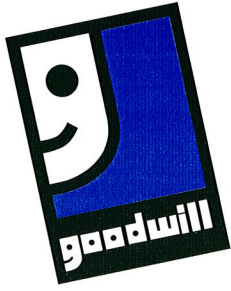


**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007**



GOODWILL INDUSTRIES

OF SOUTH CENTRAL CALIFORNIA

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May 5, 2009

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

The **Statements of Financial Position** presents information on all of the Agency's assets and liabilities, with the difference between the two reported as **Net Assets**. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Agency's financial position is improving or deteriorating. The assets of the Agency exceeded its liabilities at the close of the most-recent fiscal year by \$1,521,613. All of this amount may be used to meet the Agency's ongoing obligations to clients and creditors.

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

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

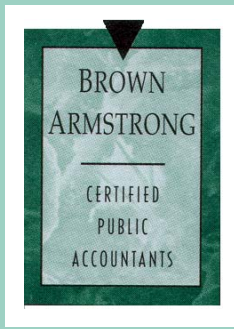
The Notes to Financial Statements can be found beginning on page eight of this report and provide additional information that is essential to a full understanding of the data presented in the financial statements. Although each note contributes significantly to that understanding, management encourages the reader to give particular attention to **Note 6** (page 15) which describes our Interest Rate Swap Agreement. The same topic is also discussed in **Note 1** (page nine) as part of Summary of Significant Accounting Policies. Note 6 clearly indicates that in the absence of the swap agreement the Change in Net Assets would be positive for both 2007 and 2008. The liability resulting from the reduction in the agreement's fair value is classified in the *Statements of Financial Position* as "non current" because it is not due during the next fiscal year. This liability is due to Wells Fargo Bank only if the Agency terminates the underlying loan agreements. The Agency does not intend either to sell any of the properties that serve as collateral for the loan agreements or otherwise take actions that would terminate these agreements and it does not anticipate doing either during the term of the loans.

Sheryl Chalupa
President / CEO

**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
DECEMBER 31, 2008 AND 2007**

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INDEPENDENT AUDITOR'S REPORT

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

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Rosalba Flores, CPA
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Clint W. Baird, CPA
Adrian Rich, CPA
Craig Rickett, CPA

We have audited the accompanying statements of financial position of Goodwill Industries of South Central California (Goodwill Industries), a not-for-profit organization, as of December 31, 2008 and 2007, and the related statements of activities, functional expenses and revenues, and cash flows for the years then ended. These financial statements are the responsibility of the management of Goodwill Industries. Our responsibility is to express an opinion on these financial statements based on our audit.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
March 20, 2009

**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007**

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and cash equivalents, including certificates of deposits	\$ 1,003,182	\$ 610,394
Accounts receivable	30,160	104,423
Grants receivable	182,502	39,137
Inventory held for sale	254,112	239,214
Prepaid expenses	213,830	214,964
Deposits	81,762	93,129
Total Current Assets	<u>1,765,548</u>	<u>1,301,261</u>
Investments	-	303,263
Intangible Asset	33,313	37,565
Property and Equipment, net	<u>7,480,834</u>	<u>7,526,084</u>
TOTAL ASSETS	<u>\$ 9,279,695</u>	<u>\$ 9,168,173</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 229,986	\$ 198,314
Accrued salaries and expenses	425,253	265,011
Interest payable	36,418	34,401
Capital leases, current portion	10,413	12,112
Notes payable, current portion	105,981	100,038
Total Current Liabilities	<u>808,051</u>	<u>609,876</u>
Long Term Liabilities		
Capital leases, net of current portion	13,359	23,774
Notes payable, net of current portion	5,701,040	5,805,020
Other non-current liabilities	1,235,632	430,148
Total Long Term Liabilities	<u>6,950,031</u>	<u>6,258,942</u>
Total Liabilities	<u>7,758,082</u>	<u>6,868,818</u>
Net Assets		
Unrestricted net assets		
Operating	1,321,613	2,099,355
Board designated	200,000	200,000
Total Net Assets	<u>1,521,613</u>	<u>2,299,355</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,279,695</u>	<u>\$ 9,168,173</u>

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

**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CHANGES IN NET ASSETS			
Retail sales	\$ 9,674,239	\$ -	\$ 9,674,239
Value of donated goods received	1,789,166	-	1,789,166
Donations	-	23,072	23,072
Vocational services	553,549	-	553,549
Salvage sales	622,513	-	622,513
Cash contributions received	45,150	-	45,150
Interest income	8,011	-	8,011
Rental income	1,925	-	1,925
Gain (loss) on disposal of asset	(12,901)	-	(12,901)
Net assets released from restriction - restrictions satisfied by payments	<u>23,072</u>	<u>(23,072)</u>	<u>-</u>
 Total Support and Revenues	 <u>12,704,724</u>	 <u>-</u>	 <u>12,704,724</u>
EXPENSES			
Program Services			
Donated goods - retail	10,283,805	-	10,283,805
Donated goods - salvage	<u>469,945</u>	<u>-</u>	<u>469,945</u>
 Total Donated Goods	 10,753,750	 -	 10,753,750
 Vocational Services	 <u>1,743,029</u>	 <u>-</u>	 <u>1,743,029</u>
 Total Program Services	 12,496,779	 -	 12,496,779
Supporting Services			
Management services	<u>985,687</u>	<u>-</u>	<u>985,687</u>
 Total Expenses	 <u>13,482,466</u>	 <u>-</u>	 <u>13,482,466</u>
 Change in Net Assets	 (777,742)	 -	 (777,742)
 Net Assets, Beginning of year	 <u>2,299,355</u>	 <u>-</u>	 <u>2,299,355</u>
 Net Assets, End of Year	 <u>\$ 1,521,613</u>	 <u>\$ -</u>	 <u>\$ 1,521,613</u>

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

**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007, AS RESTATED**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CHANGES IN NET ASSETS			
Retail sales	\$ 9,317,804	\$ -	\$ 9,317,804
Value of donated goods received	1,672,941	-	1,672,941
Donations	-	17,356	17,356
Vocational services	361,123	-	361,123
Salvage sales	655,627	-	655,627
Cash contributions received	21,529	-	21,529
Interest income	5,009	-	5,009
Rental income	13,648	-	13,648
Net assets released from restriction - restrictions satisfied by payments	<u>17,356</u>	<u>(17,356)</u>	<u>-</u>
 Total Support and Revenues	 <u>12,065,037</u>	 <u>-</u>	 <u>12,065,037</u>
EXPENSES			
Program Services			
Donated goods - retail	9,353,637	-	9,353,637
Donated goods - salvage	<u>368,066</u>	<u>-</u>	<u>368,066</u>
 Total Donated Goods	 9,721,703	 -	 9,721,703
 Vocational Services	 <u>1,382,250</u>	 <u>-</u>	 <u>1,382,250</u>
 Total Program Services	 11,103,953	 -	 11,103,953
Supporting Services			
Management services	<u>1,078,077</u>	<u>-</u>	<u>1,078,077</u>
 Total Expenses	 <u>12,182,030</u>	 <u>-</u>	 <u>12,182,030</u>
 Change in Net Assets	 (116,993)	 -	 (116,993)
 Net Assets, Beginning of year	 <u>2,416,348</u>	 <u>-</u>	 <u>2,416,348</u>
 Net Assets, End of Year	 <u>\$ 2,299,355</u>	 <u>\$ -</u>	 <u>\$ 2,299,355</u>

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

**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
STATEMENT OF FUNCTIONAL EXPENSES AND REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Program Services				Total Program Services	Supporting	Total Revenue and Expenses
	Donated	Donated	Donated	Vocational		Services	
	Goods Retail	Goods Salvage	Goods Transportation			Management Services	
EXPENSES							
Payroll Related Expenses							
Salaries	\$ 2,871,791	\$ 83,713	\$ 888,876	\$ 597,353	\$ 4,441,733	\$ 758,680	\$ 5,200,413
Employee benefits	196,123	-	61,661	18,160	275,944	16,949	292,893
Payroll taxes and worker's compensation	516,909	11,564	157,306	81,825	767,604	79,308	846,912
Total Payroll Related Expenses	<u>3,584,823</u>	<u>95,277</u>	<u>1,107,843</u>	<u>697,338</u>	<u>5,485,281</u>	<u>854,937</u>	<u>6,340,218</u>
Value of donated goods sold	1,789,166	-	-	-	1,789,166	-	1,789,166
Professional fees and contract services	56,064	-	341	770	57,175	93,666	150,841
Supplies	285,807	4,994	309,893	32,523	633,217	51,372	684,589
Telephone	36,817	-	7,459	5,075	49,351	56,383	105,734
Postage	57,969	-	64	606	58,639	2,824	61,463
Occupancy	1,731,307	105	24,226	307,159	2,062,797	149,068	2,211,865
Equipment rental and maintenance	42,207	1,272	54,306	1,389	99,174	9,200	108,374
Printing and publication	83,374	399	389	3,873	88,035	90,699	178,734
Local travel	16,582	-	369,355	13,667	399,604	28,452	428,056
Conferences, conventions and meetings	1,839	-	627	2,195	4,661	21,412	26,073
Special assistance	15,209	107	3,206	4,487	23,009	12,578	35,587
Dues	1,654	-	25	1,360	3,039	99,056	102,095
Other	92,523	1,212	1,087	2,151	96,973	791,553	888,526
Total Expenses Before Depreciation	<u>7,795,341</u>	<u>103,366</u>	<u>1,878,821</u>	<u>1,072,593</u>	<u>10,850,121</u>	<u>2,261,200</u>	<u>13,111,321</u>
Depreciation of Property and Equipment	29,466	-	-	-	29,466	341,679	371,145
Total Direct Expense	<u>7,824,807</u>	<u>103,366</u>	<u>1,878,821</u>	<u>1,072,593</u>	<u>10,879,587</u>	<u>2,602,879</u>	<u>13,482,466</u>
Distribution of Indirect Expenses							
Assessment dues	54,480	9,906	-	24,764	89,150	(89,150)	-
Occupancy and indirect	269,910	49,075	-	122,687	441,672	(441,672)	-
Management services	1,107,192	201,308	-	503,269	1,811,769	(1,811,769)	-
Solicitation and transportation	1,027,416	106,290	(1,878,821)	19,716	(725,399)	725,399	-
Total Indirect Expenses	<u>2,458,998</u>	<u>366,579</u>	<u>(1,878,821)</u>	<u>670,436</u>	<u>1,617,192</u>	<u>(1,617,192)</u>	<u>-</u>
Full Cost	<u>10,283,805</u>	<u>469,945</u>	<u>-</u>	<u>1,743,029</u>	<u>12,496,779</u>	<u>985,687</u>	<u>13,482,466</u>
REVENUES							
Value of donated goods received	1,789,166	-	-	-	1,789,166	-	1,789,166
Program service revenue	9,674,239	622,513	-	553,549	10,850,301	-	10,850,301
Total Program Revenue	<u>11,463,405</u>	<u>622,513</u>	<u>-</u>	<u>553,549</u>	<u>12,639,467</u>	<u>-</u>	<u>12,639,467</u>
Excess (Deficit) Related Revenues Over Expenses	<u>1,179,600</u>	<u>152,568</u>	<u>-</u>	<u>(1,189,480)</u>	<u>142,688</u>	<u>(985,687)</u>	<u>(842,999)</u>
Other Revenues							
Interest income	-	-	-	-	-	8,011	8,011
Contributions	-	-	-	-	-	45,150	45,150
Donations	-	-	-	-	-	23,072	23,072
Gain(loss) on disposal of assets	-	-	-	-	-	(12,901)	(12,901)
Rental income	-	-	-	-	-	1,925	1,925
Total Other Revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,257</u>	<u>65,257</u>
Excess (Deficit) Revenues Over Expenses	<u>\$ 1,179,600</u>	<u>\$ 152,568</u>	<u>\$ -</u>	<u>\$ (1,189,480)</u>	<u>\$ 142,688</u>	<u>\$ (920,430)</u>	<u>\$ (777,742)</u>

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

**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
STATEMENT OF FUNCTIONAL EXPENSES AND REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Program Services				Total Program Services	Supporting	Total Revenue and Expenses
	Donated Goods Retail	Donated Goods Salvage	Donated Goods Transportation	Vocational Services		Services Management Services	
EXPENSES							
Payroll Related Expenses							
Salaries	\$ 2,795,235	\$ 67,458	\$ 854,096	\$ 464,850	\$ 4,181,639	\$ 707,346	\$ 4,888,985
Employee benefits	100,292	-	29,898	9,402	139,592	8,760	148,352
Payroll taxes and worker's compensation	523,435	11,303	155,198	72,358	762,294	75,623	837,917
Total Payroll Related Expenses	<u>3,418,962</u>	<u>78,761</u>	<u>1,039,192</u>	<u>546,610</u>	<u>5,083,525</u>	<u>791,729</u>	<u>5,875,254</u>
Value of donated goods sold	1,672,941	-	-	-	1,672,941	-	1,672,941
Professional fees and contract services	38,282	-	915	21,317	60,514	119,101	179,615
Supplies	251,838	5,723	263,674	33,018	554,253	52,478	606,731
Telephone	40,073	-	7,057	4,472	51,602	58,266	109,868
Postage	50,595	-	19	892	51,506	3,592	55,098
Occupancy	1,622,691	-	18,732	289,262	1,930,685	413,712	2,344,397
Equipment rental and maintenance	40,406	808	97,250	864	139,328	6,316	145,644
Printing and publication	85,363	300	487	7,776	93,926	98,135	192,061
Local travel	16,092	-	329,369	9,421	354,882	22,650	377,532
Conferences, conventions and meetings	1,990	-	580	2,616	5,186	32,652	37,838
Special assistance	7,871	100	3,854	2,443	14,268	4,042	18,310
Dues	1,553	-	25	1,205	2,783	93,179	95,962
Other	118,192	538	3,269	374	122,373	(816)	121,557
Total Expenses Before Depreciation	<u>7,366,849</u>	<u>86,230</u>	<u>1,764,423</u>	<u>920,270</u>	<u>10,137,772</u>	<u>1,695,036</u>	<u>11,832,808</u>
Depreciation of Property and Equipment	-	-	-	-	-	349,222	349,222
Total Direct Expense	<u>7,366,849</u>	<u>86,230</u>	<u>1,764,423</u>	<u>920,270</u>	<u>10,137,772</u>	<u>2,044,258</u>	<u>12,182,030</u>
Distribution of Indirect Expenses							
Assessment dues	51,248	9,319	-	23,295	83,862	(83,862)	-
Occupancy and indirect	270,582	49,197	-	122,991	442,770	(442,770)	-
Management services	653,479	118,814	-	297,036	1,069,329	(1,069,329)	-
Solicitation and transportation	1,011,479	104,506	(1,764,423)	18,658	(629,780)	629,780	-
Total Indirect Expenses	<u>1,986,788</u>	<u>281,836</u>	<u>(1,764,423)</u>	<u>461,980</u>	<u>966,181</u>	<u>(966,181)</u>	<u>-</u>
Full Cost	<u>9,353,637</u>	<u>368,066</u>	<u>-</u>	<u>1,382,250</u>	<u>11,103,953</u>	<u>1,078,077</u>	<u>12,182,030</u>
REVENUES							
Value of donated goods received	1,672,941	-	-	-	1,672,941	-	1,672,941
Program service revenue	9,317,804	655,627	-	361,123	10,334,554	-	10,334,554
Total Program Revenue	<u>10,990,745</u>	<u>655,627</u>	<u>-</u>	<u>361,123</u>	<u>12,007,495</u>	<u>-</u>	<u>12,007,495</u>
Excess (Deficit) Related Revenues Over Expenses	<u>1,637,108</u>	<u>287,561</u>	<u>-</u>	<u>(1,021,127)</u>	<u>903,542</u>	<u>(1,078,077)</u>	<u>(174,535)</u>
Other Revenues							
Interest income	-	-	-	-	-	5,009	5,009
Contributions	-	-	-	-	-	21,529	21,529
Donations	-	-	-	-	-	17,356	17,356
Rental income	-	-	-	-	-	13,648	13,648
Total Other Revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,542</u>	<u>57,542</u>
Excess (Deficit) Revenues Over Expenses	<u>\$ 1,637,108</u>	<u>\$ 287,561</u>	<u>\$ -</u>	<u>\$ (1,021,127)</u>	<u>\$ 903,542</u>	<u>\$ (1,020,535)</u>	<u>\$ (116,993)</u>

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

**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in Net Assets	\$ (777,742)	\$ (116,993)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	371,145	349,222
Value of donated assets received	(1,789,166)	(1,672,941)
Value of donated assets sold	1,789,166	1,672,941
(Increase) decrease in operating assets:		
Accounts receivable	74,263	(58,595)
Prepaid expenses	1,134	(60,117)
Intangible assets	4,252	4,251
Grants receivable	(143,365)	12,943
Investments	303,263	(16,416)
Deposits	11,367	4,720
Increase (decrease) in operating liabilities:		
Accounts payable	31,672	11,574
Accrued salaries and wages	160,242	57,971
Increase in other liabilities	805,484	255,577
Net Cash Provided by Operating Activities	<u>841,715</u>	<u>444,137</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Provided (Used) by Investing Activities	<u>(331,512)</u>	<u>(300,816)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital leases	(13,435)	(20,784)
Payments on notes payable	(103,980)	(87,764)
Proceeds from long-term debt	-	352,985
Net Cash Provided (Used) by Financing Activities	<u>(117,415)</u>	<u>244,437</u>
Net Increase in Cash and Cash Equivalents	392,788	387,758
Cash and Cash Equivalents, Beginning of Year	<u>610,394</u>	<u>222,636</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,003,182</u>	<u>\$ 610,394</u>
 SUPPLEMENTAL DISCLOSURES ON CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	<u>\$ 405,814</u>	<u>\$ 397,808</u>

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

**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Investments

Investments are presented in the financial statements at fair value; both realized and unrealized gains and losses are recognized when they occur.

Fair Values of Financial Instruments – The following methods and assumptions were used by Goodwill Industries in estimating the fair value of financial instruments presented in the Statement of Financial Position:

Cash on hand and on deposit: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Investments: The fair values of investments are based on quoted market prices of those or similar investments.

Inventory

Goodwill Industries International (GII) publishes guidelines for accounting, reporting and disclosure policies. The guidelines can be used by local Goodwill agencies to assist in compliance with industry practices and comparability of financial performance from agency to agency. Goodwill Industries of South Central California has conformed its accounting, reporting and disclosure policies with those suggested by GII.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory (Continued)

Effective for fiscal years beginning January 1, 1996, GII has recommended that local agencies estimate the value of donated goods received and of donated goods inventories on hand at the end of the year. The guidelines recommend that this valuation should be based upon net revenues generated from the sales of the donated goods. Using this method, management has estimated that the value of all goods donated to the organization throughout the year is equal to the revenues realized by the sale of these goods less the costs associated with preparing these goods for sale. These costs include all direct and indirect costs of production, transportation, support and management and general services provided.

The guidelines also recommend that local agencies estimate the value of inventories at fiscal year end by factoring the annual revenue derived above by the number of months that a typical item remains in inventory. GII has gathered statistics regarding the number of days that items remain on hand in various regions of the country and has provided these statistics to local agencies for purposes of inventory valuation.

Property, Equipment and Depreciation

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

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. At December 31, 2008 and 2007, the organization did not own any assets with temporary or permanent restrictions.

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

Capital Leases

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

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

Interest Rate Swap Agreement

Derivative instruments are used to manage risk related to interest rate movements. An outstanding interest rate swap agreement has been designated and qualifies as a cash flow hedge and is reported at fair value. The agreement is deemed to be fully effective; therefore the change in fair value of the agreement is included as part of other changes in net assets. At the inception of the agreement, the risk management strategy and the hedge's effectiveness are documented. The interest rate risk management strategy is to stabilize cash flow requirements by maintaining the interest rate swap to convert variable rate debt to a fixed rate.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Designations of Net Assets

Effective for the years ended December 31, 2008 and 2007, the Board of Directors elected to designate net assets in an amount of \$200,000 for program expansion involving the purchasing of new equipment to support programs.

Contributions

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

Advertising and Promotion

Advertising and promotion costs are expensed when incurred and amounted to \$159,299 and \$161,086 for the years ended December 31, 2008 and 2007, respectively.

Functional Allocation of Expenses

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

Income Tax Status

Goodwill Industries is organized under Section 501(c)(3) for the Internal Revenue Code as a tax-exempt organization and is classified as an organization other than a private foundation for both U.S. and California tax purposes.

Concentration of Credit Risk

Goodwill Industries financial instruments that are exposed to concentrations of credit risk consist primarily of its cash equivalents. At December 31, 2008 and 2007, the organization maintained approximately \$481,832 and \$596,244, in excess of federally insured limits. The \$206,850 in money market funds are insured by Securities Investor Protection Corporation.

Intangible Assets

Loan fee costs are being amortized on a straight-line basis over ten years.

Restricted and Unrestricted Revenue

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

NOTE 2 – INVESTMENTS

On July 25, 2000, Goodwill Industries established a long-term investment in the amount of \$250,000. Smith Barney is the custodian. The income available from the long-term investment is to be used for general operating purposes. During April 2008, Goodwill Industries began the liquidation of all investments held by Smith Barney. As of December 31, 2008 the balance of these holdings was zero.

NOTE 2 – INVESTMENTS (Continued)

Investments at fair value at December 31, consist of the following:

	<u>2008</u>	<u>2007</u>
Smith Barney Investment Funds	<u>\$ -</u>	<u>\$ 303,263</u>

Investment income consists of the following:

	<u>2008</u>	<u>2007</u>
Interest and dividends	<u>\$ 9,500</u>	<u>\$ 8,512</u>

Unrealized gain on investments reflected in the Statement of Activities was \$0 and \$8,263 at December 31, 2008 and 2007, respectively.

NOTE 3 – PROPERTY, EQUIPMENT AND DEPRECIATION

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

	<u>2008</u>	<u>2007</u>
Land	\$ 1,685,282	\$ 1,685,282
Building and improvements	5,636,607	5,115,479
Equipment		
Store equipment	587,608	518,841
Plant and office equipment	636,552	597,020
Classroom equipment	11,230	11,230
Vehicles	85,293	129,292
Grant equipment	107,970	107,970
Leasehold improvements	1,197,495	1,197,495
Construction in progress	-	317,135
	<u>9,948,037</u>	<u>9,679,744</u>
Less: accumulated depreciation	<u>2,467,203</u>	<u>2,153,660</u>
	<u>\$ 7,480,834</u>	<u>\$ 7,526,084</u>

Depreciation expense was \$371,145 and \$349,222 for the years ended December 31, 2008 and 2007, respectively.

NOTE 4 – LEASED FACILITIES

On March 10, 2005, Goodwill Industries entered into an 84-month lease agreement beginning in May 2005 for a retail store on Olive Drive in Bakersfield. The monthly rent amount is \$12,484. Goodwill Industries is required to pay property taxes, insurance and common area expenses associated with the leased property. The lease provides for annual rent increases of 3%

In October 2004, Goodwill Industries entered into a 60-month operating lease for a retail store on Rosedale Highway in Bakersfield. The lease requires minimum monthly rental payments of \$3,811 exclusive of utilities, personal property tax, liability insurance, and certain repairs and maintenance. The lease contains a provision for annual adjustments in lease payments based upon changes in the Consumer Price Index.

NOTE 4 – LEASED FACILITIES (Continued)

On May 1, 2007, Goodwill Industries entered into a 60-month lease agreement for a retail store on Oswell Street in Bakersfield commencing in September 2004. The monthly rent amount is \$11,352 exclusive of personal property tax. The lease provides for annual adjustments in lease payments of \$527.

On February 14, 2005, Goodwill industries exercised its option under the original lease agreement for its retail store on Drummond Avenue in Ridgecrest to extend the term of the lease for 60 months beginning in September 2005. The minimum monthly rental amount is \$6,760 exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance and common area expenses.

On July 2, 2001, Goodwill Industries entered into a 120-month lease agreement for a retail store on Chester Avenue in Bakersfield commencing December 2001. The minimum monthly rental amount at December 31, 2008 was \$32,941 exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance and common area expenses. The lease provides for periodic adjustments in lease payments based on the Consumer Price Index, with a minimum increase of 3.5% annually.

On October 11, 2004, Goodwill Industries entered into a 60-month lease agreement for a retail store in Taft, California beginning in November 2004. The minimum monthly rental amount at December 31, 2008 was \$4,200 exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance and common area expenses.

In June 2006, Goodwill entered into a 60-month lease agreement for a retail store on Union Avenue in Bakersfield. The monthly rent amount ranges from \$10,517 to \$18,534 exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance.

Future minimum lease commitments under noncancellable operating leases as of December 31, 2008 are as follows:

<u>Year Ended</u> <u>December 31,</u>	
2009	\$ 1,050,265
2010	976,710
2011	796,626
2012	<u>155,654</u>
	<u>\$ 2,979,255</u>

Rental expense was \$1,016,600 and \$1,076,853 for the years ended December 31, 2008 and 2007, respectively.

NOTE 5 – LONG-TERM DEBT

Notes Payable

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

	<u>2008</u>	<u>2007</u>
Term loan agreement with Wells Fargo Bank dated September 1, 2006, in the original amount of \$5,600,000, at variable interest rates (effective rate of 5.48% with swap agreement - Note 6). Principal and interest payments due monthly. First principal payment was made on December 1, 2006 and subsequent principal and interest payments are due monthly commencing on January 2, 2007. All unpaid principal is due November 1, 2016. Collateral consists of real property located in Kern County, California.	\$ 5,413,713	\$ 5,506,391
Total Note Payable	5,413,713	5,506,391
Less: Current Portion	<u>99,365</u>	<u>93,786</u>
	<u>\$ 5,314,348</u>	<u>\$ 5,412,605</u>

	<u>2008</u>	<u>2007</u>
Goodwill Industries executed a \$400,000 line of credit with Wells Fargo Bank on September 1, 2006. This loan operated as a line of credit until November 1, 2007 at which time it was converted to a term loan that matures November 1, 2016. Interest rates are variable (effective rate of 5.48% with swap agreement - Note 6). Principal and interest payments are due monthly commencing on November 1, 2007. All unpaid principal is due November 1, 2016. Collateral consists of real property located in Kern County, California.	\$ 393,308	\$ 398,667
Total Note Payable	393,308	398,667
Less: Current Portion	<u>6,616</u>	<u>6,252</u>
	<u>\$ 386,692</u>	<u>\$ 392,415</u>

Principal payments on notes payable at December 31, 2008 for the succeeding years are as follows:

<u>Year Ended December 31,</u>	<u>Total</u>
2009	\$ 105,981
2010	113,622
2011	121,808
2012	130,595
2013	140,000
Thereafter	<u>5,195,015</u>
	<u>\$ 5,807,021</u>

NOTE 5 – LONG-TERM DEBT (Continued)**Capital Leases**

Goodwill Industries leases certain equipment for use in its operations. The amounts capitalized are amortized on a straight-line basis and interest on the related obligations is imputed and charged to expense as the lease payments are made. The assets are amortized over the lower of their related lease terms or their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense. The capitalized cost of the assets acquired under the capital lease agreements is \$54,706 and is included and equipment net of accumulated depreciation of \$16,130. Depreciation of the leased equipment for the year ended December 31, 2008 was \$6,119.

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

<u>Year Ended December 31,</u>	<u>Office Equipment</u>	<u>Plant Equipment</u>	<u>Total</u>
2009	\$ 4,836	\$ 8,598	\$ 13,434
2010	4,836	3,582	8,418
2011	4,836	-	4,836
2012	806	-	806
Total Minimum Payments Required	15,314	12,180	27,494
Less: Executory Costs	(664)	-	(664)
Net Minimum Lease Payments	14,650	12,180	26,830
Less: Amount representing interest	(902)	(3,555)	(4,457)
Present Value of Minimum Lease Payments	<u>\$ 13,748</u>	<u>\$ 8,625</u>	<u>\$ 22,373</u>

Interest expense for the years ended December 31, 2008 and 2007 was \$4,133 and \$5,476, respectively.

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

Line of Credit

Goodwill executed a \$250,000 line of credit with Wells Fargo Bank on September 1, 2006, of which \$250,000 was unused at December 31, 2008. Bank advances on the credit line carry an interest rate per annum of 1.00% above the Prime Rate in effect from time to time (3.25% at December 31, 2008) and are due and payable in full on November 1, 2011. The line is secured by the real property of Goodwill Industries located in Bakersfield, California.

NOTE 6 – INTEREST RATE SWAP AGREEMENT

In 2006, Goodwill Industries entered into a master agreement with Wells Fargo Bank for an interest rate swap transaction to reduce the impact of changes in interest rates on its variable long-term debt of \$5,600,000 dated September 1, 2006. The loan was also structured as such that the original line of credit with Wells Fargo Bank would convert to a term loan at November 1, 2007. The line of credit was limited to a maximum of \$400,000 and Goodwill took down the full amount as of October 30, 2007. This amount remains as a separate note, but the swap agreement was amended to include both notes. This agreement effectively changed the interest rate exposure on the variable rate loan to a fixed rate of 6.98%. The interest rate swap matures November 1, 2016. The fair value of the swap agreement is recorded on the accompanying statement of financial position as a liability and totaled \$1,235,632 and \$430,138 as of December 31, 2008 and 2007, respectively. For the years ended December 31, 2008 and 2007, \$805,484 and \$255,567 was recorded as part of interest expense in the statement of activities related to the change in the swap agreement's fair value. Had Goodwill not entered this swap agreement, change in net assets for the years ended December 31, 2008 and 2007 would have been reported as follows:

	<u>2008</u>	<u>2007</u>
Change in Net Assets before Effect of Swap Adjustment	\$ 27,742	\$ 138,574
Swap Adjustment (Expense)	<u>(805,484)</u>	<u>(255,567)</u>
Change in Net Assets	<u><u>\$ (777,742)</u></u>	<u><u>\$ (116,993)</u></u>