

**GOODWILL INDUSTRIES
OF SOUTHERN CALIFORNIA
AND AFFILIATE**

**Single Audit Reporting
Package
December 31, 2011 and 2010**

**GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE
SINGLE AUDIT REPORTING PACKAGE**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Goodwill Industries of Southern California and Affiliate

We have audited the accompanying consolidated statement of financial position of Goodwill Industries of Southern California (a nonprofit Corporation) and its affiliate Goodwill Retail Services (collectively, the "Organization") as of December 31, 2011 and 2010, and the related consolidated statements of support, revenues, expenses and changes in net assets, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position, support, revenues, expenses, and changes in net assets and expenses are presented for purposes of additional analysis and are not a required part of the 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 3, 2012, on our consideration of the Organization's 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 audits.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of the Organization as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by United States 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted by United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Maguire Emechtel + Mc Intyre LLP

Pasadena, California
April 3, 2012

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2011 and 2010

ASSETS (NOTE 5)

	<u>2011</u>	<u>2010</u>
Current assets		
Cash and cash equivalents	\$ 10,465,418	\$ 12,035,463
Accounts receivable	2,992,462	4,013,453
Inventory	2,762,372	2,451,750
Prepaid expenses and deposits	<u>3,552,052</u>	<u>1,990,841</u>
Total current assets	19,772,304	20,491,507
Cash and certificates of deposit - designated or restricted to long-term use	1,245,513	3,687,387
Marketable securities (Note 2)		
Charitable gift annuities	447,394	392,258
Board designated reserve	11,024,162	10,305,207
Endowment	2,058,428	-
Other marketable securities	2,209	548
Contributions receivable from remainder trusts (Note 3)	371,689	510,761
Beneficial interests in perpetual trusts (Note 4)	280,974	298,023
Property, plant and equipment		
Land	3,469,028	3,469,028
Buildings and improvements	27,019,443	21,256,694
Departmental equipment	16,375,691	14,127,117
Transportation equipment	<u>2,163,889</u>	<u>1,807,218</u>
	49,028,051	40,660,057
Less accumulated depreciation	<u>(26,223,156)</u>	<u>(24,050,925)</u>
	<u>22,804,895</u>	<u>16,609,132</u>
Total assets	<u>\$ 58,007,568</u>	<u>\$ 52,294,823</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Accounts payable	\$ 5,107,599	\$ 6,332,448
Current portion of long-term debt	156,215	172,913
Accrued compensation and payroll taxes	6,491,397	6,353,282
Accrued insurance claims	4,307,980	3,774,159
Total current liabilities	16,063,191	16,632,802
Long-term debt (Note 5)	315,411	491,627
Total liabilities	16,378,602	17,124,429
 Commitments and contingencies (Notes 6 and 7)		
Net assets (Note 8)		
Unrestricted		
Board designated	11,024,162	10,305,207
Other unrestricted	25,844,976	21,641,268
Total unrestricted	36,869,138	31,946,475
Temporarily restricted	2,420,744	2,387,995
Permanently restricted	2,339,084	835,924
Total net assets	41,628,966	35,170,394
 Total liabilities and net assets	\$ 58,007,568	\$ 52,294,823

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE
CONSOLIDATED STATEMENT OF SUPPORT, REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended December 31, 2011 and 2010

	2011			2010			Total
	Unrestricted	Temporarily restricted	Permanently restricted	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues							
Operating revenues							
Sales from stores	\$ 87,887,673	\$ -	\$ -	\$ 87,887,673	\$ -	\$ -	\$ 87,887,673
Salvage sales	1,430,162	-	-	1,430,162	-	-	1,430,162
Contract sales	7,629,122	-	-	7,629,122	-	-	7,629,122
Workforce development fees, including federal grants of \$7,471,454 and \$9,096,656 for 2011 and 2010 respectively	12,219,274	-	-	12,219,274	-	-	12,219,274
Cafeteria receipts	295,790	-	-	295,790	-	-	295,790
Other	161,202	-	-	161,202	-	-	161,202
	<u>109,623,223</u>	<u>-</u>	<u>-</u>	<u>109,623,223</u>	<u>-</u>	<u>-</u>	<u>109,623,223</u>
Other revenues							
Bequests, contributions and trust income	1,080,602	1,139,337	1,520,209	3,740,148	997,447	14,799	4,462,400
Contributions to capital campaign	-	1,939,338	-	1,939,338	9,333	(9,333)	2,341,511
Net assets released from restrictions	2,952,492	(2,952,492)	-	2,408,115	(2,408,115)	-	26,119,444
Contributed revenue-donated goods (a)	29,621,713	-	-	29,621,713	-	-	50,000
In-kind donations	104,432	-	-	104,432	-	-	149,439
Interest and dividends	172,814	-	-	172,814	-	-	664,766
Gain (loss) on marketable securities	(451,478)	-	-	(451,478)	-	-	(53,212)
Gain (loss) on assets held by trustees	-	(93,434)	(17,049)	(110,483)	(66,769)	84,981	(103,772)
(Loss) on disposition of equipment	(83,030)	-	-	(83,030)	-	-	35,000
	<u>143,020,768</u>	<u>32,749</u>	<u>1,503,160</u>	<u>144,556,677</u>	<u>418,550</u>	<u>90,447</u>	<u>130,307,670</u>
Expenses							
Operating expenses							
Program services							
Material collection, handling and processing	28,335,816	-	-	28,335,816	24,985,025	-	24,985,025
Stores including donated goods and services (a)	74,237,333	-	-	74,237,333	62,922,055	-	62,922,055
Contract department	7,739,470	-	-	7,739,470	7,398,415	-	7,398,415
Workforce development	17,447,680	-	-	17,447,680	18,407,328	-	18,407,328
Cafeteria	561,448	-	-	561,448	525,086	-	525,086
Development program	1,561,847	-	-	1,561,847	1,404,889	-	1,404,889
General and administrative support	8,190,828	-	-	8,190,828	6,683,663	-	6,683,663
	<u>138,074,422</u>	<u>-</u>	<u>-</u>	<u>138,074,422</u>	<u>122,326,461</u>	<u>-</u>	<u>122,326,461</u>
Interest	23,683	-	-	23,683	29,540	-	29,540
	<u>138,098,105</u>	<u>-</u>	<u>-</u>	<u>138,098,105</u>	<u>122,356,001</u>	<u>-</u>	<u>122,356,001</u>
Changes in net assets							
Net assets at beginning of year	4,922,663	32,749	1,503,160	6,458,572	7,442,672	90,447	7,951,669
Net assets at end of year	<u>\$ 36,869,138</u>	<u>\$ 2,420,744</u>	<u>\$ 2,339,084</u>	<u>\$ 41,628,966</u>	<u>\$ 31,946,475</u>	<u>\$ 835,924</u>	<u>\$ 35,170,394</u>

(a) Contributed revenue of \$29,311,091 and stores expense of \$26,119,444 and stores expense of \$29,311,091 and \$25,728,049 resulted from the receipt and sale of donated goods for 2011 and 2010, respectively.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2011

	Program Services						Support Services			Program and Support Total
	Material Handling	Stores	Contract Department	Workforce Development	Cafeteria	Total	Development Program	General and Administrative		
Salaries and wages	\$ 14,307,844	\$ 14,166,196	\$ 4,186,817	\$ 9,479,775	\$ 130,494	\$ 42,271,126	\$ 670,257	\$ 4,277,049	\$	\$ 47,218,432
Payroll taxes	1,070,575	1,046,500	308,927	699,842	9,478	3,135,322	40,710	272,230		3,448,262
Employee benefits	1,341,482	2,608,747	405,827	1,453,082	25,258	5,834,396	154,373	843,147		6,831,916
Total salaries and related expenses	16,719,901	17,821,443	4,901,571	11,632,699	165,230	51,240,844	865,340	5,392,426		57,498,610
Cost of goods sold	-	29,694,155	-	-	-	29,694,155	-	-		29,694,155
Professional fees and contract services	933,686	3,136,076	317,485	2,141,527	14,678	6,543,452	162,725	1,158,282		7,864,459
Supplies	235,611	1,272,164	314,977	616,964	257,463	2,697,179	6,908	117,706		2,821,793
Telephone	72,327	244,921	15,010	148,610	-	480,868	1,193	20,265		502,326
Postage and shipping	521	279,510	5,553	6,303	29	291,916	358,414	20,602		670,932
Rents	4,964,271	13,260,183	-	318,035	-	18,542,489	-	-		18,542,489
Transportation	2,000,907	206,755	60,557	227,935	205	2,496,359	2,651	35,389		2,534,399
Conferences, conventions and meetings	5,314	98,978	5,041	254,663	-	363,996	23,384	159,556		546,936
Trash disposal	1,236,604	35,836	-	-	-	1,272,440	-	-		1,272,440
Occupancy	974,582	2,547,023	1,685,845	1,615,447	101,441	6,924,338	114,054	670,515		7,708,907
Printing and publications	47,012	1,700,092	7,061	86,459	1,170	1,841,794	6,011	86,139		1,933,944
Utilities	490,017	1,457,921	-	33,680	-	1,981,618	-	-		1,981,618
Taxes and licenses	1,620	17,876	7,261	-	-	26,757	504	32,568		59,829
Insurance	282,810	392,693	62,753	84,740	2,491	825,487	5,468	105,051		936,006
Repairs and maintenance	137,667	243,757	11,953	10,758	1,007	405,142	-	-		405,142
Membership dues	326	1,315	4,020	2,689	-	8,350	1,273	169,594		179,217
Depreciation	232,640	1,826,635	340,383	267,171	17,734	2,684,563	13,922	222,735		2,921,220
Total expenses	11,615,915	56,415,890	2,837,899	5,814,981	396,218	77,080,903	696,507	2,798,402		80,575,812
Interest	\$ 28,335,816	\$ 74,237,333	\$ 7,739,470	\$ 17,447,680	\$ 561,448	\$ 128,321,747	\$ 1,561,847	\$ 8,190,828		\$ 138,074,422
										23,683
										\$ 138,098,105

The accompanying notes are an integral part of these statements.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2010

	Program Services						Support Services			Program and Support Total
	Material Handling	Stores	Contract Department	Workforce Development	Cafeteria	Total	Development Program	General and Administrative	Total	
Salaries and wages	\$ 12,359,882	\$ 12,905,100	\$ 3,892,548	\$ 9,682,749	\$ 129,943	\$ 38,970,222	\$ 641,619	\$ 3,577,870	\$ 43,189,711	
Payroll taxes	859,565	883,140	266,464	685,522	9,255	2,703,946	38,296	214,522	2,956,764	
Employee benefits	2,049,836	1,343,029	397,620	1,367,716	21,439	5,179,640	131,856	705,632	6,017,128	
Total salaries and related expenses	15,269,283	15,131,269	4,556,632	11,735,987	160,637	46,853,808	811,771	4,498,024	52,163,603	
Cost of goods sold	-	26,091,400	-	-	-	26,091,400	-	-	26,091,400	
Professional fees and contract services	547,136	2,110,535	385,871	3,209,219	12,388	6,265,149	116,657	848,244	7,230,050	
Supplies	129,378	1,182,961	277,144	480,606	249,989	2,320,078	6,752	95,255	2,422,085	
Telephone	59,323	226,732	27,209	149,192	-	462,456	1,454	23,869	487,779	
Postage and shipping	289	74,541	2,058	10,850	-	87,738	-	25,112	405,129	
Rents	4,573,093	11,975,329	-	386,610	-	16,935,032	-	-	16,935,032	
Transportation	1,402,654	168,863	60,015	197,280	52	1,828,864	4,914	22,784	1,856,562	
Conferences, conventions and meetings	4,170	68,520	8,136	232,121	-	312,947	27,855	166,121	506,923	
Trash disposal	1,088,526	41,354	8,765	-	-	1,138,645	-	-	1,138,645	
Occupancy	856,947	2,025,835	1,629,935	1,468,584	81,258	6,062,559	93,905	517,267	6,673,731	
Printing and publications	3,473	482,275	6,310	139,331	-	631,389	29,950	55,543	716,882	
Utilities	445,542	1,319,198	-	32,973	-	1,797,713	-	-	1,797,713	
Taxes and licenses	(615)	20,643	1,437	7	-	21,472	-	610	22,082	
Insurance	270,229	332,179	63,683	94,704	2,601	763,396	3,307	92,808	859,511	
Repairs and maintenance	172,430	320,073	26,433	4,127	1,988	525,051	-	-	525,051	
Membership dues	142	2,595	6,035	1,452	-	10,224	314	168,778	179,316	
Depreciation	163,025	1,347,753	338,752	264,285	16,173	2,129,988	15,731	169,248	2,314,967	
Total expenses	\$ 9,715,742	\$ 47,790,786	\$ 2,841,783	\$ 6,671,341	\$ 364,449	\$ 67,384,101	\$ 593,118	\$ 2,185,639	\$ 70,162,858	
Interest	24,985,025	62,922,055	7,398,415	18,407,328	525,086	114,237,909	1,404,889	6,683,663	122,326,461	
	-	-	-	-	-	-	-	-	29,540	
	-	-	-	-	-	-	-	-	\$ 122,356,001	

The accompanying notes are an integral part of these statements.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Changes in net assets	\$ 6,458,572	\$ 7,951,669
Adjustments to reconcile changes in net assets to net cash provided by operations		
Bad debt expense	-	16,160
Depreciation and amortization	2,921,220	2,314,967
(Gain) loss on marketable securities	451,478	(664,766)
Loss on disposition of equipment	83,030	103,772
(Increase) decrease in value of trusts	156,121	(53,212)
Contributions restricted for long-term purposes	(4,581,834)	(2,891,444)
(Increase) decrease in:		
Accounts receivable	1,020,991	41,623
Inventory	(310,622)	(391,395)
Prepaid expenses	(1,561,211)	(457,545)
Increase (decrease) in:		
Accounts payable	(1,224,849)	2,251,990
Accrued compensation and payroll taxes	138,115	1,444,881
Accrued insurance claims	533,821	640,743
	<u>4,084,832</u>	<u>10,307,443</u>
Cash provided by operations		
Cash flows from investing activities:		
Net (increase) decrease in cash and certificates of deposit designated or restricted to long-term use	2,441,874	(1,821,814)
Purchase of property, plant and equipment	(9,200,013)	(7,046,746)
Proceeds from sale of marketable securities	29,224	23,544
Purchase of marketable securities	<u>(3,314,882)</u>	<u>(153,629)</u>
Cash (used) by investing activities	(10,043,797)	(8,998,645)
Cash flows from financing activities:		
Contributions restricted to long-term purposes	4,581,834	2,891,444
Repayment of long-term debt	<u>(192,914)</u>	<u>(157,793)</u>
Cash provided by financing activities	<u>4,388,920</u>	<u>2,733,651</u>
Net increase (decrease) in cash and cash equivalents	(1,570,045)	4,042,449
Cash and cash equivalents at beginning of year	<u>12,035,463</u>	<u>7,993,014</u>
Cash and cash equivalents at end of year	<u>\$ 10,465,418</u>	<u>\$ 12,035,463</u>
Cash paid for interest	<u>\$ 24,071</u>	<u>\$ 29,927</u>

Non-cash financing activities included acquisition of equipment through capital leases amounting to \$230,300 in 2010.

The accompanying notes are an integral part of these statements.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Summary of significant accounting policies

General

Goodwill Industries of Southern California (Goodwill) is a non-profit charitable and welfare corporation organized under the laws of the State of California. It is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation. Through skill training, job readiness services, and by providing useful employment to its clients, Goodwill assists people who are disabled and disadvantaged to develop and attain the fullest potential of which they are capable. Goodwill operates retail stores, contractual services such as assembly and fulfillment, shredding, e-recycling, custodial and building services, and workforce development programs in Los Angeles, San Bernardino, and Riverside counties.

Formation of Goodwill Retail Services

In March, 2011, Goodwill's Board of Directors authorized the creation of Goodwill Retail Services (GRS), which has applied for exempt status under section 501(c)(3) of the Internal Revenue Code, to support, benefit, and carryout the purposes of Goodwill. GRS was incorporated on April 4, 2011. Effective July 2, 2011, Goodwill transferred certain retail store employees to GRS. Goodwill controls the operations of GRS accordingly, GRS has been consolidated into Goodwill and referred to as the "Organization". All intercompany transactions have been eliminated.

Presentation

The Organization reports its consolidated financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Endowment funds

The Organization's permanently restricted net assets consist of endowment funds established for the purposes discussed in Note 8. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted and temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Summary of significant accounting policies, continued

Endowment funds, continued

factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies - The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve investment income with minimum risk. Endowment assets are invested in savings and certificates of deposit.

Spending Policy - The Organization has a policy of appropriating for distribution only the earnings on the investments. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional growth with minimum risk.

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

Concentration of credit risk

The Organization had cash balances in excess of federally insured limits of \$2,997,599 and \$15,658,443 as of December 31, 2011 and 2010, respectively. The Organization had approximately 66% and 78% of accounts receivable attributable to government agencies in 2011 and 2010, respectively. Credit losses have generally been within management's expectations.

Accounts receivable and the allowance for credit losses

Accounts receivable are uncollateralized government and customer obligations due under normal trade terms requiring payment within 30-90 days from the invoice date. The Organization reduces the carrying amount of accounts receivable by an allowance for credit losses that reflects its best estimate of the amounts that will not be collected. Management individually reviews each customer balance where all or a portion of the balance exceeds 60 days from the invoice date. Based on management's assessment of the customer's current

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Summary of significant accounting policies, continued

Accounts receivable and the allowance for credit losses, continued

creditworthiness it estimates the portion, if any, of the balance that will not be collected. The Organization writes off receivables as a charge to the allowance for credit losses when, in their estimation, it is probable that the receivable is not collectible.

Inventory

Purchased inventory is stated at cost using the first-in, first-out method. Contributed inventory is stated at estimated fair value.

Marketable securities

Marketable securities are reported at market, and gains and losses are recognized in the consolidated statement of support, revenues, expenses and changes in net assets. The Organization intends to hold the investment portfolio for the long term.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or absence of donor-imposed restrictions. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, through the accomplishment of a purpose restriction or when a time restriction ends, the temporarily restricted net assets are reclassified to unrestricted net assets. Such reclassification is shown as net assets released from restrictions in the consolidated statement of support, revenues, expenses and changes in net assets.

The Organization reports equipment donations as unrestricted support unless explicit donor stipulations specify how the donated asset must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily or permanently restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Marketable securities given to the Organization are recorded at the approximate market value at the date of the gift.

Property, plant and equipment

Properties acquired by purchase are recorded on the books at cost; those acquired by gift are recorded on the books at values estimated at the time they were acquired. Buildings are depreciated at annual rates of 2% to 5% depending on nature of construction, while improvements and major repairs are depreciated at 7% to 20% per annum. Departmental

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Summary of significant accounting policies, continued

Property, plant and equipment, continued

equipment is depreciated at rates of 10% to 33% per annum and transportation equipment is generally depreciated at 20% per annum. All depreciation is computed on the straight-line method. Depreciation expense was \$2,921,220 and \$2,314,967 in 2011 and 2010, respectively.

Maintenance and repairs are expensed as incurred; major renewals and betterments are capitalized.

Use of estimates

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

Advertising expenses

Advertising costs are expensed as incurred. During 2011 and 2010, advertising costs totaled \$1,798,070 and \$597,454, respectively.

Income tax

The Organization is exempt from federal and California income tax under Section 501 (c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made. United States federal and the state of California returns have statutes of limitations that generally range from three to four years. No open tax years are currently under examination.

Date of management's review

Management has evaluated subsequent events through April 3, 2012, the date the financial statements were available to be issued.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 Marketable securities

Investments at December 31, 2011 and 2010 are as follows:

	2011		
	General fund	Board designated reserve	Endowment fund
Money market funds	\$449,603	\$ 2,483,663	\$ 259,534
Mutual funds	-	8,540,499	-
Stocks	-	-	1,063,541
Bonds	-	-	735,353
	<u>\$449,603</u>	<u>\$ 11,024,162</u>	<u>\$ 2,058,428</u>
	2010		
	General fund	Board designated reserve	Endowment fund
Money market funds	\$392,806	\$ 1,482,992	\$ -
Mutual funds	-	8,822,215	-
	<u>\$392,806</u>	<u>\$ 10,305,207</u>	<u>\$ -</u>

Investments are reported at fair value, and significant information about cost basis, fair value and unrealized gains and losses as of December 31, 2011 and 2010 is summarized as follows:

	Cost Basis	Fair Value	Unrealized Gains
2011	\$ 13,250,040	\$13,532,193	\$ 282,153
2010	\$ 9,924,323	\$10,698,013	\$ 773,690

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

Level I - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities. As required by FASB ASC 820, the Organization does not adjust the quoted price for these investments, even in situations where the Organization holds a large position and a sale could reasonably impact the quoted price.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments in this category include less liquid and restricted equity securities.

Level III - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 Marketable securities, continued

of fair value require significant management judgment or estimation. Investments in this category may include securities of private companies and are often referred to as 'alternative' investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Organization's investments of \$13,532,193 and \$10,698,013 as of December 31, 2011 and 2010, respectively, are classified as category level I (quoted price in active market for identical assets) by the above FASB ASC 820 fair value hierarchy levels.

3 Contributions receivable from remainder trusts

The Organization is a remainderman in irrevocable charitable remainder trusts. Upon the death of the trustor(s) of a trust, a portion of the remainder of the trust estate is to be distributed to the Organization by the trustee. The charitable remainder trusts are measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs – entity specific estimates of cash flows). The estimated present values of the trusts were \$371,689 and \$510,761 at December 31, 2011 and 2010, respectively.

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 510,761	\$ 475,761
Change in value in split-interest agreement	(93,434)	35,000
Payment from charitable remainder trust	<u>(45,638)</u>	<u>-</u>
Ending balance	<u>\$ 371,689</u>	<u>\$ 510,761</u>

The change in value in split-interest agreement is included in the change in temporarily restricted net assets on the Consolidated Statement of Support, Revenues, Expenses and changes in net assets.

4 Beneficial interests in perpetual trusts

The Organization is the beneficiary of two perpetual trusts and, as such, has the irrevocable right to receive the income earned on its interests in the trusts' assets in perpetuity. During the years ended December 31, 2011 and 2010, the Organization received cash of \$7,980 and \$9,173 respectively from the trusts to be used in any manner consistent with its mission.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 Long-term debt and credit agreement

Long-term debt	<u>2011</u>	<u>2010</u>
Bank of America, secured, by real estate for the Valley Campus at 7.8% interest. The loan agreement provides for fifteen year amortization at a fixed rate. Principal payments of equal quarterly installments in the amount of \$14,183 commencing August 1, 2000. The final payment is scheduled for May 1, 2015.	\$ 198,567	\$ 255,300
Community Development Department of City of Los Angeles note payable. Secured by deed of trust on main campus (Note 10).	180,000	200,000
Capital Equipment leasing agreement with Wells Fargo at 5.1% interest secured by equipment. The lease agreement is for 36 months with monthly payments of \$6,825 plus applicable sales and use tax. The final payment is scheduled for February 1, 2013.	93,059	169,240
NISH Capital Equipment Interest Free Loan secured by the inventories and work in progress under the contract and equipment. Principal repayment due \$10,000 on June 6, 2008 and \$5,000 each quarter thereafter. The Organization made final payment in 2011.	<u>-</u>	<u>40,000</u>
	471,626	664,540
Less portion due within one year	<u>(156,215)</u>	<u>(172,913)</u>
	<u>\$315,411</u>	<u>\$491,627</u>

Principal payments on long-term debt are due as follows:

2012	\$156,215
2013	90,311
2014	76,733
2015	48,367
2016	20,000
Thereafter	<u>80,000</u>
	<u>\$471,626</u>

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 Long-term debt and credit agreement, continued

Credit lines

The Organization has a \$3,000,000 working capital line-of-credit from Bank of America expiring June 30, 2013. The line-of-credit is secured by the Organization's equipment, accounts receivable and inventory. As of December 31, 2011 and 2010, the interest rate was LIBOR floating rate plus 2.75%. No borrowings were outstanding under this line-of-credit as of December 31, 2011 and 2010.

The Organization also has a \$1,500,000 line-of-credit expiring June 30, 2012 to be used for expansion of retail store operations or financial emergencies. The line-of-credit is secured by real estate. As of December 31, 2011 and 2010, the interest rate was at the bank's prime rate or LIBOR plus 2%. As of December 31, 2011 and 2010, there were no outstanding balances on the line-of-credit.

6 Contingencies

Environmental matter

An adjoining property owner has alleged that contamination at one of their properties was caused by operations taking place at one of the Organization's sites. The ultimate outcome of this uncertainty cannot presently be determined, and management believes that any liability, if determined, will not have a material adverse impact in the Organization's financial condition.

Unemployment insurance

The Organization has elected not to pay state unemployment insurance taxes and, instead, is charged for its share of unemployment benefits actually paid by the State of California to former employees. The charge to expense was \$1,041,048 and \$899,820 in 2011 and 2010, respectively.

Workers' compensation

The Organization is a self-insurer under its workers' compensation insurance program. Excess policies provide insurance coverage on individual claims which exceed specified amounts. The Organization recognizes the cost of self-insurance as claims are reported. The costs of the claims are based on estimates which may be above or below the ultimate liability on such claims. The estimated liability is classified as current as amounts payable after twelve months are not reasonably determinable. The charge to expense for workers' compensation was \$2,150,640 and \$2,075,929 for 2011 and 2010, respectively.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 Commitments

Lease commitments

The Organization leases certain stores, facilities, and office and transportation equipment. Such leases have various expiration dates through 2025. Minimum annual rental payments excluding any future inflation adjustments are as follows:

	<u>Buildings</u>
2012	\$ 13,825,624
2013	13,371,109
2014	12,174,729
2015	10,060,261
2016	11,473,619
Thereafter	<u>22,367,859</u>
	<u>\$83,683,201</u>

Rental expense for the years ended December 31, 2011 and 2010 was \$18,542,489 and \$16,935,032, respectively.

8 Net assets

Net asset balances which are unrestricted and designated by the Board, temporarily restricted and permanently restricted are comprised of the following as of 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Unrestricted - Designated by the Board		
Board designated	<u>\$11,024,162</u>	<u>\$ 10,305,207</u>
Restricted – Temporarily		
Capital Campaign, Land, building		
renovation and development costs	\$ 1,329,946	\$ 1,655,436
Program services	719,109	221,798
Charitable remainder trusts	<u>371,689</u>	<u>510,761</u>
	<u>\$ 2,420,744</u>	<u>\$ 2,387,995</u>
Restricted – Permanently		
Lawrence N. Page Fund	\$ 33,700	\$ 33,700
Perpetual trusts	280,974	298,023
Garrett Family Memorial Fund	384,139	384,139
Ludwig E. G. Erb Fund	1,628,021	107,812
Capital Campaign	<u>12,250</u>	<u>12,250</u>
	<u>\$ 2,339,084</u>	<u>\$ 835,924</u>

The Board Designated Reserve Fund represents assets which have been set aside by Board action to be made available for general corporate expenditures.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 Net assets, continued

The Lawrence N. Page Fund was created by testamentary decree which provided "that the principal sum thereof shall be kept intact and that the income therefrom be used annually". Accordingly, the principal has been reflected in the consolidated statement of financial position as a permanently restricted fund of \$33,700.

The Garrett Family Memorial Fund was created by testamentary decree which provided "that the Garrett Family Memorial Fund administered by the Board of Directors of the Goodwill Industries of Southern California in perpetuity and that the annual income therefrom be expended for the benefit of training programs for the handicapped and the disabled." Accordingly, the principal has been reflected in the consolidated statement of financial position as a permanently restricted fund of \$384,139.

The Ludwig E.G. Erb Fund was created by testamentary decree which provided that principal be used by Goodwill Industries of Southern California for its Endowment fund and income therefrom is available for use. Accordingly, the principal has been reflected in the consolidated statement of position as a permanently restricted fund of \$1,628,021.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 Net assets, continued

Endowment net assets

The composition of and changes in Board designated and donor-restricted endowment net assets as of and for the years ended December 31, 2011 and 2010 are as follows:

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, December 31, 2009	\$ 9,653,841	\$ 1,969,445	\$ 745,477	\$ 12,368,763
Investment return:				
Investment income	169,283	-	-	169,283
Unrealized gains	630,993	35,000	84,981	750,974
Net assets released from restrictions	(148,910)	(2,408,115)	-	(2,557,025)
Contributions	-	2,791,665	5,466	2,797,131
Endowment net assets, December 31, 2010	10,305,207	2,387,995	835,924	13,529,126
Investment return:				
Investment income	182,089	-	-	182,089
Unrealized gains	(463,134)	(93,434)	(17,049)	(573,617)
Net assets released from restrictions	-	(2,952,492)	-	(2,952,492)
Contributions	1,000,000	3,078,675	1,520,209	5,598,884
Endowment net assets, December 31, 2011	\$ 11,024,162	\$ 2,420,744	\$ 2,339,084	\$ 15,783,990

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 Retirement benefits

The Organization has a thrift plan for the benefit of eligible staff employees. The contribution by the Organization is 5% of compensation of all eligible staff employees. Expense related to this plan was \$843,541 and \$771,662 for 2011 and 2010, respectively.

Employees are vested as follows:

<u>Years of Service</u>	<u>% Vested</u>
2	25%
3	50%
4	75%
5 or more	100%

In addition, the Organization has a Supplemental Executive Retirement Plan ("SERP") for certain executives. The expense for the SERP plan during 2011 and 2010 was \$252,025 and \$244,906, respectively.

10 California Community Services Funds

Under an agreement with the City of Los Angeles ("City"), the City provided from Department of Housing and Urban Development grant funds of \$400,000 to the Organization. The Organization used the funds to renovate its facilities in order to provide increased education, training and placement services, as defined. The Organization has issued a promissory note, secured by real property, in favor of the City for the amount of funds received. The note is intended to be repaid, with no interest, in services provided by the Organization over twenty years; and the Organization has the option to pay the balance of the note at anytime. During 2001 the Organization started amortizing the note over the service life of 20 years. Amortization to income was \$20,000 in 2011 and 2010, respectively.

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

SCHEDULE 1

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

December 31, 2011

	ASSETS		
	Goodwill Industries of Southern California	Goodwill Retail Services	Total
Current assets			
Cash and cash equivalents	\$ 10,363,635	\$ 101,783	\$ 10,465,418
Accounts receivable	2,992,462	-	2,992,462
Inventory	2,762,372	-	2,762,372
Prepaid expenses and deposits	3,552,052	-	3,552,052
Intercompany	(2,254,057)	2,254,057	-
Total current assets	17,416,464	2,355,840	19,772,304
Cash and certificates of deposit - designated or restricted to long-term use	1,245,513	-	1,245,513
Marketable securities			
Charitable gift annuities	447,394	-	447,394
Board designated reserve	11,024,162	-	11,024,162
Endowment	2,058,428	-	2,058,428
Other marketable securities	2,209	-	2,209
Contributions receivable from remainder trusts	371,689	-	371,689
Beneficial interests in perpetual trusts	280,974	-	280,974
Property, plant and equipment			
Land	3,469,028	-	3,469,028
Buildings and improvements	27,019,443	-	27,019,443
Departmental equipment	16,375,691	-	16,375,691
Transportation equipment	2,163,889	-	2,163,889
	<u>49,028,051</u>	<u>-</u>	<u>49,028,051</u>
Less accumulated depreciation	(26,223,156)	-	(26,223,156)
	<u>22,804,895</u>	<u>-</u>	<u>22,804,895</u>
Total assets	\$ 55,651,728	\$ 2,355,840	\$ 58,007,568

LIABILITIES AND NET ASSETS

	Goodwill Industries of Southern California	Goodwill Retail Services	Total
Current liabilities			
Accounts payable	\$ 5,092,392	\$ 15,207	\$ 5,107,599
Current portion of long-term debt	156,215	-	156,215
Accrued compensation and payroll taxes	4,753,824	1,737,573	6,491,397
Accrued insurance claims	3,704,920	603,060	4,307,980
Total current liabilities	13,707,351	2,355,840	16,063,191
Long-term debt	315,411	-	315,411
Total liabilities	14,022,762	2,355,840	16,378,602
Commitments and contingencies			
Net assets			
Unrestricted			
Board designated	11,024,162	-	11,024,162
Other unrestricted	25,844,976	-	25,844,976
Total unrestricted	36,869,138	-	36,869,138
Temporarily restricted	2,420,744	-	2,420,744
Permanently restricted	2,339,084	-	2,339,084
Total net assets	41,628,966	-	41,628,966
Total liabilities and net assets	<u>\$ 55,651,728</u>	<u>\$ 2,355,840</u>	<u>\$ 58,007,568</u>

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE
CONSOLIDATING SCHEDULE OF SUPPORT, REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the year ended December 31, 2011

	Goodwill Industries of Southern California			Elimination	Consolidated Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Revenues					
Operating revenues					
Sales from stores	\$ 87,887,673	\$ -	\$ -	\$ -	\$ 87,887,673
Salvage sales	1,430,162	-	-	-	1,430,162
Contract sales	7,629,122	-	-	-	7,629,122
Workforce development fees, including federal grants of \$7,471,454 and \$9,096,656 for 2011 and 2010 respectively	12,219,274	-	-	-	12,219,274
Cafeteria receipts	295,790	-	-	-	295,790
Other	161,202	-	-	-	161,202
Other revenues	109,623,223	-	-	-	109,623,223
Bequests, contributions and trust income	1,080,602	1,139,337	1,520,209	-	3,740,148
Contributions to capital campaign	-	1,939,338	-	-	1,939,338
Net assets released from restrictions	2,952,492	(2,952,492)	-	-	-
Contributed revenue-donated goods	29,621,713	-	-	-	29,621,713
In-kind donations	104,432	-	-	-	104,432
Interest and dividends	172,814	-	-	-	172,814
Gain (loss) on marketable securities	(451,478)	-	-	-	(451,478)
Gain (loss) on assets held by trustees	-	(93,434)	(17,049)	-	(110,483)
(Loss) on disposition of equipment	(83,030)	-	-	-	(83,030)
Staffing Service Fees	-	-	-	(11,841,800)	-
Total revenues	143,020,768	32,749	1,503,160	11,841,800	144,556,677
Expenses					
Operating expenses					
Program services					
Material collection, handling and processing	28,335,816	-	-	-	28,335,816
Stores including donated goods and services	74,237,333	-	-	(11,841,800)	74,237,333
Contract department	7,739,470	-	-	-	7,739,470
Workforce development	17,447,680	-	-	-	17,447,680
Cafeteria	561,448	-	-	-	561,448
Development program	1,561,847	-	-	-	1,561,847
General and administrative support	8,190,828	-	-	-	8,190,828
Total expenses	138,074,422	-	-	(11,841,800)	138,074,422
Interest	23,683	-	-	-	23,683
Total expenses	138,098,105	-	-	(11,841,800)	138,098,105
Changes in net assets	4,922,663	32,749	1,503,160	-	6,458,572
Net assets at beginning of year	31,946,475	2,387,995	835,924	-	35,170,394
Net assets at end of year	\$ 36,869,138	\$ 2,420,744	\$ 2,339,084	\$ -	\$ 41,628,966

GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE

SCHEDULE 3

CONSOLIDATING SCHEDULE OF EXPENSES

For the year ended December 31, 2011

	Goodwill Industries of Southern California	Goodwill Retail Services	Elimination	Total
Salaries and wages	\$ 37,440,837	\$ 9,777,595	\$ -	\$ 47,218,432
Payroll taxes	2,743,309	704,953	-	3,448,262
Employee benefits	5,517,804	1,314,112	-	6,831,916
Total salaries and related expenses	45,701,950	11,796,660	-	57,498,610
Cost of goods sold	29,694,155		-	29,694,155
Professional fees and contract services	19,669,168	37,091	(11,841,800)	7,864,459
Supplies	2,821,793	-	-	2,821,793
Telephone	502,326	-	-	502,326
Postage and shipping	670,932	-	-	670,932
Rents	18,542,489	-	-	18,542,489
Transportation	2,534,399	-	-	2,534,399
Conferences, conventions and meetings	546,936	-	-	546,936
Trash disposal	1,272,440	-	-	1,272,440
Occupancy	7,708,907	-	-	7,708,907
Printing and publications	1,933,944	-	-	1,933,944
Utilities	1,981,618	-	-	1,981,618
Taxes and licenses	55,458	4,371	-	59,829
Insurance	932,328	3,678	-	936,006
Repairs and maintenance	405,142	-	-	405,142
Membership dues	179,217	-	-	179,217
Depreciation	2,921,220	-	-	2,921,220
	92,372,472	45,140	(11,841,800)	80,575,812
Total expenses	138,074,422	11,841,800	(11,841,800)	138,074,422
Interest	23,683	-	-	23,683
	\$ 138,098,105	\$ 11,841,800	\$ (11,841,800)	\$ 138,098,105



**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 Southern California and Affiliate

We have audited the consolidated financial statements of Goodwill Industries of Southern California and its affiliate Goodwill Retail Services (collectively, the "Organization") as of and for the year ended December 31, 2011, and have issued our report thereon dated April 3, 2012. 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 the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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, 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.

Maguire & Knutson + McIntyre, LLP

Pasadena, California
April 3, 2012



**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**

Board of Directors
Goodwill Industries of Southern California and Affiliate

Compliance

We have audited Goodwill Industries of Southern California's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Goodwill Industries of Southern California's major federal programs for the year ended December 31, 2011. Goodwill Industries of Southern California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Goodwill Industries of Southern California's management. Our responsibility is to express an opinion on Goodwill Industries of Southern California'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 Southern California'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 Southern California's compliance with those requirements.

In our opinion, Goodwill Industries of Southern California complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of Goodwill Industries of Southern California 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 Southern California's internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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 Industries of Southern California'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 program will not be prevented, or detected and corrected, on a timely basis.

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

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

Maginnis & Nechtel + Mc Intyre, LLP

Pasadena, California
April 3, 2012

**GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor/ Pass through Grantor/ Program Title	CFDA Number	Contract/Agency or Pass-through Number	ARRA* Expenditures	Non-ARRA Expenditures	Total Federal Expenditures
Major Program					
U.S. Department of Labor, Employment and Training Administration – Workforce Investment Act					
WIA Cluster					
Pass-through from the Department of Community and Senior Services Los Angeles County					
WIA Adult Program	17.258	A080908 (11-12)	\$ -	\$ 488,742	\$ 488,742
	17.258	A080908 (10-11)	-	497,288	497,288
	17.258	A080908 (10-11)	-	402,105	402,105
WIA Youth Program	17.259	Y080906-Pomona (10-11)	-	378,980	378,980
	17.259	Y080906-Pomona (11-12)	-	285,972	285,972
	17.259	Y080906-EI Monte (10-11)	-	395,260	395,260
	17.259	Y080906-EI Monte (11-12)	-	250,726	250,726
	17.259	Y080906-Pomona (11)	-	96,624	96,624
	17.259	Y080906-EI Monte (11)	-	109,393	109,393
	17.259	Y080906-ARRA Pomona (09-11)	315	-	315
	17.259	Y080906-ARRA EI Monte (09-11)	42,637	-	42,637
WIA Dislocated Workers	17.260	DW080808 (11-12)	-	333,646	333,646
	17.260	DW080908 (10-11)	-	319,357	319,357
	17.260	ARRA-DW091008 (09-11)	24,587	-	24,587
	17.260	ARRA-DW080908 (10-11)	19,684	-	19,684
	17.260	RR080906-ARRA (09-11)	76,445	-	76,445
	17.260	RR080906-Formula (11-12)	-	131,718	131,718
	17.260	RR080906-Formula (10-11)	-	79,543	79,543
	17.260	ARRA-RR080906 (10-11)	127,243	-	127,243
Pass-through from the City of Los Angeles					
WIA Adult Program	17.258	115785-A (11-12)	-	305,531	305,531
	17.258	117551-A (10-11)	-	243,618	243,618
	17.258	115786 - Adult FSC (11)	-	12,629	12,629
	17.258	118312 (T4797)-A (10-11)	5,475	-	5,475
WIA Dislocated Workers	17.260	115785-DW (11-12)	-	199,448	199,448
	17.260	117551-DW (10-11)	-	184,382	184,382
	17.260	115786 -DW FSC (11)	-	7,735	7,735
	17.260	118312 (T4797) - DW (10-11)	510	-	510
	17.260	T-4874 (11)	238,444	-	238,444
Pass-through from the City of Los Angeles and then through Para Los Ninos					
WIA Youth Program	17.259	T-4136-D (11-12)	-	44,573	44,573
	17.259	T-4316-D (10-11)	-	72,169	72,169

* ARRA - American Recovery and Reinvestment Act

**GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011, continued**

Federal Grantor/ Pass through Grantor/ Program Title	CFDA Number	Contract/Agency or Pass-through Number	ARRA Expenditures	Non-ARRA Expenditures	Total Federal Expenditures
Major Program, continued					
U.S. Department of Labor, Employment and Training Administration – Workforce Investment Act					
WIA Cluster					
Pass-through from the County of Los Angeles and then through City of Palmdale					
WIA Adult Program	17.258	A091003 (10-11)	\$ -	\$ 359,064	\$ 359,064
	17.258	A091003 (11-12)	-	246,802	246,802
	17.258	ARRA-A091003 (09-11)	55,807	-	55,807
WIA Dislocated Workers	17.260	DW091003 (10-11)	-	171,821	171,821
	17.260	DW091003 (11-12)	-	141,997	141,997
	17.260	ARRA-DW091003 (09-11)	37,893	-	37,893
	17.260	ARRA-DW091003 (10-11)	9,377	-	9,377
WIA Pilots, Demonstrations, and	17.261	EA-19078-09-60-A-6 (10-11)	-	44,961	44,961
	17.261	EA-19078-09-60-A-7 (11-12)	-	40,169	40,169
Pass-through from the County of Los Angeles and then through Antelope Valley Workforce Development Consortium					
WIA Adult Program	17.258	N/A (10-11)	-	45,419	45,419
	17.258	N/A (11-12)	-	53,428	53,428
	17.258	N/A (09-11)	7,819	-	7,819
WIA Dislocated Workers	17.260	N/A (10-11)	-	118,180	118,180
	17.260	N/A (11-12)	-	75,647	75,647
	17.260	N/A (09-11)	34,763	-	34,763
	17.260	N/A (10-11)	11,486	-	11,486
Pass-through from the County of Los Angeles and then through Managed Career Solutions					
WIA Adult Program	17.258	N/A (10-11)	-	34,783	34,783
WIA Dislocated Workers	17.260	N/A (10-11)	-	34,941	34,941
Total WIA Cluster			692,485	6,206,651	6,899,136
U.S. Department of Justice					
Pass-through from Goodwill Int'l Edward Byrne Memorial Competitive Grant Program					
	16.808	2009-SC-B9-0035 (09-11)	165,469	-	165,469
Total Major Programs			\$ 857,954	\$ 6,206,651	\$ 7,064,605

**GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011, continued**

Federal Grantor/ Pass through Grantor/ Program Title	CFDA Number	Contract/Agency or Pass-through Number	ARRA Expenditures	Non-ARRA Expenditures	Total Federal Expenditures
<u>Other Federal Awards</u>					
Social Security Administration					
Social Security Benefits Planning, Assistance and Outreach Program	96.008	14-W-50008-9-05 (10-11)	-	102,478	102,478
	96.008	14-W-50008-9-06 (11-12)	-	124,371	124,371
			-	226,849	226,849
U.S. Department of Housing and Urban Development, Community Planning and Development					
Pass-through from the City of Los Angeles Community Development Department					
Community Development Block Grants/Entitlement Grants	14.218	97736	-	180,000	180,000
			-	180,000	180,000
			-	180,000	180,000
Total expenditures of federal awards			\$ 857,954	\$ 6,613,500	\$ 7,471,454

**GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Note A – Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Goodwill Industries of Southern California 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.

**GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

A. Summary of audit results

1. The auditor's report expresses an unqualified opinion on the consolidated financial statements and schedule of expenditures of federal awards of Goodwill Industries of Southern California.
2. No instances of noncompliance material to the financial statements of Goodwill Industries of Southern California were disclosed during the audit.
3. The auditor's report on compliance for the major federal award programs for Goodwill Industries of Southern California expresses an unqualified opinion.
4. No audit findings relative to the major federal award programs for Goodwill Industries of Southern California are reported in Part C of this schedule.
5. The programs tested as major programs are
 - a. The U.S. Department of Labor, Employment and Training Administration – Workforce Investment Act – WIA Cluster.
 - b. The U.S. Department of Justice – Edward Byrne Memorial Competitive Grant Program.
6. The dollar threshold for distinguishing Type A and B programs was \$300,000.
7. Goodwill Industries of Southern California was determined to be a low-risk auditee.

B. Financial Statement Findings

None

C. Federal Awards Findings and Questioned Costs

None

**GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA AND AFFILIATE
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

There are no audit findings or questioned costs for year ended December 31, 2010.