

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2010 AND 2009

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Goodwill Industries of Santa Clara County, Inc.
(A California Nonprofit Public Benefit Corporation)
Santa Clara, California

We have audited the accompanying statements of financial position of Goodwill Industries of Santa Clara County, Inc. and related entity, GoodEx, Inc. (the Organization) as of December 31, 2010 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of the Organization. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Goodwill of Santa Clara County, Inc. as of December 31, 2009 were audited by other auditors whose report dated March 15, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides 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 the Organization as of December 31, 2010 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2011 on our consideration of the Organization's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Board of Directors
Goodwill Industries of Santa Clara County, Inc.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying schedule of expenditures of federal and other governmental awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Petrinovich Pugh & Company, LLP

San Jose, California
April 25, 2011

SECTION I
FINANCIAL SECTION

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

ASSETS	2010	2009
Current assets:		
Cash and cash equivalents	\$ 706,522	\$ 48,644
Investments, at market value	784,339	732,157
Accounts receivable, net	644,257	563,650
Grants receivable	456,363	416,091
Inventories	917,605	1,088,559
Prepaid expenses	160,374	239,769
Insurance settlement receivable	-	253,336
Notes receivable	-	3,099
Total current assets	3,669,460	3,345,305
Land, buildings and equipment, net	13,395,310	12,981,879
Other assets:		
Deposits	182,362	163,900
Collection of antique items	96,780	96,780
Total other assets	279,142	260,680
	\$ 17,343,912	\$ 16,587,864
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 573,682	\$ 818,853
Accrued payroll and benefits	531,332	522,401
Other accrued liabilities	125,244	67,986
Deferred revenue	12,914	145,942
Current portion of long-term debt	258,438	223,643
Current portion of capital lease obligations	60,078	-
Current portion of deferred rent	1,269	52,846
Accrued workers compensation reserve	-	129,278
Total current liabilities	1,562,957	1,960,949
Long-term liabilities:		
Long-term debt, net of current portion	2,646,461	2,760,818
Capital lease obligations, net of current portion	273,941	-
Accrued pension costs	1,407,046	1,209,271
Deferred rent, net of current portion	-	30,470
Total long-term liabilities, net of current portion	4,327,448	4,000,559
Total liabilities	5,890,405	5,961,508
Net assets:		
Unrestricted net assets:		
Undesignated	10,669,168	9,894,199
Designated - foundation trust fund	784,339	732,157
Total unrestricted net assets	11,453,507	10,626,356
	\$ 17,343,912	\$ 16,587,864

See independent auditors' report and accompanying consolidated notes to the financial statements.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Public support and revenue:		
Retail programs	\$ 21,338,736	\$ 21,175,554
Donated goods	5,920,267	5,629,832
Grants and contributions	1,288,397	1,111,647
Donated services	-	18,769
Production programs	1,935,061	1,713,935
Rent income	454,965	334,425
Vocational school fees	283,411	298,757
Miscellaneous	226,557	176,377
Investment income (loss)	93,926	128,725
Fundraising	18,057	-
Total public support and revenue	31,559,377	30,588,021
Expenses:		
Program services:		
Retail programs	16,788,575	18,303,777
Cost assigned to donated goods sold	5,906,601	5,507,137
Production programs	1,590,016	1,182,553
Vocational school programs	2,562,260	1,905,741
Total program services	26,847,452	26,899,208
Supporting services:		
Management and general	3,469,598	2,411,817
Fundraising	165,582	158,385
Total supporting services	3,635,180	2,570,202
Total expenses	30,482,632	29,469,410
Change in net assets before pension plan investment (loss) gain	1,076,745	1,118,611
Pension plan investment (loss) gain	(249,594)	467,216
Change in net assets	827,151	1,585,827
Net assets, beginning of year	10,626,356	9,040,529
Net assets, end of year	\$ 11,453,507	\$ 10,626,356

See independent auditors' report and accompanying consolidated notes to the financial statements.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Program Services				Supporting Services			Total		
	Cost Assigned to Donated Goods	Retail Programs	Production Programs	Vocational School Programs	Total	Management and General	Fundraising	Total	2010	2009
Salaries and wages	\$ -	\$ 8,061,759	\$ 871,721	\$ 1,375,976	\$ 10,309,456	\$ 1,406,149	\$ 101,160	\$ 1,507,309	\$ 11,816,765	\$ 11,645,321
Employee benefits	-	1,297,960	139,316	348,126	1,785,402	205,261	16,570	221,831	2,007,233	1,664,983
Payroll taxes	-	608,852	66,586	100,702	776,140	83,793	9,647	93,440	869,580	1,058,580
Total salaries and related expenses		9,968,571	1,077,623	1,824,804	12,870,998	1,695,203	127,377	1,822,580	14,693,578	14,368,884
Cost assigned to										
donated goods sold	5,906,601	-	-	-	5,906,601	-	-	-	5,906,601	5,507,137
Occupancy	-	3,183,938	170,009	87,705	3,441,652	114,375	9,498	123,873	3,565,525	3,990,410
Raw materials and supplies	-	2,198,212	88,052	199,643	2,485,907	271,770	1,333	273,103	2,759,010	2,547,666
Transportation	-	449,881	92,767	747	543,395	4,563	312	4,875	548,270	624,196
Professional services	-	28,981	28,447	346,923	404,351	684,070	-	684,070	1,088,421	472,007
Printing and publications	-	92,912	9,742	776	103,430	116,664	26,317	142,981	246,411	335,682
Dues and subscriptions	-	430	3,098	1,946	5,474	174,182	90	174,272	179,746	218,111
Telephone	-	97,629	15,641	18,080	131,350	28,771	153	28,924	160,274	157,960
Interest	-	-	-	-	-	201,965	(59)	201,906	201,906	143,405
Conferences and meetings	-	23,300	5,265	27,591	56,156	81,967	109	82,076	138,232	96,430
Postage and shipping	-	707	2,515	1,825	5,047	4,670	79	4,749	9,796	24,516
Total expenses before depreciation and amortization	5,906,601	16,044,561	1,493,159	2,510,040	25,954,361	3,378,200	165,209	3,543,409	29,497,770	28,486,404
Depreciation and amortization	-	744,014	96,857	52,220	893,091	91,398	373	91,771	984,862	983,006
	<u>\$ 5,906,601</u>	<u>\$ 16,788,575</u>	<u>\$ 1,590,016</u>	<u>\$ 2,562,260</u>	<u>\$ 26,847,452</u>	<u>\$ 3,469,598</u>	<u>\$ 165,582</u>	<u>\$ 3,635,180</u>	<u>\$ 30,482,632</u>	<u>\$ 29,469,410</u>
Percentage of total	<u>19.4%</u>	<u>55.1%</u>	<u>5.2%</u>	<u>8.4%</u>	<u>88.0%</u>	<u>11.5%</u>	<u>0.6%</u>	<u>12.0%</u>	<u>100.0%</u>	

See independent auditors' report and accompanying consolidated notes to the financial statements.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 721,055	\$ 1,585,827
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	984,862	983,006
Change in donated inventories	(48,196)	(137,146)
Net realized and unrealized (gains) losses on investments	(85,455)	(119,535)
Donated equipment	-	(13,550)
(Increase) decrease in assets:		
Accounts receivable	(80,607)	(153,697)
Grants receivable	(40,272)	155,485
Insurance settlement receivable	253,336	(253,336)
Purchased inventories	219,150	273,590
Prepaid expenses	79,395	(196,914)
Deposits	(18,462)	-
Increase (decrease) in liabilities:		
Accounts payable	(245,171)	(598,682)
Accrued payroll and benefits	98,931	(324,451)
Accrued worker's compensation reserve	(129,278)	(32,762)
Other accrued liabilities	57,258	(4,391)
Deferred revenue	(133,028)	145,942
Accrued pension costs	197,775	(572,430)
Deferred rent	(82,047)	(51,894)
Net cash provided by operating activities	1,749,246	685,062
Cash flows from investing activities:		
Purchases of equipment	(1,064,274)	(429,213)
Purchase of investments	(8,471)	(9,191)
Proceeds from sale of investments	41,744	40,065
Principal payments received on notes receivable	3,099	128
Net cash used for investing activities	(1,027,902)	(398,211)
Cash flow from financing activities:		
Principal payments on long-term debt	(79,562)	(37,539)
Repayments on line of credit, net	-	(105,827)
Principal payments on capital lease obligations	-	(140,217)
Net cash used for financing activities	(79,562)	(283,583)
Net increase in cash and cash equivalents	641,782	3,268
Cash and cash equivalents, beginning of year	48,644	45,376
Cash and cash equivalents, end of year	\$ 690,426	\$ 48,644

See independent auditors' report and accompanying consolidated notes to the financial statements.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Supplemental disclosures of cash flow information:

	<u>2010</u>	<u>2009</u>
Cash paid during the year for:		
Interest	<u>\$ 214,821</u>	<u>\$ 143,405</u>

Supplemental disclosures of noncash investing and financing activities:

During the year ended December 31, 2010, the Organization entered into a capital lease agreement in the amount of \$334,019 for the purchase of equipment.

During the year ended December 31, 2010, the Organization disposed of fully depreciated property and equipment with a cost of \$755,181.

During the year ended December 31, 2009, the Organization paid off its line of credit through the issuance of new debt in the amount of \$2,500,000.

During the year ended December 31, 2009, the Organization paid off previous capital lease obligations through the issuance of new debt in the amount of \$522,000.

See independent auditors' report and accompanying consolidated notes to the financial statements.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION

Goodwill Industries of Santa Clara County, Inc. dba Goodwill Industries of Silicon Valley (“Goodwill” or the “Organization”) is a California nonprofit public benefit corporation founded in 1926 and serves Santa Clara and San Benito Counties. The Organization’s mission is to assist people to overcome their multiple or severe barriers to employment by providing a wide range of educational and vocational training along with employment placement support. Goodwill Industries of Santa Clara County, Inc. is part of Goodwill Industries International, a federation of over 200 autonomous, community based Goodwill organizations worldwide. Taken together, they make up one of the largest social service organizations in the world, dedicated to serving their local communities.

NOTE B - PROGRAM SERVICES

Goodwill Industries of Santa Clara County, Inc. has been built on the tradition of self sufficiency-supporting their services to the communities with income generated from their business operations. In addition to the familiar stores and donation trailers, the Organization operates GoodSource, a contract service division. These operating divisions combined, provide the vast majority of the funding needed to support the educational and vocational trainings offered by the Organization’s award-winning Institute for Career Development. The Organization provides employment for more than 500 individuals.

GoodEx Services, Inc. (GES) was organized in October 2009 for the purpose of plant-based shredding service for businesses and government located in and around the Silicon Valley. GES is NISH certified and as such 75% of employees are required to be registered disabled. GES is a California nonprofit public benefit corporation.

Retail Programs - Perhaps the most familiar face of Goodwill, this division processes and sells donated used goods through 17 retail stores, provides employment opportunities and contributes the most to the financial needs to operate the training programs offered by the Institute for Career Development. Retail Programs employ approximately 250 individuals at 17 retail stores and 48 donation collection sites.

Production Programs - GoodSource: A reputable and reliable service provider for assembly and packaging services, the Contract Service division attracts a diverse client base ranging from small local businesses to well established Fortune 500 global companies. In addition to assembly and packaging services, GoodSource provides drop ship, turnkey warehousing and logistical solutions. In 2009 GoodSource entered into the carpet and mattress reclamation arena, benefiting the environment, creating jobs and contributing to the bottom line. With its keen customer focus, reliable service delivery and great flexibility, GoodSource has developed a loyal and long standing customer base and has become an “On Shore” alternative to keep jobs in the community, thus providing opportunities for people with multiple or severe barriers to employment.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE B - PROGRAM SERVICES (CONTINUED)

Vocational School Programs - Institute for Career Development (ICD): A robust environment coupled with a variety of program offerings make the Institute for Career Development the training facility of choice. ICD offers training that prepares people for jobs in customer service, administrative, accounting, retail, warehousing, manufacturing, landscaping and facilities maintenance.

The vocational school is a fully licensed private postsecondary school specializing in vocational training, on-the-job training, basic education, evaluation, and job placement for people with needs in a wide range of employment opportunities throughout the Bay Area. All courses taught are approved for the training of veterans under the Federal G.I. Bill and accredited by the Commission on Accreditation of Rehabilitation Facilities.

Youth Programs - The youth development programs offer at-risk youth an opportunity to improve the likelihood of receiving a High School Diploma and prevent drop-outs. The programs include academic enrichment such as tutoring, homework assistance and supplemental math, reading and writing classes. In addition, these programs also provide career exploration activities, life skills for independent living and cultural enrichment. These programs are all held on campus at nine different High Schools.

Homeless Veterans Reintegration Program - Services provided to this population include, job skills training, life skills training, networking, group and individual counseling, connection to housing, food and transportation, ending the cycle of homelessness. These services result in outcomes that move people to self-sufficiency through the obtainment of employment, transportation and housing.

NOTE C - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting. The consolidated financial statements include the accounts of the Organization and its related entity, GES. All inter-company balances and transactions have been eliminated.

Basis of Presentation - The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 (formerly Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*), the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes. The Organization has elected to report as an increase in unrestricted net assets any restricted support received in the current period for which the restrictions have been met in the current period.

Temporarily restricted net assets include those assets which are subject to donor purpose and/or time restriction and for which the applicable restriction was not met as of the year end of the current reporting period. There are currently no temporarily restricted net assets.

Permanently restricted net assets include those assets which are subject to a nonexpiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

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 estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Accounts, Grants Receivable and Allowance for Doubtful Accounts - Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or grants receivable. Changes in the valuation allowance have not been material to the financial statements. The allowance for doubtful accounts balance as of December 31, 2010 and 2009 was \$23,359 and \$23,332, respectively.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give - Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. All unconditional promises to give are receivable in less than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Inventories - Inventories, except for donated merchandise held for resale, are valued at the lower of cost (first-in, first-out) or market. Inventory costs of purchased goods include freight-in, assembly, and improvement costs, if any. Purchased inventory is valued based on physical counts.

Goods donated to Goodwill are valued at their estimated fair market value and recognized as support in the statements of activities. Donated merchandise remaining in inventory at year end is also recorded at their estimated fair market value. The estimated fair market value of the donated merchandise inventory is estimated as the retail-selling price of the donated inventory, less any retail processing and selling costs incurred by Goodwill. Donated merchandise inventory is not valued on an item-by-item basis but rather based on overall estimates of inventory turns. Donated automobiles are valued at estimated fair market value on a specific identification basis.

Land, Buildings and Equipment - Land, buildings and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$1,500 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the following estimated useful lives:

Buildings	20 to 30 years
Building Improvements	Remaining Life of Building
Leasehold Improvements	Shorter of Useful Life or Lease Term
Equipment	3 to 10 years

Depreciation is charged to the activity benefiting from the use of the buildings or equipment.

Collection of Antique Items - Goodwill has a collection of antique women's apparel which was donated to the Organization. The collection is used in the Organization's fashion fundraising events. Goodwill maintains the collection at the Organization's headquarters where it ensures that it is protected and preserved. The Organization capitalizes its collections. Donated collection items are recorded at fair value on the date of accession. Gains and losses on deaccessions of donated collection items, if any, are reflected in the statements of activities.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of December 31, 2010 and 2009, and is included in "accrued payroll and benefits" in the statements of financial position. The accrued vacation balance as of December 31, 2010 and 2009 was approximately \$325,000 and \$306,000, respectively.

Deferred Rent - As of December 31, 2010, eight retail stores and two attended donation stations are leased under operating leases expiring on various dates through 2026. These operating leases generally have fluctuating payments over the life of the lease. Accordingly, Goodwill has recorded the lease expense on a straight-line basis and has recorded the excess of the straight-line expense over the amount paid as deferred rent.

Defined Benefit Pension Plan - The Organization accounts for its defined benefit pension plan in accordance with ASC 715-10 (formerly SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*). ASC 715-10 requires an employer to recognize the funded status of the benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation, in the statements of financial position. ASC 715-10 also requires the immediate recognition of the unrecognized actuarial gains and losses.

The Organization froze the defined benefit pension plan as of March 31, 2009 (see Note L).

Revenue Recognition - The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

Contributions - Contributions are reported in accordance with ASC 958 (formerly SFAS No. 116, *Accounting for Contributions Received and Contributions Made*). Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal period. Temporarily restricted contributions are reported as increases in unrestricted net assets if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in temporarily restricted net assets. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions In-Kind - Non-Inventory - Contributions in-kind - non-inventory are recognized in accordance with the provisions of ASC 958 (formerly SFAS No. 116). Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. During the years ended December 31, 2010 and 2009, the Organization received free use of lots where attended donation stations are located. The Organization has valued the use of the lots at \$156,000. The contribution for the year ended December 31, 2010 was recorded to rent revenue. No recordation of in-kind revenue was made for the year ended December 31, 2009.

Expense Allocation - Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of salary expense, percentage of time spent on program by specific officer, headcount, revenue and/or square footage. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Advertising - The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expense for the years ended December 31, 2010 and 2009 were approximately \$139,000 and \$56,000, respectively.

Income Taxes - In June 2006, the FASB issued ASC 740-10 (formerly Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*, (FIN 48)). ASC 740-10 provides guidance on recognition and measurement of uncertainties in income taxes recognized in financial statements by prescribing a more-likely-than-not recognition threshold and measurement attribute of tax positions taken or expected to be taken on a tax return.

Goodwill Industries of Santa Clara County, Inc. and GoodEx Services Inc. are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (continued) - Effective January 1, 2009 the Organization implemented the new accounting requirements associated with uncertainty in income taxes using the provisions of FASB ASC 740-10. Accordingly, an entity shall initially recognize the financial statement effects of a tax position when it is more-likely-than not, based on the technical merits, that the position will be sustained upon examination. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2010, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Concentrations of Credit Risk - Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Organization maintains a majority of its cash in a business checking account and in bank deposit accounts that, at times, may exceed the federally insured limits. The Organization has not experienced any losses in such accounts. Risk associated with cash is mitigated by maintaining deposits at credit worthy financial institutions. Effective from October 3, 2008 through December 31, 2013, the federally insured limit increased to \$250,000 from \$100,000. Certain non-interest bearing accounts have unlimited coverage, effective from December 31, 2010, through December 31, 2012. The Organization did not have any cash balances in excess of the federally insured limit as of December 31, 2010 and 2009.

NOTE D - INVESTMENTS

In 2003, the Board of Directors approved the transfer of certain investments to Silicon Valley Community Foundation (SVCF), a California nonprofit benefit corporation, to manage, hold in trust and invest certain assets of Goodwill, for public, educational and charitable purposes. The fund is known as the "The Goodwill Foundation Trust". According to the agreement, SVCF shall hold, manage, invest, and reinvest in the fund, shall collect the income, and shall pay and disburse amounts to the Organization in accordance with the policies of the SVCF upon the request of the Organization.

The SVCF shall at all times act as the agent and trustee of Goodwill for the investment and management purpose, and so long as the Organization has an IRS charitable tax exemption, Goodwill's Board of Directors may direct the expenditure of any or all of the principal or income from the fund. The principal and accumulated income and interest at all times shall be owned by Goodwill.

The Organization participates in SVCF's Long-Term Investment Pool which is invested in 75% equities and 25% fixed income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE D - INVESTMENTS (CONTINUED)

In accordance with ASC 820-10 all of the following investments are classified as Level 2 investments (see Note M).

The market value of investments as of December 31, consisted of the following:

	2010	2009
Investments held and managed by SVCF	\$ 784,339	\$ 732,157

Investment income for the years ended December 31, consisted of the following:

	2010	2009
Interest and dividends	\$ 8,471	\$ 9,190
Net realized and unrealized gains on investments	85,455	119,535
Total investment income	\$ 93,926	\$ 128,725

NOTE E - INVENTORIES

The estimated fair value of contributed goods received for the years ended December 31, 2010 and 2009 was \$5,920,267 and \$5,629,832, respectively. The estimated fair value of donated goods sold for the years ended December 31, 2010 and 2009 was \$5,866,868 and \$5,507,137, respectively.

Inventories as of December 31, consisted of the following:

	2010	2009
Donated merchandise inventories	\$ 721,071	\$ 667,672
Purchased merchandise inventories	194,286	413,437
Donated automobile inventories	2,248	7,450
	\$ 917,605	\$ 1,088,559

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NOTE F - LAND, BUILDINGS AND EQUIPMENT

The cost and related accumulated depreciation and amortization of land, buildings and equipment as of December 31, consisted of the following:

	2010	2009
Land and buildings	\$20,226,953	\$20,050,185
Leasehold improvements	2,350,645	2,115,714
Equipment	5,057,662	4,856,464
	27,635,260	27,022,363
Less: accumulated depreciation and amortization	(14,239,950)	(14,040,484)
	\$13,395,310	\$12,981,879

NOTE G - MARKET VALUE OF LAND AND BUILDINGS

The Organization owns the land and buildings of several of their retail stores, as well as the land and building of their headquarters. Land and buildings are recorded at cost at date of acquisition and the buildings are depreciated over their estimated useful lives. Throughout the years, the Organization has had several appraisals performed for their retail stores and headquarters. The most recent appraisals for the stores ranging from June 2006 to October 2008 were performed by Smith and Associates, Inc. The headquarters were appraised in April 2009 by The Property Sciences Group Inc.

Market value as of December 31, 2010 as estimated by management based on the above listed appraisals and adjusted down for the recent drop in real estate value where applicable consisted of the following:

	Market Value Estimate	Net Book Value	Market Value Estimate in Excess of Net Book Value
Retail Stores (8 locations)	\$ 24,710,000	\$7,187,267	\$ 17,522,733
San Jose Headquarters - 1080 North Seventh Street	19,600,000	2,592,680	17,007,320
	\$ 44,310,000	\$9,779,947	\$ 34,530,053

Based on the above market value estimate versus net book value comparison schedule, the Organization's market value estimate as of December 31, 2010 exceeds its net book value by \$34,530,053.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE H - LINE OF CREDIT

During the year ended December 31, 2009 the Organization entered into loan agreements (see Note J) and a line of credit agreement with Heritage Bank of Commerce. The Organization's \$740,000 line of credit with Heritage Bank of Commerce is secured by real property owned in San Jose, California and bears interest at prime plus 1% with a floor rate of 5%. The purpose of the line of credit is for short-term working capital. As of December 31, 2009 there was no outstanding balance on the line of credit. The line of credit expired during the year ended December 31, 2010.

NOTE I - AUTOMATED CLEARING HOUSE FACILITY LOAN

During the year ended December 31, 2009 the Organization entered into an Automated Clearing House (ACH) facility loan with Heritage Bank of Commerce. The Organization's new \$500,000 ACH facility loan is secured by real property owned in San Jose, California and the term is 12 months from documentation. The purpose of the loan is for processing payroll and tax payments. As of December 31, 2009 there was no outstanding balance on the loan. The ACH facility expired during the year ended December 31, 2010.

NOTE J - LONG-TERM DEBT

As of December 31, 2010 long-term debt consisted of the following:

Commercial mini-perm loan from Heritage Bank of Commerce used to pay off the Organization's previous line of credit with Comerica Bank. Bears interest at 6.5% and has a five-year term. Monthly payments of principal and interest of \$17,021 commencing November 19, 2009. Balloon payment of \$2,279,363 due October 19, 2014, secured by a first deed of trust on 1080 and 950 North Seventh Street, San Jose, California	\$ 2,448,432
Commercial term loan from Heritage Bank of Commerce used to pay off the Organization's previous capital lease obligations. Bears interest at prime plus 1.5% with a floor rate of 5.5% and has a three-year term. Monthly payments of principal and interest of \$15,780 commencing November 19, 2009, secured by a first deed of trust on 1080 and 950 North Seventh Street, San Jose, California	328,616

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE J - LONG-TERM DEBT (CONTINUED)

Commercial term loan from NISH Corporation. The loan is interest free and has a five-year term. Initial down payment of \$10,000 and quarterly payments of principal and interest of \$5,000 thereafter commencing September 30, 2010, secured by inventories and equipment 75,297

Commercial term loan from NISH Corporation. The loan is interest free and has a three-year term. Initial down payment of \$12,500 and quarterly payments of principal and interest of \$6,250 thereafter commencing September 30, 2010, secured by inventories and equipment 52,554

2,904,899

Less current portion (258,438)

\$ 2,646,461

The Heritage Bank of Commerce loan agreements include restrictive covenants requiring the loan-to-value to be no greater than 33% aggregated between all facilities and that the Organization's prime banking relationship remain with Heritage Bank of Commerce.

The Organization recorded in-kind interest expense related to the NISH Corporation notes at a rate of 5.5% per annum. In-kind revenue and interest expense was recorded in the statement of activities in the amount of \$19,617 during the year ended December 31, 2010.

Future minimum principal payments are as follows:

Year ending December 31,	
2011	\$ 258,438
2012	240,822
2013	74,619
2014	2,326,089
2015	<u>4,931</u>
	<u>\$ 2,904,899</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE K - COMMITMENTS AND CONTINGENCIES

Non-Cancelable Operating Lease Obligations - Goodwill leases eight retail stores, two attended donation stations and equipment under non-cancelable operating lease agreements expiring on various dates through 2026. The leases for two of the retail stores contain an option to extend through 2026. Goodwill subleased two other locations and receives rental income for those leases. The net minimum future payments under non-cancelable operating lease obligations, net of subleases are as follows:

Year ending December 31,	
2011	\$ 1,714,042
2012	1,762,881
2013	1,674,166
2014	1,499,032
2015	1,295,551
Thereafter	4,896,897
	\$ 12,842,569

Rent expense under the operating leases for the years ended December 31, 2010 and 2009 was \$1,553,401 and \$1,418,179, respectively.

Capital Lease Obligation - During the year ended December 31, 2010 Goodwill leased a piece of equipment under a capital lease obligation. A summary of the future capital lease obligation at present value is as follows:

Year ending December 31,	
2011	\$ 77,720
2012	77,720
2013	77,720
2014	77,720
2015	77,718
Total minimum lease payments	388,598
Less amount representing interest	(54,579)
Present value of net minimum lease payments	334,019
Less current portion	(60,078)
	\$ 273,941

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DECEMBER 31, 2010 AND 2009

NOTE K - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Land, buildings and equipment includes equipment with cost of \$334,019 purchased under the capital lease at December 31, 2010. No depreciation expense has been recorded related to this equipment as of December 31, 2010.

Lease Guarantees for Goodwill of Southern Nevada, Inc. - In November 2003, the Organization agreed to guarantee the lease payments for a Goodwill of Southern Nevada, Inc. facility for five years with a five-year option to extend the lease. The lease was extended in 2008. The Organization is not directly responsible for making the monthly lease payments of \$10,181 for the facility, but in the event of default by Goodwill of Southern Nevada, Inc., the Organization may be joined in any action against Goodwill of Southern Nevada, Inc. related to the lease and may be responsible for any claims. The remaining monetary exposure as of December 31, 2010 is \$346,137. The recourse maintained by Goodwill of Santa Clara County, Inc., if it were to be forced into paying for the remaining scheduled payments, would be to absorb Goodwill of Southern Nevada, Inc. as part of their operations. Management believes the likelihood of this occurring is remote.

In August 2002, the Organization agreed to guarantee the lease payments for a Goodwill of Southern Nevada, Inc. facility with a one-year rolling guarantee. The Organization is not directly responsible for making the monthly lease payments of \$12,690 for the facility, but in the event of default by Goodwill of Southern Nevada, Inc., the Organization may be joined in any action against Goodwill of Southern Nevada, Inc. related to the lease and may be responsible for any claims. The remaining monetary exposure as of December 31, 2010 is \$558,360. The recourse maintained by Goodwill of Santa Clara County, Inc., if it were to be forced into paying for the remaining scheduled payments, would be to absorb Goodwill of Southern Nevada, Inc. as part of their operations. Management believes the likelihood of this occurring is remote.

Unemployment Benefits - Goodwill is self-insured for unemployment benefits given to former employees. Management has estimated the amount of benefits expected to be paid by Goodwill subsequent to December 31, 2010, with respect to claims related to 2010 and prior years. The amount accrued for unemployment benefits at December 31, 2010 and 2009 was \$45,541 and \$21,731, respectively. These amounts are included in "accrued payroll and benefits" in the accompanying statements of financial position.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE K - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Workers Compensation - Goodwill was previously self-insured for workers compensation claims. The Organization purchased workers compensation insurance effective June 2, 2006. As of December 31, 2009 two workers compensation claims that existed as of June 1, 2006 had not been settled. Management recorded an estimated liability for the amount of the claims expected to be paid based on estimates provided by attorneys who are working on the claims. The amount accrued for workers compensation claims at December 31, 2009 is \$129,278. This amount is included in "accrued workers compensation reserve" in the accompanying statements of financial position. The cases were settled in 2010 in the amount of \$90,425.

NOTE L - RETIREMENT PLANS

Goodwill has a defined benefit pension plan, which provides benefits to salaried exempt and salaried nonexempt employees. The Organization froze the defined benefit pension plan as of March 31, 2009. In addition, the Organization maintains a 403(b) deferred savings plan whereby employees may defer pre-tax earnings up to the IRS established limits.

Defined Benefit Pension Plan - Benefits provided are based on years of service and final compensation as defined in the provisions of the Plan. Contributions are intended to provide benefits attributed to service to the date the plan was frozen. Plan assets consist primarily of equity securities, bonds and annuities, mutual funds and a money market fund.

The Organization accounts for its defined benefit pension plan in accordance with ASC 715-10 (formerly SFAS No. 158). ASC 715-10 requires an employer to recognize the funded status of benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation, in the statements of financial position. ASC 715-10 also requires the immediate recognition of the unrecognized actuarial gains and losses. The Plan was amended as of March 31, 2009 to cease benefit accruals. The effect was to freeze benefit accruals at the January 1, 2009 level. This resulted in curtailment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE L - RETIREMENT PLAN (CONTINUED)

Curtailment valued as of January 1, 2009 due to elimination of future plan accruals:

	<u>Before Curtailment</u>	<u>Effect of Curtailment</u>	<u>After Curtailment</u>
Accumulated benefit obligation	\$ 3,281,185	\$ -	\$ 3,281,185
Effect of future compensation levels	<u>492,087</u>	<u>(492,087)</u>	<u>-</u>
Projected benefit obligation	3,773,272	(492,087)	3,281,185
Plan assets at fair value	<u>(1,777,317)</u>	<u>-</u>	<u>(1,777,317)</u>
Funded status and recognized assets (liability)	1,995,955	(492,087)	1,503,868
Amounts not yet recognized in net periodic pension cost:			
Transition assets			
Prior service cost			
Cumulative loss (gain)	<u>1,684,964</u>	<u>(492,087)</u>	<u>1,192,877</u>
Total loss (gain)	<u>\$ 1,684,964</u>	<u>\$ (492,087)</u>	<u>\$ 1,192,877</u>

Change in net pension costs:

	<u>Before Curtailment</u>	<u>Effect of Curtailment</u>	<u>After Curtailment</u>
Service cost:	\$ 407,260	\$ (407,260)	\$ -
Interest cost	244,034	(31,986)	212,048
Expected return on assets	(132,432)	-	(132,432)
Net amortization	<u>186,805</u>	<u>(63,268)</u>	<u>123,537</u>
Total	<u>\$ 705,667</u>	<u>\$ (502,514)</u>	<u>\$ 203,153</u>

Based on an actuarial study performed by Hayashi & Wayland, net pension cost as of December 31, included the following components:

	<u>2010</u>	<u>2009</u>
Interest cost	\$ 203,359	\$ 212,048
Expected return on assets	(154,764)	(132,432)
Net amortization and deferral	<u>85,416</u>	<u>123,537</u>
Net pension cost	<u>\$ 134,011</u>	<u>\$ 203,153</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE L - RETIREMENT PLAN (CONTINUED)

These net pension costs are included in "employee benefits" in the accompanying statements of functional expenses.

The unrecognized cumulative (gain) loss at December 31, was as follows:

	<u>2010</u>	<u>2009</u>
Actuarial (gain) loss on obligations	\$ 252,240	\$ 441,802
Actuarial (gain) loss on plan assets	82,773	(334,784)
Actuarial (gain) loss	<u>335,013</u>	<u>107,018</u>
Effect of curtailment at January 1	-	(492,087)
Unrecognized cumulative (gain) loss at January 1	962,104	1,470,710
Cumulative gain (loss) recognized in net pension cost	<u>(85,416)</u>	<u>(123,537)</u>
Unrecognized cumulative (gain) loss at December 31	<u><u>\$ 1,211,701</u></u>	<u><u>\$ 962,104</u></u>

Based on an actuarial study performed by Hayashi & Wayland, pension plan obligations and funded status of the Plan as of December 31, was as follows:

Change in benefit obligation:

Projected benefit obligation (PBO) at end of year	<u><u>\$ 3,668,732</u></u>	<u><u>\$ 3,346,187</u></u>
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Change in plan assets:

Fair value of plan assets at beginning of year	\$ 2,136,916	\$ 1,777,317
Actual return on plan assets (pension plan investment income)	89,575	467,216
Annuity purchases	-	(48,388)
Employer contribution	185,833	266,977
Benefits paid	(132,375)	(324,378)
Investment advisory fees	(17,586)	-
Other	<u>(677)</u>	<u>(1,828)</u>
Fair value of plan assets at end of year	<u><u>2,261,686</u></u>	<u><u>2,136,916</u></u>
Funded status	<u><u>\$(1,407,046)</u></u>	<u><u>\$ (1,209,271)</u></u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE L - RETIREMENT PLAN (CONTINUED)

Amounts recognized in the statements of financial position at December 31, consist of the following:

	<u>2010</u>	<u>2009</u>
Accrued pension costs	<u>\$ 1,407,046</u>	<u>\$ 1,209,271</u>
<u>Weighted average assumptions used to measure benefit obligations at December 31:</u>		
Discount rate (pre-retirement/post retirement)	% 5.75	% 6.00
Expected annual rate of compensation increase	% -	% -
Expected annual rate of increase in compensation and benefit limits	% -	% -
Pre-retirement mortality	None	None
Post-retirement mortality	94 GAR 50/50	94 GAR 50/50

Weighted average assumptions used to determine net periodic pension cost at December 31:

Discount rate (pre-retirement/post retirement)	% 6.00	% 6.50
Long-term expected rate of return on plan assets	% 7.00	% 7.00
Expected annual rate of compensation increase	% -	% -
Expected annual rate of increase in compensation and benefit limits	% -	% -
Post-retirement mortality	94 GAR 50/50	94 GAR 50/50

The Plan's assumed long-term rate of return of 7.0% is based primarily on the expected returns of asset classes weighted for asset allocation. In addition, historical rates of return on asset classes are compared with the Plan's historical yield.

The Organization's investment goals state that plan assets are to be invested in a balanced portfolio that allows sustained growth without material losses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE L - RETIREMENT PLAN (CONTINUED)

In accordance with ASC 820-10 all of the following pension plan assets are classified as Level 1 investments (see Note M). The fair values of the Organization's pension plan assets at December 31, by asset category are as follows:

<u>Asset category:</u>	<u>2010</u>	<u>2009</u>
Cash	\$ 194,456	\$ 28,187
Bonds/annuities	638,306	-
Pooled/mutual funds	182,774	1,229,426
Stocks	1,048,486	888,463
Gov't securities	197,664	-
Other	-	1,823
Liabilities	-	(10,983)
	<u>\$ 2,261,686</u>	<u>\$ 2,136,916</u>
Total plan assets allocation		
 <u>Plan assets allocation:</u>		
Cash	8.6%	1.3%
Bonds/annuities	28.2%	-
Pooled/mutual funds	8.1%	57.2%
Stocks	46.4%	41.4%
Gov't securities	8.7%	-
Other	-	0.1%
	<u>100.0%</u>	<u>100.0%</u>
Total plan assets allocation		

Estimated future benefit payments through 2020:

Year ending December 31,	
2011	\$ 700,513
2012	410,995
2013	406,340
2014	199,590
2015	195,619
Years 2016-2020	1,290,923

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE L - RETIREMENT PLAN (CONTINUED)

403(b) Retirement Plan - The Organization sponsors a 403(b) plan for all permanent Organization employees. Under the provisions of the plan, participating employees may make voluntary contributions through salary deductions up to the maximum amount allowed by law. During the years ended December 31, 2010 and 2009, no matching contributions were made by the Organization.

NOTE M - FAIR VALUE MEASUREMENTS

ASC 820-10, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE M - FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010:

Investments: Valued based on quoted prices in active markets for identical assets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 784,339	\$ -	\$ -	\$ 784,339

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 732,157	\$ -	\$ -	\$ 732,157

NOTE N - SUBSEQUENT EVENTS

Effective for financial periods ending after June 15, 2009, ASC 855-10, *Subsequent Measurement*, requires additional disclosure for events or transactions that occur after the balance sheet date. The Organization has no subsequent event as of April 25, 2011. The Organization has not evaluated subsequent events after this date in the statements presented.

SECTION II
SUPPLEMENTARY INFORMATION

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
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SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2010

	Federal CFDA Number	Pass-through Grantor's Number/ Grant Number	Grant Period/Period In Current Fiscal Year	Award Amount	Revenue	Expenditures
<u>FEDERAL ASSISTANCE</u>						
<u>U.S. Department of Labor</u>						
Direct program:						
Homeless Veterans Reintegration Project	17.805	HV-16399-07-60-5-6	7/1/08 - 6/30/09	\$ 299,814	\$ 6,572	\$ 6,572
Homeless Veterans Reintegration Project	17.805	HV-16399-08-60-5-6	7/1/09 - 6/30/10	299,814	135,512	135,512
Homeless Veterans Reintegration Project	17.805	HV-20690-10-60-5-6	7/1/10 - 6/30/11	300,000	112,562	112,562
Total U.S. Department of Labor				<u>899,628</u>	<u>254,645</u>	<u>254,645</u>
<u>U.S. Department of Education</u>						
Direct program:						
Rehabilitation Services - Service Projects	84.128	H128J060072-08	10/1/08 - 9/30/10	74,280	36,299	36,299
Twenty-First Century Community Learning Centers:						
Pass through:						
State of California Department of Education	84.287	08-14535-V927-6A	7/1/09 - 12/31/10	249,730	212,062	212,062
	84.287	09-14535-V927-6A	7/1/10 - 12/31/11	249,730	105,604	105,604
	84.287	09-14535-V927-6B	7/1/09 - 12/31/10	242,473	170,537	170,537
	84.287	09-14535-V927-6B	7/1/10 - 12/31/11	242,473	56,859	56,859
	84.287	09-14604-V927-6B	7/1/09 - 12/31/10	19,870	19,459	19,459
	84.287	09-14604-V927-6B	7/1/10 - 12/31/11	19,870	19,399	19,399
Total U.S. Department of Education				<u>1,024,146</u>	<u>583,920</u>	<u>583,920</u>
Total federal assistance				1,998,054	874,864	874,864
<u>NON-FEDERAL ASSISTANCE</u>						
<u>Others</u>						
City of San Jose - HNVF Program	N/A	N/A	7/1/09 - 6/30/10	76,062	49,491	49,491
City of San Jose - HNVF Program	N/A	N/A	7/1/10 - 6/30/11	127,462	52,068	52,068
City of San Jose - Recycling Diversion Support Services	N/A	N/A	7/1/10 - 6/30/11	356,176	280,767	280,767
Total others				<u>559,700</u>	<u>382,326</u>	<u>382,326</u>
Total non-federal assistance				<u>559,700</u>	<u>382,326</u>	<u>382,326</u>
Total governmental assistance				<u>\$ 2,557,754</u>	<u>\$ 1,257,190</u>	<u>\$ 1,257,190</u>

See accompanying independent auditors' report and schedule of expenditures
of federal and other governmental awards.

**GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL
AND OTHER GOVERNMENTAL AWARDS**

DECEMBER 31, 2010 AND 2009

NOTE A - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal and other governmental awards includes the federal and other governmental grant activity of Goodwill Industries of Santa Clara County, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SECTION III

REPORTS



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Goodwill Industries of Santa Clara County, Inc.
Santa Clara, California

We have audited the financial statements of Goodwill Industries of Santa Clara County, Inc. as of and for the year ended December 31, 2010, and have issued our report thereon dated April 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Goodwill Industries of Santa Clara County Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Goodwill Industries of Santa Clara County Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Goodwill Industries of Santa Clara County Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Directors
Goodwill Industries of Santa Clara County, Inc.

We noted certain matters that we reported to management of Goodwill Industries of Santa Clara County Inc. in a separate letter dated April 25, 2011.

This report is intended solely for the information and use of management, the audit committee, the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Petrinovich Pugh & Co, LLP

Petrinovich Pugh & Company, LLP

San Jose, California
April 25, 2011



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Goodwill Industries of Santa Clara County, Inc.
Santa Clara, California

Compliance

We have audited Goodwill Industries of Santa Clara County, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Goodwill Industries of Santa Clara County, Inc.'s major federal programs for the year ended December 31, 2010. Goodwill Industries of Santa Clara County, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Goodwill Industries of Santa Clara County, Inc.'s management. Our responsibility is to express an opinion on Goodwill Industries of Santa Clara County, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Goodwill Industries of Santa Clara County, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Goodwill Industries of Santa Clara County, Inc.'s compliance with those requirements.

In our opinion, Goodwill Industries of Santa Clara County, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of Goodwill Industries of Santa Clara County, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Goodwill Industries of Santa Clara County, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Goodwill Industries of Santa Clara County, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a

Board of Directors
Goodwill Industries of Santa Clara County, Inc.

deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Petrinovich Pugh & Company, LLP

San Jose, California
April 25, 2011

SECTION IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2010

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of Goodwill Industries of Santa Clara County, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Goodwill Industries of Santa Clara County, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Goodwill Industries of Santa Clara County, Inc. expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relating to major programs that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as a major programs included: Twenty-First Century Community Learning Centers - CFDA 84.287, Grant No. 08-14535-V927-6, 09-14535-V927-6A, 09-14535-V927-6B, and 09-14604-V927-6B.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Goodwill Industries of Santa Clara County, Inc. qualified as a low-risk auditee.

FINDINGS - CONSOLIDATED FINANCIAL STATEMENTS AUDIT:

NONE

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:

U.S. DEPARTMENT OF EDUCATION

Name of Program - Twenty-First Century Community Learning Centers

CFDA No. - 84.287

Grant No. - 08-14535-V927-6, 09-14535-V927-6A, 09-14535-V927-6B, and 09-14604-V927-6B

Grant Period - 7/1/09 - 12/31/11

Findings - None

**GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.
(A California Nonprofit Public Benefit Corporation)**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2010

NONE