

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEARS ENDED  
DECEMBER 31, 2010 AND 2009 (RESTATED)**

May 3, 2011

Goodwill Industries of South Central California ("the Agency") offers readers of the financial statements contained in the following report an introduction to the Agency's financial statements which are listed in the Table of Contents to this report. These financial statements comprise four components for both of the report years: 1) the Statement of Financial Position, 2) the Statement of Activities, 3) the *Statements of Functional Expenses and Revenues*, and 4) the Statement of Cash Flows. The report also contains Notes to Financial Statements.

The **Statements of Financial Position** presents information on all of the Agency's assets and liabilities, for the two most-recent years' end. The difference between each year's assets and liabilities is reported as **Net Assets**. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Agency's financial position is improving or deteriorating. The assets of the Agency exceeded its liabilities at the close of the most-recent fiscal year by \$1,101,759. All of this amount may be used to meet the Agency's ongoing obligations to clients and creditors.

The **Statements of Activities** (and the **Statements of Functional Expenses and Revenues**) present information showing how the Agency's net assets changed during both report years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., Interest Payable).

The **Statement of Cash Flows** shows where the Agency's money is coming from, and how it is being spent. Cash inflows and outflows are grouped according to the activity that gave rise to them: core business operations, investing and financing.

The Notes to Financial Statements can be found beginning on page eight of this report and provide additional information that is essential to a full understanding of the data presented in the financial statements. Although each note contributes significantly to that understanding, management encourages the reader to give particular attention to **Note 5** (page 15) which describes our Interest Rate Swap Agreement. The same topic is also discussed in **Note 1** (page nine) as part of Summary of Significant Accounting Policies. **Note 5** clearly indicates that before the effect of the swap adjustment, the Change in Net Assets would be negative for both 2009 and 2010. Although the swap adjustment for 2009 represents interest income, at no time since its inception has the value of the swap agreement been positive. This cumulative reduction in the agreement's fair value is classified in the *Statements of Financial Position* as "non current" liability because it is not due during the next fiscal year. The payment of this liability due Wells Fargo Bank is required only if the Agency terminates the underlying loan agreements. The Agency does not intend either to sell any of the properties that serve as collateral for the loan agreements or otherwise take actions that would terminate these agreements and it does not anticipate doing either during the term of the loans.



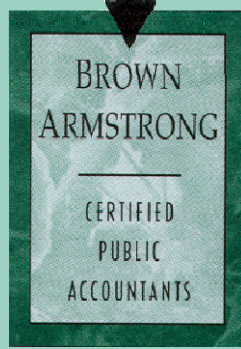
Sheryl Chalupa  
President / CEO

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
DECEMBER 31, 2010 AND 2009 (RESTATED)**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Goodwill Industries of South Central California  
Bakersfield, California

We have audited the accompanying statements of financial position of Goodwill Industries of South Central California (Goodwill Industries), a not-for-profit organization, as of December 31, 2010 and 2009 (Restated see Note 7), and the related statements of activities, functional expenses and revenues, and cash flows for the years then ended. These financial statements are the responsibility of the management of Goodwill Industries. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to be "J.A. Starbuck", is written over the printed name of the firm.

Bakersfield, California  
April 13, 2011

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2010 AND 2009 (RESTATED)**

	2010	2009
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents, including certificates of deposits	\$ 735,315	\$ 1,025,493
Accounts receivable	382,015	177,055
Inventory held for sale	228,669	244,975
Supplies inventory	38,867	49,385
Prepaid expenses	189,100	159,749
Deposits	92,573	81,353
Other assets	25,550	30,138
Total current assets	1,692,089	1,768,148
Property and equipment, net	6,649,639	6,959,355
<b>TOTAL ASSETS</b>	<b>\$ 8,341,728</b>	<b>\$ 8,727,503</b>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable	\$ 153,601	\$ 161,143
Accrued salaries and expenses	500,477	475,505
Interest payable	35,750	37,982
Capital leases, current portion	4,879	7,702
Notes payable, current portion	122,531	113,622
Total current liabilities	817,238	795,954
Long-term liabilities		
Capital leases, net of current portion	813	5,642
Notes payable, net of current portion	5,465,610	5,587,418
Interest rate swap	956,308	761,544
Total long-term liabilities	6,422,731	6,354,604
Total liabilities	7,239,969	7,150,558
Net assets		
Unrestricted net assets		
Operating	901,759	1,376,945
Board designated	200,000	200,000
Total net assets	1,101,759	1,576,945
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 8,341,728</b>	<b>\$ 8,727,503</b>

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

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUES</b>			
Retail sales	\$ 9,705,593	\$ -	\$ 9,705,593
Value of donated goods received	1,513,128	-	1,513,128
Donations	-	130,500	130,500
Vocational services	871,383	-	871,383
Salvage sales	552,162	-	552,162
Cash contributions received	111,677	-	111,677
Interest income	1,680	-	1,680
Gain on disposal of asset	300	-	300
Net assets released from restriction - restrictions satisfied by payments	<u>130,500</u>	<u>(130,500)</u>	<u>-</u>
Total support and revenues	<u>12,886,423</u>	<u>-</u>	<u>12,886,423</u>
<b>EXPENSES</b>			
Program services			
Donated goods - retail	10,216,519	-	10,216,519
Donated goods - salvage	<u>408,647</u>	<u>-</u>	<u>408,647</u>
Total donated goods	10,625,166	-	10,625,166
Vocational services	<u>2,111,613</u>	<u>-</u>	<u>2,111,613</u>
Total program services	12,736,779	-	12,736,779
Supporting services			
Management services	<u>624,830</u>	<u>-</u>	<u>624,830</u>
Total expenses	<u>13,361,609</u>	<u>-</u>	<u>13,361,609</u>
Change in net assets	(475,186)	-	(475,186)
Net assets, beginning of year, restated	<u>1,576,945</u>	<u>-</u>	<u>1,576,945</u>
Net assets, end of year	<u><u>\$ 1,101,759</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,101,759</u></u>

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

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009 (RESTATED)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUES</b>			
Retail sales	\$ 9,854,248	\$ -	\$ 9,854,248
Value of donated goods received	1,751,142	-	1,751,142
Donations	-	34,602	34,602
Vocational services	593,972	-	593,972
Salvage sales	518,515	-	518,515
Cash contributions received	7,072	-	7,072
Interest income	5,266	-	5,266
Rental income	1,225	-	1,225
Gain on disposal of asset	4,150	-	4,150
Net assets released from restriction - restrictions satisfied by payments	<u>34,602</u>	<u>(34,602)</u>	<u>-</u>
Total support and revenues	<u>12,770,192</u>	<u>-</u>	<u>12,770,192</u>
<b>EXPENSES</b>			
Program services			
Donated goods - retail	9,661,879	-	9,661,879
Donated goods - salvage	<u>352,549</u>	<u>-</u>	<u>352,549</u>
Total donated goods	10,014,428	-	10,014,428
Vocational services	<u>1,586,807</u>	<u>-</u>	<u>1,586,807</u>
Total program services	11,601,235	-	11,601,235
Supporting services			
Management services	<u>910,393</u>	<u>-</u>	<u>910,393</u>
Total expenses	<u>12,511,628</u>	<u>-</u>	<u>12,511,628</u>
Change in net assets	258,564	-	258,564
Net assets, beginning of year, restated	<u>1,318,381</u>	<u>-</u>	<u>1,318,381</u>
Net assets, end of year, restated	<u>\$ 1,576,945</u>	<u>\$ -</u>	<u>\$ 1,576,945</u>

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

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
STATEMENT OF FUNCTIONAL EXPENSES AND REVENUES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Program Services				Total Program Services	Supporting	Total Revenues and Expenses
	Donated Goods Retail	Donated Goods Salvage	Donated Goods Transportation	Vocational Services		Management Services	
<b>EXPENSES</b>							
Payroll related expenses							
Salaries	\$ 3,039,809	\$ 109,004	\$ 663,561	\$ 1,014,518	\$ 4,826,892	\$ 833,912	\$ 5,660,804
Employee benefits	301,104	-	66,696	51,903	419,703	28,297	448,000
Payroll taxes and workers' compensation	595,595	11,638	129,462	140,839	877,534	89,915	967,449
Total payroll related expenses	<u>3,936,508</u>	<u>120,642</u>	<u>859,719</u>	<u>1,207,260</u>	<u>6,124,129</u>	<u>952,124</u>	<u>7,076,255</u>
Value of donated goods sold	1,513,128	-	-	-	1,513,128	-	1,513,128
Professional fees and contract services	47,683	14	1,898	13,126	62,721	129,113	191,838
Supplies	423,663	3,957	51,358	35,539	514,517	43,875	558,392
Telephone	33,794	-	7,793	8,839	50,426	66,626	117,052
Postage	13,919	6	94	762	14,781	3,432	18,213
Occupancy	1,788,486	2,353	16,302	318,054	2,125,195	104,091	2,229,286
Equipment rental and maintenance	94,600	844	45,187	5,624	146,255	16,106	162,367
Printing and publication	115,475	-	6,178	2,578	124,231	30,127	154,358
Local travel	4,671	93	334,579	22,877	362,220	33,666	395,886
Conferences, conventions and meetings	1,839	11	1,289	4,580	7,719	30,783	38,502
Special assistance	7,116	50	2,653	-	9,819	3,056	12,874
Dues	1,457	-	1,107	430	2,994	111,736	114,730
Other	130,373	1,127	3,317	1,127	135,944	241,149	377,093
Total expenses before depreciation	<u>8,112,712</u>	<u>129,097</u>	<u>1,331,474</u>	<u>1,620,796</u>	<u>11,194,079</u>	<u>1,765,884</u>	<u>12,959,966</u>
Depreciation of property and equipment	193,866	-	-	-	193,866	207,780	401,646
Total direct expenses	<u>8,306,578</u>	<u>129,097</u>	<u>1,331,474</u>	<u>1,620,796</u>	<u>11,387,945</u>	<u>1,973,664</u>	<u>13,361,601</u>
Distribution of indirect expenses							
Assessment dues	61,455	11,174	-	27,933	100,562	(100,562)	-
Occupancy and indirect	153,284	28,248	-	70,621	252,153	(252,153)	-
Management services	852,531	155,006	-	387,513	1,395,050	(1,395,050)	-
Solicitation and transportation	842,671	85,122	(1,331,474)	4,750	(398,931)	398,931	-
Total indirect expenses	<u>1,909,941</u>	<u>279,550</u>	<u>(1,331,474)</u>	<u>490,817</u>	<u>1,348,834</u>	<u>(1,348,834)</u>	<u>-</u>
Total expenses	<u>10,216,519</u>	<u>408,647</u>	<u>-</u>	<u>2,111,613</u>	<u>12,736,779</u>	<u>624,830</u>	<u>13,361,601</u>
<b>REVENUES</b>							
Program revenues							
Value of donated goods received	1,513,128	-	-	-	1,513,128	-	1,513,128
Program service revenue	<u>9,705,593</u>	<u>552,162</u>	<u>-</u>	<u>871,383</u>	<u>11,129,138</u>	<u>-</u>	<u>11,129,138</u>
Total program revenues	<u>11,218,721</u>	<u>552,162</u>	<u>-</u>	<u>871,383</u>	<u>12,642,266</u>	<u>-</u>	<u>12,642,266</u>
Excess (deficiency) of related revenues over expenses	<u>1,002,202</u>	<u>143,515</u>	<u>-</u>	<u>(1,240,230)</u>	<u>(94,513)</u>	<u>(624,830)</u>	<u>(719,343)</u>
Other revenues							
Interest income	-	-	-	-	-	1,680	1,680
Contributions	-	-	-	-	-	111,677	111,677
Donations	-	-	-	-	-	130,500	130,500
Gain on disposal of assets	-	-	-	-	-	300	300
Rental income	-	-	-	-	-	-	-
Total other revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>244,157</u>	<u>244,157</u>
Excess (deficiency) of revenues over expenses	<u>\$ 1,002,202</u>	<u>\$ 143,515</u>	<u>\$ -</u>	<u>\$ (1,240,230)</u>	<u>\$ (94,513)</u>	<u>\$ (380,673)</u>	<u>\$ (475,186)</u>

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



**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
STATEMENT OF FUNCTIONAL EXPENSES AND REVENUES  
FOR THE YEAR ENDED DECEMBER 31, 2009 (RESTATED)**

	Program Services				Total Program Services	Supporting	Total Revenues and Expenses
	Donated	Donated	Donated	Vocational Services		Services	
	Goods Retail	Goods Salvage	Goods Transportation			Management Services	
<b>EXPENSES</b>							
Payroll related expenses							
Salaries	\$ 2,920,237	\$ 109,030	\$ 942,501	\$ 728,227	\$ 4,699,995	\$ 770,412	\$ 5,470,407
Employee benefits	127,213	-	42,919	17,462	187,594	11,794	199,388
Payroll taxes and workers' compensation	513,718	12,982	164,319	92,201	783,220	88,613	871,833
Total payroll related expenses	<u>3,561,168</u>	<u>122,012</u>	<u>1,149,739</u>	<u>837,890</u>	<u>5,670,809</u>	<u>870,819</u>	<u>6,541,628</u>
Value of donated goods sold	1,751,142	-	-	-	1,751,142	-	1,751,142
Professional fees and contract services	53,708	-	461	26,540	80,709	95,793	176,502
Supplies	325,552	2,785	240,004	37,002	605,343	33,692	639,035
Telephone	35,164	-	8,939	6,792	50,895	62,364	113,259
Postage	60,946	-	-	532	61,478	2,133	63,611
Occupancy	1,743,833	52	19,294	315,640	2,078,819	134,862	2,213,681
Equipment rental and maintenance	53,592	-	30,454	-	84,046	18,303	102,349
Printing and publication	95,891	447	2,003	9,665	108,006	81,028	189,034
Local travel	17,389	15	358,695	22,935	399,034	31,460	430,494
Conferences, conventions and meetings	1,462	-	602	2,574	4,638	27,111	31,749
Special assistance	11,733	134	3,322	1,734	16,923	4,373	21,296
Dues	608	-	101	2,908	3,617	104,931	108,548
Other	137,877	1,954	1,723	500	142,054	(438,343)	(296,289)
Total expenses before depreciation	<u>7,850,065</u>	<u>127,399</u>	<u>1,815,337</u>	<u>1,264,712</u>	<u>11,057,513</u>	<u>1,028,526</u>	<u>12,086,039</u>
Depreciation of property and equipment	192,777	-	-	-	192,777	232,812	425,589
Total direct expenses	<u>8,042,842</u>	<u>127,399</u>	<u>1,815,337</u>	<u>1,264,712</u>	<u>11,250,290</u>	<u>1,261,338</u>	<u>12,511,628</u>
Distribution of indirect expenses							
Assessment dues	57,712	10,493	-	26,233	94,438	(94,438)	-
Occupancy and indirect	183,363	33,829	-	84,573	301,765	(301,765)	-
Management services	433,804	78,873	-	197,184	709,861	(709,861)	-
Solicitation and transportation	944,158	101,955	(1,815,337)	14,105	(755,119)	755,119	-
Total indirect expenses	<u>1,619,037</u>	<u>225,150</u>	<u>(1,815,337)</u>	<u>322,095</u>	<u>350,945</u>	<u>(350,945)</u>	<u>-</u>
Total expenses	<u>9,661,879</u>	<u>352,549</u>	<u>-</u>	<u>1,586,807</u>	<u>11,601,235</u>	<u>910,393</u>	<u>12,511,628</u>
<b>REVENUES</b>							
Program revenues							
Value of donated goods received	1,751,142	-	-	-	1,751,142	-	1,751,142
Program service revenue	9,854,248	518,515	-	593,972	10,966,735	-	10,966,735
Total program revenues	<u>11,605,390</u>	<u>518,515</u>	<u>-</u>	<u>593,972</u>	<u>12,717,877</u>	<u>-</u>	<u>12,717,877</u>
Excess (deficiency) of related revenues over expenses	<u>1,943,511</u>	<u>165,966</u>	<u>-</u>	<u>(992,835)</u>	<u>1,116,642</u>	<u>(910,393)</u>	<u>206,249</u>
Other revenues							
Interest income	-	-	-	-	-	5,266	5,266
Contributions	-	-	-	-	-	7,072	7,072
Donations	-	-	-	-	-	34,602	34,602
Gain on disposal of assets	-	-	-	-	-	4,150	4,150
Rental income	-	-	-	-	-	1,225	1,225
Total other revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,315</u>	<u>52,315</u>
Excess (deficiency) of revenues over expenses	<u>\$ 1,943,511</u>	<u>\$ 165,966</u>	<u>\$ -</u>	<u>\$ (992,835)</u>	<u>\$ 1,116,642</u>	<u>\$ (858,078)</u>	<u>\$ 258,564</u>

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

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (RESTATED)**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ (475,186)	\$ 258,564
Adjustments to reconcile change in net assets to Net cash provided by operating activities:		
Depreciation	401,646	425,589
Value of donated assets received	(1,513,128)	(1,751,142)
Value of donated assets sold	1,513,128	1,751,142
(Increase) decrease in operating assets:		
Accounts receivable	(204,960)	35,607
Inventory held for sale	16,306	-
Supplies inventory	10,518	(49,385)
Prepaid expenses	(29,351)	54,066
Deposits	(11,220)	409
Other assets	4,588	3,175
Increase (decrease) in operating liabilities:		
Accounts payable	(7,542)	(68,843)
Accrued salaries and wages	24,972	50,252
Increase (decrease) in other liabilities	192,532	(474,088)
Net cash provided (used) by operating activities	<u>(77,697)</u>	<u>235,346</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property and equipment	<u>(91,930)</u>	<u>(96,641)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital leases	(7,652)	(10,413)
Payments on notes payable	<u>(112,899)</u>	<u>(105,981)</u>
Net cash used by financing activities	<u>(120,551)</u>	<u>(116,394)</u>
Net increase (decrease) in cash and cash equivalents	(290,178)	22,311
Cash and cash equivalents, beginning of year	<u>1,025,493</u>	<u>1,003,182</u>
Cash and cash equivalents, end of year	<u>\$ 735,315</u>	<u>\$ 1,025,493</u>
 <b>SUPPLEMENTAL DISCLOSURES ON CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	<u>\$ 398,340</u>	<u>\$ 412,161</u>
Change in fair value of interest rate swap	<u>\$ 194,764</u>	<u>\$ (474,088)</u>

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

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009 (RESTATED)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Goodwill Industries of South Central California (Goodwill Industries) was incorporated under the laws of the State of California on August 1, 1986, as a not-for-profit organization. The service area of Goodwill Industries encompasses Kern, Kings and Southern Tulare counties. Goodwill Industries provides employment and opportunities of personal growth for people with mental, physical and social impairments. Goodwill Industries is accredited by Goodwill Industries International (GII).

**Recent Accounting Pronouncements**

In June of 2009, the Financial Accounting Standards Board (FASB) approved the FASB Accounting Standards Codification (ASC), which after its effective date of July 1, 2009, is the single source of authoritative, nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The ASC reorganizes all previous U.S. GAAP pronouncements into roughly 90 accounting topics and displays all topics using a consistent structure. All existing standards that were used to create the ASC are now superseded, replacing the previous references to specific Statements of Financial Accounting Standards (SFAS) with numbers used in the ASC's structural organization. The adoption of this authoritative guidance did not have a material impact on the financial statements. We have updated our disclosures accordingly.

**Financial Statement Presentation**

Goodwill Industries follows FASB ASC Topic 958-205-55, *Not-for-Profit Entities—Presentation of Financial Statements—Implementation Guidance and Illustrations*, formerly SFAS No. 117, "Financial Statements of Not-for-Profit Organizations." Under FASB ASC Topic 958-205-55, Goodwill Industries is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, Goodwill Industries is required to present a statement of cash flows.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, Goodwill Industries considers all unrestricted highly liquid investments with an initial maturity of twelve months or less to be cash equivalents.

**Accounts Receivable**

Goodwill Industries considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### **Inventory**

GII publishes guidelines for accounting, reporting and disclosure policies. The guidelines can be used by local Goodwill agencies to assist in compliance with industry practices and comparability of financial performance from agency to agency. Goodwill Industries has conformed its accounting, reporting and disclosure policies with those suggested by GII.

Effective for fiscal years beginning January 1, 1996, GII has recommended that local agencies estimate the value of donated goods received and of donated goods inventories on hand at the end of the year. The guidelines recommend that this valuation should be based upon net revenues generated from the sales of the donated goods. Using this method, management has estimated that the value of all goods donated to Goodwill Industries throughout the year is equal to the revenues realized by the sale of these goods less the costs associated with preparing these goods for sale. These costs include all direct and indirect costs of production, transportation, support and management and general services provided.

The guidelines also recommend that local agencies estimate the value of inventories at fiscal year-end by factoring the annual revenue derived above by the number of months that a typical item remains in inventory. GII has gathered statistics regarding the number of days that items remain on hand in various regions of the country and has provided these statistics to local agencies for purposes of inventory valuation.

### **Property, Equipment and Depreciation**

All acquisitions of property and equipment in excess of \$5,000, and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Goodwill Industries reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Goodwill Industries reclassifies temporarily restricted net assets to unrestricted net assets at that time. At December 31, 2010 and 2009, Goodwill Industries did not own any assets with temporary or permanent restrictions.

Property and equipment purchased are carried at cost, less accumulated depreciation computed on a straight-line basis over the lesser of the estimated useful lives of the assets (generally three to fifteen years for machinery and equipment and twenty-five years for buildings) or the lease term.

### **Capital Leases**

Certain long-term lease transactions relating to the financing of equipment are accounted for as capital leases. Capital lease obligations reflect the present value of future rental payments, discounted at the interest rate implicit in the lease.

A corresponding amount is capitalized and amortized over the assets estimated economic lives on a straight-line basis. The amortization is included in depreciation expense.

### **Interest Rate Swap Agreement**

Derivative instruments are used to manage risk related to interest rate movements. An outstanding interest rate swap agreement has been designated and qualifies as a cash flow hedge and is reported at fair value. The agreement is deemed to be fully effective; therefore, the change in fair value of the agreement is included as part of other changes in net assets. At the inception of the agreement, the risk management strategy and the hedge's effectiveness are documented. The interest rate risk management strategy is to stabilize cash flow requirements by maintaining the interest rate swap to convert variable rate debt to a fixed rate.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### **Designations of Net Assets**

Effective for the years ended December 31, 2010 and 2009, the Board of Directors elected to designate net assets in an amount of \$200,000 for program expansion involving the purchasing of new equipment to support programs.

### **Contributions**

Goodwill Industries follows FASB ASC Topic 958-605-45, *Not-for-Profit Entities—Revenue Recognition—Other Presentation Matters*, formerly SFAS No. 116, “Accounting for Contributions Received and Contributions Made.” In accordance with FASB ASC Topic 958-605-45, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions.

Goodwill Industries records the value of goods, investments or services at fair market value when there is an objective basis available to measure its value. No amounts have been reflected in the financial statements for donated services, as no objective basis is available to measure the value of such services.

### **Advertising and Promotion**

Advertising and promotion costs are expensed when incurred and amounted to \$139,617 and \$153,149 for the years ended December 31, 2010 and 2009, respectively.

### **Functional Allocation of Expenses**

The costs of providing the various programs and other activities are summarized on a functional basis in the statement of activities. Goodwill Industries' policy is to allocate the indirect expenses of administrative overhead and occupancy to certain programs based on their square footage of use. Accordingly, certain costs are allocated among the programs and supporting services benefited. Interest expense is directly allocated among the programs and among the functional expense items benefited by the asset underlying the debt for which the interest was incurred.

### **Income Tax Status**

Goodwill Industries is organized under Section 501(c)(3) for the Internal Revenue Code as a tax-exempt organization and is classified as an organization other than a private foundation for both U.S. and California tax purposes.

### **Concentration of Credit Risk**

Goodwill Industries' financial instruments that are exposed to concentrations of credit risk consist primarily of its cash equivalents. At December 31, 2010 and 2009, Goodwill Industries maintained approximately \$84,473 and \$660,316, respectively, in excess of federally insured limits. At December 31, 2010 and 2009, Goodwill Industries had \$513,790 and \$217,117, respectively, in money market funds that were insured by Securities Investor Protection Corporation.

### **Restricted and Unrestricted Revenue**

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)**Reclassifications**

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. There was no effect on net assets.

**NOTE 2 – PROPERTY, EQUIPMENT AND DEPRECIATION**

Property, equipment and accumulated depreciation at December 31 are as follows:

	<u>January 1, 2010</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>December 31, 2010</u>
Nondepreciable capital assets:				
Land	\$ 1,685,282	\$ -	\$ -	1,685,282
Construction in progress	-	19,807	-	\$ 19,807
	<u>1,685,282</u>	<u>19,807</u>	<u>-</u>	<u>1,705,089</u>
Depreciable capital assets:				
Buildings and improvements	5,692,287	6,540	-	5,698,827
Leasehold improvements	1,197,495	-	-	1,197,495
Equipment	1,444,135	65,583	(10,669)	1,499,049
Total	8,333,917	72,123	(10,669)	8,395,371
Less accumulated depreciation	<u>(3,059,844)</u>	<u>(401,646)</u>	<u>10,669</u>	<u>(3,450,821)</u>
Depreciable capital assets, net of accumulated depreciation	<u>5,274,073</u>	<u>(329,523)</u>	<u>-</u>	<u>4,944,550</u>
Capital assets, net of accumulated depreciation	<u>\$ 6,959,355</u>	<u>\$ (309,716)</u>	<u>\$ -</u>	<u>\$ 6,649,639</u>
	Restated			
	<u>January 1, 2009</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>December 31, 2009</u>
Nondepreciable capital assets:				
Land	\$ 1,685,282	\$ -	\$ -	1,685,282
Construction in progress	-	-	-	\$ -
	<u>1,685,282</u>	<u>-</u>	<u>-</u>	<u>1,685,282</u>
Depreciable capital assets:				
Buildings and improvements	5,636,607	55,680	-	5,692,287
Leasehold improvements	1,197,495	-	-	1,197,495
Equipment	1,428,653	51,662	(36,180)	1,444,135
Total	8,262,755	107,342	(36,180)	8,333,917
Less accumulated depreciation	<u>(2,670,435)</u>	<u>(425,589)</u>	<u>36,180</u>	<u>(3,059,844)</u>
Depreciable capital assets, net of accumulated depreciation	<u>5,592,320</u>	<u>(318,247)</u>	<u>-</u>	<u>5,274,073</u>
Capital assets, net of accumulated depreciation	<u>\$ 7,277,602</u>	<u>\$ (318,247)</u>	<u>\$ -</u>	<u>\$ 6,959,355</u>

Depreciation expense was \$401,646 and \$425,589 (as restated) for the years ended December 31, 2010 and 2009, respectively.

### **NOTE 3 – LEASED FACILITIES**

On March 10, 2005, Goodwill Industries entered into an 84-month lease agreement beginning in May 2005 for a retail store on Olive Drive in Bakersfield. On June 29, 2009, the lease was amended to adjust the base rent and extend the term of the lease until April 30, 2015. The monthly rent amount is \$10,929. Goodwill Industries is required to pay property taxes, insurance and common area expenses associated with the leased property. The lease provides for annual rent increases of 3%.

On May 20, 2009, Goodwill Industries exercised its option under the original lease agreement for its retail store on Rosedale Highway in Bakersfield to extend the term of its lease 60 months. This extension will expire October 14, 2014. The lease requires minimum monthly rental payments of \$4,431 exclusive of utilities, personal property tax, liability insurance and certain repairs and maintenance. The lease contains a provision for annual adjustments in lease payments based upon changes in the Consumer Price Index.

On May 1, 2007, Goodwill Industries entered into a 60-month lease agreement for a retail store on Oswell Street in Bakersfield, commencing in September 2007. On July 10, 2009, the lease was amended to adjust the base rent and extend the term of the lease until August 31, 2013. The monthly rent amount is \$11,056 exclusive of personal property tax. The lease provides for annual adjustments in lease payments of \$527.

On February 14, 2005, Goodwill Industries exercised its option under the original lease agreement for its retail store on Drummond Avenue in Ridgecrest to extend the term of the lease for 60 months, beginning in September 2005. On September 3, 2009, the lease was amended to adjust the base rent and extend the term of the lease until August 31, 2015. The minimum monthly rental amount is \$5,710 exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance and common area expenses. The lease provides for an increase to \$6,566 per month beginning September 1, 2010.

On July 2, 2001, Goodwill Industries entered into a 120-month lease agreement for a retail store on Chester Avenue in Bakersfield, commencing December 2001. The minimum monthly rental amount at December 31, 2010, was \$34,094 exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance and common area expenses. The lease provides for periodic adjustments in lease payments based on the Consumer Price Index, with a minimum increase of 3.5% annually.

On October 11, 2004, Goodwill Industries entered into a 60-month lease agreement for a retail store in Taft, beginning in November 2004. On July 10, 2009, the lease was renewed for an additional 60 months, commencing December 1, 2009, and continuing through November 30, 2014, at a fixed monthly rental amount of \$4,200 per month exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance and common area expenses.

In June 2006, Goodwill Industries entered into a 60-month lease agreement for a retail store on Union Avenue in Bakersfield. The monthly rent amount ranges from \$10,517 to \$18,534 exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance.

Future minimum lease commitments under noncancellable operating leases as of December 31, 2010, are as follows:

<u>Year Ended December 31,</u>	<u>Operating Leases</u>
2011	\$ 893,398
2012	483,718
2013	441,644
2014	327,449
2015	111,214
	<u>\$ 2,257,423</u>

Rental expense was \$1,073,368 and \$1,047,991 for the years ended December 31, 2010 and 2009, respectively.

## NOTE 4 – LONG-TERM DEBT

### Notes Payable

A summary of notes payable as of December 31 is as follows:

	<u>2010</u>	<u>2009</u>
Term loan agreement with Wells Fargo Bank dated September 1, 2006, in the original amount of \$5,600,000, at variable interest rates (effective rate of 5.48% with swap agreement - Note 6). Principal and interest payments due monthly. First principal payment was made on December 1, 2006, and subsequent principal and interest payments are due monthly commencing on January 2, 2007. All unpaid principal is due November 1, 2016. Collateral consists of real property located in Kern County, California.		
Total Note Payable	\$ 5,202,367	\$ 5,314,348
Less: Current Portion	<u>114,925</u>	<u>106,524</u>
	<u>\$ 5,087,442</u>	<u>\$ 5,207,824</u>
	<u>2010</u>	<u>2009</u>
Goodwill Industries executed a \$400,000 line of credit with Wells Fargo Bank on September 1, 2006. This loan operated as a line of credit until November 1, 2007, at which time it was converted to a term loan that matures November 1, 2016. Interest rates are variable (effective rate of 5.48% with swap agreement - Note 6). Principal and interest payments are due monthly commencing on November 1, 2007. All unpaid principal is due November 1, 2016. Collateral consists of real property located in Kern County, California.		
Total Note Payable	\$ 385,774	\$ 386,692
Less: Current Portion	<u>7,606</u>	<u>7,098</u>
	<u>\$ 378,168</u>	<u>\$ 379,594</u>

Principal payments on notes payable at December 31, 2010, for the succeeding years are as follows:

<u>Year Ended December 31,</u>	<u>Total</u>
2011	\$ 122,531
2012	130,595
2013	140,000
2014	150,092
2015	160,909
Thereafter	<u>4,884,014</u>
	<u>\$ 5,588,141</u>



**NOTE 4 – LONG-TERM DEBT** (Continued)**Capital Leases**

Goodwill Industries leases certain equipment for use in its operations. The amounts capitalized are amortized on a straight-line basis and interest on the related obligations is imputed and charged to expense as the lease payments are made. The assets are amortized over the lower of their related lease terms or their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense. At December 31, 2010 and 2009, the capitalized cost of the assets acquired under the capital lease agreements was \$54,708 and \$54,708, respectively, and is included in equipment net of accumulated depreciation of \$25,637 and \$32,108, respectively. Depreciation of the leased equipment for the years ended December 31, 2010 and 2009, was \$6,471 and \$6,471, respectively.

The following summarizes minimum future rental payments under capital noncancellable leases for the fiscal year ending December 31:

<u>Year Ended December 31,</u>	<u>Office Equipment</u>
2011	\$ 4,879
2012	<u>813</u>
Total Minimum Payments Required	5,692
Less: Executory Costs	<u>(245)</u>
Net Minimum Lease Payments	5,447
Less: Amount Representing Interest	<u>(332)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 5,115</u></u>

Interest expense for the years ended December 31, 2010 and 2009, was \$285 and \$2,811, respectively.

Based on the borrowing rates currently available to Goodwill Industries for bank loans with similar terms and average maturities, the fair value of long-term debt approximates the carrying amounts on the statement of financial condition.

**Line of Credit**

Goodwill Industries executed a \$250,000 line of credit with Wells Fargo Bank on September 1, 2006, of which \$250,000 was unused at December 31, 2010 and 2009. Bank advances on the credit line carry an interest rate per annum of 1.00% above the Prime Rate in effect from time to time, 3.25% at December 31, 2010 and 2009, and are due and payable in full on November 1, 2011. The line is secured by the real property of Goodwill Industries located in Bakersfield, California.

## NOTE 5 – INTEREST RATE SWAP AGREEMENT

In 2006, Goodwill Industries entered into a master agreement with Wells Fargo Bank for an interest rate swap transaction to reduce the impact of changes in interest rates on its variable long-term debt of \$5,600,000 dated September 1, 2006. The loan was also structured as such that the original line of credit with Wells Fargo Bank would convert to a term loan at November 1, 2007. The line of credit was limited to a maximum of \$400,000 and Goodwill Industries took down the full amount as of October 30, 2007. This amount remains as a separate note, but the swap agreement was amended to include both notes. This agreement effectively changed the interest rate exposure on the variable rate loan to a fixed rate of 6.98%. The interest rate swap matures November 1, 2016. The fair value of the swap agreement is recorded on the accompanying statement of financial position as a liability and totaled \$956,308 and \$761,544 as of December 31, 2010 and 2009, respectively. For the years ended December 31, 2010 and 2009, \$194,764 and \$(474,088), respectively, was recorded as part of interest (income) expense in the statement of activities related to the change in the swap agreement's fair value. Had Goodwill not entered this swap agreement, change in net assets for the years ended December 31, 2010 and 2009, would have been reported as follows:

	<u>2010</u>	<u>2009</u>
Change in Net Assets before Effect of Swap Adjustment	\$ (280,422)	\$ (186,141)
Swap Adjustment (Expense)	<u>(194,764)</u>	<u>474,088</u>
Change in Net Assets	<u>\$ (475,186)</u>	<u>\$ 287,947</u>

Fair value of assets measured on a recurring basis at December 31, 2010 and 2009, are as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2010</u>				
Derivatives	<u>\$ 956,308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 956,308</u>
Total	<u>\$ 956,308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 956,308</u>
<u>December 31, 2009</u>				
Derivatives	<u>\$ 761,544</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 761,544</u>
Total	<u>\$ 761,544</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 761,544</u>

**NOTE 5 – INTEREST RATE SWAP AGREEMENT** (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Derivatives</u>
December 31, 2008	\$ 1,235,632
Total Gains or Losses (Realized/Unrealized)	<u>(474,088)</u>
December 31, 2009	761,544
Total Gains or Losses (Realized/Unrealized)	<u>194,764</u>
December 31, 2010	<u>\$ 956,308</u>

**NOTE 6 – FAIR VALUE MEASUREMENTS**

Fair values of derivative instruments for the years ended December 31, 2010 and 2009, are as follows:

	<u>Liability Derivatives</u>	
	<u>2010</u>	<u>2009</u>
Derivatives Designated as Hedging Instruments:		
Interest Rate Contracts	<u>\$ 956,308</u>	<u>\$ 761,544</u>
Total	<u>\$ 956,308</u>	<u>\$ 761,544</u>

See Note 5 for additional information on Goodwill Industries' purpose for entering into derivatives not designated as hedging instruments and its overall risk management strategies.

**NOTE 7 – RESTATEMENT OF FINANCIAL STATEMENTS**

As a result of an internal review of Goodwill Industries useful lives of property and equipment, it was determined that certain leasehold improvements were not correctly being depreciated over the life of the lease. This resulted in a restatement of the December 31, 2009, financial statements as follows:

	<u>2009</u>		
	<u>As previously reported</u>	<u>Adjustment</u>	<u>Restated</u>
Total expenses	\$ 12,482,245	\$ (29,383)	\$ 12,511,628
Change in net assets	287,947	29,383	258,564
Total Property and equipment, net	7,191,970	232,615	6,959,355
Net assets	1,809,560	232,615	1,576,945

**NOTE 8 – COMMITMENT OR CONTINGENCIES**

There are no lawsuits or pending actions against Goodwill Industries. In addition, there have been no commitments or promises to any vendor to purchase a large amount of inventory.

**NOTE 9 – SUBSEQUENT EVENTS**

The date to which events occurring after December 31, 2010, have been evaluated for possible adjustments to the financial statements or disclosures is April 13, 2011, which is the date that the financial statements were available to be issued. There were no events brought to our attention that were deemed to be reportable at that time.