GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Goodwill
Industries of South Central California

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May 4, 2010

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 $1,809,560. 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 in the absence of the swap agreement the Change in Net Assets would be positive for 2008 and negative for 2009. At no time since its inception has the value of the swap agreement been positive. The expense associated with this 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. This liability is due to Wells Fargo Bank 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 and CEO

Keep it in the Community!

GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
DECEMBER 31, 2009 AND 2008

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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, 2009 and 2008, 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 audit 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, 2009 and 2008, 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

Bakersfield, California
April 12, 2010

GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents, including certificates of deposits	$ 1,025,493	$ 1,003,182
Accounts receivable	177,055	212,662
Inventory held for sale	244,975	254,112
Supplies inventory	49,385	-
Prepaid expenses	159,749	213,830
Deposits	81,353	81,762
Other assets	30,138	33,313
Total Current Assets	1,768,148	1,798,861
Property and Equipment, net	7,191,970	7,480,834
TOTAL ASSETS	$ 8,960,118	$ 9,279,695
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 161,143	$ 229,986
Accrued salaries and expenses	475,505	425,253
Interest payable	37,982	36,418
Capital leases, current portion	7,702	10,413
Notes payable, current portion	113,622	105,981
Total Current Liabilities	795,954	808,051
Long-Term Liabilities		
Capital leases, net of current portion	5,642	13,359
Notes payable, net of current portion	5,587,418	5,701,040
Interest rate swap	761,544	1,235,632
Total Long-Term Liabilities	6,354,604	6,950,031
Total Liabilities	7,150,558	7,758,082
Net Assets		
Unrestricted net assets		
Operating	1,609,560	1,321,613
Board designated	200,000	200,000
Total Net Assets	1,809,560	1,521,613
TOTAL LIABILITIES AND NET ASSETS	$ 8,960,118	$ 9,279,695

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

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
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	34,602	(34,602)	-
Total Support and Revenues	12,770,192	-	12,770,192
EXPENSES			
Program Services			
Donated goods - retail	9,661,879	-	9,661,879
Donated goods - salvage	352,549	-	352,549
Total Donated Goods	10,014,428	-	10,014,428
Vocational services	1,586,807	-	1,586,807
Total Program Services	11,601,235	-	11,601,235
Supporting Services			
Management services	881,010	-	881,010
Total Expenses	12,482,245	-	12,482,245
Change in Net Assets	287,947	-	287,947
Net Assets, Beginning of Year	1,521,613	-	1,521,613
Net Assets, End of Year	$ 1,809,560	$ -	$ 1,809,560

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, 2008

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Retail sales	$ 9,674,239	$ -	$ 9,674,239
Value of donated goods received	1,789,166	-	1,789,166
Donations	-	23,072	23,072
Vocational services	553,549	-	553,549
Salvage sales	622,513	-	622,513
Cash contributions received	45,150	-	45,150
Interest income	8,011	-	8,011
Rental income	1,925	-	1,925
Loss on disposal of asset	(12,901)	-	(12,901)
Net assets released from restriction - restrictions satisfied by payments	23,072	(23,072)	-
Total Support and Revenues	12,704,724	-	12,704,724
EXPENSES			
Program Services			
Donated goods - retail	10,283,805	-	10,283,805
Donated goods - salvage	469,945	-	469,945
Total Donated Goods	10,753,750	-	10,753,750
Vocational services	1,743,029	-	1,743,029
Total Program Services	12,496,779	-	12,496,779
Supporting Services			
Management services	985,687	-	985,687
Total Expenses	13,482,466	-	13,482,466
Change in Net Assets	(777,742)	-	(777,742)
Net Assets, Beginning of Year	2,299,355	-	2,299,355
Net Assets, End of Year	$ 1,521,613	$ -	$ 1,521,613

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

	Program Services					Supporting Services	
	Donated Goods Retail	Donated Goods Salvage	Donated Goods Transportation	Vocational Services	Total Program Services	Management Services	Total Revenue and Expenses
EXPENSES							
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	3,561,168	122,012	1,149,739	837,890	5,670,809	870,819	6,541,628
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	7,850,065	127,399	1,815,337	1,264,712	11,057,513	1,028,526	12,086,039
Depreciation of Property and Equipment	192,777	-	-	-	192,777	203,429	396,206
Total Direct Expenses	8,042,842	127,399	1,815,337	1,264,712	11,250,290	1,231,955	12,482,245
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	1,619,037	225,150	(1,815,337)	322,095	350,945	(350,945)	-
Total Expenses	9,661,879	352,549	-	1,586,807	11,601,235	881,010	12,482,245
REVENUES							
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	11,605,390	518,515	-	593,972	12,717,877	-	12,717,877
Excess (Deficiency) of Related Revenues Over Expenses	1,943,511	165,966	-	(992,835)	1,116,642	(881,010)	235,632
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	-	-	-	-	-	52,315	52,315
Excess (Deficiency) of Revenues Over Expenses	$ 1,943,511	$ 165,966	$ -	$ (992,835)	$ 1,116,642	$ (828,695)	$ 287,947

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, 2008

	Program Services					Supporting Services	
	Donated Goods Retail	Donated Goods Salvage	Donated Goods Transportation	Vocational Services	Total Program Services	Management Services	Total Revenue and Expenses
EXPENSES							
Payroll Related Expenses							
Salaries	$ 2,871,791	$ 83,713	$ 888,876	$ 597,353	$ 4,441,733	$ 758,680	$ 5,200,413
Employee benefits	196,123	-	61,661	18,160	275,944	16,949	292,893
Payroll taxes and workers' compensation	516,909	11,564	157,306	81,825	767,604	79,308	846,912
Total Payroll Related Expenses	3,584,823	95,277	1,107,843	697,338	5,485,281	854,937	6,340,218
Value of donated goods sold	1,789,166	-	-	-	1,789,166	-	1,789,166
Professional fees and contract services	56,064	-	341	770	57,175	93,666	150,841
Supplies	285,807	4,994	309,893	32,523	633,217	51,372	684,589
Telephone	36,817	-	7,459	5,075	49,351	56,383	105,734
Postage	57,969	-	64	606	58,639	2,824	61,463
Occupancy	1,731,307	105	24,226	307,159	2,062,797	149,068	2,211,865
Equipment rental and maintenance	42,207	1,272	54,306	1,389	99,174	9,200	108,374
Printing and publication	83,374	399	389	3,873	88,035	90,699	178,734
Local travel	16,582	-	369,355	13,667	399,604	28,452	428,056
Conferences, conventions and meetings	1,839	-	627	2,195	4,661	21,412	26,073
Special assistance	15,209	107	3,206	4,487	23,009	12,578	35,587
Dues	1,654	-	25	1,360	3,039	99,056	102,095
Other	92,523	1,212	1,087	2,151	96,973	791,553	888,526
Total Expenses Before Depreciation	7,795,341	103,366	1,878,821	1,072,593	10,850,121	2,261,200	13,111,321
Depreciation of Property and Equipment	29,466	-	-	-	29,466	341,679	371,145
Total Direct Expenses	7,824,807	103,366	1,878,821	1,072,593	10,879,587	2,602,879	13,482,466
Distribution of Indirect Expenses							
Assessment dues	54,480	9,906	-	24,764	89,150	(89,150)	-
Occupancy and indirect	269,910	49,075	-	122,687	441,672	(441,672)	-
Management services	1,107,192	201,308	-	503,269	1,811,769	(1,811,769)	-
Solicitation and transportation	1,027,416	106,290	(1,878,821)	19,716	(725,399)	725,399	-
Total Indirect Expenses	2,458,998	366,579	(1,878,821)	670,436	1,617,192	(1,617,192)	-
Total Expenses	10,283,805	469,945	-	1,743,029	12,496,779	985,687	13,482,466
REVENUES							
Program Revenues							
Value of donated goods received	1,789,166	-	-	-	1,789,166	-	1,789,166
Program service revenue	9,674,239	622,513	-	553,549	10,850,301	-	10,850,301
Total Program Revenues	11,463,405	622,513	-	553,549	12,639,467	-	12,639,467
Excess (Deficiency) of Related Revenues Over Expenses	1,179,600	152,568	-	(1,189,480)	142,688	(985,687)	(842,999)
Other Revenues							
Interest income	-	-	-	-	-	8,011	8,011
Contributions	-	-	-	-	-	45,150	45,150
Donations	-	-	-	-	-	23,072	23,072
Loss on disposal of assets	-	-	-	-	-	(12,901)	(12,901)
Rental income	-	-	-	-	-	1,925	1,925
Total Other Revenues	-	-	-	-	-	65,257	65,257
Excess (Deficiency) of Revenues Over Expenses	$ 1,179,600	$ 152,568	$ -	$ (1,189,480)	$ 142,688	$ (920,430)	$ (777,742)

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, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	$ 287,947	$ (777,742)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	396,206	371,145
Value of donated assets received	(1,751,142)	(1,789,166)
Value of donated assets sold	1,751,142	1,789,166
(Increase) decrease in operating assets:		
Accounts receivable	35,607	74,263
Supplies inventory	(49,385)	-
Prepaid expenses	54,066	1,134
Deposits	409	11,367
Other assets	3,175	4,252
Grants receivable	-	(143,365)
Investments	-	303,263
Increase (decrease) in operating liabilities:		
Accounts payable	(68,843)	31,672
Accrued salaries and wages	50,252	160,242
Increase (decrease) in other liabilities	(474,088)	805,484
Net Cash Provided by Operating Activities	235,346	841,715
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property and equipment	(96,641)	(331,512)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital leases	(10,413)	(13,435)
Payments on notes payable	(105,981)	(103,980)
Net Cash Used by Financing Activities	(116,394)	(117,415)
Net Increase (Decrease) in Cash and Cash Equivalents	22,311	392,788
Cash and Cash Equivalents, Beginning of Year	1,003,182	610,394
Cash and Cash Equivalents, End of Year	$ 1,025,493	$ 1,003,182

SUPPLEMENTAL DISCLOSURES ON CASH FLOW INFORMATION:

Cash Paid During the Year for Interest	$ 412,161	$ 405,814

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

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 Codification 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 Codification are now superseded, replacing the previous references to specific Statements of Financial Accounting Standards (SFAS) with numbers used in the Codification'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 the organization 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, 2009 and 2008, 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, 2009 and 2008, 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 $153,149 and $159,299 for the years ended December 31, 2009 and 2008, 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, 2009 and 2008, Goodwill Industries maintained approximately $660,316 and $596,551, respectively, in excess of federally insured limits. At December 31, 2009 and 2008, Goodwill Industries had $217,117 and $206,850, 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 2008 financial statements to conform to the 2009 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:

	January 1, 2009	Acquisitions	Dispositions	December 31, 2009
Nondepreciable capital assets:				
Land	$ 1,685,282	$ -	$ -	$ 1,685,282
Construction in progress	-	-	-	-
	1,685,282	-	-	1,685,282
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	(2,467,203)	(396,206)	36,180	(2,827,229)
Depreciable capital assets, net of accumulated depreciation	5,795,552	(288,864)	-	5,506,688
Capital assets, net of accumulated depreciation	$ 7,480,834	$ (288,864)	$ -	$ 7,191,970

	January 1, 2008	Acquisitions	Dispositions	December 31, 2008
Nondepreciable capital assets:				
Land	$ 1,685,282	$ -	$ -	$ 1,685,282
Construction in progress	317,135	-	(317,135)	-
	2,002,417	-	(317,135)	1,685,282
Depreciable capital assets:				
Buildings and improvements	5,115,479	521,128	-	5,636,607
Leasehold improvements	1,197,495	-	-	1,197,495
Equipment	1,364,353	108,299	(43,999)	1,428,653
Total	7,677,327	629,427	(43,999)	8,262,755
Less accumulated depreciation	(2,137,057)	(371,145)	40,999	(2,467,203)
Depreciable capital assets, net of accumulated depreciation	5,540,270	258,282	(3,000)	5,795,552
Capital assets, net of accumulated depreciation	$ 7,542,687	$ 258,282	$ (320,135)	$ 7,480,834

Depreciation expense was $396,206 and $371,145 for the years ended December 31, 2009 and 2008, 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, 2009 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, 2009 are as follows:

Year Ended December 31,	
2010	$ 1,071,339
2011	885,750
2012	471,718
2013	429,644
2014	319,879
2015	103,213
	$ 3,281,543

Rental expense was $1,047,991 and $1,016,600 for the years ended December 31, 2009 and 2008, respectively.

NOTE 4 – LONG-TERM DEBT

Notes Payable

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

	2009	2008
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.	$ 5,314,348	$ 5,413,713
Total Note Payable	5,314,348	5,413,713
Less: Current Portion	106,524	99,365
	$ 5,207,824	$ 5,314,348

	2009	2008
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.	$ 386,692	$ 393,308
Total Note Payable	386,692	393,308
Less: Current Portion	7,098	6,616
	$ 379,594	$ 386,692

Principal payments on notes payable at December 31, 2009 for the succeeding years are as follows:

Year Ended December 31,	Total
2010	$ 113,622
2011	121,808
2012	130,595
2013	140,000
2014	150,092
Thereafter	5,044,923
	$ 5,701,040

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, 2009 and 2008, the capitalized cost of the assets acquired under the capital lease agreements was $54,708 and $54,706, respectively, and is included in equipment net of accumulated depreciation of $32,108 and $16,130, respectively. Depreciation of the leased equipment for the years ended December 31, 2009 and 2008 was $6,471 and $6,119, respectively.

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

Year Ended December 31,	Office Equipment	Plant Equipment	Total
2010	$ 4,836	$ 2,866	$ 7,702
2011	4,836	-	4,836
2012	806	-	806
Total Minimum Payments Required	10,478	2,866	13,344
Less: Executory Costs	(454)	-	(454)
Net Minimum Lease Payments	10,024	2,866	12,890
Less: Amount representing interest	(617)	(842)	(1,459)
Present Value of Minimum Lease Payments	$ 9,407	$ 2,024	$ 11,431

Interest expense for the years ended December 31, 2009 and 2008 was $2,811 and $4,133, 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 balance sheet.

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, 2009 and 2008. 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, 2009 and 2008) 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 $761,544 and $1,235,632 as of December 31, 2009 and 2008, respectively. For the years ended December 31, 2009 and 2008, $(474,088) and $805,484, 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, 2009 and 2008 would have been reported as follows:

	2009	2008
Change in Net Assets before Effect of Swap Adjustment	$ (186,141)	$ 27,742
Swap Adjustment (Expense)	474,088	(805,484)
Change in Net Assets	$ 287,947	$ (777,742)

Fair value of assets measured on a recurring basis at December 31, 2009 and 2008, are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2009				
Derivatives	$ 761,544	$ -	$ -	$ 761,544
Total	$ 761,544	$ -	$ -	$ 761,544
December 31, 2008				
Derivatives	$ 1,235,632	$ -	$ -	$ 1,235,632
Total	$ 1,235,632	$ -	$ -	$ 1,235,632

NOTE 5 – INTEREST RATE SWAP AGREEMENT (Continued)

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

	Derivatives
January 1, 2007	$ 430,149
Total Gains or Losses (realized/unrealized)	805,483
December 31, 2008	1,235,632
Total Gains or Losses (realized/unrealized)	(474,088)
December 31, 2009	$ 761,544

NOTE 6 – FAIR VALUE MEASUREMENTS

Fair values of derivative instruments for the years ended December 31, 2009 and 2008, are as follows:

	Liability Derivatives	
	2009	2008
Derivatives Designated as Hedging Instruments:		
Interest Rate Contracts	$ 761,544	$ 1,235,632
Total	$ 761,544	$ 1,235,632

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 – 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.