



Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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**GOODWILL
SERVING THE PEOPLE OF
SOUTHERN LOS ANGELES COUNTY**

FINANCIAL STATEMENTS

DECEMBER 31, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Goodwill Serving the People of Southern Los Angeles County

We have audited the accompanying Statement of Financial Position of Goodwill Serving the People of Southern Los Angeles County, a nonprofit organization, as of December 31, 2010, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Goodwill Serving the People of Southern Los Angeles County's December 31, 2009 financial statements and, in our report dated April 5, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Goodwill Serving the People of Southern Los Angeles County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, 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 Serving the People of Southern Los Angeles County as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Harrington Group

San Marino, California
April 1, 2011

**GOODWILL SERVING THE PEOPLE OF
SOUTHERN LOS ANGELES COUNTY**

STATEMENT OF FINANCIAL POSITION

December 31, 2010

With comparative totals at December 31, 2009

	2010	2009
Assets		
Cash	\$ 75,453	\$ 37,000
Accounts receivable, net (Note 2)	273,108	286,937
Other receivables	95,403	160,384
Merchandise inventory	437,135	308,025
Prepaid expense	516,327	338,048
Deposits	29,290	29,290
Investments (Note 3)	10,879,610	9,833,550
Property and equipment (Note 4)	4,275,262	4,356,978
Total assets	\$ 16,581,588	\$ 15,350,212
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 142,300	\$ 109,808
Accrued liabilities (Note 5)	870,672	641,884
Accrued unemployment liability (Note 6)	150,000	150,000
Total liabilities	1,162,972	901,692
Net assets		
Unrestricted	15,418,616	14,448,520
Total net assets	15,418,616	14,448,520
Total liabilities and net assets	\$ 16,581,588	\$ 15,350,212

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

**GOODWILL SERVING THE PEOPLE OF
SOUTHERN LOS ANGELES COUNTY**

STATEMENT OF ACTIVITIES

For the year ended December 31, 2010

With comparative totals for the year ended December 31, 2009

	2010	2009
Revenue and support		
Program revenues		
Commercial operations	\$ 14,052,481	\$ 12,875,735
Vocational services	2,462,624	2,626,866
Total program revenues	16,515,105	15,502,601
Public support		
Donated merchandise	3,316,563	2,381,855
Contributions, bequests, and grants	673,414	899,068
Total public support	3,989,977	3,280,923
Total public support and program revenues	20,505,082	18,783,524
Other revenues		
Interest and dividend income	279,088	288,607
Realized and unrealized gain on investments, net of advisory fees	126,782	354,275
Other income	115,958	140,054
Gain (loss) on disposal of assets	566,221	(8,423)
Total other revenues	1,088,049	774,513
Total revenue and support	21,593,131	19,558,037
Expenses		
Program services		
Commercial operations	15,028,530	13,943,555
Vocational services	3,018,183	2,948,240
Support services		
General and administrative	2,451,008	2,422,337
Fund development	125,314	124,473
Total expenses	20,623,035	19,438,605
Change in net assets	970,096	119,432
Net assets, beginning of year	14,448,520	14,329,088
Net assets, end of year	\$ 15,418,616	\$ 14,448,520

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

**GOODWILL SERVING THE PEOPLE OF
SOUTHERN LOS ANGELES COUNTY**

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2010

With comparative totals for the year ended December 31, 2009

	Program Services		Total Program Services	Support Services		Total Support Services	Total Expenses	
	Commercial Operations	Vocational Services		General and Administrative	Fund Development		2010	2009
Salaries and wages	\$ 5,310,233	\$ 1,277,060	\$ 6,587,293	\$ 1,251,443	\$ 80,085	\$ 1,331,528	\$ 7,918,821	\$ 7,752,355
Employee benefits	240,622	58,821	299,443	52,928	4,357	57,285	356,728	399,587
Payroll taxes and workers compensation	1,134,923	178,558	1,313,481	152,774	6,929	159,703	1,473,184	1,246,731
Total personnel costs	6,685,778	1,514,439	8,200,217	1,457,145	91,371	1,548,516	9,748,733	9,398,673
Value of donated goods sold	3,202,574		3,202,574			-	3,202,574	2,454,672
Occupancy	2,526,278	2,267	2,528,545	393,884		393,884	2,922,429	2,739,953
Outside services	128,285	950,955	1,079,240	21,275	130	21,405	1,100,645	1,221,074
Cost of surplus merchandise sold	764,397		764,397			-	764,397	819,874
Vehicle and equipment	317,427	43,905	361,332	5,307		5,307	366,639	349,361
Operating supplies	185,762	25,964	211,726	64,766	184	64,950	276,676	256,851
Professional fees	18,811	180,100	198,911	52,669		52,669	251,580	214,331
Advertising and promotion	204,116	23,398	227,514	17,947		17,947	245,461	269,801
Bank fees	187,807	3,086	190,893	16,160	364	16,524	207,417	248,063
Postage and shipping	155,920	6,894	162,814	3,280	4,575	7,855	170,669	158,942
Human resources support services	3,946	135,128	139,074	18,664	68	18,732	157,806	146,340
Telephone and communications	83,722	11,241	94,963	49,063	1,817	50,880	145,843	141,276
Membership dues		1,691	1,691	121,039	100	121,139	122,830	134,575
Trash disposal	109,782	2,620	112,402			-	112,402	149,679
Equipment rental and maintenance	48,551	16,951	65,502	46,761		46,761	112,263	90,010
Travel and conferences	54,250	21,256	75,506	30,652	388	31,040	106,546	69,438
Data processing fees			-	69,733		69,733	69,733	66,483
Printing and publication	6,946	3,615	10,561	13,343	24,384	37,727	48,288	31,807
Other expenses	355	70	425	5,026		5,026	5,451	1,274
Bad debt			-			-	-	10,000
Total 2010 functional expenses before depreciation	14,684,707	2,943,580	17,628,287	2,386,714	123,381	2,510,095	20,138,382	18,972,477
Depreciation	343,823	74,603	418,426	64,294	1,933	66,227	484,653	466,128
Total 2010 functional expenses	\$ 15,028,530	\$ 3,018,183	\$ 18,046,713	\$ 2,451,008	\$ 125,314	\$ 2,576,322	\$ 20,623,035	
Total 2009 functional expenses	\$ 13,943,555	\$ 2,948,240	\$ 16,891,795	\$ 2,422,337	\$ 124,473	\$ 2,546,810		\$ 19,438,605

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

**GOODWILL SERVING THE PEOPLE OF
SOUTHERN LOS ANGELES COUNTY**

STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

With comparative totals for the year ended December 31, 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 970,096	\$ 119,432
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	484,653	466,128
(Gain) loss on disposal of assets	(566,221)	8,423
Gain on investments, net	(126,782)	(354,275)
Change in allowance for doubtful accounts	(980)	4,462
Changes in operating assets and liabilities:		
Decrease in accounts receivable	14,809	120,511
Decrease (increase) in other receivable	64,981	(67,223)
(Increase) decrease in merchandise inventory	(129,110)	92,657
(Increase) decrease in prepaid expenses	(178,279)	128,565
Decrease in deposits	-	1,000
Increase (decrease) in accounts payable	32,492	(65,390)
Increase (decrease) in accrued liabilities	228,788	(438,838)
	794,447	15,452
Cash flows from investing activities:		
Purchase of investments	(1,460,986)	(1,830,705)
Proceeds from sale of investments	541,708	2,029,366
Proceeds from sale of property	630,610	-
Purchase of property and equipment	(467,326)	(218,497)
	(755,994)	(19,836)
Net increase (decrease) in cash	38,453	(4,384)
Cash, beginning of year	37,000	41,384
Cash, end of year	\$ 75,453	\$ 37,000

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

GOODWILL SERVING THE PEOPLE OF SOUTHERN LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

As of June 2006, Goodwill Long Beach and South Bay became known as Goodwill Serving the People of Southern Los Angeles County (“Goodwill SOLAC”). The new corporate name more accurately reflects the geographic area served and more aptly states the mission of the organization:

“Goodwill Serving The People of Southern Los Angeles County is a community resource, providing skill development and work opportunities, to help people feel whole through the power of work”.

Goodwill SOLAC was established in 1929 in response to the great depression, which brought an increased focus to the thousands of people out of work and to people with disabilities. In 1945, Goodwill SOLAC responded to GI’s returning from World War II to train, find jobs, and assimilate these veterans back into a peacetime economy. Today, Goodwill SOLAC serves individuals with barriers to employment in a highly populated, culturally diverse, and growing community.

Goodwill SOLAC’s administrative offices and main facility are located in Long Beach at 800 W. Pacific Coast Highway. In addition to the main facility, Goodwill SOLAC operates twenty-seven owned and leased sites, throughout Southern Los Angeles County. The operations of Goodwill SOLAC are inclusive of its Workforce Development programs and services, LiNKS Sign Language & Interpreting Services, brick and mortar retail stores, Shopgoodwill.com (its e-commerce operation), donation sites, processing center, transportation operations, and its Shred-4-Good, document destruction environmental services.

Income produced through community contributions, LiNKS Sign Language & Interpreting Services, Retail Operations, and environmental services support the mission of the organization.

Goodwill SOLAC believes that getting people to work not only benefits the individual, but benefits the communities’ economic vitality through taxes, spending power, real estate values, quality of life, and relief to social services and welfare systems.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Goodwill SOLAC are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

continued

GOODWILL SERVING THE PEOPLE OF SOUTHERN LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. Goodwill SOLAC reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions. Goodwill SOLAC had no temporarily restricted net assets as of December 31, 2010.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Goodwill SOLAC to expend all of the income (or other economic benefits) derived from the donated assets. Goodwill SOLAC had no permanently restricted net assets as of December 31, 2010.

Concentration of Credit Risk - Cash

Goodwill SOLAC maintains cash at financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Goodwill SOLAC has not incurred losses related to these investments.

Accounts Receivable

Accounts receivable are stated at an amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Accounts receivable at December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Accounts receivable – gross	\$286,950	\$301,759
Less: allowance for doubtful account	<u>(13,842)</u>	<u>(14,822)</u>
	<u>\$273,108</u>	<u>\$286,937</u>

Merchandise Inventory

Merchandise inventory consists of the following:

- Donated clothing, furniture, and other goods.
- Surplus inventory purchased at a discount from retailers or wholesalers due to minor defects or odd-lot situations.

continued

GOODWILL SERVING THE PEOPLE OF SOUTHERN LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Goodwill SOLAC has estimated the fair value of the donated goods. The estimate is based on total donated merchandise sales less costs incurred to prepare the merchandise for sale. Donated merchandise valued at \$3,316,563 and \$2,381,855 was received by Goodwill SOLAC during 2010 and 2009, respectively, and has been included in public support in the accompanying Statement of Activities. The reported value of donated merchandise sold during 2010 and 2009 was \$3,202,574 and \$2,454,672, respectively.

Purchased surplus inventory is stated at the lower of cost or market value. Cost is determined using the first-in, first-out method.

Investments

Goodwill SOLAC values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain or loss on investments. Short-term highly liquid certificates of deposit and money market funds that are not used for operations are treated as investments.

Goodwill SOLAC holds investments in the form of short-term money market investments, common stocks, government securities, U.S. treasury bills, certificates of deposit, and municipal/corporate bonds. The Board of Trustees routinely reviews market values of such investments and the credit ratings of the bond issuers.

Goodwill SOLAC invests in companies whose business conduct is consistent with its values, goals, and beliefs. Investments are ethically restricted and not made in the securities of companies who engage in the sale of tobacco products, handguns/rifles, gaming, pornography, or alcohol.

Fair Value Measurements

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs).
- Level 3 inputs are unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances.

continued

GOODWILL SERVING THE PEOPLE OF SOUTHERN LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

The specific techniques used to measure fair value for financial statement elements are described in the notes below that relate to each element.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair market value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred.

Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand dollars and the useful life is greater than one year.

Income Taxes

Goodwill SOLAC is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). In addition, Goodwill SOLAC has been determined by the Internal Revenue Service and the Franchise Tax Board not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code and Section 23709 of the Taxation Code.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Goodwill SOLAC in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Goodwill SOLAC’s returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing Goodwill SOLAC’s programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method which best measures the relative degree of benefit. Goodwill SOLAC uses square footage and percentage of use estimates to allocate indirect costs.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

GOODWILL SERVING THE PEOPLE OF SOUTHERN LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Comparative Totals

The financial statements and footnotes include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Goodwill SOLAC's financial statements for the year ended December 31, 2009 from which the summarized information was derived.

Reclassifications

Certain amounts from the December 31, 2009 financial statements have been reclassified to conform to the December 31, 2010 presentation for appropriate comparability.

Subsequent Events

Management has evaluated subsequent events through April 1, 2011, the date the financial statements were available.

3. Investments

The fair value of investments has been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs). Investments at December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Certificates of deposit	\$ 5,068,929	\$4,154,856
Government securities	1,772,386	2,280,972
Common stocks	2,041,118	1,570,807
Money market fund	1,018,092	820,544
Municipal securities	219,470	434,002
Corporate bonds	356,370	352,585
Mutual funds	<u>403,245</u>	<u>219,784</u>
	<u>\$10,879,610</u>	<u>\$9,833,550</u>

Realized and unrealized gain on investments on the Statement of Activities for December 31, 2010 and 2009 are shown as net of investment advisory fees of \$35,162 and \$29,085, respectively.

continued

GOODWILL SERVING THE PEOPLE OF SOUTHERN LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

4. Property and Equipment

Property and equipment at December 31, 2010 consist of the following:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 2,716,262	\$ 2,752,838
Buildings and improvements	5,553,634	5,620,779
Equipment:		
Plant equipment	1,171,199	1,186,021
Computer equipment	563,426	555,683
Grant equipment	346,033	346,033
Store equipment	674,836	533,297
Office equipment	152,330	154,267
Vehicles/ADCs	956,382	959,977
Leasehold improvements	703,372	690,611
Furniture and fixtures	475,758	509,521
Construction in progress	<u>176,955</u>	<u>57,209</u>
	13,490,187	13,366,236
Less: accumulated depreciation	<u>(9,214,925)</u>	<u>(9,009,258)</u>
	<u>\$ 4,275,262</u>	<u>\$ 4,356,978</u>

Depreciation expense for the years ended December 31, 2010 and 2009 was \$484,653 and \$466,128, respectively.

5. Accrued Liabilities

Accrued liabilities at December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Other accrued expenses	\$486,237	\$298,737
Accrued payroll	128,063	97,286
Accrued vacation	<u>256,372</u>	<u>245,861</u>
	<u>\$870,672</u>	<u>\$641,884</u>

6. Accrued Unemployment Liability

Goodwill SOLAC has elected to be self-insured for the purposes of California State Unemployment Insurance. Accrued unemployment liability of \$150,000 at December 31, 2010 is a reserve for estimated future claims arising from payroll paid through December 31, 2010. Unemployment expense for the years ended December 31, 2010 and 2009 was \$170,882 and \$112,128, respectively.

continued

GOODWILL SERVING THE PEOPLE OF SOUTHERN LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

7. Commitments and Contingencies

Obligations Under Operating Leases

Goodwill SOLAC is obligated under various lease agreements for real property to be used as retail outlets and for equipment. The lease terms expire in various years through 2020. The terms of the leases provide for payment of minimum annual rental with periodic adjustments in lease payments, mostly fixed rates and some based on price level changes. In addition, Goodwill SOLAC is required to pay the real estate taxes and insurance.

Year ended December 31,

2011	\$1,879,145
2012	1,477,834
2013	1,312,609
2014	1,194,178
2015	884,729
Thereafter	<u>1,903,106</u>
	<u>\$8,651,601</u>

Rent expense under operating leases for the years ended December 31, 2010 and 2009 was \$2,092,613 and \$1,864,231, respectively.

Contracts

Goodwill SOLAC's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. Liabilities, if any, which may result from governmental audits or disallowances cannot be reasonably estimated and, accordingly, Goodwill SOLAC has no provisions for the possible disallowance of any program costs on its financial statements.

8. Retirement Plan

Goodwill SOLAC has a non-ERISA 403(b) plan available to substantially all employees. Employees may contribute any amount up the maximum permitted by law. In addition, participants qualifying for age-based provisions may elect an additional catch-up deferral subject to regulatory limitations. Employer contributions are not permitted under the plan.