

**GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES**

FINANCIAL STATEMENTS

DECEMBER 31, 2009

With Comparative Totals for the Year Ended

DECEMBER 31, 2008

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
DECEMBER 31, 2009

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Goodwill Industries of Santa Cruz, Monterey
and San Luis Obispo Counties

We have audited the accompanying Statement of Financial Position of Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties (a not-for-profit Corporation) as of December 31, 2009, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2008 financial statements and, in our report dated May 22, 2009, we expressed an unqualified opinion on those financial 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 Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 8, 2010, on our consideration of Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties' internal control over financial reporting and on our tests 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 considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic Financial Statements of Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties taken as a whole. The accompanying Schedule of expenditures of federal awards is presented for the 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.



Walters and Kondrasheff
Certified Public Accountants

Santa Cruz, California
September 8, 2010

**GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES**
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash and Cash Equivalents	\$ 4,000,476	\$ 2,515,568
Certificates of Deposit, at Cost	2,947,680	4,647,114
Accounts Receivable, Trade, Net of Allowance for Doubtful Accounts of \$8,394 in 2009 and \$10,317 in 2008	975,973	513,684
Prepaid Expenses	326,085	400,227
New Goods Inventory, at Lower of Cost (First-In, First-Out Method) or Market	39,067	38,578
Donated Goods Inventory (Note 1)	483,640	393,917
Total Current Assets	<u>8,772,921</u>	<u>8,509,088</u>
Property and Equipment, at Cost:		
Land	2,889,841	2,779,841
Building and Improvements	8,177,056	7,898,728
Equipment and Vehicles	5,130,503	4,239,002
	<u>16,197,400</u>	<u>14,917,571</u>
Less Accumulated Depreciation	<u>(6,946,592)</u>	<u>(6,478,389)</u>
Total Property and Equipment	<u>9,250,808</u>	<u>8,439,182</u>
Other Assets:		
Investments (Note 6)	340,225	323,941
Beneficial Interest in Assets Held by Community Foundations (Note 6)	18,479	15,514
Deposits	80,967	67,127
Total Other Assets	<u>439,671</u>	<u>406,582</u>
Total Assets	<u>\$ 18,463,400</u>	<u>\$ 17,354,852</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable, Trade	\$ 383,614	\$ 348,021
Accrued Compensation and Payroll Taxes	213,448	130,318
Accrued Vacation	266,219	283,678
Accrued Interest	2,055	4,828
Deferred Revenue	29,710	15,500
Other Accrued Expenses	131,421	179,524
Total Current Liabilities	1,026,467	961,869
Long-Term Liabilities:		
Tenant Deposits	17,430	20,155
Note Payable	4,500,000	4,500,000
Total Liabilities	<u>5,543,897</u>	<u>5,482,024</u>
NET ASSETS		
Unrestricted	12,055,888	10,979,774
Temporarily Restricted (Note 4)	785,661	815,100
Permanently Restricted (Note 5)	77,954	77,954
Total Net Assets	<u>12,919,503</u>	<u>11,872,828</u>
Total Liabilities and Net Assets	<u>\$ 18,463,400</u>	<u>\$ 17,354,852</u>

See Accompanying Notes to Financial Statements.

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2008 Total
SUPPORT AND REVENUE					
Public Support:					
Donations	\$ 132,975	\$ -	\$ -	\$ 132,975	\$ 134,056
Grants	2,049,419	-	-	2,049,419	1,271,959
Bequests Revenue	13,113	-	-	13,113	727
Donated Goods	3,958,830	-	-	3,958,830	3,136,250
Net Assets Released From Restrictions	29,439	(29,439)	-	-	-
Total Public Support	<u>6,183,776</u>	<u>(29,439)</u>	<u>-</u>	<u>6,154,337</u>	<u>4,542,992</u>
Revenue:					
Sales	8,546,179	-	-	8,546,179	8,949,441
Contract Labor and Training	496,841	-	-	496,841	576,954
Rental Income	1,282,984	-	-	1,282,984	1,274,088
Interest Income	136,510	-	-	136,510	212,960
Unrealized Gain (Loss) on Investments	65,979	-	-	65,979	(143,823)
Dividend Income	3,349	-	-	3,349	4,051
Realized Gain (Loss) on Investments	(5,601)	-	-	(5,601)	(797)
Gain (Loss) on Disposal of Assets	(3,801)	-	-	(3,801)	(1,980)
Student Supplies Revenue	92,158	-	-	92,158	112,856
Other Income	20,144	-	-	20,144	9,264
Total Revenue	<u>10,634,742</u>	<u>-</u>	<u>-</u>	<u>10,634,742</u>	<u>10,993,014</u>
Total Public Support and Revenue	<u>16,818,518</u>	<u>(29,439)</u>	<u>-</u>	<u>16,789,079</u>	<u>15,536,006</u>
EXPENSES					
Program Services	13,768,010	-	-	13,768,010	13,145,560
Supporting Services	1,963,227	-	-	1,963,227	2,009,316
Fundraising	11,167	-	-	11,167	13,498
Total Expenses	<u>15,742,404</u>	<u>-</u>	<u>-</u>	<u>15,742,404</u>	<u>15,168,374</u>
Increase (Decrease) in Net Assets	1,076,114	(29,439)	-	1,046,675	367,632
Net Assets, beginning of year	<u>10,979,774</u>	<u>815,100</u>	<u>77,954</u>	<u>11,872,828</u>	<u>11,505,196</u>
Net Assets, end of year	<u>\$ 12,055,888</u>	<u>\$ 785,661</u>	<u>\$ 77,954</u>	<u>\$ 12,919,503</u>	<u>\$ 11,872,828</u>

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2008

	Program Services	Supporting Services	Fundraising	Total	2008 Total
Salaries and Wages	\$ 7,756,990	\$ 791,937	\$ 9,436	\$ 8,558,363	\$ 8,144,717
Payroll Taxes	674,786	66,072	878	741,736	671,358
Employee Benefits	880,173	76,880	-	957,053	988,672
Workers' Compensation	274,830	9,767	64	284,661	322,713
Professional and Consulting Fees	27,664	82,715	-	110,379	94,645
Bad Debt Expense	-	31,068	-	31,068	8,449
Depreciation and Amortization	412,710	165,756	-	578,466	536,463
Building Repairs and Maintenance	163,574	120,367	-	283,941	294,623
Insurance	156,351	19,713	-	176,064	199,558
Supplies	280,219	115,910	-	396,129	415,900
Student Text Books and Supplies	303,494	-	-	303,494	165,714
Transportation and Auto Expense	213,259	4,515	-	217,774	286,196
New Goods for Sale	278,565	-	-	278,565	313,796
Permits and Licenses	117,517	39,072	-	156,589	155,554
Small Tools	31,514	4,239	-	35,753	39,277
Rent-Occupancy and Equipment	1,236,417	11,274	-	1,247,691	1,121,324
Dues and Subscriptions	2,767	125,435	370	128,572	121,664
Seminars and Education	6,664	3,220	-	9,884	8,729
Advertising	210,293	12,007	419	222,719	229,999
Telephone	149,549	28,716	-	178,265	135,079
Utilities	431,223	122,240	-	553,463	572,729
Other	159,451	132,324	-	291,775	341,215
Totals	<u>\$ 13,768,010</u>	<u>\$ 1,963,227</u>	<u>\$ 11,167</u>	<u>\$ 15,742,404</u>	<u>\$ 15,168,374</u>

**GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2009</u>	<u>2008</u>
Increase in Net Assets	\$ 1,046,675	\$ 367,632
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	578,466	536,463
Loss on Disposal of Fixed Assets	3,801	1,980
Unrealized (Gains) Losses on Investments	(65,979)	143,823
(Increase) Decrease in:		
Accounts Receivable, Trade	(462,289)	(116,922)
New Goods Inventory	(489)	(7,135)
Donated Goods Inventory	(89,723)	15,086
Prepaid Expenses	74,142	(139,858)
Deposits	(13,840)	(1,845)
Increase (Decrease) in:		
Accounts Payable, Trade	35,593	39,454
Accrued Compensation	83,130	(208,354)
Accrued Vacation	(17,459)	86,204
Accrued Interest	(2,773)	4,828
Deferred Revenue	14,210	(15,959)
Other Accrued Expenses	(48,103)	(10,564)
Tenant Deposits	(2,725)	(2,850)
Net Cash Provided by Operating Activities	<u>1,132,637</u>	<u>691,983</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchased and Renewed Certificates of Deposits	1,699,434	(1,543,302)
Net Sales (Purchases) of Investments	(46,730)	2,354
Proceeds from Disposition of Property and Equipment	110,911	3,020
Purchases of Property and Equipment	<u>(1,411,344)</u>	<u>(561,449)</u>
Net Cash Used by Investing Activities	<u>352,271</u>	<u>(2,099,377)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on Line of Credit		(3,539,537)
Proceeds on Long-Term Debt	<u>-</u>	<u>4,500,000</u>
Net Cash Provided by Financing Activities	<u>-</u>	<u>960,463</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,484,908	(446,931)
Cash and Cash Equivalents, Beginning of Year	<u>2,515,568</u>	<u>2,962,499</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,000,476</u>	<u>\$ 2,515,568</u>
 SUPPLEMENTAL DISCLOSURES		
Interest Paid	<u>\$ 83,283</u>	<u>\$ 150,115</u>

See Accompanying Notes to Financial Statements.

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization:

Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties, is a not-for-profit corporation organized for the purpose of providing gainful employment and vocational rehabilitation services for disabled and disadvantaged individuals with barriers to employment. The major sources of revenue consist of contract work, grants, sales of donated clothing and furniture, cash donations, and sale of donated scrap.

Accounting Policies:

The accounting policies relative to the carrying values of certificates of deposit, accounts receivable, new goods inventory, and property and equipment are indicated on the statement of financial position. Other significant accounting policies are:

Comparative Financial Information:

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2008, from which the summarized information was derived. During the current year, a reclassification between cash and certificates of deposit was made. The 2008 comparative totals were not changed in order to keep the continuity to amounts previously reported on the prior year issued statements.

Method of Accounting:

The financial statements of the Organization have been prepared utilizing the accrual basis of accounting.

Financial Statement Presentation:

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, as applicable. Within temporarily restricted net assets, amounts are reclassified to unrestricted net assets when restrictions expire.

Use of Estimates:

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities. 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.

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalization and Depreciation:

In general, items purchased with a cost over \$1,000 are capitalized. Additionally, a multiple of similar items with individual cost less than \$1,000 are considered by management to be a project, therefore, they are capitalized as a single asset. The straight-line method of depreciation is used over the estimated useful lives of the depreciable assets:

Vehicles and equipment	3-10 years
Buildings and improvements	20-40 years

Donated Goods:

Contributions of donated goods are recognized as revenue when received. For the year ended December 31, 2009, the Organization recognized donations of contributed merchandise with a fair value of \$3,958,830. Individuals with disabilities and other barriers to employment process the merchandise before it is available to be placed at a point of sale. The fair value of the donated goods inventory is calculated using the estimated resale value less the cost of collections, transportation and processing of the goods, and is used to determine the cost of goods sold.

Advertising:

The Organization uses advertising to promote its programs and stores. The production costs of advertising are expensed as incurred. During 2009, advertising costs totaled \$222,719.

Income Tax Status:

The Organization is exempt from Federal Income Tax under Section (501)(c)(3) of the Internal Revenue Code, and from California Franchise Tax under Section 23701(d) of the Revenue and Taxation Code.

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2 COMMITMENTS AND LONG-TERM LEASES

The Organization leases twelve of its locations. All lease agreements are operating leases. The monthly lease payments for most locations are subject to adjustments for the changes in the Bay Area Consumer Price Index and to adjustments for increases in common area maintenance expenses. Total rental expense for 2009 was \$1,187,670. Details of the individual leases are as follows:

Location	Expiration	Minimum Monthly Rental
Cosmetology School	8/31/10	\$ 8,462
Monterey Store	12/01/10	6,857
Salinas Store	9/31/11	23,103
San Luis Obispo – Higuera St.	3/13/13	6,604
Atascadero Store	4/27/13	7,542
Grover City Store	5/10/11	9,078
Paso Robles-Park St.	9/30/11	7,174
Scotts Valley Store	2/28/09	8,095
Flea Market	3/31/10	12,417
Santa Cruz Bookstore	3/31/13	1,845
Grover Beach Store	6/30/13	1,800
San Luis Obispo – Broad St.	2/28/10	14,425

Future minimum rental payments under noncancelable operating leases having remaining terms as of December 31, 2009, in the aggregate are as follows:

Year Ending December 31,	Amount
2010	\$ 894,961
2011	531,367
2012	213,492
2013	66,315
2014	<u>- 0 -</u>
Total	<u>\$ 1,706,135</u>

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 3 CONCENTRATION OF CREDIT RISK FOR CASH HELD AT BANKS
AND BROKERAGE FIRMS

Deposits with the banks and certain financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to an aggregate balance of \$250,000 for interest-bearing accounts and unlimited for non-interest bearing accounts. The Organization maintains deposits with several banks and institutions that are either uninsured or do not exceed the insured amount. Consequently, the Organization is not exposed to uninsured risk in checking and savings accounts.

Investments in marketable securities, including money markets, are subject to normal investment risk including loss of principal invested. Accordingly, the Organization is subject to an uninsured risk in the amount of \$4,278,603 at December 31, 2009. Of this total, \$3,938,378 is held in money market accounts and \$340,225 in marketable securities.

NOTE 4 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2009 are:

Donated land and buildings	\$472,726
Bequest with specific donor designation to be used "in Monterey County"	<u>312,935</u>
Total	<u>\$785,661</u>

The donated land and buildings are held as a temporarily restricted asset for a period of 30 years. Commencing January 1, 1998, one-thirtieth of the value is being released from restriction each year. The value of the donated property and building, net of depreciation and the aggregate value released from restriction through December 31, 2009, is \$472,726.

On June 19, 2007, the Organization received a bequest in the amount of \$312,935 comprised of marketable securities and cash. The decedent's broad designation was that the funds are to be used "in Monterey County." At December 31, 2009, the entire bequest remained unspent, pending management's decision of its appropriate use.

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 5 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted assets of \$77,954 are restricted to investments in perpetuity, the income from which is expendable to support Goodwill's charitable purposes.

NOTE 6 INVESTMENTS

Certificates of deposit are reported at cost, since they are not affected by securities market volatility. All other investments are reported at fair value.

All investments are designated by the Board of Directors as noncurrent assets, and at December 31, 2009, are comprised of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Preferred Stock	\$ 285,000	\$ 193,944	(\$ 91,056)
Mutual Funds	<u>171,723</u>	<u>146,281</u>	<u>(25,442)</u>
	<u>\$ 456,723</u>	<u>\$ 340,225</u>	<u>(\$ 116,498)</u>

The beneficial interest in assets held by the Community Foundations consists of irrevocable gifts of net assets made to the Organization, to be used to support Organization programs and operations. The Organization has the ability to withdraw the net investment income annually. At December 31, 2009, the aggregate beneficial interest value of assets is \$18,479.

NOTE 7 FAIR VALUE MEASUREMENTS

The Organization has implemented the accounting standard regarding fair value measurements. The standard defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The standard uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data;

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 7- FAIR VALUE MEASUREMENTS (continued)

Level 3 – Unobservable inputs which reflect the reporting entity’s assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 inputs were available to the Organization, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

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

December 31, 2009	Fair Value	Fair Value Measurements Using:	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Preferred Stock	\$ 193,944	\$ 193,944	\$ 0
Mutual Funds	146,281	146,281	0
Endowment Funds	<u>18,479</u>	<u>0</u>	<u>18,479</u>
Total	<u>\$ 358,704</u>	<u>\$ 340,225</u>	<u>\$ 18,479</u>

Level 1 Fair Value Measurements

The fair value of preferred stock and mutual funds is based on quoted net asset values of the shares held by the Organization at year-end.

Level 3 Fair Value Measurements

The beneficial interest in assets held by the Community Foundations is not actively traded and significant other observable inputs are not available. The following table provides further details of the Level 3 fair value measurements.

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 7- FAIR VALUE MEASUREMENTS (continued)

	<u>Endowment Funds</u>
<u>December 31, 2009</u>	
Beginning balance	\$ 15,514
Contributions (Gifts)	75
Interest and Dividends	520
Realized Gains (Loss)	(365)
Unrealized Gains (Loss)	3,539
Fees	(804)
Ending balance	<u>\$ 18,479</u>

NOTE 8 PROPERTY LEASED TO OTHERS

The Organization receives rental income from leases of real property.

Future annual minimum rental income under these non-cancelable operating leases as of December 31, 2009, is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2010	\$ 97,255
2011	3,281
2012	- 0 -
2013	- 0 -
2014	- 0 -
Thereafter	<u>- 0 -</u>
Total	<u>\$ 100,536</u>

NOTE 9 DEFERRED COMPENSATION PLANS

The Organization has a non-contributory salary reduction plan for eligible employees under the provisions of Internal Revenue Code Section 403(b).

The Organization also sponsors a contributory plan for eligible employees under the provisions of Internal Revenue Code Section 403(b). The Organization matches 50% of each participant's deferred compensation up to a maximum of 3% of the participant's salary. Matching contributions for 2009 were \$34,076.

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 10 PROPERTY ACQUISITION/LONG TERM DEBT

On November 21, 2007, the Organization purchased land and buildings located at 1550-41st Avenue, Capitola, CA 95010 (“Capitola Center”) for the expansion of their retail store and vocational services operations. The property purchase was funded by a secured short-term \$3,600,000 line of credit from Wells Fargo Bank, N.A, due and payable in full on March 10, 2008. The outstanding balance was paid in full from proceeds of the Variable Rate Demand Revenue Bonds Series 2008.

The permanent long-term financing of the Capitola Center purchase and additional funding for future project development of the Capitola Center was secured by entering in to a Loan Agreement with the California Statewide Communities Development Authority (“Authority”) and their issuance of Variable Rate Demand Revenue Bonds Series 2008 in the amount of \$4,500,000 on February 6, 2008. The Bonds are fully registered and have been assigned a rating of AAA/A-1+ by Standard & Poor’s Rating Service at issuance.

To secure the Bonds, the Organization negotiated with Well Fargo Bank, N.A. (“the Bank”) an Irrevocable Letter of Credit issued in favor of the Trustee, Wells Fargo Bank, for \$4,633,151, that was due on February 1, 2009, with automatic annual extensions until February 1, 2018. The Letter of Credit is available to be drawn upon to provide funds for the payment of principal and interest on the Bonds when due and payable. Collateral for Letter of Credit consist of a first deed of trust for the Capitola Center and corporate headquarter offices located at 350 Encinal Street, Santa Cruz, CA 95060. At December 31, 2009, there were no outstanding draws on the Letter of Credit.

The Bonds interest at variable rates, as determined by the Wells Fargo Institutional Securities, LLC (“Remarketing Agent”), is payable quarterly during the initial Bonds issue period. In no event shall the rate of interest on Bonds exceed at the Maximum Rate of 10%.

The Bonds can be redeemed, as an Optional Redemption, on any Quarterly Interest Payment Date as long as the Bank receives a redemption direction letter, signed by both the borrower and the Letter of Credit Bank. In accordance with the documents the Trustee is to receive the notice at least fifteen (15) days prior to the minimum notice requirement to bondholders of thirty (30) days.

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 11 EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through September 8, 2010, the date which the financial statements were available to be issued.

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY AND SAN LUIS OBISPO COUNTIES
SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Federal Grantor	CFDA #	Name of Program	Award Amount	Grant Period	Grant Number	Revenue Recognized	Expenditures
Department of Labor	17.258	On the Job Training (OJT)	\$547,600	7/1/2008 to 6/30/2010	--	\$189,798	\$189,798
Department of Labor	17.258	On the Job Training (OJT)	\$49,999	7/1/2008 to 6/30/2009	63632-01	\$22,747	\$22,747
Department of Labor	17.258	Certified Nursing Assistant (CNA)	\$364,454	4/1/2007 to 6/30/2009	--	\$167,464	\$167,464
Department of Labor	17.258	ARRAWIA Adult & Dislocated Worker On the Job Training (OJT)	\$100,000	7/1/2008 to 6/30/2010	CT 93632-01 to 04	\$43,054	\$43,054
Department of Labor	17.258 & 17.260	WIA Adult Program One Stop Operator & WIA Dislocated Worker/Rapid Response ARRA-Adult Program	\$1,215,314	7/1/2009 to 6/30/2011	CT 014 2010 & Amendment	\$496,151	\$496,151
Department of Health and Human Services	93.558	Job Search Workshop (JSW)	\$214,612	7/1/2008 to 6/30/2009	CT 82261-01	\$108,963	\$108,963
Department of Health and Human Services	93.558	Job Search Workshop (JSW)	\$210,600	7/1/2009 to 6/30/2010	CT 92261-01	\$99,655	\$99,655
Department of Health and Human Services	93.558	CalWorks Work Experience (WEX)	\$165,995	3/1/2008 to 6/30/2010	--	\$40,736	\$40,736
Department of Health and Human Services	93.558	CalWorks Work Experience (WEX)	\$176,310	7/1/2008 to 6/30/2009	CT 83459-01	\$63,620	\$63,620
Department of Health and Human Services	93.558	CalWorks Work Experience (WEX)	\$176,310	7/1/2009 to 6/30/2010	CT 93459-01	\$106,095	\$106,095
Department of Health and Human Services	93.714	ARRAWIA CalWORKs - Subsidized Employment Training (SET)	\$3,366,426	8/23/2009 to 9/30/2010	PSA #890 & Amendment	\$286,118	\$286,118
Department of Health and Human Services	93.714	ARRAWIA CalWORKs - Subsidized Employment Training (SET)	\$766,278	8/01/2009 to 12/31/2010	CT 93783-01	\$41,928	\$41,928
Department of Health and Human Services	93.714	ARRAWIA Adult & Dislocated Worker Subsidized Employment Training (SET II)	\$1,160,392	10/01/2009 to 8/30/2010	CT 93818-01	\$8,389	\$8,389
Total Expenditures of Federal Awards							\$1,694,918

Notes to Schedule of Federal Awards:

Note 1: Basis of Presentation

The accompanying Schedule of Federal Awards includes the federal grant activity of Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget 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.

See accompanying notes to financial statements.

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**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**

Board of Directors
Goodwill Industries of Santa Cruz, Monterey
and San Luis Obispo Counties

We have audited the financial statements of Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties for the year ended December 31, 2009, and have issued our report thereon dated September 8, 2010. 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 Cruz, Monterey and San Luis Obispo Counties' 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 Cruz, Monterey and San Luis Obispo Counties' 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.

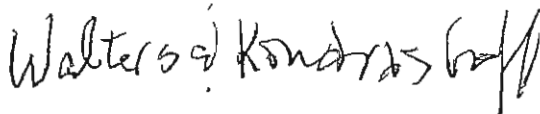
REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
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GOVERNMENT AUDITING STANDARDS

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether of Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties' 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*.

This report is intended solely for the information and use of the Audit Committee, Board of Directors, others within the entity, the Board of Trustees, 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.



Walters & Kondrasheff
Certified Public Accountants

Santa Cruz, California
September 8, 2010

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO 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 Cruz, Monterey and San Luis Obispo Counties

Compliance

We have audited the compliance of Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties (a Not-For-Profit Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties' 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 Cruz, Monterey and San Luis Obispo Counties' management. Our responsibility is to express an opinion on Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties 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 States; 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 Cruz, Monterey and San Luis Obispo Counties '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 on Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties' compliance with those requirements.

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)**

In our opinion, Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

The management of Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the 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 Cruz, Monterey and San Luis Obispo Counties' 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.

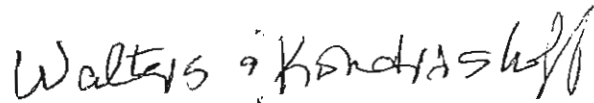
A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected 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 would not necessarily identify all deficiencies in internal control that might be 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.

Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties' responses and accordingly, we express no opinion on the responses.

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

This report is intended solely for the information of the Audit Committee, Board of Directors, management, 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.



Walters & Kondrasheff
Certified Public Accountants

Santa Cruz, California
September 8, 2010

**GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY, AND SAN LUIS OBISPO COUNTIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

PART 1: Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the Financial Statements of Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties
2. No reportable conditions in internal control were disclosed by the audit of the Financial Statements.
3. The audit disclosed no instances of noncompliance which are material to the Financial Statements of Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties
4. No reportable conditions in internal controls over major programs were disclosed by the audit of major federal programs.
5. The auditor's report expresses an unqualified opinion on compliance for major programs of Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties
6. The audit disclosed no findings that are required to be reported under Section .510 of OMB Circular A-133.
7. The program(s) identified and tested as major federal program(s) are:
Department of Labor; WIA On-the-job Training; CFDA # 17.258.
8. The threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties was not determined to qualify as a low-risk auditee.

PART 2: Findings - Financial Statement Audit (GAGAS)

PRIOR YEAR FINDINGS FOLLOW UP:

- Finding:** Claims for reimbursement include an amount for "space rent" which is management's estimate of current market value rent for property owned by the Organization and used by the program.
- Effect:** Actual costs may be more, or less, than the market rent costs reported.
- Current Status:** Actual costs are now being used on budgets and claims.

GOODWILL INDUSTRIES OF SANTA CRUZ,
MONTEREY, AND SAN LUIS OBISPO COUNTIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)

CURRENT YEAR FINDINGS:

None.