

GOODWILL INDUSTRIES
OF THE GREATER EAST BAY, INC.

(A California Not-For-Profit Corporation)

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND DECEMBER 31, 2009

**GOODWILL INDUSTRIES
OF THE GREATER EAST BAY, INC.**

**TABLE OF CONTENTS
DECEMBER 31, 2010 AND 2009**

Independent auditors' report	2 - 3
Combined statement of financial position	4
Combined statement of activities and changes in net assets	5
Combined statement of functional expenses	6
Combined statement of cash flows	7
Notes to combined financial statements	8 - 15
Supplemental information:	
Schedule of expenditures of federal awards	17
Report on internal control over financial reporting based on compliance and other matters on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	18 - 19
Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	20 - 21
Schedule of findings and questioned costs	22



Independent Auditors' Report

Board of Directors
Goodwill Industries of the Greater East Bay, Inc.

We have audited the accompanying combined statement of financial position of Goodwill Industries of the Greater East Bay, Inc. (a California not-for-profit public benefit corporation) as of December 31, 2010 and December 31, 2009 and the related combined statements of activities and changes in net assets and cash flows for the years then ended and the combined statement of functional expenses for the year ended December 31, 2010. These combined financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative totals on the consolidated statement of functional expenses have been derived from the Agency's December 31, 2009 financial statements and, in our report dated June 11, 2010, we expressed an unqualified opinion.

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, 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 the Greater East Bay, Inc. as of December 31, 2010 and December 31, 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2011 on our consideration of Goodwill Industries of the Greater East Bay, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal 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 Agencies*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RINA accountancy corporation

Certified Public Accountants

Oakland, California
May 31, 2011

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

COMBINED STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,202,462	\$ 2,077,944
Accounts receivable, net of allowance for doubtful accounts of \$38,837 in 2010 and \$60,658 in 2009	1,775,415	2,057,415
Inventories	1,738,134	1,634,685
Investments	4,545,523	2,913,602
Prepaid expenses	407,152	530,578
TOTAL CURRENT ASSETS	11,668,686	9,214,224
PROPERTY AND EQUIPMENT - net	10,125,135	10,462,883
OTHER ASSETS:		
Restricted certificates of deposit	200,000	200,000
Deposits	59,811	59,811
TOTAL OTHER ASSETS	259,811	259,811
TOTAL ASSETS	\$ 22,053,632	\$ 19,936,918
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current maturities of notes payable	\$ 900,000	\$ 48,000
Accounts payable	588,543	322,708
Accrued expenses	2,603,560	2,275,076
Deferred revenue	133,019	19,757
TOTAL CURRENT LIABILITIES	4,225,122	2,665,541
LONG-TERM LIABILITIES:		
Note payable, less current maturities	-	900,000
TOTAL LIABILITIES	4,225,122	3,565,541
NET ASSETS		
Unrestricted:		
Undesignated	17,763,067	16,321,377
Board designated	65,443	50,000
TOTAL UNRESTRICTED NET ASSETS	17,828,510	16,371,377
TOTAL LIABILITIES AND NET ASSETS	\$ 22,053,632	\$ 19,936,918

See notes to combined financial statements

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
REVENUES:		
Store sales, salvage and recycling	\$ 17,373,952	\$ 14,319,267
Contracts	8,582,040	8,094,182
Contributions	375,696	557,855
	<hr/>	<hr/>
TOTAL REVENUES	26,331,688	22,971,304
	<hr/>	<hr/>
OPERATING EXPENSES:		
Program services	23,273,106	20,156,801
Management and general	1,694,901	2,034,161
Fundraising	134,967	209,063
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	25,102,974	22,400,025
	<hr/>	<hr/>
EXCESS OF REVENUES OVER OPERATING EXPENSES	1,228,714	571,279
	<hr/>	<hr/>
OTHER INCOME:		
Interest and dividend income	66,635	119,232
Net realized and unrealized gain on investments	101,334	97,005
Miscellaneous income	60,450	51,157
	<hr/>	<hr/>
TOTAL OTHER INCOME	228,419	267,394
	<hr/>	<hr/>
INCREASE IN NET ASSETS	1,457,133	838,673
	<hr/>	<hr/>
NET ASSETS, beginning of year	16,371,377	15,532,704
	<hr/>	<hr/>
NET ASSETS, end of year	<u>\$ 17,828,510</u>	<u>\$ 16,371,377</u>

See notes to combined financial statements.

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

(with Comparative Totals for December 31, 2009)

	Year Ended December 31			2010	2009
	Program Services	Management and General	Fundraising		
WAGES AND RELATED EXPENSES:					
Salaries and wages	\$ 11,995,423	\$ 777,455	\$ 83,033	\$ 12,855,911	\$ 11,265,686
Taxes and benefits	2,479,470	109,879	9,275	2,598,624	2,332,326
Total wages and related expenses	14,474,893	887,334	92,308	15,454,535	13,598,012
COST OF SALES AND SERVICES:					
Goods purchased for resale	476,984	-	-	476,984	465,309
Industrial contract supplies	258,796	-	16,727	275,523	300,152
Auto and truck	511,626	19,826	184	531,636	451,561
Trash disposal	302,819	-	-	302,819	312,836
Equipment maintenance and rental	311,431	23,594	660	335,685	247,013
Total cost of sales and services	1,861,656	43,420	17,571	1,922,647	1,776,871
OCCUPANCY COSTS:					
Building rents	2,462,619	-	-	2,462,619	2,021,247
Insurance	134,532	7,168	-	141,700	146,080
Telephone	171,678	20,872	1,767	194,317	172,430
Postage	728	6,044	2,599	9,371	13,205
Utilities	472,826	-	-	472,826	371,969
Building maintenance	413,394	2,075	346	415,815	452,673
Fees and property tax	233,869	14,544	-	248,413	218,219
Total occupancy costs	3,889,646	50,703	4,712	3,945,061	3,395,823
OTHER COSTS:					
Administrative and professional fees	729,689	437,718	12,965	1,180,372	1,284,991
Supplies	841,400	38,780	5,397	885,577	924,800
Interest	18,426	-	-	18,426	20,171
Advertising and publications	147,519	9,951	-	157,470	77,523
Employee business expenses	75,730	12,759	70	88,559	77,726
Training and seminars	46,971	727	-	47,698	30,627
Miscellaneous and Goodwill dues	33,759	151,160	-	184,919	138,555
Depreciation and amortization	1,153,417	62,349	1,944	1,217,710	1,074,926
Total other costs	3,046,911	713,444	20,376	3,780,731	3,629,319
TOTAL EXPENSES	\$ 23,273,106	\$ 1,694,901	\$ 134,967	\$ 25,102,974	\$ 22,400,025

See notes to combined financial statements.

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

COMBINED STATEMENT OF CASH FLOWS

	<u>Year Ended</u> <u>December 31, 2010</u>	<u>Year Ended</u> <u>December 31, 2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,457,133	\$ 838,673
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,217,710	1,074,926
Gain on sale of assets	(5,262)	-
Net realized and unrealized gain on investments	(101,334)	(97,005)
Decrease (increase) in:		
Accounts receivable, net	282,000	354,319
Inventory	(103,449)	(40,637)
Prepaid expenses	123,426	(138,658)
Increase (decrease) in:		
Accounts payable	265,835	(29,865)
Accrued expenses	328,484	622,622
Deferred revenue	113,262	(4,178)
	<u>3,577,805</u>	<u>2,580,197</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	-	6,200
Purchase of property and equipment	(874,700)	(2,207,488)
Release of restricted cash	-	125,000
Net sales (purchases) of investments	(1,530,587)	907,951
	<u>(2,405,287)</u>	<u>(1,168,337)</u>
NET CASH USED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long term debt	(48,000)	(48,000)
	<u>(48,000)</u>	<u>(48,000)</u>
NET CASH USED BY FINANCING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,124,518	1,363,860
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,077,944</u>	<u>714,084</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,202,462</u>	<u>\$ 2,077,944</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest expense during the year	\$ 18,426	\$ 20,171

See notes to combined financial statements.

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS - DECEMBER 31, 2010 AND DECEMBER 31, 2009

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities:

The combined financial statements include the accounts of Goodwill Industries of the Greater East Bay, Inc. and its affiliate Calidad Industries, Inc. (collectively the "Agency"). Goodwill and Calidad operate under common management and share the same facilities. All material intercompany transactions have been eliminated in the combination.

The Agency is a nonprofit corporation organized for the purpose of providing employment and vocational rehabilitation services to the vocationally disadvantaged of Alameda, Contra Costa, and Solano Counties, California. As of December 31, 2010, the Agency operates 26 retail stores in the Greater East Bay. The preponderance of the goods sold in these stores is received through donation from the public and commercial enterprises. The Agency employs vocationally disadvantaged workers to provide custodial and other services under contracts with various governmental facilities.

Tax exempt status:

The Agency has been granted tax exempt status by the Internal Revenue Service and the California Franchise Tax Board under sections 501(c)(3) and 23701(d), respectively.

Financial statement presentation:

The financial statements of the Agency have been prepared on the accrual basis of accounting, under which revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

Net assets and changes therein are classified as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they may be maintained permanently by the Agency. The agency had no permanently restricted net assets at December 31, 2010 and December 31, 2009.

Temporarily restricted net assets - Net assets restricted by donor-imposed stipulations that either expire with the passage of time or the satisfaction of the stipulations by the Agency. The Agency had no temporarily restricted net assets December 31, 2010 and December 31, 2009.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Cash and cash equivalents:

Cash and cash equivalents consist of cash, money market accounts, and certificates of deposits with original maturities of three months or less.

Accounts receivables:

Accounts receivable consist primarily of amounts related to contracts that the Agency has with various governmental agencies. The Agency uses the reserve for bad debt method of valuing doubtful accounts receivable which is based on historical experience coupled with a review of the current status of existing receivables.

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS - DECEMBER 31, 2010 AND DECEMBER 31, 2009

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(Continued):

Inventories

Inventory consists primarily of goods held for sale through the Agency's retail stores. Substantially all of the Agency's inventory is donated by individuals or commercial enterprises, and is valued at fair value in accordance with accounting principles generally accepted in the United States of America. The Agency estimates fair value based on the costs incurred to bring such donated goods to saleable condition. Purchased inventory is stated at the lower of cost (first-in, first-out) or market.

Investments in marketable securities:

Investments in marketable equity and debt securities with readily determinable fair values are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

The Agency invests in various investments. Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Fair value:

Professional accounting standards 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 professional accounting standards 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 Agency 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.

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS - DECEMBER 31, 2010 AND DECEMBER 31, 2009

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued):

Fair value (continued):

Following is a description of the valuation methodologies used for assets measured at fair value.

Equity, securities, debt securities, and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Real estate: Valued based on the estimated quoted prices for similar assets in active market.

Charitable remainder trust: Valued based on the present value of future cash flow.

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 Agency believes its valuation methods are appropriate and consistent with other 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.

Property and equipment:

Property and equipment are recorded at cost when purchased or at estimated fair value at the date of receipt, if donated. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. Property and equipment are depreciated by using the straight-line method over the assets' estimated useful lives, ranging from 3 to 30 years. Depreciation and amortization expense amounted to \$1,217,710 and \$1,074,926 for the years ended December 31, 2010 and 2009, respectively.

Long-lived assets:

The Agency evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered.

Revenue recognition:

Sales of salvage and recycling items are recognized at the time of sale. Revenue from contracts is recognized when services are provided.

Contributions and promises to give:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year (i.e., pledges) are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. The Agency had no long-term unconditional promises to give at December 31, 2010 and 2009.

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS - DECEMBER 31, 2010 AND DECEMBER 31, 2009

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued):

Contributions and promises to give (continued):

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenue of the temporarily restricted net asset class, and a release to unrestricted net assets is made to reflect the expiration of such restrictions. Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property and equipment without donor stipulations are reported as revenue of the temporarily restricted net asset class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Functional expense allocations:

Expenses, such as depreciation and amortization, supplies, travel, personnel, and occupancy costs are allocated among program services, management and general, and fundraising classifications on the basis of time records and on estimates made by the Agency's management.

Accounting for uncertain tax positions:

The Agency recognizes the financial statement benefit of an uncertain tax position only after considering the probability that a tax authority would sustain the position in an examination. For tax positions meeting a "more-likely-than-not" threshold, the amount recognized in the financial statements is the benefit expected to be realized upon settlement with the tax authority. For tax positions not meeting the threshold, no financial statement benefit is recognized. As of December 31, 2010, the Agency has had no uncertain tax positions. The Agency recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense. Income tax returns prior to 2006 are no longer subject to examination by tax authorities. The Agency is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status.

Subsequent events:

Management has evaluated subsequent events through May 31, 2011, the date which the financial statements were available for issue.

Note 2. NATURE 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 that affect the financial statements. Accordingly, actual results could differ from those estimates. Significant estimates in the accompanying financial statements include inventory valuation, accrual for estimated unpaid workers compensation claims and functional expense allocations.

Note 3. CONCENTRATIONS OF CREDIT RISK:

The Agency has several contracts with the federal government to provide custodial and other services. For the year ended December 31, 2010, these contracts provided approximately \$8,582,040 or 32% of total revenue. For the year ended December 31, 2009, these contracts provided approximately \$8,094,182 or 35%, of total revenue. At December 31, 2010 and 2009 outstanding accounts receivable from these contracts amounted to approximately \$1,152,000 and \$1,304,000, respectively.

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS - DECEMBER 31, 2010 AND DECEMBER 31, 2009

Note 3. CONCENTRATIONS OF CREDIT RISK (Continued):

Financial instruments that potentially subject the Agency to concentrations of credit risk consist principally of cash and cash equivalents. The Agency places its cash and cash equivalents with high credit quality financial institutions in the United States of America. At times, the account balances may exceed the institution's federally insured limits. The Agency has not experienced any losses in such accounts.

Note 4. INVESTMENTS:

Investments, which consist of certificates of deposit, equities and government securities with original maturity dates of more than three months at December 31, 2010 and 2009, are carried at fair market value. Included in investments are restricted certificates of deposit, which are used to secure a letter of credit for the Agency's previous workers compensation insurance policy. Investments held by the Agency consist of available-for-sale securities held in active markets.

Investments consisted the following at December 31:

	2010	2009
Certificates of deposit	\$ 3,008,930	\$ 1,453,161
Marketable equity securities	705,308	659,366
Corporate bonds	315,891	334,438
Government bonds	715,394	666,637
Totals	4,745,523	3,113,602
Less restricted certificates of deposit	200,000	200,000
Totals	\$ 4,545,523	\$ 2,913,602

Goodwill determines fair market values of the investments on bonds and marketable equity securities based on Quoted Prices in Active markets. Fair market values of certificate of deposits are based on their expected maturity values.

Investment income (expense) consists of the following:

	Year Ended December 31,	
	2010	2009
Interest and dividend income	\$ 66,635	\$ 119,232
Investment fees	(18,498)	(15,235)
Unrealized appreciation (depreciation) in fair value	69,247	213,019
Realized gain (loss) on sale of investments	32,087	(116,014)
Totals	\$ 149,471	\$ 201,002

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS - DECEMBER 31, 2010 AND DECEMBER 31, 2009

Note 4. INVESTMENTS (Continued):

Fair value:

The valuation methodologies used by the Agency to determine the fair value of its assets are categorized as follows:

Description	Fair Value 12/31/10	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	<u>\$ 4,745,523</u>	<u>\$ 1,736,593</u>	<u>\$ 3,008,930</u>	<u>\$ -</u>

Description	Fair Value 12/31/09	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	<u>\$ 3,113,602</u>	<u>\$ 1,660,441</u>	<u>\$ 1,453,161</u>	<u>\$ -</u>

Note 5. PROPERTY AND EQUIPMENT:

The balances of property and equipment, at cost, and their related accumulated depreciation accounts are as follows at December 31:

	2010	2009
Buildings	\$ 7,076,354	\$ 7,078,345
Furniture and fixtures	4,592,659	4,607,096
Leasehold improvements	4,643,064	4,129,752
Vehicles	2,833,196	2,692,008
Land	3,009,759	3,009,759
Construction in progress	<u>110,436</u>	<u>287,366</u>
Totals	22,265,468	21,804,326
Less accumulated depreciation	<u>12,140,333</u>	<u>11,341,443</u>
Net book value	<u>\$ 10,125,135</u>	<u>\$ 10,462,883</u>

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS - DECEMBER 31, 2010 AND DECEMBER 31, 2009

Note 6. NOTE PAYABLE:

In August 2004, the Agency purchased property in Vacaville, California for \$1,600,000, incurring a mortgage loan with a bank in the amount of \$1,200,000. The note is due in full September, 2011, bears interest at 1.70% above the monthly LIBOR rate and requires principal payments of \$4,000 per month.

Note 7. EMPLOYEE BENEFIT PLAN:

The Agency has a voluntary contribution 403(b) plan for the benefit of all salaried and hourly employees. The Agency has historically not made contributions as it is not obligated to do so under the plan.

Note 8. LEASE COMMITMENTS:

The Agency leases certain of its retail facilities under long-term operating leases expiring through December, 2019. Rent expense for the years ended December 31, 2010 and 2009 amounted to \$2,462,619 and \$2,021,247, respectively.

Minimum future rental commitments as of December 31, are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2011	\$ 2,884,049
2012	2,771,759
2013	2,419,542
2014	2,126,518
2015	2,099,800
Thereafter	<u>7,649,115</u>
Total	<u>\$ 19,950,783</u>

Certain leases contain provisions for rent increases based on the Consumer Price Index. Any such escalations will increase the obligations summarized above.

Note 9. LETTERS OF CREDIT:

The Agency was required to maintain a standby letter of credit with a bank pursuant to its former workers compensation insurance policies in the amount of \$200,000 for years ended December 31, 2010 and 2009. This standby letter of credit was related to the insurance period of June 1, 2003 until June 1, 2005 and expires at the conclusion of all claims. Under the provisions of a security agreement with the bank, the Agency was required to maintain \$200,000 as of December 31, 2010 and 2009 in a restricted cash account as collateral. This was reduced to \$55,000 on March 3, 2011.

Note 10. BOARD DESIGNATED NET ASSETS:

Board designated net assets which consist of amounts, for which the earnings are internally designated by the Agency's Board for assisting people through various Agency programs totaled \$65,443 at December 31, 2010 and \$50,000 at December 31, 2009.

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS - DECEMBER 31, 2010 AND DECEMBER 31, 2009

Note 11. CONTINGENCIES:

Lawsuit:

The Agency had been named as a defendant in a lawsuit filed by a former employee. The Agency is still in litigation regarding the claim.

The Agency has also been named as a defendant in a lawsuit related to a customer injury. The Agency is still in litigation regarding this claim.

Self insurance:

The Agency is fully insured for workers compensation claims for work related injuries beginning June 1, 2006. The Agency had previously had a high deductible paid loss insurance plan for workers compensation claims for work related injuries occurring between June 1, 2003 and June 1, 2006. The plans are administered by an insurance company. Under the old plan, the insurance company required the Agency to pay an annual premium to cover stop-loss insurance, claims expense reserves and administration. All workers compensation claims relating to injuries occurring between June 1, 2003 and June 1, 2006 will be paid by the Agency up to \$250,000 per incident with an annual aggregated maximum loss of \$2,800,000.

**GOODWILL INDUSTRIES
OF THE GREATER EAST BAY, INC.**

SUPPLEMENTAL INFORMATION

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2010

<u>Federal Grantor/ Program Title:</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:		
Supportive Housing Program: One Stop Homeless Employment Center Project Identifier (Grant Numbers: CA01B602040, CA01B702035)	14.235	\$ 862,153
U.S. Department of Health and Human Services:		
Pass through Department of Social Services of the Solano County CalWORKS programs: Job Placement and Community Service (Grant Numbers: 00202-10, 00202-11)	93.558	<u>1,216,937</u>
Total		<u>\$ 2,079,090</u>

Note A - Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Goodwill Industries of the Greater East Bay, 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.



**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***

The Board of Directors
Goodwill Industries of the Greater East Bay, Inc.

We have audited the financial statements of Goodwill Industries of the Greater East Bay, Inc. (Goodwill) as of and for the year ended December 31, 2010, and have issued our report thereon dated May 31, 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'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Goodwill'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 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 the 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 the 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 the Goodwill 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 that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the 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.

RINA accountancy corporation

Certified Public Accountants

Oakland, California

May 31, 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**

The Board of Directors
Goodwill Industries of the Greater East Bay, Inc.

Compliance

We have audited the compliance of Goodwill Industries of the Greater East Bay, Inc. (Goodwill) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on Goodwill's major federal program for the year ended December 31, 2010. Goodwill's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Goodwill's management. Our responsibility is to express an opinion on Goodwill'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'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's compliance with those requirements.

In our opinion, Goodwill complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

The management of Goodwill 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's 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 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'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 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 reward program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the 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 for the information of the 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.

RINA accountancy corporation

Certified Public Accountants

Oakland, California
May 31, 2011

GOODWILL INDUSTRIES OF THE GREATER EAST BAY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2010

SUMMARY OF AUDITORS' RESULTS:

- 1) The auditor's report expresses an unqualified opinion on the financial statements of Goodwill Industries of the Greater East Bay, Inc.
- 2) No significant deficiencies relating to the audit of the financial statements were 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 the Greater East Bay, Inc. were disclosed during the audit.
- 4) No significant deficiencies relating to the audit of the major federal award program are reported in the 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.
- 5) The auditor's report on compliance for the major federal awards programs for Goodwill Industries of the Greater East Bay, Inc. expresses an unqualified opinion.
- 6) There are no audit findings relative to the major federal award program for Goodwill Industries of the Greater East Bay, Inc. reported in this schedule.
- 7) The following program was tested as a major federal award program:

	<u>CFDA Number</u>
Federal Agency: U.S. Department of Health and Human Services	
Community Service and Job Services Programs	93.558

- 8) The threshold for distinguishing Type A and B programs was \$300,000.
- 9) Goodwill Industries of the Greater East Bay, Inc. qualified as a low risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT:

None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

None