

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2015 AND 2014**

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Goodwill of Silicon Valley  
(A California Nonprofit Public Benefit Corporation)  
San Jose, California

We have audited the accompanying consolidated financial statements of Goodwill of Silicon Valley and related entity, GoodEx, Inc. (collectively, the Organization) which comprise the consolidated statement of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and other governmental awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the consolidated 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 taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*Petrinovich Pugh & Co, LLP*

Petrinovich Pugh & Company, LLP

San Jose, California  
March 10, 2016

**SECTION I**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,079,284	\$ 1,650,870
Restricted cash	301,202	300,000
Investments, at market value	4,310,776	3,534,222
Accounts receivable, net	980,953	782,487
Grants receivable	970,487	1,169,671
Inventories	1,708,806	1,629,451
Prepaid expenses	252,512	257,437
Total current assets	9,604,020	9,324,138
Land, buildings and equipment, net	20,175,346	19,372,043
Other assets:		
Deposits	70,694	184,303
Collection of antique items	-	12,000
Total other assets	70,694	196,303
Total assets	\$ 29,850,060	\$ 28,892,484
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 701,642	\$ 660,871
Intermediary funds payable	91,500	85,959
Accrued payroll and benefits	1,181,101	1,018,083
Other accrued liabilities	547,634	531,570
Current portion of notes payable	1,228,803	90,665
Current portion of capital lease obligations	1,989	78,185
Deferred rent	105,124	109,593
Total current liabilities	3,857,793	2,574,926
Long-term liabilities:		
Notes payable, net of current portion	-	1,535,899
Capital lease obligations, net of current portion	1,382	2,878
Accrued pension costs, net	1,632,029	2,032,347
Total long-term liabilities	1,633,411	3,571,124
Total liabilities	5,491,204	6,146,050
Net assets:		
Unrestricted net assets:		
Undesignated	24,358,856	21,395,237
Board designated	-	1,351,197
Total net assets	24,358,856	22,746,434
Total liabilities and net assets	\$ 29,850,060	\$ 28,892,484

See independent auditors' report and accompanying notes  
to the consolidated financial statements.

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Public support and revenue:		
Retail programs	\$ 28,099,767	\$ 25,558,917
Donated goods	6,568,313	7,936,062
Operations programs	4,470,163	5,935,215
E-commerce	3,960,075	2,836,352
Grants and contributions	3,379,763	3,024,881
Contract and business service programs	1,579,769	1,415,647
Rent income	360,856	428,491
Miscellaneous	175,267	248,655
Investment income	78,601	171,874
Vocational school fees	470	10,995
Total public support and revenue	48,673,044	47,567,089
Expenses:		
Program services:		
Retail programs	29,768,769	27,102,531
Cost assigned to donated goods sold	6,476,882	7,850,555
Contract and business service programs	2,092,828	1,835,838
Vocational school programs	4,310,502	4,216,313
Total program services	42,648,981	41,005,237
Supporting services:		
Management and general	4,155,554	3,902,955
Fundraising	67,018	59,349
Total supporting services	4,222,572	3,962,304
Total expenses	46,871,553	44,967,541
Change in net assets before pension plan investment loss and impairment loss	1,801,491	2,599,548
Pension-related changes other than net periodic benefit costs	(177,069)	(559,747)
Impairment loss on antique collection	(12,000)	(12,280)
Change in net assets	1,612,422	2,027,521
Net assets, beginning of year	22,746,434	20,718,913
Net assets, end of year	\$ 24,358,856	\$ 22,746,434

See independent auditors' report and accompanying notes  
to the consolidated financial statements.

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program Services					Supporting Services			Grand Total
	Retail Programs	Cost Assigned to Donated Goods	Contract and Business Service Programs	Vocational School Programs	Total	Management and General	Fundraising	Total	
Salaries and wages	\$ 14,002,381	\$ -	\$ 1,265,717	\$ 2,082,782	\$ 17,350,880	\$ 1,841,365	\$ 41,964	\$ 1,883,329	\$ 19,234,209
Employee benefits	2,081,622	-	183,305	269,516	2,534,443	302,703	9,584	312,287	2,846,730
Payroll taxes	1,188,542	-	104,617	173,921	1,467,080	118,374	3,206	121,580	1,588,660
Total salaries and related expenses	17,272,545	-	1,553,639	2,526,219	21,352,403	2,262,442	54,754	2,317,196	23,669,599
Cost assigned to									
donated goods sold	-	6,476,882	-	-	6,476,882	-	-	-	6,476,882
Occupancy	5,541,555	-	180,114	171,428	5,893,097	389,135	-	389,135	6,282,232
Raw materials and supplies	2,766,091	-	121,185	438,521	3,325,797	62,744	-	62,744	3,388,541
Professional services	798,770	-	32,237	978,790	1,809,797	576,977	11,100	588,077	2,397,874
Postage and shipping	839,566	-	2,142	1,221	842,929	6,160	-	6,160	849,089
Transportation	571,761	-	41,307	2,313	615,381	2,616	-	2,616	617,997
Advertising and marketing	5,517	-	36,674	15,969	58,160	322,757	-	322,757	380,917
Conferences and meetings	86,392	-	6,412	72,261	165,065	151,272	-	151,272	316,337
Telephone	242,122	-	18,299	33,541	293,962	19,665	-	19,665	313,627
Dues and subscriptions	1,653	-	30	2,853	4,536	189,724	1,164	190,888	195,424
Interest	2,378	-	-	90	2,468	79,333	-	79,333	81,801
Total expenses before depreciation and amortization	28,128,350	6,476,882	1,992,039	4,243,206	40,840,477	4,062,825	67,018	4,129,843	44,970,320
Depreciation and amortization	1,640,419	-	100,789	67,296	1,808,504	92,729	-	92,729	1,901,233
	<u>\$ 29,768,769</u>	<u>\$ 6,476,882</u>	<u>\$ 2,092,828</u>	<u>\$ 4,310,502</u>	<u>\$ 42,648,981</u>	<u>\$ 4,155,554</u>	<u>\$ 67,018</u>	<u>\$ 4,222,572</u>	<u>\$ 46,871,553</u>
Percentage of total	<u>63.5%</u>	<u>13.8%</u>	<u>4.5%</u>	<u>9.2%</u>	<u>91.0%</u>	<u>8.9%</u>	<u>0.1%</u>	<u>9.0%</u>	<u>100.0%</u>

See independent auditors' report and accompanying notes  
to the consolidated financial statements.



**GOODWILL OF SILICON VALLEY**  
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**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED DECEMBER 31, 2014**

	Program Services				Supporting Services				Grand Total
	Retail Programs	Cost Assigned to Donated Goods	Contract and Business Service Programs	Vocational School Programs	Total	Management and General	Fundraising	Total	
Salaries and wages	\$ 12,512,444	\$ -	\$ 1,044,441	\$ 2,044,121	\$ 15,601,006	\$ 1,502,581	\$ 39,875	\$ 1,542,456	\$ 17,143,462
Employee benefits	2,188,868	-	197,427	353,643	2,739,938	400,401	9,859	410,260	3,150,198
Payroll taxes	1,070,159	-	83,679	171,212	1,325,050	102,448	2,990	105,438	1,430,488
Total salaries and related expenses	15,771,471	-	1,325,547	2,568,976	19,665,994	2,005,430	52,724	2,058,154	21,724,148
Cost assigned to donated goods sold	-	7,850,555	-	-	7,850,555	-	-	-	7,850,555
Occupancy	5,044,863	-	148,940	136,847	5,330,650	349,148	-	349,148	5,679,798
Raw materials and supplies	2,529,043	-	88,937	412,247	3,030,227	42,355	-	42,355	3,072,582
Professional services	541,468	-	32,369	887,036	1,460,873	589,286	6,625	595,911	2,056,784
Transportation	857,301	-	3,140	2,925	863,366	5,248	-	5,248	868,614
Postage and shipping	605,449	-	71,154	1,759	678,362	3,546	-	3,546	681,908
Advertising and marketing	7,669	-	30,340	13,204	51,213	341,447	-	341,447	392,660
Conferences and meetings	86,612	-	6,321	108,631	201,564	147,850	-	147,850	349,414
Telephone	217,966	-	17,170	35,585	270,721	36,095	-	36,095	306,816
Dues and subscriptions	1,632	-	1,737	1,817	5,186	188,814	-	188,814	194,000
Interest	6,498	-	1,003	238	7,739	102,490	-	102,490	110,229
Total expenses before depreciation and amortization	25,669,972	7,850,555	1,726,658	4,169,265	39,416,450	3,811,709	59,349	3,871,058	43,287,508
Depreciation and amortization	1,432,559	-	109,180	47,048	1,588,787	91,246	-	91,246	1,680,033
	<u>\$ 27,102,531</u>	<u>\$ 7,850,555</u>	<u>\$ 1,835,838</u>	<u>\$ 4,216,313</u>	<u>\$ 41,005,237</u>	<u>\$ 3,902,955</u>	<u>\$ 59,349</u>	<u>\$ 3,962,304</u>	<u>\$ 44,967,541</u>
Percentage of total	<u>60.3%</u>	<u>17.5%</u>	<u>4.1%</u>	<u>9.4%</u>	<u>91.2%</u>	<u>8.7%</u>	<u>0.1%</u>	<u>8.8%</u>	<u>100.0%</u>

See independent auditors' report and accompanying notes  
to the consolidated financial statements.

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 1,612,422	\$ 2,027,521
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,901,233	1,680,033
Change in donated inventories	39,464	27,336
Net realized and unrealized loss (gain) on investments	79,092	(40,725)
Impairment loss on antique clothing	12,000	12,280
(Increase) decrease in assets:		
Accounts receivable	(198,466)	(327,549)
Grants receivable	199,184	(516,320)
Purchased inventories	(118,819)	(184,036)
Prepaid expenses	4,925	(61,676)
Deposits	113,609	78,645
Increase (decrease) in liabilities:		
Accounts payable	40,771	(291,133)
Intermediary funds payable	5,541	85,959
Accrued payroll and benefits	163,018	42,670
Other accrued liabilities	16,064	290,361
Deferred rent	(4,469)	(8,680)
Accrued pension costs	(400,318)	419,832
Net cash provided by operating activities	3,465,251	3,234,518
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(2,705,738)	(4,052,191)
Purchases of investments	(1,671,501)	(4,601,013)
Proceeds from sale of investments	815,855	4,396,276
Net cash used for investing activities	(3,561,384)	(4,256,928)
Cash flow from financing activities:		
Principal payments on notes payable	(397,761)	(487,763)
Principal payments on capital lease obligations	(77,692)	(74,000)
Net cash used for financing activities	(475,453)	(561,763)
Net decrease in cash and cash equivalents	(571,586)	(1,584,173)
Cash and cash equivalents, beginning of year	1,650,870	3,235,043
Cash and cash equivalents, end of year	\$ 1,079,284	\$ 1,650,870

See independent auditors' report and accompanying notes  
to the consolidated financial statements.

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

Supplemental disclosures of noncash investing and financing activities:

	<u>2015</u>	<u>2014</u>
Cash paid during the year for:		
Interest	<u>\$ 81,682</u>	<u>\$ 146,843</u>

During the years ended December 31, 2015 and 2014 the Organization disposed of fully depreciated property and equipment with a cost of \$614,724 and \$529,076, respectively.

During the years ended December 31, 2015 and 2014, the Organization transferred \$1,568,977 and \$302,589, respectively, from work in process to land, building and equipment.

See independent auditors' report and accompanying notes  
to the consolidated financial statements.

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE A - ORGANIZATION**

Goodwill of Silicon Valley, formerly Goodwill Industries of Santa Clara County (“Goodwill” or the “Organization”) is a California nonprofit public benefit corporation founded in 1926 and serves Santa Clara and San Benito Counties. The Organization’s mission is to assist people to overcome their multiple or severe barriers to employment by providing a wide range of educational and vocational training along with employment placement support. Goodwill of Silicon Valley is part of Goodwill Industries International, a federation of over 200 autonomous, community based Goodwill organizations worldwide. Taken together, they make up one of the largest social service organizations in the world, dedicated to serving their local communities.

**NOTE B - PROGRAM SERVICES**

Goodwill of Silicon Valley has been built on the tradition of self-sufficiency - supporting their services to the communities with income generated from their business operations. In addition to the familiar stores and donation trailers, the Organization operates GoodSource, a contract service division. These operating divisions combined, provide the vast majority of the funding needed to support the educational and vocational trainings offered by the Organization’s award-winning Institute for Career Development. The Organization provides employment for more than 800 individuals at any point in time.

GoodEx Services, Inc. (GES) was organized in October 2009 for the purpose of plant-based shredding service for businesses and governments located in and around the Silicon Valley.

Retail Programs - Perhaps the most familiar face of Goodwill, this division processes and sells donated used goods through 19 retail stores, provides employment opportunities and contributes the most to the financial needs to operate the training programs offered by the Institute for Career Development. Retail Programs employ approximately 450 individuals at 19 retail stores and 40 donation collection sites.

Contract and Business Service Programs - GoodSource: A reputable and reliable service provider for assembly and packaging services, the Contract Service division attracts a diverse client base ranging from small local businesses to well established Fortune 500 global companies. In addition to assembly and packaging services, GoodSource provides drop ship, turnkey warehousing and logistical solutions. In 2009 GoodSource entered into the mattress reclamation arena, benefiting the environment, creating jobs and contributing to the bottom line. In 2015 Goodsource processed and diverted from landfill 45,000 mattresses and this will increase to over 60,000 mattresses in 2016. With its keen customer focus, reliable service delivery and great flexibility, GoodSource has developed a loyal and long standing customer base and has become an “On Shore” alternative to keep jobs in the community, thus providing opportunities for people with multiple or severe barriers to employment.

E-Commerce Program - The program is for clients with Autism Spectrum Disorder (ASD) to provide both hard and soft skills that lead to meaningful employment.

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE B - PROGRAM SERVICES (CONTINUED)**

Car Detailing - This social enterprise was launched in an effort to create jobs that provide training and work experience for those reentering society after incarceration. The skills learned prepare the individual to compete in mainstream workforce. During 2015 Goodwill Car Detailing Enterprise provided employment and training for 41 program participants.

Vocational School Programs - Institute for Career Development (ICD): A robust environment coupled with a variety of program offerings make the Institute for Career Development the training facility of choice. ICD offers training that prepares people for jobs in Information Communication Technology (A+ Certification), Construction, Retail/Hospitality and Security.

Employment Readiness Program - This program assists people with barriers to employment, specifically barriers related to living in poverty, to obtain paid work experience, computer skills training, job readiness training and the support of a Vocational Employment Counselor. The program is for a period of one year at which time the objective is to transition the participant into a better job.

New Opportunity Work Program (NOW) - This program provides employment, workshops and cognitive therapy to individuals reentering the community from the criminal justice system. Goodwill is the sole provider of employment services for the County of Santa Clara's initiative to reduce recidivism strategy.

ASSET's Youth Program - This program is designed to provide at-risk High School Students with support that enriches their lives through various activities, provides academic support through tutoring, after-school instruction and a safe and quiet place for independent study. . In 2015 the Assets program served 11,200 students, many of the students served by this program are able to earn their High School Diploma through obtaining credits that they would otherwise not have the ability to recover. These programs are currently held at five high schools Monday through Friday, 2:00pm to 6:00pm.

Homeless Veterans Reintegration Program - Services provided to this population include job skills training, life skills training, networking, group and individual counseling, connection to housing, food and transportation, ending the cycle of homelessness. These services result in outcomes that move people to self-sufficiency through the obtainment of employment, transportation and housing.

Wellness Center - The Center, located at Goodwill's main office, is directed by a Licensed Clinical Psychologist. The services provided include individual and group therapy for people with mild to severe mental illness and/or a history of substance abuse. These services are provided to low-income individuals that have no means to get this type of treatment.

Good-Health Program - This program provides independent living and job skills to young adults with severe developmental disabilities. Goodwill works with eight different high schools that serve special education students up to age 22. Services are provided on site at each of the eight schools. The participants learn skills that will allow them to live more independently than they would otherwise.

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE B - PROGRAM SERVICES (CONTINUED)**

Parole Re-entry and Veterans Court Employment Programs - Goodwill works with the Santa Clara County Superior Court to support individuals that have a history of criminal activity and are ready to turn their lives around. Goodwill does this as a part of a larger team that provides holistic services. Goodwill's role is to provide vocational counseling, skills training, short-term subsidized employment and job search services leading to the obtainment of sustainable employment.

Supportive Services for Veterans and Their Families - In concert with the Veterans Administration, Goodwill provides support to families that are either at-risk of homelessness or to those that are currently homeless. Goodwill provides financial assistance, legal assistance, credit counseling and employment related services to equip the family to maintain housing and a sustainable income.

**NOTE C - SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting - The financial statements of Goodwill have been prepared on the accrual basis of accounting. The consolidated financial statements include the accounts of the Organization and its related entity, GES (collectively, the "Organization"). All inter-company balances and transactions have been eliminated.

Basis of Presentation - The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes. The Organization has elected to report as an increase in unrestricted net assets any restricted support received in the current period for which the restrictions have been met in the current period.*

*Temporarily restricted net assets include those assets which are subject to donor purpose and/or time restriction and for which the applicable restriction was not met as of the year end of the current reporting period.*

*Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.*

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less.

Restricted cash - Restricted cash is a requirement of an agreement between the Organization and its workers compensation insurance broker. The agreement requires \$300,000 be held in a separate bank account until the agreement expires on June 24, 2016. The bank account generates interest, resulting in the restricted cash balance to exceed the \$300,000 minimum requirement.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized and realized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Accounts, Grants Receivable and Allowance for Doubtful Accounts - Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment 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 or grants receivable. Changes in the valuation allowance have not been material to the financial statements. The allowance for doubtful accounts balance as of December 31, 2015 and 2014 was \$36,756 and \$24,742, respectively.

Promises to Give - Unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Inventories - Inventories, except for donated merchandise held for resale, are valued at the lower of cost (first-in, first-out) or market. Inventories cost of purchased goods include freight-in, assembly, and improvement costs, if any. Purchased inventories are valued based on physical counts, less an estimated allowance for obsolescence. The allowance for obsolescence as of December 31, 2015 and 2014 was \$48,908 and \$59,378, respectively.

Goods donated to Goodwill are valued at their estimated fair market value and recognized as support in the statements of activities. Donated merchandise remaining in inventories at year end is also recorded at its estimated fair market value. The estimated fair market value of the donated merchandise inventories are estimated as the retail-selling price of the donated inventories, less any retail processing and selling costs incurred by Goodwill. Donated merchandise inventories are not valued on an item-by-item basis but rather based on overall estimate of inventory turns. Donated automobiles are valued at estimated fair market value on a specific identification basis.

Land, Buildings and Equipment - Land, buildings and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$2,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed in the period. Depreciation is computed on the straight-line method based on the following estimated useful lives:

Buildings	20 to 30 years
Building Improvements	Remaining Life of Building
Leasehold Improvements	Shorter of Useful Life or Lease Term
Equipment	3 to 10 years

Depreciation is charged to the activity benefiting from the use of the buildings or equipment.

Intermediary Funds - Intermediary funds is related to a grant received from a donor, established for the benefit of Teenforce, a not-for-profit organization that assists youth with job training and placement. Goodwill acts as an agent or intermediary for the funds and has little or no discretion in determining the use of such funds. Goodwill classifies the funds as a liability until the funds are disbursed to Teenforce. Goodwill maintains legal ownership of intermediary funds and as such continues to report the funds as assets of Goodwill. Goodwill receives an administration fee of 5% of the receipts administered. The balance in intermediary funds payable as of December 31, 2015 and 2014 was \$91,500 and \$ 85,959, respectively.

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of December 31, 2015 and 2014, and is included in "Accrued payroll and benefits" in the statements of financial position. The accrued vacation balance as of December 31, 2015 and 2014 was \$510,411 and \$416,531, respectively.



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**NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Deferred Rent - As of December 31, 2015, twelve retail stores and one attended donation station are leased under operating leases expiring on various dates through 2026. These operating leases generally have fluctuating payments over the life of the lease. Accordingly, Goodwill has recorded the lease expense on a straight-line basis and has recorded the excess of the straight-line expense over the amount paid as deferred rent.

Defined Benefit Pension Plan - The Organization accounts for its defined benefit pension plan in accordance with ASC 715-10. ASC 715-10 requires an employer to recognize the funded status of the benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation, in the statements of financial position. ASC 715-10 also requires the immediate recognition of the unrecognized actuarial gains and losses. The Organization froze the defined benefit pension plan as of March 31, 2009 (see Note I).

Revenue Recognition - The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided. Revenues from retail and e-commerce programs are recognized at the point of the sale. Revenue from production programs is recognized in the period in which the service is provided.

Contributions - Contributions are reported in accordance with ASC 958. Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal period. Temporarily restricted contributions are reported as increases in unrestricted net assets if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in temporarily restricted net assets. When the restriction is met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Contributions In-Kind - Non-Inventory - Contributions in-kind - non-inventory are recognized in accordance with the provisions of ASC 958. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. During the years ended December 31, 2015 and 2014, the Organization received free use of lots where attended donation stations are located. The Organization has valued the use of the lots at approximately \$196,000 and \$261,000, respectively. The contributions for the years ended December 31, 2015 and 2014 are recorded to rent revenue and rent expense.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Expense Allocation - Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of salary expense, percentage of time spent on program by specific officer, headcount, revenue and/or square footage. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Advertising - The Organization's policy is to expense advertising costs as they are incurred. Advertising expense for the years ended December 31, 2015 and 2014 were approximately \$355,000 and \$388,000, respectively. The advertising expense is included in advertising and marketing expenses within the consolidated statement of functional expenses.

Income Taxes - Goodwill of Silicon Valley and GoodEx Services Inc. are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

The Organization accounts for the requirements associated with uncertainty in income taxes using the provisions of FASB ASC 740-10-25 *Recognition of Income Taxes*. Accordingly, an entity shall initially recognize the financial statement effects of a tax position when it is more-likely-than not, based on the technical merits, that the position will be sustained upon examination. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2015, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Organization files income tax returns in the U.S. federal jurisdiction and the state of California. The Organization's federal income tax returns for the tax years 2012 and forward remain subject to examination by the Internal Revenue Service. The Organization's California income tax returns or the tax years 2011 and forward remain subject to examination by the Franchise Tax Board.

Concentrations of Credit Risk - Financial instruments that potentially subject the Organization to credit risk consist primarily of cash and cash equivalents and investments. The Organization maintains a majority of its cash in a business checking account and in bank deposit accounts that, at times, may exceed the federally insured limit of \$250,000. The Organization has not experienced any losses in such accounts. Risk associated with cash is mitigated by maintaining deposits at credit worthy financial institutions. As of December 31, 2015 and 2014, the Organization had approximately \$517,000 and \$1,144,000, respectively, in deposits in excess of the federally insured limit.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Impairment of Long-Lived Assets - The Organization accounts for impairment of assets in accordance with FASB ASC 360-10, *Impairment or Disposal of Long-Lived Assets*. Under FASB ASC 360-10, the Organization reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded.

During 2015 and 2014, the collection of antique items was impaired and written down to more accurately represent its fair market value. The Organization recorded \$12,000 and \$12,800 impairment losses during 2015 and 2014, respectively.

Reclassifications – Certain reclassifications have been made to prior year financial statements in order for them to be in conformity with current year presentation.

Subsequent Events - ASC 855-10, Subsequent Events, requires additional disclosure for events or transactions that occur after the balance sheet date. The Organization has no subsequent events as of March 10, 2016. The Organization has not evaluated subsequent events after this date in the statements presented.

**NOTE D – INVESTMENTS AND BOARD DESIGNATED NET ASSETS**

As of December 31, 2015 and 2014, the Organization holds all investments with Enterprise Trust and Investment Company (ETIC), a California incorporated banking institution. Previously, the Organization used Silicon Valley Community Foundation (SVCF), a California nonprofit benefit corporation, to manage, hold in trust and invest certain assets of Goodwill, for public, educational and charitable purposes. The fund was known as the "The Goodwill Foundation Trust". In April, 2014, all board designated investments held in SVCF were transferred to ETIC.

ETIC follows the guidelines for professional management of the investment portfolio established and monitored by the Organization. The investment objectives of the board designated funds are to be actively managed with long-term and short-term investment objectives established by the Board, periodically reviewed, and not for operations. The use of Board designated funds is at the discretion and approval of the Board of Directors.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE D - INVESTMENTS AND BOARD DESIGNATED NET ASSETS (CONTINUED)**

The market value of investments held in ETIC consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Board designated investments:		
Fixed income	\$ -	\$ 581,970
Domestic equities	-	275,374
Foreign equities	-	29,378
Total board designated investments	<u>-</u>	<u>886,722</u>
Undesignated investments:		
Fixed income	3,271,768	2,021,131
Domestic equities	923,146	558,887
Foreign equities	115,862	67,482
Total undesignated investments	<u>4,310,776</u>	<u>2,647,500</u>
	<u>\$ 4,310,776</u>	<u>\$ 3,534,222</u>

Board designated funds consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Investments	\$ -	\$ 886,722
Cash and cash equivalents	<u>-</u>	<u>464,475</u>
	<u>\$ -</u>	<u>\$ 1,351,197</u>

**GOODWILL OF SILICON VALLEY**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE D – INVESTMENTS AND BOARD DESIGNATED NET ASSETS (CONTINUED)**

Investments activity during the years ended December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Board designated investments, beginning of year	\$ 1,351,197	\$ 1,409,122
Investment return:		
Interest and dividend income	22,153	20,703
Realized and unrealized gain	2,819	2,280
Administrative and investment expenses	<u>(7,790)</u>	<u>(10,116)</u>
Net investment return	17,182	12,867
Appropriation of board designated investments for expenditures	-	-
Transfer to undesignated investments	<u>(1,368,379)</u>	<u>(70,792)</u>
Board designated investments, end of year	<u>\$ -</u>	<u>\$ 1,351,197</u>
Undesignated investments, beginning of year	\$ 2,647,500	\$ 2,181,214
Investment return:		
Interest and dividend income	135,540	110,445
Realized and unrealized gain (loss)	(81,911)	38,445
Administrative expenses	<u>(22,162)</u>	<u>(23,902)</u>
Net investment return	31,467	124,988
Transfers from operations	263,430	270,506
Transfer from board designated investments	<u>1,368,379</u>	<u>70,792</u>
Undesignated investments, end of year	<u>\$ 4,310,776</u>	<u>\$ 2,647,500</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE E - INVENTORIES**

Inventories as of December 31, consists of the following:

	<u>2015</u>	<u>2014</u>
Donated merchandise	\$ 864,324	\$ 903,788
Purchased merchandise	892,490	776,291
Donated automobiles	900	8,750
Allowance for obsolescence	<u>(48,908)</u>	<u>(59,378)</u>
	<u>\$ 1,708,806</u>	<u>\$ 1,629,451</u>

**NOTE F - LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment as of December 31, consists of the following:

	<u>2015</u>	<u>2014</u>
Land and buildings	\$ 25,864,789	\$ 25,832,657
Leasehold improvements	3,663,709	2,944,183
Equipment	<u>7,483,796</u>	<u>6,683,037</u>
	37,012,294	35,459,877
Less: accumulated depreciation and amortization	<u>(18,109,812)</u>	<u>(16,824,421)</u>
	18,902,482	18,635,456
Construction in process	<u>1,272,864</u>	<u>736,587</u>
	<u>\$ 20,175,346</u>	<u>\$ 19,372,043</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE G – NOTES PAYABLE**

The Organization had a \$7,000,000 line of credit agreement with Heritage Bank of Commerce which converted to a note payable in 2014. The note payable is secured by real property owned in San Jose, California and bears interest at a fixed rate of 5.15%. The availability of the line of credit prior to conversion was limited to the pay-off of one of the Organization's previous notes payable and to provide additional funds to improve various store locations including the Organization's headquarters and warehouse. As of December 31, 2015, the outstanding balance on the note payable is \$1,228,803. The note payable requires fixed monthly principal and interest payments of \$13,957. These monthly principal and interest payments will continue through October 2016 at which time all remaining unpaid principal and interest will be due. The note payable also requires that the Organization comply with certain financial covenants all of which were met as of December 31, 2015 and 2014.

The Organization had a note payable between GES and NISH Corporation. The loan was interest free and had a five-year term, with an initial down payment of \$10,000 and quarterly payments of principal and imputed interest of \$5,000 thereafter commencing September 30, 2010. The note matured in March 2015.

**NOTE H - COMMITMENTS AND CONTINGENCIES**

Non-Cancelable Operating Lease Obligations - Goodwill leases thirteen retail stores, one attended donation station, and certain equipment under non-cancelable operating lease agreements expiring on various dates through 2026. The leases for two of the retail stores contain an option to extend through 2026. The minimum future payments under non-cancelable operating lease obligations are as follows:

Year ending December 31,	
2016	\$ 2,604,340
2017	2,281,063
2018	2,103,912
2019	1,963,569
2020	1,463,844
Thereafter	<u>3,189,743</u>
	<u>\$ 13,606,471</u>

Rent expense under the operating leases for the years ended December 31, 2015 and 2014 was approximately \$2,567,000 and \$2,360,000, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE H - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

In addition, Goodwill subleases two of these locations and receives rental income related to the subleases. The net minimum future rental income expected to be received under these sublease agreements are as follows:

Year ending December 31,		
2016	\$	31,240
2017		32,333
2018		33,465
2019		34,636
2020		29,701
	\$	161,375

Rent income recognized under the subleases for the years ended December 31, 2015 and 2014 was approximately \$155,000.

Capital Lease Obligations - Goodwill acquired certain equipment under capital lease obligations. The leases bear interest ranging from 6.34% to 9.2% and mature at various dates through August 2017.

A summary of the future capital lease obligations at present value are as follows:

Year ending December 31,		
2016	\$	2,237
2017		1,348
		3,585
Less amount representing interest		(214)
Present value of net minimum lease payments		3,371
Less current portion		(1,989)
	\$	1,382

As of December 31, 2015, land, buildings and equipment includes equipment purchased under capital leases with an original cost of \$341,215 and accumulated depreciation in the amount of \$335,529.



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**DECEMBER 31, 2015 AND 2014**

**NOTE H - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Unemployment Benefits - Goodwill is self-insured for unemployment benefits given to former employees. Management has estimated the amount of benefits expected to be paid by Goodwill subsequent to December 31, 2015, with respect to claims related to 2015 and prior years. The amount accrued for unemployment benefits at December 31, 2015 and 2014 was \$41,799 and \$47,597, respectively. These amounts are included in "Accrued payroll and benefits" in the accompanying statements of financial position.

**NOTE I - RETIREMENT PLANS**

Goodwill has a defined benefit pension plan, which provides benefits to salaried exempt and salaried nonexempt employees. The Organization froze the defined benefit pension plan as of March 31, 2009. In addition, the Organization maintains a 403(b) deferred savings plan whereby employees may defer pre-tax earnings up to the IRS established limits.

Defined Benefit Pension Plan - Benefits provided by the defined benefit pension plan (the Plan) are based on years of service and final compensation as defined in the provisions of the Plan. Contributions are intended to provide benefits attributed to service to the date the plan was frozen. Plan assets consist primarily of equity securities, bonds and annuities, mutual funds and a money market fund.

The Organization accounts for its defined benefit pension plan in accordance with ASC 715-10. ASC 715-10 requires an employer to recognize the funded status of benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation, in the statements of financial position. ASC 715-10 also requires the immediate recognition of the unrecognized actuarial gains and losses. The Plan was amended as of March 31, 2009 to cease benefit accruals. The effect was to freeze benefit accruals at the January 1, 2009 level. This resulted in curtailment. Effective January 1, 2014, terminated participants with vested balances under \$5,000 were paid out as soon as administratively feasible.

Based on an actuarial study, net pension cost as of December 31, included the following components:

	2015	2014
	<u>                    </u>	<u>                    </u>
Interest cost	\$ 161,627	\$ 194,157
Expected return on assets	(192,018)	(185,174)
Net amortization and deferral	<u>168,004</u>	<u>147,102</u>
 Net pension cost	 <u>\$ 137,613</u>	 <u>\$ 156,085</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE I - RETIREMENT PLANS (CONTINUED)**

Defined Benefit Pension Plan (continued) - These net pension costs are included in "Employee benefits" in the accompanying statements of functional expenses.

The unrecognized cumulative loss (gain) at December 31, was as follows:

	<u>2015</u>	<u>2014</u>
Actuarial loss on obligations	\$ 75,898	\$ 618,550
Actuarial loss on plan assets	<u>190,984</u>	<u>51,312</u>
Actuarial loss	266,882	669,862
Unrecognized cumulative loss at January 1	2,129,018	1,569,271
Cumulative loss recognized in net pension cost	<u>(89,813)</u>	<u>(110,115)</u>
Unrecognized cumulative loss at December 31	<u>\$ 2,306,087</u>	<u>\$ 2,129,018</u>

Based on an actuarial study, pension plan obligations and funded status of the Plan as of December 31, were as follows:

<u>Change in benefit obligation:</u>	<u>2015</u>	<u>2014</u>
Projected benefit obligation at end of year	<u>\$ 4,457,675</u>	<u>\$ 4,505,940</u>
<u>Change in plan assets (cash basis):</u>	<u>2015</u>	<u>2014</u>
Fair value of plan assets at beginning of year	\$ 2,473,593	\$ 2,560,801
Actual return on plan assets (pension plan investment income)	28,856	162,646
Employer cash contributions	715,000	296,000
Benefits paid	(225,390)	(406,665)
Investment fees	(27,822)	(26,728)
Administration fees	<u>(138,591)</u>	<u>(112,461)</u>
Fair value of plan assets at end of year	<u>2,825,646</u>	<u>2,473,593</u>
Funded status	<u>\$ (1,632,029)</u>	<u>\$ (2,032,347)</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE I - RETIREMENT PLANS (CONTINUED)**

Defined Benefit Pension Plan (continued) - Amounts recognized in the statements of financial position at December 31, consist of the following:

	<u>2015</u>	<u>2014</u>
Accrued pension costs, net	<u>\$ 1,632,029</u>	<u>\$ 2,032,347</u>
 <u>Weighted average assumptions used to measure benefit obligations at December 31:</u>		
	<u>2015</u>	<u>2014</u>
Discount rate (pre-retirement/post retirement)	4.03%	3.77%
Expected annual rate of compensation increase	0%	0%
Expected annual rate of increase in compensation and benefit limits	0%	0%
Pre-retirement mortality	None	None
Post-retirement mortality	RP-2014 Healthy Annuitant Bottom Quartile with MP-2014 Generational Projection for Male and Female	2014 Applicable
 <u>Weighted average assumptions used to determine net periodic pension cost at December 31:</u>		
	<u>2015</u>	<u>2014</u>
Discount rate (pre-retirement/post retirement)	3.77%	4.63%
Long-term expected rate of return on plan assets	7.00%	7.00%
Expected annual rate of compensation increase	0%	0%
Expected annual rate of increase in compensation and benefit limits	0%	0%
Post-retirement mortality	2014 Applicable	2013 Applicable

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE I - RETIREMENT PLANS (CONTINUED)**

Defined Benefit Pension Plan (continued) - The Plan's assumed long-term rate of return of 7.0% is based primarily on the expected returns of asset classes weighted for asset allocation. In addition, historical rates of return on asset classes are compared with the Plan's historical yield. The Organization's investment goals state that Plan assets are to be invested in a balanced portfolio that allows sustained growth without material losses.

In accordance with ASC 820-10 all of the following pension plan assets are classified as Level 1 investments (see Note J). The fair values of the Organization's pension plan assets at December 31 (cash basis), by asset category are as follows:

<u>Asset category:</u>	2015	2014
Cash and money market funds	\$ 256,947	\$ 185,846
Bonds and annuities	316,677	234,366
Pooled mutual funds	274,897	215,488
Stocks	864,924	939,882
Government securities	1,112,201	898,011
	\$ 2,825,646	\$ 2,473,593
 <u>Plan assets % allocation:</u>		
Cash and money market funds	9.1%	7.5%
Bonds and annuities	11.2%	9.5%
Pooled mutual funds	9.7%	8.7%
Stocks	30.6%	38.0%
Government securities	39.4%	36.3%
	100.0%	100.0%

Estimated future benefit payments through 2025:

Year ending December 31,

2016	\$ 301,119
2017	283,952
2018	298,019
2019	314,908
2020	211,281
2021-2025	1,489,446
	\$ 2,898,725

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE J - FAIR VALUE MEASUREMENTS**

ASC 820-10, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015:

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE J - FAIR VALUE MEASUREMENTS (CONTINUED)**

*Investments:* For investments categorized as level 1 – values are based on quoted prices for identical assets or liabilities in active markets. For investments categorized as level 2 – values are based on quoted prices in active markets of the underlying assets held by ETIC. For investments categorized as level 3 – values are based on valuations provided by ETIC for the underlying assets held by ETIC. ETIC’s valuations are based on information provided by fund managers, external investment advisors, and other market factors to determine if the carrying value of these investments should be adjusted. Other factors may include, but are not limited to: estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. Independent appraisals of significant real estate held for investment, and not in limited partnerships, are conducted every three to five years, depending on the nature of the investment.

*Antique collection of clothing:* Valued based on management’s research and consultation with historic clothing experts.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization’s assets at fair value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 1,340,442	\$ 2,970,334	\$ -	\$ 4,310,776

The following table sets forth by level, within the fair value hierarchy, the Organization’s assets at fair value as of December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 1,200,509	\$ 2,333,713	\$ -	\$ 3,534,222
Antique collection	-	-	12,000	12,000

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**NOTE J - FAIR VALUE MEASUREMENTS (CONTINUED)**

The following tables set forth a summary of changes in the fair value of the Organization's level 3 assets and liabilities for the year ended December 31, 2015:

	<u>Investments</u>	<u>Antique Collection</u>
Balance, December 31, 2014	\$ -	\$ 12,000
Impairment loss	-	(12,000)
Balance, December 31, 2015	<u>\$ -</u>	<u>\$ -</u>

The following tables set forth a summary of changes in the fair value of the Organization's level 3 assets and liabilities for the year ended December 31, 2014:

	<u>Investments</u>	<u>Antique Collection</u>
Balance, December 31, 2013	\$ 374,826	\$ 24,280
Impairment loss	-	(12,280)
Net change in investments held by SVCF	<u>(374,826)</u>	<u>-</u>
Balance, December 31, 2014	<u>\$ -</u>	<u>\$ 12,000</u>

**NOTE K - RELATED PARTIES**

A member of the board of directors has been identified as a minority owner not involved in management in Enterprise Trust and Investment Company, the investment firm responsible for handling the Organization's investments (see Note D) as well as the investments in the defined benefit pension plan (see Note I). To avoid conflicts of interest, the board member in question recuses himself from voting on any organizational matters pertaining to investment decisions regarding Enterprise Trust and Investment Company.

**SECTION II**  
**SUPPLEMENTARY INFORMATION**



**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS**

**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Federal CFDA Number	Pass-through Grantor's Number/ Grant Number	Grant Period/Period In Current Fiscal Year	Award Amount	Revenue	Expenditures	Type of Program
<b><u>FEDERAL ASSISTANCE</u></b>							
<b><u>US Department of Labor</u></b>							
Direct Program:							
Homeless Veterans Reintegration Project	17.805	HV-27445-15-60-5-6	7/1/15 - 3/31/17	\$ 300,000	\$ 95,763	\$ 95,763	
Total US Department of Labor				<u>300,000</u>	<u>95,763</u>	<u>95,763</u>	Nonmajor
<b><u>US Department of Veterans Affairs</u></b>							
Direct Program:							
Supportive Services for Veteran Families	64.033	12-CA-013	10/1/14 - 9/30/15	\$ 455,940	339,879	339,879	
Supportive Services for Veteran Families	64.033	12-CA-013	10/1/15 - 9/30/16	455,940	94,407	94,407	
Total US Department of Veterans Affairs				<u>911,880</u>	<u>434,286</u>	<u>434,286</u>	Nonmajor
<b><u>US Department of Education</u></b>							
21st Century Community Learning Centers:							
Pass Through:							
State of California Department of Education	84.287C	14-14535-V927-8A	7/1/14 - 12/31/15	750,000	580,047	580,047	
State of California Department of Education	84.287C	14-14535-V927-9A	7/1/14 - 12/31/15	250,000	123,228	123,228	
State of California Department of Education	84.287C	15-14535-V927-8A	7/1/15 - 12/31/16	750,000	301,602	301,602	
State of California Department of Education	84.287C	15-14535-V927-9A	7/1/15 - 12/31/16	250,000	134,618	134,618	
Total US Department of Education				<u>2,000,000</u>	<u>1,139,495</u>	<u>1,139,495</u>	Major
<b><u>Corporation for National and Community Service</u></b>							
Social Innovation Fund Program:							
Pass Through:							
Roberts Enterprise Development Fund (REDF)	94.019	01-GSV-01	1/1/15 - 12/31/15	269,057	257,934	257,934	
Total Corporation for National and Community Service				<u>269,057</u>	<u>257,934</u>	<u>257,934</u>	Major
Total federal assistance				<u>3,480,937</u>	<u>1,927,479</u>	<u>1,927,479</u>	
<b><u>NON-FEDERAL ASSISTANCE</u></b>							
City of San Jose - Recycling Diversion Support Services	N/A	N/A	7/1/15-6/30/16	249,323	249,323	249,323	
County of Santa Clara - New Opportunity Work Program	N/A	N/A	7/1/14-6/30/15	500,000	177,280	177,280	
County of Santa Clara - New Opportunity Work Program	N/A	N/A	7/1/15-6/30/16	500,000	200,597	200,597	
County of Santa Clara - New Opportunity Work Program - CDCR	N/A	N/A	7/1/14-6/30/15	330,000	157,337	157,337	
County of Santa Clara - New Opportunity Work Program - CDCR	N/A	N/A	7/1/15-6/30/16	235,000	114,095	114,095	
County of Santa Clara - New Opportunity Work Program - (NOW) 441	N/A	N/A	7/1/15-6/30/15	50,000	1,947	1,947	
County of Santa Clara - New Opportunity Work Program - PRC	N/A	N/A	11/1/14 - 9/30/15	489,941	292,083	292,083	
County of Santa Clara - Measure A funding	N/A	N/A	7/1/14-6/30/15	299,610	129,040	129,040	
County of Santa Clara - Measure A funding	N/A	N/A	7/1/15-6/30/16	299,610	100,618	100,618	
Total non-federal assistance				<u>2,953,484</u>	<u>1,422,320</u>	<u>1,422,320</u>	
Total governmental assistance				<u>\$ 6,434,421</u>	<u>\$ 3,349,799</u>	<u>\$ 3,349,799</u>	

See accompanying independent auditors' report and notes to schedule expenditures of federal and other governmental awards

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL  
AND OTHER GOVERNMENTAL AWARDS**

**DECEMBER 31, 2015 AND 2014**

**NOTE A - BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal and Other Governmental Awards includes the federal and other governmental grant activity of Goodwill of Silicon Valley and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**SECTION III**  
**COMPLIANCE REPORTS**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Goodwill of Silicon Valley  
(A California Nonprofit Public Benefit Corporation)  
San Jose, California

We have audited, in accordance with the 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, the consolidated financial statements of Goodwill of Silicon Valley and related entity GoodEx, Inc. (collectively, the Organization), which comprise the consolidated statements of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 10, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from 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 consolidated 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*.

Board of Directors  
Goodwill of Silicon Valley

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Petrinovich Pugh & Company, LLP

San Jose, California  
March 10, 2016

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE**

To the Board of Directors  
Goodwill of Silicon Valley  
(A California Nonprofit Public Benefit Corporation)  
San Jose, California

### **Report on Compliance for Each Major Federal Program**

We have audited Goodwill of Silicon Valley's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Goodwill of Silicon Valley's major federal programs for the year ended December 31, 2015. Goodwill of Silicon Valley's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Goodwill of Silicon Valley's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance 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 of Silicon Valley'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Goodwill of Silicon Valley's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Goodwill of Silicon Valley complied, in all material respects, with the types of 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, 2015.

## Report on Internal Control Over Compliance

Management of Goodwill of Silicon Valley is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Goodwill of Silicon Valley's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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 of Silicon Valley'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Petrinovich Pugh & Company, LLP

San Jose, California  
March 10, 2016

**SECTION IV**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED DECEMBER 31, 2015**

**SUMMARY OF AUDIT RESULTS:**

1. The auditors' report expresses an unqualified opinion on the consolidated financial statements of Goodwill of Silicon Valley.
2. No significant deficiencies relating to the audit of the consolidated financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the consolidated financial statements of Goodwill of Silicon Valley, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for Goodwill of Silicon Valley expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relating to major programs that are required to be reported in accordance with Uniform Guidance.
7. The program tested as a major program included: Twenty-First Century Community Learning Centers – CFDA 84.287C, Grant numbers 14-14535-V927-8A, 14-14535-V927-9A, 15-14535-V927-8A, 15-14535-V927-9A; REDF – CFDA 94.019, Grant number 01-GSV-01
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Goodwill of Silicon Valley qualified as a low-risk auditee.

**FINDINGS - CONSOLIDATED FINANCIAL STATEMENTS AUDIT:**

NONE

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:**

NONE

**GOODWILL OF SILICON VALLEY**  
**(A California Nonprofit Public Benefit Corporation)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**YEAR ENDED DECEMBER 31, 2015**

There were no prior year findings from the previous audit reports requiring follow up during the year ended December 31, 2015.