GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010

Goodwill
Industries of South Central California

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May 1, 2012

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

The ***Statements of Financial Position*** presents information on all of the Agency's assets and liabilities, for the two most-recent years' end. The difference between each year's assets and liabilities is reported as ***Net Assets***. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Agency's financial position is improving or deteriorating. The assets of the Agency exceeded its liabilities at the close of the most-recent fiscal year by $28,854.

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

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

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

Sheryl Chalupa
President / CEO

GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
DECEMBER 31, 2011 AND 2010

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BROWN
ARMSTRONG
CERTIFIED
PUBLIC
ACCOUNTANTS

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Goodwill Industries of South Central California (Goodwill Industries), a not-for-profit organization, as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and revenues, and cash flows for the years then ended. These financial statements are the responsibility of the management of Goodwill Industries. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries as of December 31, 2011 and 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
July 5, 2012

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GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents, including certificates of deposits	$ 510,405	$ 735,315
Accounts receivable	87,579	382,015
Inventory held for sale	199,100	228,669
Supplies inventory	26,243	38,867
Prepaid expenses	49,248	189,100
Deposits	105,387	92,573
Other assets	21,170	25,550
Total current assets	999,132	1,692,089
Property and equipment, net of accumulated depreciation	6,286,970	6,649,639
TOTAL ASSETS	$ 7,286,102	$ 8,341,728
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 223,706	$ 153,601
Accrued salaries and expenses	417,094	500,477
Interest payable	34,971	35,750
Capital leases, current portion	813	4,879
Notes payable, current portion	131,336	122,531
Total current liabilities	807,920	817,238
Long-term liabilities		
Capital leases, net of current portion	-	813
Notes payable, net of current portion	5,335,015	5,465,610
Interest rate swap	1,114,313	956,308
Total long-term liabilities	6,449,328	6,422,731
Total liabilities	7,257,248	7,239,969
Net assets		
Unrestricted net assets		
Operating	(171,146)	901,759
Board designated	200,000	200,000
Total net assets	28,854	1,101,759
TOTAL LIABILITIES AND NET ASSETS	$ 7,286,102	$ 8,341,728

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

GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Retail sales	$ 8,271,736	$ -	$ 8,271,736
Value of donated goods received	1,382,629	-	1,382,629
Donations	-	87,797	87,797
Vocational services	329,454	-	329,454
Salvage sales	1,061,764	-	1,061,764
Cash contributions received	17,461	-	17,461
Interest income	42	-	42
Gain on disposal of asset	(37,455)	-	(37,455)
Net assets released from restriction - restrictions satisfied by payments	87,797	(87,797)	-
Total support and revenues	11,113,428	-	11,113,428
EXPENSES			
Program services			
Donated goods - retail	9,736,995	-	9,736,995
Donated goods - salvage	625,875	-	625,875
Total donated goods	10,362,870	-	10,362,870
Vocational services	1,518,292	-	1,518,292
Total program services	11,881,162	-	11,881,162
Supporting services			
Management services	305,171	-	305,171
Total expenses	12,186,333	-	12,186,333
Change in net assets	(1,072,905)	-	(1,072,905)
Net assets, beginning of year	1,101,759	-	1,101,759
Net assets, end of year	$ 28,854	$ -	$ 28,854

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

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

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

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

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA
STATEMENT OF FUNCTIONAL EXPENSES AND REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services					Supporting Services	
	Donated Goods Retail	Donated Goods Salvage	Donated Goods Transportation	Vocational Services	Total Program Services	Management Services	Total Revenues and Expenses
EXPENSES							
Payroll related expenses							
Salaries	$ 3,232,620	$ 253,377	$ 233,676	$ 458,355	$ 4,178,028	$ 804,516	$ 4,982,544
Employee benefits	263,790	19,307	13,749	20,971	317,817	21,209	339,026
Payroll taxes and workers' compensation	875,065	66,299	49,979	83,486	1,074,829	99,351	1,174,180
Total payroll related expenses	4,371,475	338,983	297,404	562,812	5,570,674	925,076	6,495,750
Value of donated goods sold	1,382,629	-	-	-	1,382,629	-	1,382,629
Professional fees and contract services	43,428	-	64	2,654	46,146	134,265	180,411
Supplies	354,099	22,924	6,377	16,114	399,514	60,442	459,956
Telephone	34,358	688	6,705	8,230	49,981	47,593	97,574
Postage	6,870	-	-	873	7,743	3,877	11,620
Occupancy	1,645,389	15,985	3,467	296,093	1,960,934	153,872	2,114,806
Equipment rental and maintenance	42,052	19,920	22,626	2,881	87,479	21,524	109,003
Printing and publication	189,398	209	-	538	190,145	212	190,357
Local travel	15,988	7,720	257,076	12,511	293,295	19,441	312,736
Conferences, conventions, and meetings	2,197	41	66	2,141	4,445	12,160	16,605
Special assistance	8,362	577	1,685	1,170	11,794	1,837	13,631
Dues	1,051	-	-	280	1,331	95,453	96,784
Other	115,543	1,521	963	1,628	119,655	209,755	329,410
Total expenses before depreciation	8,212,839	408,568	596,433	907,925	10,125,765	1,685,507	11,811,272
Depreciation of property and equipment	181,348	-	-	-	181,348	193,713	375,061
Total direct expenses	8,394,187	408,568	596,433	907,925	10,307,113	1,879,220	12,186,333
Distribution of indirect expenses							
Assessment dues	52,499	9,545	-	23,863	85,907	(85,907)	-
Occupancy and indirect	191,172	34,759	-	86,896	312,827	(312,827)	-
Management services	773,637	140,661	-	351,653	1,265,951	(1,265,951)	-
Solicitation and transportation	325,500	32,342	(596,433)	147,955	(90,636)	90,636	-
Total indirect expenses	1,342,808	217,307	(596,433)	610,367	1,574,049	(1,574,049)	-
Total expenses	9,736,995	625,875	-	1,518,292	11,881,162	305,171	12,186,333
REVENUES							
Program revenues							
Value of donated goods received	1,382,629	-	-	-	1,382,629	-	1,382,629
Program service revenue	8,271,736	1,061,764	-	329,454	9,662,954	-	9,662,954
Total program revenues	9,654,365	1,061,764	-	329,454	11,045,583	-	11,045,583
Excess (deficiency) of related revenues over expenses	(82,630)	435,889	-	(1,188,838)	(835,579)	(305,171)	(1,140,750)
Other revenues							
Interest income	-	-	-	-	-	42	42
Contributions	-	-	-	-	-	17,461	17,461
Donations	-	-	-	-	-	87,797	87,797
Gain on disposal of assets	-	-	-	-	-	(37,455)	(37,455)
Rental income	-	-	-	-	-	-	-
Total other revenues	-	-	-	-	-	67,845	67,845
Excess (deficiency) of revenues over expenses	$ (82,630)	$ 435,889	$ -	$ (1,188,838)	$ (835,579)	$ (237,326)	$ (1,072,905)

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

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

	Program Services					Supporting Services	
	Donated Goods Retail	Donated Goods Salvage	Donated Goods Transportation	Vocational Services	Total Program Services	Management Services	Total Revenues and Expenses
EXPENSES							
Payroll related expenses							
Salaries	$ 3,039,809	$ 109,004	$ 663,561	$ 1,014,518	$ 4,826,892	$ 833,912	$ 5,660,804
Employee benefits	301,104	-	66,696	51,903	419,703	28,297	448,000
Payroll taxes and workers' compensation	595,595	11,638	129,462	140,839	877,534	89,915	967,449
Total payroll related expenses	3,936,508	120,642	859,719	1,207,260	6,124,129	952,124	7,076,253
Value of donated goods sold	1,513,128	-	-	-	1,513,128	-	1,513,128
Professional fees and contract services	47,683	14	1,898	13,126	62,721	129,113	191,834
Supplies	423,663	3,957	51,358	35,539	514,517	43,875	558,392
Telephone	33,794	-	7,793	8,839	50,426	66,626	117,052
Postage	13,919	6	94	762	14,781	3,432	18,213
Occupancy	1,788,486	2,353	16,302	318,054	2,125,195	104,091	2,229,286
Equipment rental and maintenance	94,600	844	45,187	5,624	146,255	16,106	162,361
Printing and publication	115,475	-	6,178	2,578	124,231	30,127	154,358
Local travel	4,671	93	334,579	22,877	362,220	33,666	395,886
Conferences, conventions, and meetings	1,839	11	1,289	4,580	7,719	30,783	38,502
Special assistance	7,116	50	2,653	-	9,819	3,056	12,875
Dues	1,457	-	1,107	430	2,994	111,736	114,730
Other	130,373	1,127	3,317	1,127	135,944	241,149	377,093
Total expenses before depreciation	8,112,712	129,097	1,331,474	1,620,796	11,194,079	1,765,884	12,959,963
Depreciation of property and equipment	193,866	-	-	-	193,866	207,780	401,646
Total direct expenses	8,306,578	129,097	1,331,474	1,620,796	11,387,945	1,973,664	13,361,609
Distribution of indirect expenses							
Assessment dues	61,455	11,174	-	27,933	100,562	(100,562)	
Occupancy and indirect	153,284	28,248	-	70,621	252,153	(252,153)	
Management services	852,531	155,006	-	387,513	1,395,050	(1,395,050)	
Solicitation and transportation	842,671	85,122	(1,331,474)	4,750	(398,931)	398,931	
Total indirect expenses	1,909,941	279,550	(1,331,474)	490,817	1,348,834	(1,348,834)	
Total expenses	10,216,519	408,647	-	2,111,613	12,736,779	624,830	13,361,609
REVENUES							
Program revenues							
Value of donated goods received	1,513,128	-	-	-	1,513,128	-	1,513,128
Program service revenue	9,705,593	552,162	-	871,383	11,129,138	-	11,129,138
Total program revenues	11,218,721	552,162	-	871,383	12,642,266	-	12,642,266
Excess (deficiency) of related revenues over expenses	1,002,202	143,515	-	(1,240,230)	(94,513)	(624,830)	(719,343)
Other revenues							
Interest income	-	-	-	-	-	1,680	1,680
Contributions	-	-	-	-	-	111,677	111,677
Donations	-	-	-	-	-	130,500	130,500
Gain on disposal of assets	-	-	-	-	-	300	300
Rental income	-	-	-	-	-	-	-
Total other revenues	-	-	-	-	-	244,157	244,157
Excess (deficiency) of revenues over expenses	$ 1,002,202	$ 143,515	$ -	$ (1,240,230)	$ (94,513)	$ (380,673)	$ (475,186)

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

GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,072,905)	$ (475,186)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	375,061	401,646
Value of donated assets received	(1,382,629)	(1,513,128)
Value of donated assets sold	1,382,629	1,513,128
(Increase) decrease in operating assets:		
Accounts receivable	294,436	(204,960)
Inventory held for sale	29,569	16,306
Supplies inventory	12,624	10,518
Prepaid expenses	139,852	(29,351)
Deposits	(12,814)	(11,220)
Other assets	4,380	4,588
Increase (decrease) in operating liabilities:		
Accounts payable	70,105	(7,542)
Accrued salaries and wages	(83,383)	24,972
Increase in other liabilities	157,226	192,532
Net cash used by operating activities	(85,849)	(77,697)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of fixed assets	4,011	-
Payments for property and equipment	(16,403)	(91,930)
Net cash used by investing activities	(12,392)	(91,930)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital leases	(4,879)	(7,652)
Payments on notes payable	(121,790)	(112,899)
Net cash used by financing activities	(126,669)	(120,551)
Net decrease in cash and cash equivalents	(224,910)	(290,178)
Cash and cash equivalents, beginning of year	735,315	1,025,493
Cash and cash equivalents, end of year	$ 510,405	$ 735,315

SUPPLEMENTAL DISCLOSURES ON CASH FLOW INFORMATION:

	2011	2010
Cash paid during the year for interest	$ 391,273	$ 398,340
Change in fair value of interest rate swap	$ 158,005	$ 194,764

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Financial Statement Presentation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Inventory

GII publishes guidelines for accounting, reporting, and disclosures policies. The guidelines can be used by local Goodwill agencies to assist in compliance with industry practices and comparability of financial performance from agency to agency. Effective for fiscal years beginning January 1, 1996, GII has recommended that local agencies estimate the value of donated goods received and of donated goods on hand at the end of the year.

In estimating these values, Goodwill Industries uses a portion of the direct and indirect costs of production, transportation, support, and management and general services provided. In accordance with the guideline recommendations, Goodwill Industries uses the number months that a typical item remains in inventory in estimating the value of inventories at fiscal year-end.

NOTE 1 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

Property, Equipment, and Depreciation

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

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Goodwill Industries reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Goodwill Industries reclassifies temporarily restricted net assets to unrestricted net assets at that time. At December 31, 2011 and 2010, Goodwill Industries did not own any assets with temporary or permanent restrictions.

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

Capital Leases

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

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

Derivative Financial Instruments

Goodwill Industries adopted the provision of an accounting standard for utilizing derivative instruments and hedging activities. The standard requires that all derivative financial instruments, such as interest rate swaps contracts and foreign exchange contracts, be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. If the derivative is a hedge, depending on the nature of the hedge, a change in fair value of the derivative will either be offset against the change in the fair value of a hedge asset or liability through earnings. The agreement qualifies for the shortcut method, as described in FASB ASC Topic 815-25.

Derivative instruments are used to manage risk related to interest rate movements. An outstanding interest rate swap agreement has been designated and is reported at fair value.

Designations of Net Assets

Effective for the years ended December 31, 2011 and 2010, the Board of Directors elected to designate net assets in an amount of $200,000 for program expansion involving the purchasing of new equipment to support programs.

Contributions

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (Continued)

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

Advertising and Promotion

Advertising and promotion costs are expensed when incurred and amounted to $190,356 and $154,357 for the years ended December 31, 2011 and 2010, respectively.

Functional Allocation of Expenses

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

Income Tax

Goodwill Industries is registered with the Internal Revenue Service as a non-profit organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from income taxes, for both U.S. and California tax purposes.

The U.S. Federal jurisdiction is the major tax jurisdiction where Goodwill Industries files income tax returns. Goodwill Industries is generally no longer subject to U.S. Federal examinations by tax authorities for years before 2008.

Concentration of Credit Risk

Goodwill Industries' financial instruments that are exposed to concentrations of credit risk consist primarily of its cash equivalents. At December 31, 2011 and 2010, Goodwill Industries maintained approximately $0 and $84,473, respectively, in excess of federally insured limits. At December 31, 2011 and 2010, Goodwill Industries had $227,019 and $513,790, respectively, in money market funds that were insured by Securities Investor Protection Corporation.

Restricted and Unrestricted Revenue

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

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. There was no effect on net assets.

NOTE 2 – PROPERTY, EQUIPMENT, AND DEPRECIATION

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

	January 1, 2011	Acquisitions	Dispositions	December 31, 2011
Nondepreciable capital assets:				
Land	$ 1,685,282	$ -	$ -	$ 1,685,282
Construction in progress	19,807	72,800	(92,607)	-
	1,705,089	72,800	(92,607)	1,685,282
Depreciable capital assets:				
Buildings and improvements	5,698,827	-	-	5,698,827
Leasehold improvements	1,197,495	31,920	(79,032)	1,150,383
Equipment	1,499,049	50,909	(80,606)	1,469,352
Total	8,395,371	82,829	(159,638)	8,318,562
Less accumulated depreciation	(3,450,821)	(375,061)	109,008	(3,716,874)
Depreciable capital assets, net of accumulated depreciation	4,944,550	(292,232)	(50,630)	4,601,688
Capital assets, net of accumulated depreciation	$ 6,649,639	$ (219,432)	$ (143,237)	$ 6,286,970

	January 1, 2010	Acquisitions	Dispositions	December 31, 2010
Nondepreciable capital assets:				
Land	$ 1,685,282	$ -	$ -	$ 1,685,282
Construction in progress	-	19,807	-	19,807
	1,685,282	19,807	-	1,705,089
Depreciable capital assets:				
Buildings and improvements	5,692,287	6,540	-	5,698,827
Leasehold improvements	1,197,495	-	-	1,197,495
Equipment	1,444,135	65,583	(10,669)	1,499,049
Total	8,333,917	72,123	(10,669)	8,395,371
Less accumulated depreciation	(3,059,844)	(401,646)	10,669	(3,450,821)
Depreciable capital assets, net of accumulated depreciation	5,274,073	(329,523)	-	4,944,550
Capital assets, net of accumulated depreciation	$ 6,959,355	$ (309,716)	$ -	$ 6,649,639

Depreciation expense was $375,061 and $401,646 for the years ended December 31, 2011 and 2010, respectively.

NOTE 3 – LEASED FACILITIES

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

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

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

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

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

On June 2, 2011, Goodwill Industries entered into a 60-month lease agreement for a retail store in Porterville. The monthly rent amount ranges from $6,190 to $6,897 per month exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance, and common area expenses.

On August 14, 2011, Goodwill Industries entered into a 36-month lease agreement with a 24-month option to extend for a retail store in Tulare. The monthly rent amount ranges from $3,958 to $6,849 per month exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance, and common area expenses.

Future minimum lease commitments under noncancellable operating leases as of December 31, 2011, are as follows:

Year Ended December 31,	Operating Leases
2012	$ 609,204
2013	571,786
2014	450,660
2015	184,739
2016	48,279
	$ 1,864,668

Rental expense was $979,428 and $1,073,368 for the years ended December 31, 2011 and 2010, respectively.

NOTE 4 – LONG-TERM DEBT

Notes Payable

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

	2011	2010
Term loan agreement with Wells Fargo Bank dated September 1, 2006, in the original amount of $5,600,000, at variable interest rates (effective rate of 5.48% with swap agreement - Note 6). Principal and interest payments due monthly. First principal payment was made on December 1, 2006, and subsequent principal and interest payments are due monthly commencing on January 2, 2007. All unpaid principal is due November 1, 2016. Collateral consists of real property located in Kern County, California.		
Total Note Payable	$ 5,088,183	$ 5,202,367
Less: Current Portion	123,176	114,925
	$ 4,965,007	$ 5,087,442

	2011	2010
Goodwill Industries executed a $400,000 line of credit with Wells Fargo Bank on September 1, 2006. This loan operated as a line of credit until November 1, 2007, at which time it was converted to a term loan that matures November 1, 2016. Interest rates are variable (effective rate of 5.48% with swap agreement - Note 6). Principal and interest payments are due monthly commencing on November 1, 2007. All unpaid principal is due November 1, 2016. Collateral consists of real property located in Kern County, California.		
Total Note Payable	$ 378,168	$ 385,774
Less: Current Portion	8,160	7,606
	$ 370,008	$ 378,168

Principal payments on notes payable at December 31, 2011, for the succeeding years are as follows:

Year Ended December 31,	Total
2012	$ 131,336
2013	140,836
2014	150,988
2015	161,870
2016	169,694
Thereafter	4,711,627
	$ 5,466,351

NOTE 4 – LONG-TERM DEBT (Continued)

Capital Leases

Goodwill Industries leases certain equipment for use in its operations. The amounts capitalized are amortized on a straight-line basis and interest on the related obligations is imputed and charged to expense as the lease payments are made. The assets are amortized over the lower of their related lease terms or their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense. At December 31, 2011 and 2010, the capitalized cost of the assets acquired under the capital lease agreements was $54,708 and $54,708, respectively, and is included in equipment net of accumulated depreciation of $19,166 and $25,637, respectively. Depreciation of the leased equipment for the years ended December 31, 2011 and 2010, was $6,471 and $6,471, respectively.

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

Year Ended December 31,	Office Equipment
2012	$ 813
Total Minimum Payments Required	813
Less: Executory Costs	(35)
Net Minimum Lease Payments	778
Less: Amount Representing Interest	(47)
Present Value of Minimum Lease Payments	$ 731

Interest expense for the years ended December 31, 2011 and 2010, was $285 and $285, respectively.

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

Line of Credit

Goodwill Industries executed a $250,000 line of credit with Wells Fargo Bank on September 1, 2006, of which $250,000 was unused at December 31, 2010. The line of credit was not renewed at November 1, 2011.

NOTE 5 – INTEREST RATE SWAP AGREEMENT

In 2006, Goodwill Industries entered into a master agreement with Wells Fargo Bank for an interest rate swap transaction to reduce the impact of changes in interest rates on its variable long-term debt of $5,600,000 dated September 1, 2006. The loan was also structured as such that the original line of credit with Wells Fargo Bank would convert to a term loan at November 1, 2007. The line of credit was limited to a maximum of $400,000 and Goodwill Industries took down the full amount as of October 30, 2007. This amount remains as a separate note, but the swap agreement was amended to include both notes. This agreement effectively changed the interest rate exposure on the variable rate loan to a fixed rate of 6.98%. The interest rate swap matures November 1, 2016. Goodwill Industries is exposed to credit loss in the event of nonperformance by Wells Fargo Bank. However, Goodwill Industries does not anticipate nonperformance by the counterparty. The fair value of the swap agreement is recorded on the accompanying statement of financial position as a liability and totaled $1,114,313 and $956,308 as of December 31, 2011 and 2010, respectively. For the years ended December 31, 2011 and 2010, $158,005 and $194,764, respectively, was recorded as part of interest (income) expense in the statement of activities related to the change in the swap agreement's fair value. Had Goodwill Industries not entered this swap agreement, change in net assets for the years ended December 31, 2011 and 2010, would have been reported as follows:

	2011	2010
Change in Net Assets before Effect of Swap Adjustment	$ (914,900)	$ (280,422)
Swap Adjustment (Expense)	(158,005)	(194,764)
Change in Net Assets	$ (1,072,905)	$ (475,186)

NOTE 6 – FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures,* provides the 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 FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Goodwill Industries 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's 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.

NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

Fair value of liabilities measured on a recurring basis at December 31, 2011 and 2010, are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011				
Derivatives	$ (1,114,313)	$ -	$ -	$ (1,114,313)
Total	$ (1,114,313)	$ -	$ -	$ (1,114,313)
December 31, 2010				
Derivatives	$ (956,308)	$ -	$ -	$ (956,308)
Total	$ (956,308)	$ -	$ -	$ (956,308)

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

	Derivatives
December 31, 2009	$ (761,544)
Total Gains or Losses (Realized/Unrealized)	(194,764)
December 31, 2010	(956,308)
Total Gains or Losses (Realized/Unrealized)	(158,005)
December 31, 2011	$ (1,114,313)

NOTE 7 – COMMITMENT OR CONTINGENCIES

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

NOTE 8 – SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2011, have been evaluated for possible adjustments to the financial statements or disclosures is July 5, 2012, which is the date that the financial statements were available to be issued. There were no events brought to our attention that were deemed to be reportable at that time.