florida, Inc. are collectively referred to as "Goodwill" in the accompanying consolidated financial statements.

The purpose of Goodwill is to help people with disabilities and special needs make the transition to independence. Goodwill provides vocational rehabilitation, training, employment and placement to help people achieve employment and self-sufficiency. Goodwill operates numerous entrepreneurial activities such as collecting and selling donated materials, manufacturing and contracting services with the private and public sectors. These activities serve as tools for the training and employment of individuals with disabilities and special needs as well as providing revenues to support Goodwill's mission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Goodwill Industries of South Florida, Inc. and the accounts of Goodwill TEP. All intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The consolidated financial statements of Goodwill 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").

Net assets and revenues, gains and losses are classified into two classes of net assets based on the existence or absence of donor-imposed restrictions. The two classes of net asset categories are as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Goodwill's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Goodwill or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Consolidated Statements of Activities.

Significant Customers and Concentrations

Goodwill has several large contracts with Defense Supply Center Philadelphia ("DSCP") and US Army Natick Soldier System Center ("Natick") for the production of military apparel. Sales to DSCP and Natick accounted for approximately $62,126,000 or 95% and approximately $47,271,000 or 93% of total apparel manufacturing sales during the years ended December 31, 2019 and 2018, respectively. Additionally, the amounts due from DSCP and Natick for the production of military apparel accounted for approximately $4,706,000 or 94% and approximately $4,384,000 or 89% of the total manufacturing accounts receivable balance of approximately $5,021,000 and $4,940,000 at December 31, 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, three customers represented approximately 87% and 95%, respectively, of revenues generated from laundry services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

All highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents.

Accounts and Other Receivables, Net

Accounts and other receivables are stated at the amount Goodwill expects to collect. Management monitors the collection status of its receivable balance on an ongoing basis. Based on management's analysis of possible bad debts, the allowance for doubtful accounts is $100,000 as of December 31, 2019 and 2018. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Inventories consist of merchandise purchased and used in Goodwill's store operations as well as its manufacturing process, including the production of aprons, flags, garrison caps, army combat uniforms, army combat pants, improved hot weather combat uniforms, and fleece jackets. Inventories also include purchased linens such as bed linens, patient gowns, lab coats and rags used in the laundry operation. Inventories are stated at the lower of cost (first-in, first-out basis) or net realizable value ("NRV"). Finished goods inventory includes the cost of applicable labor and materials. In addition, Goodwill records inventory for donated goods at estimated fair value, which is determined based on its future economic benefit. New goods inventory is recorded at the lower of cost or NRV.

Prepaid Expenses

Prepaid expenses consist primarily of prepaid insurance and other professional fees incurred in connection with Goodwill's stores and future projects. These costs are amortized over the period benefitted.

Goodwill

Goodwill evaluates its goodwill on an annual basis in the fourth quarter or more frequently if management believes indicators of impairment exist. Such indicators could include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. Goodwill first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including its goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts a two-step quantitative goodwill impairment test. The first step of the impairment test involves comparing the fair value of the applicable reporting unit with its carrying value. Goodwill estimates the fair values of its reporting units using discounted cash flows. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, management performs the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. The amount, by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. Goodwill's evaluation of its goodwill completed during each of the years ended December 31, 2019 and 2018 resulted in no impairment losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, Net

Property and equipment are stated at cost or, if donated to Goodwill, at fair value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as net assets with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as net assets without donor restrictions. Depreciation and amortization of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets.

Estimated useful lives of property and equipment are as follows:

Asset	Life
Buildings and improvements	39 - 50 years
Equipment	5 - 15 years
Leasehold improvements	Shorter of useful life or lease term
Other improvements	10 years
Equipment under capital leases	Shorter of useful life or lease term

Long-Lived Assets

Goodwill reviews its long-lived assets for possible impairment at least annually, and more frequently if circumstances warrant. Impairment is determined to exist when estimated amounts recoverable through future cash flows from operations on an undiscounted basis are less than the long-lived asset carrying values. If a long-lived asset is determined to be impaired, it is written down to its estimated fair value to the extent that the carrying amount exceeds the fair value of the long-lived asset. No write-downs for impairment of long-lived assets were recorded during the years ended December 31, 2019 or 2018.

Revenue Recognition – Contributions

Transfers of cash or other assets or settlement of liabilities that are both voluntary and nonreciprocal are recognized as contributions. Contributions may either be conditional or unconditional. A contribution is considered conditional when the donor imposes both a barrier and a right of return. Conditional contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific and measurable outcomes, limitations on the performance of an activity and other stipulations related to the contribution. A donor has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event Goodwill fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as refundable advances.

Unconditional contributions may or may not be subject to donor-imposed restrictions. Donor-imposed restrictions limit the use of the donated assets but are less specific than donor-imposed conditions. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Goodwill reports gifts of cash and other assets as restricted support if they are received with donor stipulations about the use of the donated assets, or if they are designated as support for future periods.

When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities as “Net assets released from restrictions.” Donor-restricted contributions whose restrictions are met in the same reporting period in which received are reported as net assets without donor restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition – Contributions (Continued)

Goodwill receives donations from several sources including private foundations and other donors. Donations are evaluated as to whether they qualify as exchange transactions or contributions as defined by U.S. GAAP.

Apparel Manufacturing Sales

Apparel manufacturing sales consist of products manufactured for a fixed or determinable fee based on contractual terms. Product revenue is recognized when delivery has occurred, and collectability is probable. Goodwill does not offer price concessions or discounts. Goodwill is generally not contractually obligated to accept returns, except for defective products. Based on management's analysis of historical returns, it has been determined that an allowance for estimated returns is not necessary.

Custodial Contracts, Business Services, Laundry Services and Mission Services

Program services are supported by grants and/or contracts. Revenues are recorded as related expenditures are incurred and services are performed under the provisions of the agreements. Revenue for training contracts that require certain performance standards to be met by the participants is recognized as performance standards are met, which approximately matches the expenses incurred in the program. The unexpended portion of such revenues may be available for application to approved expenditures in future years or repayable to granting agencies.

Functional Allocation of Expenses

The costs of providing services have been allocated on a functional basis among donated goods operations, apparel manufacturing, custodial contracts, business services, laundry services, mission services, management and general and fundraising expenses. Allocations are generally made on a specific identification basis by program activity and supporting services benefited. Occupancy, depreciation and amortization expenses are allocated to cost centers based on square footage. Personnel expenses are allocated on the basis of estimated time and effort.

Taxes Collected from Customers and Remitted to Governmental Authorities

Goodwill records taxes collected from customers, which are directly imposed on a transaction with that customer, on a net basis. That is, in instances in which Goodwill acts as a collection agent for a taxing authority by collecting taxes that are the responsibility of the customer, Goodwill records the amount collected as a liability and relieves such liability upon remittance to the taxing authority without impacting revenues or expenses.

Shipping and Handling Costs

Shipping and handling costs of approximately $1,542,000 and $1,323,000 are included in program services within "Postage and freight" in the Consolidated Statements of Functional Expenses for the years ended December 31, 2019 and 2018, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Debt and Lease Costs

Goodwill capitalizes costs associated with the issuance of debt and lease agreements. These costs are amortized on a straight-line method, which approximates the effective interest rate method, over the term of the debt or lease. Amortization expense for the year ended December 31, 2019, included in “Interest” in the Consolidated Statements of Functional Expenses was $37,045. Amortization expense for the year ended December 31, 2018, included in “Interest” and “Depreciation and amortization” in the Consolidated Statements of Functional Expenses was $89,481.

Income Taxes

Goodwill Industries of South Florida, Inc. is registered with the Internal Revenue Service (“IRS”) as a non-profit organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from income taxes, except for any taxes which may arise from unrelated business income. Goodwill TEP is a Florida limited liability company and has as its sole member, Goodwill Industries of South Florida, Inc. Goodwill TEP is a disregarded entity for tax purposes. Management believes there is no unrelated business income.

Collectively, Goodwill recognizes and measures tax positions based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively.

The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where Goodwill files income tax returns. Goodwill is generally no longer subject to U.S. Federal or state examinations by tax authorities for years before 2016.

Concentrations of Credit Risk

Financial instruments, which potentially subject Goodwill to concentrations of credit risk, consist primarily of cash and cash equivalents maintained in financial institutions in excess of the Federal Deposit Insurance Corporation insured limit of $250,000. By policy, Goodwill limits the amount of credit risk exposure from any one financial institution. Although cash balances may exceed federally insured limits at times during the year, Goodwill has not experienced and does not expect to incur any losses in such accounts.

Adopted Accounting Pronouncements

<u>Accounting Guidance for Contributions Received and Contributions Made</u>

During the year ended December 31, 2019, Goodwill adopted Accounting Standards Update 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The update provides guidance in evaluating whether transactions should be accounted for as contributions or as an exchange transaction and determining whether a contribution is conditional or not. The adoption of this update had no effect on Goodwill’s financial position and changes in net assets.

<u>Classification of Certain Cash Receipts and Cash Payments</u>

In August 2016, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update to reduce diversity in practice on eight specific statement of cash flows issues. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. Goodwill adopted this accounting standard update during the year ended December 31, 2019. The adoption of this update had no effect on Goodwill’s financial position and changes in net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued an accounting standard update to simplify the accounting for goodwill impairment. The update removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. The update specifies that a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. The update is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, with early adoption permitted for any impairment tests performed after January 1, 2017. Goodwill is currently evaluating the effect the update will have on its consolidated financial statements.

Lease Accounting

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements and lessor accounting. Goodwill is currently evaluating the effect the update will have on its consolidated financial statements but expects upon adoption that the update will have a material effect on Goodwill's consolidated financial condition due to the recognition of a right-of-use asset and related lease liability. Goodwill does not anticipate the update having a material effect on Goodwill's consolidated results of operations or cash flows, though such an effect is possible.

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, Goodwill's presentation of comparative periods in the consolidated financial statements will continue to be in accordance with current lease accounting. Goodwill is evaluating the method of adoption it will elect. The update is effective and has been extended to fiscal years beginning after December 15, 2021, and for interim periods within fiscal years beginning after December 15, 2022, with early application permitted.

Revenue from Contracts with Customers

In May 2014, FASB issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively. The update is effective and has been extended to annual periods beginning after December 15, 2019 and in interim periods in annual periods beginning after December 15, 2020. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016.

Subsequent Events

Goodwill has evaluated subsequent events through June 12, 2020, which is the date the consolidated financial statements were available to be issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Liquidity Management and Availability of Resources

Goodwill maintains a policy of structuring its financial assets to be available as general expenditures, liabilities and other obligations come due.

In managing its liquidity needs, Goodwill monitors and maintains a cash float to cover general operating expenditures as well as establish a strict budget. Goodwill also has a line of credit available with borrowing capacity of up to $6,000,000, which can be used to meet general expenditures within a year (NOTE 10).

Goodwill's financial assets available within one year of the Consolidated Statement of Financial Position date for general expenditures as of December 31, 2019 and 2018 are as follows:

	2019	2018
Cash and cash equivalents	$ 6,872,956	$ 5,473,919
Accounts and other receivables, net	10,688,345	8,706,865
Pledges receivable	360,249	84,924
Total financial assets	17,921,550	14,265,708
Less amounts unavailable for general expenditures within one year due to:		
Restricted by donors with purpose/time restrictions	155,249	10,000
Less amounts unavailable to management without Board approval		
Designated fund	1,708,795	905,077
Quasi-endowment fund	247,500	222,500
Total Board designated	1,956,295	1,127,577
Total financial assets available to management for general expenditures within one year	**$ 15,810,006**	**$ 13,128,131**

Goodwill has approximately $8,700,000 and $12,800,000 of inventory at December 31, 2019 and 2018, respectively, which is excluded from the financial assets listed above because the inventory does not meet the definition of a financial asset. However, Goodwill expects to sell the inventory and have the proceeds available for its general expenditures within the next year.

3. ACCOUNTS AND OTHER RECEIVABLES, NET

Accounts and other receivables, net consists of the following at December 31,:

	2019	2018
Federal government	$ 4,106,674	$ 2,431,924
State government	1,381,505	1,373,569
Commercial	5,300,166	5,001,372
	10,788,345	8,806,865
Less allowance for doubtful accounts	(100,000)	(100,000)
	$ 10,688,345	**$ 8,706,865**

There was no bad debt expense for the years ended December 31, 2019 and 2018.

4. PLEDGES RECEIVABLE

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The present value discount is not material to the consolidated financial statements. At December 31, 2019 and 2018, respectively, pledges receivable totaled $360,249 and $84,924 and are payable over the next 2 years. All pledges receivable is expected to be collected; therefore, no allowance for doubtful accounts is recorded in these consolidated financial statements.

5. INVENTORIES

Inventories consist of the following at December 31,:

	2019	2018
Raw materials	$ 2,637,539	$ 5,399,059
Work in progress	536,773	1,347,121
Finished goods	921,633	1,804,932
Supplies	28,502	25,208
	4,124,447	8,576,320
Donated goods	3,512,504	3,275,269
New goods	271,853	181,008
Linen	813,727	738,244
	$ 8,722,531	**$ 12,770,841**

6. OTHER ASSETS

Other assets consist of the following at December 31,:

	2019	2018
Security deposits	$ 152,717	$ 139,292
Payroll deposit	1,966,837	-
Split-dollar insurance plan	550,000	550,000
	$ 2,669,554	**$ 689,292**

Split-dollar Insurance Plan

In 2003, the Board of Directors of Goodwill approved a split-dollar life insurance plan to provide retirement income to the former President and CEO of Goodwill. The retirement income arrangement was provided for his services of over twenty years in the absence of an adequate retirement plan available through standard arrangements. The split-dollar arrangement provides for the periodic premiums required under the life insurance contract which are treated as a series of loans secured by the life insurance policy.

The former President and CEO of Goodwill (the “insured”) owns the insurance policy. Goodwill (the “employer”) reflects an asset for its secured interest equal to the total of all premiums paid on behalf of the insured which totaled $550,000 as of December 31, 2019 and 2018. The face value of the life insurance policy is $1,800,000. During the year ended December 31, 2018, the former President and CEO received a loan in the amount of $150,000 from the policy, which was repaid in October 2019. The repayment of the premiums will be made from death benefits on the insured. The loans are collateralized by the life insurance policy for which the net cash surrender value of the policy at December 31, 2019 and 2018 was $1,017,767 and $730,553, respectively.

In the event that the insured voluntarily terminates his participation in the plan, the insured is to repay the employer the cumulative premiums plus accumulated interest at the applicable federal rate through the date the premiums were funded.

6. OTHER ASSETS (CONTINUED)

Split-dollar Insurance Plan (Continued)

The repayment will be accomplished first through the cash surrender value of the insurance policy and the remaining portion will be paid in cash from the insured. The plan meets IRS applicable requirements and is considered a common practice among non-profit organizations in order to retain valuable executives.

Although the plan is expected to be for an indefinite period of time, the employer also retains the right to terminate the plan, provided that the policy continues in effect in accordance with its terms, and as such, termination by the employer will not accelerate the recovery of the cumulative premiums made. The planned periodic annual premium is $40,000. Failure to pay a planned periodic premium will not, in itself, cause the policy to terminate so long as the excess amounts funded over the periodic annual premium in previous years cover the annual premium required under the policy for any particular year not funded. The employer has no obligation to make any premium payments for the plan.

7. GOODWILL

Goodwill represents the excess of the purchase price over the fair values of the net assets of the businesses acquired. Goodwill acquired two companies on May 13, 2003 and May 15, 2003. The companies were purchased for a total of $2,500,000.

The transactions were accounted for as purchases and the cost of the transactions exceeded the fair value of assets acquired by $1,392,000. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually.

8. PROPERTY AND EQUIPMENT, NET

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

	2019	2018
Land	$ 4,582,013	$ 4,582,013
Buildings and improvements	28,281,295	28,233,132
Equipment	27,821,701	26,917,696
Leasehold improvements	6,897,492	6,888,657
Other improvements	395,276	245,145
Equipment under capital leases	8,131,457	8,131,457
	76,109,234	74,998,100
Less accumulated depreciation and amortization (including accumulated amortization for capital leases of $2,815,668 and $2,423,928 in 2019 and 2018, respectively)	(38,336,014)	(35,734,779)
	$ 37,773,220	**$ 39,263,321**

Total depreciation and amortization expense of property and equipment for the years ended December 31, 2019 and 2018 was approximately $2,601,000 and $2,660,000, respectively.

9. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consists of the following at December 31,:

	2019	2018
Accrued payroll	$ 3,308,721	$ 2,810,960
Reserve for worker's compensation (NOTE 20)	975,015	1,075,017
Sales tax payable	340,518	301,827
Retirement plan employer match (NOTE 19)	557,362	463,022
Deferred compensation (NOTE 21)	336,758	266,062
Deferred rent (NOTE 13)	4,144,063	3,805,634
Other liabilities	635,101	528,987
	$ 10,297,538	**$ 9,251,509**

10. MORTGAGE NOTES, NOTES PAYABLE AND LINES OF CREDIT, NET

Mortgage notes, notes payable and lines of credit, net consists of the following at December 31,:

	2019	2018
Revolving line of credit with maximum borrowings of $6,000,000 with a balloon payment due September 22, 2021 with interest due monthly at LIBOR plus 2.65% (4.65% and 5.13% at December 31, 2019 and 2018, respectively), collateralized by accounts receivable.	$ 1,120,572	$ -
Promissory note (new market tax credit financing - A Loan), with interest due monthly at 4.75% maturing on January 11, 2021, collateralized by property.	2,998,060	2,998,060
Promissory note (new market tax credit financing - B Loan), with interest due monthly at 2.75% maturing on July 11, 2053, collateralized by property.	895,525	895,525
Industrial Development Revenue Bonds issued by the Miami-Dade County Industrial Development Authority on December 17, 2010 (Series 2010) with monthly principal and interest payments at variable rates determined on a monthly basis, maturing on December 1, 2030. Bonds are collateralized by properties and equipment (NOTE 12). The interest rate was 2.63% and 3.07% at December 31, 2019 and 2018, respectively.	9,435,460	10,281,285
Total	14,449,617	14,174,870
Less deferred loan costs	(18,524)	(55,569)
Total mortgage notes, notes payable and lines of credit, net of deferred loan costs	**$ 14,431,093**	**$ 14,119,301**

The revolving line of credit was increased to $7,000,000 on June 3, 2020 until December 3, 2020.

10. MORTGAGE NOTES, NOTES PAYABLE AND LINES OF CREDIT, NET (CONTINUED)

The aggregate amount of required payments on debt is as follows for the years ending December 31,:

2020	$ 1,981,319
2021	3,873,992
2022	891,383
2023	907,108
2024	923,110
Thereafter	5,872,705
	$ 14,449,617

Interest expense on all obligations, including obligations under capital leases, for the years ended December 31, 2019 and 2018 was $622,390 and $625,831, respectively.

In 2013, Goodwill completed New Market Tax Credit ("NMTC") financings related to the purchase and construction of expanded facilities. The NMTC program is administered by the United States Treasury and is designed to encourage capital investment and business operations within distressed or highly distressed census tracts. The NMTC transactions provide for favorable financing typical of this type of tax credits-based deals.

The NMTCs are subject to 100% recapture for a period of seven years as described in the Internal Revenue Code. Goodwill must comply with various regulation and contractual provisions that apply to NMTC arrangements. Noncompliance could result in projected tax benefits not being realized, and therefore require Goodwill to indemnify the tax credit investors for any loss or recapture of NMTCs. Management does not anticipate that any credit recapture events will occur.

In conjunction with the NMTC transactions, Goodwill entered into put/call agreements with a lender. The put/call agreements will either obligate or entitle Goodwill to repurchase the B Loan at the end of the NMTC's mandatory seven-year compliance period of July 21, 2020. When the put/call is exercised, Goodwill would acquire the B Loan. Goodwill would then become the holder of the note effectively eliminating the liability. The put option price was set at $8,955 and the call option price was set at the fair market value of the B Loan.

It is anticipated that the put option will be exercised but no assurance can be placed on this. If the put option is exercised, no principal amounts will be paid by Goodwill on the B Loan. The value attributed to the put/call is considered de minimis and has not been recorded in the accompanying consolidated financial statements.

11. OBLIGATIONS UNDER CAPITAL LEASES, NET

During October 2013, Goodwill leased certain machinery and equipment under agreements that are classified as capital leases at a fixed rate of 4.31% for 84 months. The cost of the equipment under capital leases was $8,131,457 at December 31, 2019 and 2018, and is included in the Consolidated Statements of Financial Position as "Property and equipment."

11. OBLIGATIONS UNDER CAPITAL LEASES, NET (CONTINUED)

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments at December 31, 2019, are as follows:

Total minimum lease payments (due in 2020)	$ 1,057,190
Less: amount representing interest	20,587
Present value of net minimum lease payments	**$ 1,036,603**

12. BOND TRANSACTIONS

On May 13, 2003, the Miami-Dade County Industrial Development Authority ("IDA") issued Industrial Development Revenue Bonds (Goodwill Industries of South Florida, Inc. Project) Series 2003 in the amount of $9,400,000. In December 17, 2010, Goodwill retired the 2003 Bond Series and a new 2010 Bond Series was issued with a par amount of $17,480,000 and a maturity date of December 1, 2030. The proceeds were used to refinance the Series 2003, refinance several existing loans that were used to purchase facilities, inventory and equipment, and pay swap termination fees. The collateral for the bond includes facilities located at 2121 NW 21st Street, 2111 NW 22nd Avenue, 461 Palm Avenue, 24311 South Dixie Highway, 2104 W. Commercial Blvd., 550 E. Oakland Park Blvd and equipment located in the main facility.

The financing consists of tax exempt bank qualified bonds and taxable bank loans. The tax-exempt bank qualified loans are broken down into two series. Series 2010A has a principal amount of $7,000,000 and Series 2010B has a principal amount of $7,044,600. Both series have a variable interest rate equal to 69% of one-month LIBOR plus 2.10% which was 2.63% and 3.07% at December 31, 2019 and 2018, respectively. Principal payments for both series started on August 1, 2015 and have a maturity date of December 1, 2030. The principal balance fully amortizes to zero at final maturity and monthly principal and interest payments vary as the interest rate varies. There is a call option, at the option of the bank with a required one-year notice, which includes an interest rate reset at June 30, 2016 and on June 30 of each fifth year thereafter.

The bank loan agreements contain financial covenants that require Goodwill to maintain certain key financial ratios, including a minimum fixed charge coverage ratio of 1.10 on a quarterly basis. Management believes that Goodwill was in compliance with the financial covenants at December 31, 2019. As of the date these financials were available to be issued, Goodwill was not in compliance with the financial covenants. Goodwill was granted a waiver from the covenant requirements for 2020.

13. OPERATING LEASE OBLIGATIONS

Goodwill is obligated under various operating leases for store facilities. These store leases provide for the payment by Goodwill of the property taxes and are subject to yearly increases, not to exceed 5%, based on the consumer price index.

At December 31, 2019, the aggregate approximate rental commitments for non-cancelable operating leases are as follows:

Years Ending December 31,	
2020	$ 10,119,000
2021	9,555,000
2022	8,562,000
2023	7,802,000
2024	6,987,000
Thereafter	25,195,000
	$ 68,220,000

13. OPERATING LEASE OBLIGATIONS (CONTINUED)

Rental expense for store facilities is calculated on a straight-line basis and approximated $12,046,000 and $11,818,000 for the years ended December 31, 2019 and 2018, respectively, and is included within the caption of “Occupancy” in the Consolidated Statements of Functional Expenses. Rent expense is deferred and amortized over the life of the leases. As of December 31, 2019 and 2018, deferred rent of $4,144,063 and $3,805,634, respectively, is included in “Accrued expenses and other liabilities” in the accompanying Consolidated Statements of Financial Position.

14. NET ASSETS

Net assets without donor restrictions consist of the following as of December 31,:

	2019	2018
Undesignated	$ 35,112,552	$ 34,874,399
Board designated funds		
Designated fund	1,708,795	905,077
Quasi-endowment fund	247,500	222,500
Total Board designated	1,956,295	1,127,577
	$ 37,068,847	**$ 36,001,976**

Net assets without donor restrictions are used to support the operating activities of Goodwill. Of these funds, the Board of Directors designated $1,956,295 and $1,127,577 at December 31, 2019 and 2018, respectively, for the following:

Undesignated: Operating assets used to cover administrative costs and support services.

Designated: Goodwill advancement fund – a designated fund to advance the long-term mission of Goodwill and specific initiatives.

Quasi-endowment: Goodwill endowment fund – a board endowment held in perpetuity with an internal spending policy of up to 5%. The internal spending policy is established and maintained by the Board.

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

	2019	2018
Restricted by donors with specific purpose/time restrictions		
General programs	$ 360,249	$ 84,924

Net assets released from restrictions due to time and purpose is as follows during the years ended December 31,:

	2019	2018
General programs	$ 55,000	$ 75,000

15. BUSINESS LEASE

During October 2004, Goodwill (the "Landlord") entered into a business lease agreement with the City of Miami (the "City", "Tenant") to use the land owned by Landlord, and the building built on it with monies from the City, for a municipal parking garage and incidental storage and office uses related to such garage operations. The parking garage is to be operated, managed and administered by the Tenant in substantially the same manner as all other off-street parking facilities belonging to the City of Miami Department of Off-Street Parking. The lease is for 20 years for $1 per year. Landlord has exclusive use of one hundred fifty (150) parking spaces, for parking only, at no rental charge. Upon the termination of the lease, the Tenant agrees that it will peacefully surrender and deliver the premises to Landlord. Accordingly, at December 31, 2019 and 2018, this building is not reflected as an asset in the consolidated financial statements.

16. ENDOWMENT

Goodwill's endowment consists of a special fund established to aid the mission of training, employment and job placement for people with disabilities. The endowment may include donor restricted and board designated endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA"). Goodwill has interpreted the FUPMIFA 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, Goodwill 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 and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund that is not classified in net assets with donor restrictions is classified as net assets without donor restrictions when those amounts are appropriated for expenditure by Goodwill in a manner consistent with the standard of prudence prescribed by FUPMIFA.

In accordance with the FUPMIFA, Goodwill 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 purposes of Goodwill 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 Goodwill
(7) The investment policies of Goodwill.

For the years ended December 31, 2019 and 2018, Goodwill has elected not to add appreciation for cost of living or other spending policies to any donor restricted endowments for inflation and other economic conditions. There were no such endowments for the years ended December 31, 2019 and 2018.

Summary of endowment net assets at December 31, 2019:

	Without Donor Restrictions
Board designated	$ 247,500
Total endowment net assets	**$ 247,500**

16. ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended December 31, 2019:

	Without Donor Restrictions
Endowment net assets, beginning	$ 222,500
Contributions	25,000
Endowment net assets, ending	**$ 247,500**

Summary of endowment net assets at December 31, 2018:

	Without Donor Restrictions
Board designated	$ 222,500
Total endowment net assets	**$ 222,500**

Changes in endowment net assets for the year ended December 31, 2018:

	Without Donor Restrictions
Endowment net assets, beginning	$ 185,000
Contributions	37,500
Endowment net assets, ending	**$ 222,500**

Summary of endowment assets at December 31,:

	2019	2018
Cash	$ 247,500	$ 222,500
Total endowment assets	**$ 247,500**	**$ 222,500**

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 requires Goodwill to retain as a fund of perpetual duration. There were no such deficiencies in the endowment funds as of December 31, 2019 and 2018.

Return Objectives and Risk Parameters

Goodwill 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. Goodwill expects its endowment funds, over time, to provide a rate of return in excess of the principal. Actual returns in any given year may vary.

16. ENDOWMENT (CONTINUED)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Goodwill 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).

Spending Policy and How the Investment Objectives Relate to Spending Policy

Goodwill employs a total return endowment spending policy that establishes the amount of endowment investment return that is available to support current needs and restricted purposes. Goodwill has an endowment variable spending policy up to 5% of the 3-year average of fair market value at the board's discretion, which provides for steady growth in annual spending. In establishing this policy, Goodwill considered the long-term expected return on its endowment. Accordingly, over the long term, Goodwill expects 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. The funds have not yet been invested.

17. DONATED SERVICES

Goodwill recognizes donated services from Miami-Dade and Broward Public Schools. The revenues for such services classified under "Mission services" in the Consolidated Statements of Activities totaled $106,230 and $104,100 for the years ended December 31, 2019 and 2018, respectively. Expenses for the same amount were also recognized as non-disabled wages in training programs. The value of the services donated was based on yearly teaching salaries provided by the Miami-Dade and Broward Public Schools.

18. MISSION SERVICES FEES

Mission services fees consisted of the following for the years ended December 31,:

	2019	2018
Federal and State vendor contracts	$ 1,651,383	$ 1,682,425
Miami-Dade and Broward County Public Schools (NOTE 17)	106,230	104,100
The School Board of Broward County	-	16,445
Enterprise zone	-	3,495
Miami-Dade and Broward County general contracts	148,733	168,480
Other	702,122	522,473
	$ 2,608,468	**$ 2,497,418**

19. RETIREMENT PLAN

Effective August 1997, Goodwill elected to change its retirement plan from a 403(b) plan to a 401(k) plan. The plan is for eligible employees who have reached the age of 21 and completed one year of service. Goodwill contributes a matching amount determined on a yearly basis. Goodwill's contribution to the plan during the years ended December 31, 2019 and 2018 was $557,362 and $463,022, respectively.

20. WORKERS' COMPENSATION

On June 1, 2003, Goodwill became self-insured under the laws of the State of Florida for workers' compensation. Goodwill uses the services of a third-party administrator to handle all claims. Goodwill maintains commercial excess coverage with independent insurance carriers for workers' compensation above the self-insurance retention of $500,000. Goodwill maintains a reserve for current and future claims based on historical experience and information provided by the third-party administrator. At December 31, 2019 and 2018, the reserve for workers' compensation was $975,015 and $1,075,017, respectively, and is included in "Accrued expenses and other liabilities" in the Consolidated Statements of Financial Position. For the years ended December 31, 2019 and 2018, worker's compensation expense was approximately $1,052,000 and $1,439,000, respectively.

21. DEFERRED COMPENSATION PLAN

In 2011, Goodwill's Board of Directors approved deferred compensation plans for a select group of management employees for services they have rendered and will render to Goodwill. The plans are intended to be eligible plans for purposes of Internal Revenue Code section 457(b) and 457(f) and the regulations issued thereunder. The plans were effective as of January 1, 2011. Participants are vested in the plans over a four-year service period. Expenses accrued under the plans for the years ended December 31, 2019 and 2018 totaled $336,758 and $266,062, respectively.

22. COMMITMENTS AND CONTINGENCIES

Litigation

Goodwill is exposed to various asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on Goodwill's consolidated financial position or the consolidated results of its operations.

Purchase Commitments

As a result of manufacturing contracts entered into during the year ended December 31, 2019, Goodwill entered into various inventory purchase commitments with vendors totaling approximately $1,413,000 as of December 31, 2019. Subsequent to December 31, 2019, Goodwill entered into purchase commitments with vendors totaling approximately $9,207,000.

23. SUBSEQUENT EVENTS

COVID-19

Since January 2020, the coronavirus (COVID-19) outbreak has caused substantial disruption in international and U.S. economies and markets. The coronavirus and fear of further spread of the coronavirus has caused quarantines, cancellation of events, and overall reduction in business and economic activity. On March 11, 2020, the World Health Organization designated the coronavirus outbreak a pandemic. Management and the Board of Directors are evaluating the potential adverse effect this will have on their consolidated financial position, operations and cash flows. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

Small Business Loan

On June 9, 2020, Goodwill executed a loan of $150,000 under the Economic Injury Disaster Loan program. The loan bears interest at 2.75%. Twelve months after the effective date, payments are due in equal monthly installations over a 30-year period. The loan matures on June 8, 2050.