GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

MBAF

MORRISON BROWN ARGIZ & FARRA, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARY

TABLE OF CONTENTS

MBAF
MORRISON BROWN ARGIZ & FARRA, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Goodwill Industries of South Florida, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, 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 Subsidiary as of December 31, 2015 and 2014, 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
May 26, 2016

MIAMI 1450 Brickell Avenue, 18th Floor, Miami FL 33131 | **T** 305 373 5500 **F** 305 373 0056 | www.mbafcpa.com
FORT LAUDERDALE 301 East Las Olas Boulevard, 4th Floor, Fort Lauderdale, FL 33301 | **T** 954 760 9000 **F** 954 760 4465

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31,

ASSETS	2015	2014
Cash and cash equivalents	$ 4,474,938	$ 3,548,627
Restricted cash	740,104	740,104
Accounts and other receivables, net	5,854,310	4,057,176
Pledges receivable	30,000	25,000
Inventories	13,126,651	8,185,811
Prepaid expenses, deferred lease charges and other	530,127	561,282
Other assets	871,084	1,142,137
Goodwill	1,392,000	1,392,000
Land, buildings and equipment, net	42,631,721	43,837,444
TOTAL ASSETS	**$ 69,650,935**	**$ 63,489,581**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 5,671,033	$ 3,936,524
Accrued expenses and other liabilities	6,421,424	6,081,677
Deferred revenue	2,378,496	-
Mortgage notes, notes payable and lines of credit	18,902,273	18,831,240
Obligations under capital leases	5,645,741	6,739,691
TOTAL LIABILITIES	39,018,967	35,589,132
COMMITMENTS AND CONTINGENCIES (NOTE 20)		
NET ASSETS		
Unrestricted (including $135,000 and $100,000 of board-designated funds as of 2015 and 2014, respectively)	30,631,968	27,900,449
TOTAL LIABILITIES AND NET ASSETS	**$ 69,650,935**	**$ 63,489,581**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31,

	2015	2014
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Contributions:		
Donated goods sales	$ 50,950,839	$ 47,314,339
Contributions	799,229	542,097
United Way allocation	398,571	382,436
TOTAL CONTRIBUTIONS	52,148,639	48,238,872
Apparel manufacturing	51,712,265	26,325,625
Custodial contracts	9,308,248	10,251,611
Business services	3,753,097	4,398,837
Laundry services	6,964,827	2,092,716
Mission services	2,812,863	2,675,155
Miscellaneous income	54,178	87,788
TOTAL REVENUES AND SUPPORT	126,754,117	94,070,604
EXPENSES:		
Program services:		
Donated goods operations	42,761,711	38,933,205
Apparel manufacturing	49,352,551	27,502,326
Custodial contracts	8,950,599	9,655,685
Business services	4,552,432	5,087,260
Laundry services	7,933,184	3,109,359
Mission services	5,629,875	5,347,643
TOTAL PROGRAM SERVICES	119,180,352	89,635,478
Supporting services:		
Management and general	4,592,079	4,778,065
Fundraising	250,167	208,254
TOTAL EXPENSES	124,022,598	94,621,797
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	2,731,519	(551,193)
NET ASSETS - BEGINNING OF YEAR	27,900,449	28,451,642
NET ASSETS - END OF YEAR	**$ 30,631,968**	**$ 27,900,449**

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

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	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	$ 1,442,578	$ 11,878,764	$ 3,375,061	$ 1,373,364	$ 1,079,761	$ 381,096	$ 145,856	$ -	$ 19,676,480
Non-disabled wages	16,585,266	4,104,712	2,131,207	1,680,206	1,012,771	3,309,437	2,492,016	-	31,315,615
Employee health and welfare benefits	946,282	415,949	780,227	146,413	105,575	355,085	225,206	-	2,974,737
Other payroll-related expenses	1,889,659	1,698,066	714,475	327,556	163,494	346,991	199,669	-	5,339,910
Total payroll and related costs	20,863,785	18,097,491	7,000,970	3,527,539	2,361,601	4,392,609	3,062,747	-	59,306,742
EXPENSES									
Occupancy	14,024,196	592,729	187,371	507,549	610,271	239,056	163,181	822	16,325,175
Professional fees	415,004	2,109,464	673,030	31,806	1,120,635	255,490	595,903	242,113	5,443,445
Materials and supplies (office and commercial)	3,847,920	26,945,869	836,918	83,110	2,640,678	385,121	92,020	7,198	34,838,834
Telephone	332,677	83,009	45,814	68,285	18,018	73,085	126,147	-	747,035
Postage and freight	467,665	462,314	2,847	810	4,824	3,778	6,625	-	948,863
Equipment rental and maintenance	79,165	72,227	16,986	15,862	158,315	22,031	41,594	-	406,180
Printing and advertising	62,064	21,593	445	9,723	740	11,945	6,817	-	113,327
Travel	64,115	25,435	72,400	16,176	2,809	42,406	20,146	-	243,487
Fleet and transportation costs	888,277	13,159	55,191	18,068	213,541	13,469	7,516	34	1,209,255
Conferences and meetings	2,232	4,444	1,895	988	153	-	19,188	-	28,900
Special assistance to individuals	2,626	16	1	12	-	7	521	-	3,183
Membership dues	1,469	2,580	6,091	2,877	29	19,883	260,821	-	293,750
Interest (including amortization of debt issuance costs of $104,867)	56,428	110,389	3,775	80,358	469,492	51,058	43,831	-	815,331
Miscellaneous	653,198	4,258	903	503	7,560	-	42,061	-	708,483
Total expenses before depreciation and amortization	41,760,821	48,544,977	8,904,637	4,363,666	7,608,666	5,509,938	4,489,118	250,167	121,431,990
Depreciation and amortization	1,000,890	807,574	45,962	188,766	324,518	119,937	102,961	-	2,590,608
Total expenses	**$ 42,761,711**	**$ 49,352,551**	**$ 8,950,599**	**$ 4,552,432**	**$ 7,933,184**	**$ 5,629,875**	**$ 4,592,079**	**$ 250,167**	**$ 124,022,598**

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

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	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	$ 1,430,896	$ 7,656,354	$ 3,651,571	$ 1,716,020	$ 347,130	$ 344,282	$ 197,470	$ -	$ 15,343,723
Non-disabled wages	14,687,385	2,950,710	2,296,257	1,780,300	375,279	3,035,631	2,454,145	-	27,579,707
Employee health and welfare benefits	1,119,836	362,967	1,040,921	199,187	34,618	389,269	235,086	-	3,381,884
Other payroll-related expenses	1,902,722	1,217,429	703,707	380,492	81,206	280,972	189,282	-	4,755,810
Total payroll and related costs	19,140,839	12,187,460	7,692,456	4,075,999	838,233	4,050,154	3,075,983	-	51,061,124
EXPENSES									
Occupancy	13,255,246	499,544	177,697	497,892	401,182	222,057	155,180	870	15,209,668
Professional fees	335,427	966,180	568,318	12,124	53,465	371,699	753,678	193,602	3,254,493
Materials and supplies (office and commercial)	2,757,663	12,471,207	951,537	72,400	906,562	345,443	80,334	13,672	17,598,818
Telephone	311,731	76,700	56,622	63,267	17,358	68,761	124,768	-	719,207
Postage and freight	502,337	274,324	3,189	632	1,954	4,194	7,246	11	793,887
Equipment rental and maintenance	42,068	61,129	11,515	16,237	7,296	24,669	41,392	-	204,306
Printing and advertising	29,929	32,605	596	12,155	431	9,237	17,736	99	102,788
Travel	19,148	21,040	74,584	14,603	931	47,497	18,190	-	195,993
Fleet and transportation costs	892,424	3,070	70,467	46,195	43,021	13,399	11,338	-	1,079,914
Conferences and meetings	3,164	3,323	844	301	289	11	16,985	-	24,917
Special assistance to individuals	1,243	-	-	-	-	-	7,210	-	8,453
Membership dues	1,878	3,673	921	4,423	42	18,784	276,655	-	306,376
Interest (including amortization of debt issuance costs of $104,867)	54,491	106,599	3,646	77,600	511,845	49,305	42,325	-	845,811
Miscellaneous	608,638	130	408	795	2,171	37	43,970	-	656,149
Total expenses before depreciation and amortization	37,956,226	26,706,984	9,612,800	4,894,623	2,784,780	5,225,247	4,672,990	208,254	92,061,904
Depreciation and amortization	976,979	795,342	42,885	192,637	324,579	122,396	105,075	-	2,559,893
Total expenses	**$ 38,933,205**	**$ 27,502,326**	**$ 9,655,685**	**$ 5,087,260**	**$ 3,109,359**	**$ 5,347,643**	**$ 4,778,065**	**$ 208,254**	**$ 94,621,797**

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

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARY

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

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 2,731,519	$ (551,193)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,590,608	2,559,893
Amortization of debt issuance costs	104,867	104,867
(Increase) decrease in assets:		
Accounts and other receivables, net	(1,797,134)	2,307,210
Pledges receivable	(5,000)	10,000
Inventories	(4,940,840)	(1,359,630)
Prepaid expenses, deferred lease charges and other	31,155	141,398
Other assets	87,531	6,669
Increase (decrease) in liabilities:		
Accounts payable	1,734,509	766,459
Accrued expenses and other liabilities	(20,253)	574,317
Deferred revenue	2,738,496	-
TOTAL ADJUSTMENTS	523,939	5,111,183
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,255,458	4,559,990
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and building improvements	(1,306,230)	(1,049,256)
NET CASH USED IN INVESTING ACTIVITIES	(1,306,230)	(1,049,256)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from mortgage notes, notes payable and lines of credit, net	77,198,214	53,775,899
Payments on mortgage notes, notes payable and lines of credit, net	(77,127,181)	(56,216,518)
Payments on capital lease obligations	(1,093,950)	(1,049,501)
NET CASH USED IN FINANCING ACTIVITIES	(1,022,917)	(3,490,120)
NET INCREASE IN CASH AND CASH EQUIVALENTS	926,311	20,614
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,548,627	3,528,013
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 4,474,938**	**$ 3,548,627**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	**$ 711,482**	**$ 742,183**

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. Big Blue Box Productions, Inc. ("Big Blue Box"), a wholly owned subsidiary, is a corporation formed in April 2010 to create, produce, sell, donate or purchase articles, films or other materials that further the objective or purpose of Goodwill. Big Blue Box 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 and employment 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 Big Blue Box. 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 and support are classified into three categories based on the existence or absence of donor-imposed restrictions. The three net asset categories are as follows:

- Unrestricted - Net assets that are free of donor-imposed restrictions; all revenues, gains and losses that are not changes in permanently or temporarily restricted net assets. Goodwill has unrestricted, board designated net assets resulting from contributions whose use by Goodwill is not limited by donor-imposed stipulations. The Board of Directors has earmarked such funds not to be expended for an unspecified period of time.

- Temporarily Restricted - Net assets whose use by Goodwill is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of Goodwill pursuant to those stipulations. As of December 31, 2015 and 2014, Goodwill did not have any temporarily restricted net assets.

- Permanently Restricted - Net assets whose use by Goodwill is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of Goodwill. As of December 31, 2015 and 2014, Goodwill did not have any permanently restricted net assets.

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 $47,999,000 or 93% and approximately $22,193,000 or 84% of total manufacturing sales during 2015 and 2014, respectively. Additionally, the amounts due from DSCP and Natick for the production of military apparel accounted for approximately $2,608,000 or 90% and approximately $1,076,000 or 69% of the total manufacturing accounts receivable balance of approximately $2,911,000 and $1,563,000 at December 31, 2015 and 2014, respectively.

During the years ended December 31, 2015 and 2014, two customers and one customer represented approximately 97% and 93%, 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 and Cash Equivalents

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

Restricted Cash

Restricted cash consists of funds held in a separate bank account for debt service of the New Market Tax Credit financing (Note 10).

Accounts and Other Receivables, Net

Accounts receivable are stated at the amount Goodwill expects to collect. Management monitors the collection status of its accounts 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, 2015 and 2014. 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 manufacturing process, including the production of aprons, flags, garrison caps, army combat uniforms, army combat pants, navy working uniforms, and fleece jackets. Inventories also include 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 market. 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.

Prepaid Expenses, Deferred Lease Charges and Other

Prepaid expenses, deferred lease charges and other consist primarily of prepaid insurance, legal fees 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 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 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 goodwill completed during the years ended December 31, 2015 and 2014 resulted in no impairment losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land, Buildings and Equipment, Net

Land, buildings 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 restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as temporarily restricted support. Depreciation of buildings and equipment is computed on a straight-line basis over the estimated useful lives of the assets.

Estimated useful lives of buildings and equipment are as follows:

Asset	Life
Buildings and improvements	39 - 50 years
Equipment	5 -15 years
Equipment held under capital leases	Shorter of useful life or lease term
Leasehold improvements	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 in 2015 or 2014.

Contributions

Contributions received or made, including unconditional promises to give, are recognized as revenues in the period received or made at their estimated fair value. Contributions are considered to be available for the general programs of Goodwill unless specifically restricted by the donor. Goodwill records gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, Goodwill reports the support as unrestricted.

Manufacturing Sales

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. At December 31, 2015, Goodwill had deferred revenue of approximately $2,378,000 related to advance payments on manufacturing contracts.

Custodial Contracts, Business Services, Laundry Services and Mission Services Revenues

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing services have been allocated on a functional basis among apparel manufacturing, donated goods operations, 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.

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 $936,000 and $758,000 are included in program services in the Consolidated Statements of Functional Expenses for the years ended December 31, 2015 and 2014, respectively.

Debt Issuance Costs

Goodwill capitalizes costs associated with the issuance of debt instruments. These costs are amortized on a straight-line method, which approximates the effective interest rate method, over the term of the debt (Note 6).

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. Management believes there is no unrelated business income.

Big Blue Box is a C Corporation. At December 31, 2015 and 2014, Big Blue Box had both federal and state net operating loss (“NOL”) carry forwards of approximately $102,000. The asset and liability method of accounting requires that deferred income taxes reflect the tax consequences of future years’ differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. In addition, future tax benefits, such as NOL carry forwards, are required to be recognized to the extent that realization of such benefits is more likely than not. A valuation allowance is required to be established for those benefits that do not meet the more-likely-than-not criteria.

In assessing the ability to realize deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment.

Due to the uncertainty surrounding the timing of realizing the benefits of its deferred tax asset in future tax returns, Big Blue Box recorded a full valuation allowance against its net deferred tax asset of approximately $40,000 as of December 31, 2015 and 2014. The valuation allowance relates to the NOL carry forwards for which management has concluded it is more likely than not that this item will not be realized in the ordinary course of business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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 2012.

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.

Recent Accounting Pronouncements

<u>Interest – Imputation of Interest</u>

In April 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standard update that requires that debt issuance costs related to a recognized debt liability be presented as a direct deduction on the balance sheet from the carrying amount of the debt. The recognition and measurement guidance for debt issuance costs is not affected. The update is effective on a retrospective basis for reporting periods beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016 with early adoption permitted for financial statements that have not been previously issued. Goodwill is currently evaluating the effect the update will have on its consolidated financial statements.

<u>Lower of cost or net realizable value for inventory</u>

In July 2015, the FASB issued an accounting standard update which affects the measurement of inventory. The update requires inventory to be measured using the lower of cost and net realizable value. Net realizable value is defined in the update as the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. The update applies to all types of inventory except inventory measured using LIFO or the retail inventory method. The update is effective prospectively for fiscal years beginning after December 15, 2016 and for interim periods within fiscal years beginning after December 15, 2017 with early adoption permitted as of the beginning of an interim or annual reporting period. Goodwill is currently evaluating the effect the update will have on its consolidated financial statements.

<u>Lease Accounting</u>

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. 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 its 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 its results of operations or cash flows, though such an effect is possible. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain 2014 consolidated financial statement amounts have been reclassified to conform to the 2015 presentation.

Subsequent Events

Goodwill has evaluated subsequent events through May 26, 2016, which is the date the consolidated financial statements were available to be issued.

3. ACCOUNTS AND OTHER RECEIVABLES, NET

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

	2015	2014
Federal government	$ 3,542,186	$ 2,038,059
State government	1,251,704	1,325,031
Commercial	1,160,420	794,086
	5,954,310	4,157,176
Less allowance for doubtful accounts	(100,000)	(100,000)
	$ 5,854,310	**$ 4,057,176**

There was no bad debt expense for the years ended December 31, 2015 and 2014.

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. Amortization of the discounts is included in contributions in the Consolidated Statements of Activities. At December 31, 2015 and 2014, pledges receivable totaled $30,000 and $25,000, respectively, for which no present value discount has been recorded since the pledges are due in the subsequent period.

5. INVENTORIES

Inventories consists of the following at December 31:

	2015	2014
Raw materials	$ 5,590,963	$ 2,021,845
Work in progress	2,770,971	2,024,405
Finished goods	581,892	1,240,630
Supplies	22,273	23,588
	8,966,099	5,310,468
Donated goods	3,044,579	2,875,343
Linen	1,115,973	-
	$ 13,126,651	**$ 8,185,811**

6. OTHER ASSETS

Other assets consists of the following at December 31:

	2015	2014
Security deposits	$ 154,379	$ 320,565
Debt issuance costs, net of amortization	166,705	271,572
Split-dollar insurance plan	550,000	550,000
	$ 871,084	**$ 1,142,137**

Debt Issuance Costs

Debt issuance costs are amortized over the life of the debt. Amortization expense for the years ended December 31, 2015 and 2014, included in interest in the Consolidated Statements of Functional Expenses was $104,867.

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, 2015 and 2014. The face value of the life insurance policy is $1,800,000. The repayment of the loans 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, 2015 and 2014 was $721,300 and $745,282, 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. 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. LAND, BUILDINGS AND EQUIPMENT, NET

Land, buildings and equipment consists of the following at December 31:

	2015	2014
Land	$ 4,692,339	$ 4,692,339
Buildings and improvements	28,149,761	27,873,639
Equipment	22,649,711	21,698,175
Leasehold improvements	6,543,272	6,464,701
Other improvements	358,984	358,984
Equipment under capital leases	8,131,457	8,131,457
	70,525,524	69,219,295
Less accumulated depreciation and amortization (including accumulated amortization for capital leases of $1,111,530 and $783,527 in 2015 and 2014, respectively)	(27,893,803)	(25,381,851)
	$ 42,631,721	**$ 43,837,444**

Total depreciation and amortization expense for buildings, leaseholds and other improvements and equipment for the years ended December 31, 2015 and 2014 was approximately $2,512,000 and $2,481,000, respectively.

9. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	2015	2014
Accrued payroll	$ 1,554,019	$ 658,857
Reserve for worker's compensation (NOTE 18)	699,408	1,186,842
Sales tax payable	256,918	235,119
Miami Herald advance	125,000	125,000
Retirement plan employer match (NOTE 17)	333,993	305,973
Deferred compensation (NOTE 19)	81,121	853,617
Deferred rent (NOTE 13)	2,848,283	2,336,964
Other liabilities	522,682	379,305
	$ 6,421,424	**$ 6,081,677**

10. MORTGAGE NOTES, NOTES PAYABLE AND LINES OF CREDIT

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

	2015	2014
Revolving line of credit with maximum borrowings of $6,000,000 with a balloon payment due February 27, 2016 with interest due monthly at prime rate (3.50% and 3.25% at December 31, 2015 and 2014), collateralized by accounts receivable.	$ 1,276,939	$ 417,223
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 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 1.62% and 1.56% at December 31, 2015 and 2014, respectively.	13,731,749	14,520,432
Total mortgage notes, notes payable and lines of credit	**$ 18,902,273**	**$ 18,831,240**

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

2016	$ 2,079,535
2017	816,755
2018	831,163
2019	845,826
2020	860,747
Thereafter	13,468,247
	$ 18,902,273

The line of credit was subsequently renewed with a maturity date of October 22, 2017. Interest expense on all obligations, including obligations under capital leases, for the years ended December 31, 2015 and 2014 was $710,464 and $740,944, 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 provides 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.

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

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. 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

Goodwill leases certain machinery and equipment under agreements that are classified as capital leases. The cost of the equipment under capital leases was $8,131,457 as of December 31, 2015 and 2014, and is included in the Consolidated Statements of Financial Position as land, buildings and equipment.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2015, are as follows:

Years Ending December 31,	
2016	$ 1,359,764
2017	1,299,006
2018	1,268,627
2019	1,268,627
2020	1,057,190
Total minimum lease payments	6,253,214
Less: amount representing interest	607,473
Present value of net minimum lease payments	**$ 5,645,741**

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 1.62% and 1.56% at December 31, 2015 and 2014, 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.

12. BOND TRANSACTIONS (CONTINUED)

The taxable bank loans are made up of Facility C and D and were used to refund existing debt that did not qualify for tax-exempt status. Facility C has a principal amount of $2,160,000 and a variable interest rate equal to one-month LIBOR plus 1.85%. The principal of Facility C was paid in full during 2013. Facility D has a principal amount of $1,275,400 and a variable interest rate of one-month LIBOR plus 2.00%. The principal of Facility D was paid in full during 2015.

The bank loan agreements contain financial covenants that require Goodwill to maintain a minimum fixed charge coverage ratio. In September 2014, the bank amended the agreement to include a modified minimum ratio of 1.05. The amended agreement requires a ratio of 1.10 after March 2015. Management believes that Goodwill was in compliance with the financial covenants at December 31, 2015.

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, 2015, the aggregate approximate rental commitments for non-cancelable operating leases are as follows:

Years Ending December 31,	
2016	$ 7,826,000
2017	6,544,000
2018	6,059,000
2019	5,498,000
2020	5,567,000
Thereafter	36,541,000
	$ 68,035,000

Rental expense for store facilities is calculated on a straight line basis and approximated $9,846,000 and $9,338,000 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, deferred rent of $2,848,283 and $2,336,964, respectively, is included in accrued expenses and other liabilities in the accompanying Consolidated Statements of Financial Position.

14. BUSINESS LEASE

During October 2004, Goodwill ("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, 2015 and 2014, this building is not reflected as an asset in the consolidated financial statements.

15. 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 $101,160 and $100,159 for the years ended December 31, 2015 and 2014, 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.

16. MISSION SERVICES FEES

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

	2015	2014
Federal and State vendor contracts	$ 1,696,230	$ 1,756,783
Miami-Dade and Broward County Public Schools (NOTE 15)	101,160	100,159
The School Board of Miami-Dade County	25,016	89,801
The School Board of Broward County	93,924	98,899
Enterprise zone	305,584	152,121
Miami-Dade and Broward County General contracts	248,083	216,738
Other	342,866	260,654
	$ 2,812,863	**$ 2,675,155**

17. 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, 2015 and 2014 was $333,993 and $305,973, respectively.

18. 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, 2015 and 2014, the reserve for workers' compensation was $699,408 and $1,186,842, respectively, and is included in accrued expenses and other liabilities in the Consolidated Statements of Financial Position. For the years ended December 31, 2015 and 2014, worker's compensation expense was approximately $1,219,000 and $1,106,000, respectively.

19. 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, 2015 and 2014 totaled $81,121 and $853,617, respectively. During the year ended December 31, 2015, Goodwill paid the 2014 accrued deferred compensation in full.

20. 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 results of its operations.

Purchase Commitments

As a result of manufacturing contracts entered into during the year ended December 31, 2015, Goodwill entered into various inventory purchase commitments with vendors totaling approximately $1,251,000 as of December 31, 2015. Subsequent to December 31, 2015, Goodwill entered into purchase commitments with vendors totaling approximately $4,002,000.