

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

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016 AND 2015

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

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015, 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.

Board of Directors
Goodwill of Silicon Valley

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, 2016 and 2015, 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 Principles, 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 29, 2017 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 & Company, LLP
Petrinovich Pugh & Company, LLP

San Jose, California
March 29, 2017

SECTION I
CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,065,529	\$ 1,079,284
Restricted cash	301,202	301,202
Investments, at market value	6,069,414	4,310,776
Accounts receivable, net	799,354	980,953
Grants receivable	590,580	970,487
Inventories, net	1,823,036	1,708,806
Prepaid expenses	489,702	252,512
Total current assets	<u>12,138,817</u>	<u>9,604,020</u>
Land, buildings and equipment, net	20,856,226	20,175,346
Other assets:		
Deposits	93,277	70,694
Total other assets	<u>93,277</u>	<u>70,694</u>
Total assets	<u>\$ 33,088,320</u>	<u>\$ 29,850,060</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 782,614	\$ 701,642
Accrued payroll and benefits	1,373,900	1,181,101
Other accrued liabilities	658,107	547,634
Deferred rent	117,843	105,124
Intermediary funds payable	-	91,500
Current portion of note payable	-	1,228,803
Current portion of capital lease obligations	-	1,989
Total current liabilities	<u>2,932,464</u>	<u>3,857,793</u>
Long-term liabilities:		
Accrued pension costs, net	1,767,510	1,632,029
Capital lease obligations, net of current portion	-	1,382
Total long-term liabilities	<u>1,767,510</u>	<u>1,633,411</u>
Total liabilities	<u>4,699,974</u>	<u>5,491,204</u>
Net assets:		
Unrestricted	<u>28,388,346</u>	<u>24,358,856</u>
Total net assets	<u>28,388,346</u>	<u>24,358,856</u>
Total liabilities and net assets	<u>\$ 33,088,320</u>	<u>\$ 29,850,060</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 ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Public support and revenue:		
Retail programs	\$ 28,862,673	\$ 28,099,767
Donated goods	7,841,673	6,568,313
E-commerce	4,733,294	3,960,075
Operations programs	4,197,884	4,470,163
Grants and contributions	3,831,359	3,380,233
Gain on sale of property and equipment	2,135,483	-
Contract and business service programs	1,868,615	1,579,769
Miscellaneous	342,144	175,267
Rent income	326,765	360,856
Investment income	150,759	78,601
Total public support and revenue	<u>54,290,649</u>	<u>48,673,044</u>
Expenses:		
Program services:		
Retail programs	31,171,218	29,768,769
Cost assigned to donated goods sold	7,664,903	6,476,882
Vocational school programs	4,859,923	4,310,502
Contract and business service programs	2,249,142	2,092,828
Total program services	<u>45,945,186</u>	<u>42,648,981</u>
Supporting services:		
Management and general	4,113,360	4,155,554
Fundraising	<u>57,445</u>	<u>67,018</u>
Total supporting services	<u>4,170,805</u>	<u>4,222,572</u>
Total expenses	<u>50,115,991</u>	<u>46,871,553</u>
Change in net assets before pension plan investment loss and impairment loss	4,174,658	1,801,491
Pension-related changes other than net periodic benefit costs	(145,168)	(177,069)
Impairment loss on antique collection	<u>-</u>	<u>(12,000)</u>
Change in net assets	4,029,490	1,612,422
Net assets, beginning of year	<u>24,358,856</u>	<u>22,746,434</u>
Net assets, end of year	<u>\$ 28,388,346</u>	<u>\$ 24,358,856</u>

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, 2016

	Program Services					Supporting Services				
	Retail Programs	Cost Assigned to Donated Goods	Contract and Business Service Programs	Vocational School Programs	Total	Management and General	Fundraising	Total	Grand Total	
Salaries and wages	\$ 14,466,247	\$ -	\$ 1,317,848	\$ 2,328,666	\$ 18,112,761	\$ 2,025,749	\$ 42,493	\$ 2,068,242	\$ 20,181,003	
Employee benefits	1,916,689	-	203,725	268,979	2,389,393	243,044	9,705	252,749	2,642,142	
Payroll taxes	1,178,407	-	105,766	180,882	1,465,055	103,015	3,247	106,262	1,571,317	
Total salaries and related expenses	17,561,343	-	1,627,339	2,778,527	21,967,209	2,371,808	55,445	2,427,253	24,394,462	
Cost assigned to										
donated goods sold	-	7,664,903	170	-	7,665,073	-	-	-	7,665,073	
Occupancy	5,830,408	-	228,095	151,229	6,209,732	309,041	-	309,041	6,518,773	
Raw materials and supplies	3,320,132	-	132,253	373,731	3,826,116	84,479	-	84,479	3,910,595	
Professional services	829,047	-	11,219	1,388,884	2,229,150	471,047	2,000	473,047	2,702,197	
Postage and shipping	830,579	-	1,656	167	832,402	4,423	-	4,423	836,825	
Transportation	637,447	-	73,663	2,450	713,560	2,312	-	2,312	715,872	
Advertising and marketing	42,147	-	28,505	11,519	82,171	382,419	-	382,419	464,590	
Conferences and meetings	73,525	-	4,852	45,494	123,871	150,982	-	150,982	274,853	
Telephone	259,437	-	17,117	39,890	316,444	24,583	-	24,583	341,027	
Dues and subscriptions	1,057	-	37	1,134	2,228	196,855	-	196,855	199,083	
Interest	-	-	-	2	2	51,181	-	51,181	51,183	
Total expenses before										
depreciation and amortization	29,385,122	7,664,903	2,124,906	4,793,027	43,967,958	4,049,130	57,445	4,106,575	48,074,533	
Depreciation and amortization	1,786,096	-	124,236	66,896	1,977,228	64,230	-	64,230	2,041,458	
	<u>\$ 31,171,218</u>	<u>\$ 7,664,903</u>	<u>\$ 2,249,142</u>	<u>\$ 4,859,923</u>	<u>\$ 45,945,186</u>	<u>\$ 4,113,360</u>	<u>\$ 57,445</u>	<u>\$ 4,170,805</u>	<u>\$ 50,115,991</u>	
Percentage of total	62.2%	15.3%	4.5%	9.7%	91.7%	8.2%	0.1%	8.3%	100.0%	

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				
	Retail Programs	Cost Assigned to Donated Goods	Contract and Business Service Programs	Vocational School Programs	Total	Management and General	Fundraising	Total	Grand 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	
	\$ 29,768,769	\$ 6,476,882	\$ 2,092,828	\$ 4,310,502	\$ 42,648,981	\$ 4,155,554	\$ 67,018	\$ 4,222,572	\$ 46,871,553	
Percentage of total	63.5%	13.8%	4.5%	9.2%	91.0%	8.9%	0.1%	9.0%	100.0%	

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, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 4,029,490	\$ 1,612,422
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	2,041,458	1,901,233
Gain on the sale of property and equipment	(2,135,483)	-
Change in donated inventories	106,955	39,464
Net realized and unrealized loss on investments	31,582	79,092
Impairment loss on antique clothing	-	12,000
(Increase) decrease in assets:		
Accounts receivable	181,599	(198,466)
Grants receivable	379,907	199,184
Purchased inventories	(221,185)	(118,819)
Prepaid expenses	(237,190)	4,925
Deposits	(22,583)	113,609
Increase (decrease) in liabilities:		
Accounts payable	80,971	40,771
Intermediary funds payable	(91,500)	5,541
Accrued payroll and benefits	192,799	163,018
Other accrued liabilities	110,473	16,064
Deferred rent	12,719	(4,469)
Accrued pension costs	135,481	(400,318)
Net cash provided by operating activities	4,595,493	3,465,251
Cash flows from investing activities:		
Purchases of property and equipment	(3,047,149)	(2,705,738)
Proceeds from sale of property and equipment	2,460,295	-
Purchases of investments	(2,719,648)	(1,671,501)
Proceeds from sale of investments	929,428	815,855
Net cash used for investing activities	(2,377,074)	(3,561,384)
Cash flow from financing activities:		
Principal payments on notes payable	(1,228,803)	(397,761)
Principal payments on capital lease obligations	(3,371)	(77,692)
Net cash used for financing activities	(1,232,174)	(475,453)
Net increase (decrease) in cash and cash equivalents	986,245	(571,586)
Cash and cash equivalents, beginning of year	1,079,284	1,650,870
Cash and cash equivalents, end of year	\$ 2,065,529	\$ 1,079,284

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, 2016 AND 2015

Supplemental disclosures of noncash investing and financing activities:

Supplemental disclosures of cash flow information:

	<u>2016</u>	<u>2015</u>
Cash paid during the year for:		
Interest	<u>\$ 51,183</u>	<u>\$ 81,682</u>

During the years ended December 31, 2016 and 2015 the Organization disposed of fully depreciated property and equipment with a cost of \$1,435,813 and \$614,724, respectively.

During the years ended December 31, 2016 and 2015, the Organization transferred \$3,155,600 and \$1,568,977, 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, 2016 AND 2015

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. During 2016, GES was inactive for the entire year.

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 2016 Goodsource processed and diverted from landfill 50,000 mattresses and this will increase to over 70,000 mattresses in 2017. 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE B - PROGRAM SERVICES (CONTINUED)

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.

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 12,000 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, 2016 AND 2015

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. There are currently no temporarily restricted net assets.

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, 2016 AND 2015

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 27, 2017. 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, 2016 and 2015 was \$111,641 and \$36,756, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2016 and 2015 was \$59,994 and \$48,908, 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 final payment per the agreement was made in October 2016 and there was no intermediary funds payable balance as of December 31, 2016. The balance in intermediary funds payable as of December 31, 2015 was \$91,500.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of December 31, 2016 and 2015, and is included in "Accrued payroll and benefits" in the statements of financial position. The accrued vacation balance as of December 31, 2016 and 2015 was \$588,771 and \$510,411, respectively.

Deferred Rent - As of December 31, 2016, ten 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, 2016 and 2015, the Organization received free use of lots where attended donation stations are located. The Organization has valued the use of the lots at approximately \$156,000 and \$196,000, respectively. The contributions for the years ended December 31, 2016 and 2015 are recorded to rent revenue and rent expense.

**GOODWILL OF SILICON VALLEY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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, 2016 and 2015 were approximately \$470,000 and \$355,000, 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, 2016, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

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, 2016 and 2015, the Organization had approximately \$1,875,000 and \$517,000, respectively, in deposits in excess of the federally insured limit.

**GOODWILL OF SILICON VALLEY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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, the collection of antique items was determined to have no value. The Organization recorded \$12,000 impairment losses during 2015.

Recent Accounting Pronouncements Not Yet Implemented - On May 28 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the calendar year ending December 31, 2019. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the calendar year ending December 31, 2020. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the Statement of Activities will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the calendar year ending December 31, 2021. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements Not Yet Implemented (continued) - In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statements*. The standard's core principal is to improve the current net asset classification requirements and the information presented in the financial statements and notes about a not-for profit entity. The standard eliminates the distinction between permanently and temporarily restricted net assets. The standard also includes enhanced disclosure requirements for board designated funds and donor restricted funds, qualitative information on what liquid resources are available for operation and how they are managed, amounts of expenses by both natural and function classification, methods used to allocate costs among program and support, and underwater endowment funds. This standard will be effective for the calendar year ending December 31, 2018. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

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 29, 2017. The Organization has not evaluated subsequent events after this date in the statements presented.

NOTE D - INVESTMENTS

As of December 31, 2016 and 2015, the Organization holds all investments with Enterprise Trust and Investment Company (ETIC), a California incorporated banking institution.

ETIC follows the guidelines for professional management of the investment portfolio established and monitored by the Organization.

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

	<u>2016</u>	<u>2015</u>
Investments:		
Fixed income	\$ 5,193,436	\$ 3,271,768
Domestic equities	768,249	923,146
Foreign equities	107,729	115,862
	<hr/> <u>\$ 6,069,414</u>	<hr/> <u>\$ 4,310,776</u>

GOODWILL OF SILICON VALLEY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE D - INVESTMENTS (CONTINUED)

Investments activity during the years ended December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Board designated investments, beginning of year	\$ -	\$ 1,351,197
Investment return:		
Interest and dividend income	-	22,153
Net realized and unrealized loss	-	2,819
Administrative expenses	-	(7,790)
Net investment return	-	17,182
Appropriation of board designated investments for expenditures	-	-
Transfer from board designated investments	-	<u>(1,368,379)</u>
Board designated investments, end of year	<u>\$ -</u>	<u>\$ -</u>
	<u>2016</u>	<u>2015</u>
Investments, beginning of year	\$ 4,310,776	\$ 2,647,500
Investment return:		
Interest and dividend income	182,341	135,540
Net realized and unrealized loss	(31,582)	(81,911)
Administrative expenses	(40,063)	(22,162)
Net investment return	110,696	31,467
Transfers from operations	1,647,942	263,430
Transfer from board designated investments	-	<u>1,368,379</u>
Investments, end of year	<u>\$ 6,069,414</u>	<u>\$ 4,310,776</u>

GOODWILL OF SILICON VALLEY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE E - INVENTORIES

Inventories as of December 31, consists of the following:

	2016	2015
Donated merchandise	\$ 757,369	\$ 864,324
Purchased merchandise	1,121,161	892,490
Donated automobiles	4,500	900
Allowance for obsolescence	<u>(59,994)</u>	<u>(48,908)</u>
	<u><u>\$ 1,823,036</u></u>	<u><u>\$ 1,708,806</u></u>

NOTE F - LAND, BUILDINGS AND EQUIPMENT

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

	2016	2015
Land and buildings	\$ 27,858,519	\$ 25,864,789
Leasehold improvements	3,076,249	3,663,709
Equipment	<u>7,907,190</u>	<u>7,483,796</u>
	<u>38,841,958</u>	<u>37,012,294</u>
Less: accumulated depreciation and amortization	<u>(18,716,535)</u>	<u>(18,109,812)</u>
	<u>20,125,423</u>	<u>18,902,482</u>
Construction in process	<u>730,803</u>	<u>1,272,864</u>
	<u><u>\$ 20,856,226</u></u>	<u><u>\$ 20,175,346</u></u>

**GOODWILL OF SILICON VALLEY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE G - NOTE 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 was secured by real property owned in San Jose, California and bore 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. The outstanding principal balance on the note payable as of December 31, 2015 was \$1,228,803. The Organization paid off the remaining principal balance during 2016.

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,	
2017	\$ 2,515,609
2018	2,435,916
2019	2,377,536
2020	2,030,364
2021	1,235,844
Thereafter	<u>6,004,729</u>
	 <u>\$ 16,599,998</u>

Rent expense under the operating leases for the years ended December 31, 2016 and 2015 was approximately \$2,604,000 and \$2,567,000, respectively.

In addition, Goodwill subleases two of these locations and receives rental income related to the subleases.

**GOODWILL OF SILICON VALLEY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE H - COMMITMENTS AND CONTINGENCIES (CONTINUED)

The net minimum future rental income expected to be received under these sublease agreements are as follows:

Year ending December 31,

2017	\$ 32,333
2018	33,465
2019	34,636
2020	<u>29,701</u>
	 <u>\$ 130,135</u>

Rent income recognized under the subleases for the years ended December 31, 2016 and 2015 was approximately \$156,000 and \$155,000, respectively.

Capital Lease Obligations – The Organization acquired certain equipment under capital lease obligations. The leases bore interest ranging from 6.34% to 9.2% and matured at various dates through August 2016. As of December 31, 2016, the Organization has paid off all outstanding capital leases.

As of December 31, 2016, land, buildings and equipment includes equipment purchased under capital leases with an original cost of \$341,215 and accumulated depreciation in the amount of \$341,215.

Unemployment Benefits – The Organization is self-insured for unemployment benefits given to former employees. Management has estimated the amount of benefits expected to be paid by the Organization subsequent to December 31, 2016, with respect to claims related to 2016 and prior years. The amount accrued for unemployment benefits at December 31, 2016 and 2015 was \$45,010 and \$41,799, respectively. These amounts are included in "Accrued payroll and benefits" in the accompanying statements of financial position.

NOTE I - RETIREMENT PLANS

The Organization 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.

GOODWILL OF SILICON VALLEY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE I - RETIREMENT PLANS (CONTINUED)

Defined Benefit Pension Plan (continued) - 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:

	2016	2015
Interest cost	\$ 184,284	\$ 161,627
Expected return on assets	(199,578)	(192,018)
Net amortization and deferral	<u>260,607</u>	<u>168,004</u>
Net pension cost	<u>\$ 245,313</u>	<u>\$ 137,613</u>

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:

	2016	2015
Actuarial loss on obligations	\$ 297,313	\$ 75,898
Actuarial loss on plan assets	<u>4,432</u>	<u>190,984</u>
Actuarial loss	301,745	266,882
Unrecognized cumulative loss at January 1	2,306,087	2,129,018
Cumulative loss recognized in net pension cost	<u>(156,577)</u>	<u>(89,813)</u>
Unrecognized cumulative loss at December 31	<u>\$ 2,451,255</u>	<u>\$ 2,306,087</u>

GOODWILL OF SILICON VALLEY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE I - RETIREMENT PLANS (CONTINUED)

Defined Benefit Pension Plan (continued) - 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>	2016	2015
Projected benefit obligation at end of year	<u>\$ 4,355,056</u>	<u>\$ 4,457,675</u>
<u> Change in plan assets (cash basis):</u>		
	2016	2015
Fair value of plan assets at beginning of year	\$ 2,825,646	\$ 2,473,593
Actual return on plan assets (pension plan investment income)	224,618	28,856
Employer cash contributions	255,000	715,000
Benefits paid	(524,908)	(225,390)
Investment fees	(29,472)	(27,822)
Administration fees	<u>(163,338)</u>	<u>(138,591)</u>
Fair value of plan assets at end of year	<u>2,587,546</u>	<u>2,825,646</u>
Funded status	<u>\$ (1,767,510)</u>	<u>\$ (1,632,029)</u>

Amounts recognized in the statements of financial position at December 31, consist of the following:

	2016	2015
Accrued pension costs, net	<u>\$ 1,767,510</u>	<u>\$ 1,632,029</u>

GOODWILL OF SILICON VALLEY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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:

Weighted average assumptions used to measure
benefit obligations at December 31:

	2016	2015
Discount rate (pre-retirement/post retirement)	3.62%	4.03%
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- 2016 Generational Projection for Male and Female	RP-2014 Healthy Annuitant Bottom Quartile with MP- 2014 Generational Projection for Male and Female

Weighted average assumptions used to determine
net periodic pension cost at December 31:

	2016	2015
Discount rate (pre-retirement/post retirement)	4.03%	3.77%
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	RP-2014 Healthy Annuitant Bottom Quartile with MP- 2015 Generational Projection for Male and Female	2014 Applicable

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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:

	2016	2015
<u>Asset category:</u>		
Cash and money market funds	\$ 48,041	\$ 256,947
Bonds and annuities	388,807	316,677
Pooled mutual funds	259,444	274,897
Stocks	829,972	864,924
Government securities	<u>1,061,282</u>	<u>1,112,201</u>
	<u>\$ 2,587,546</u>	<u>\$ 2,825,646</u>

Plan assets % allocation:

Cash and money market funds	1.9%	9.1%
Bonds and annuities	15.0%	11.2%
Pooled mutual funds	10.0%	9.7%
Stocks	32.1%	30.6%
Government securities	<u>41.0%</u>	<u>39.4%</u>
	<u>100.0%</u>	<u>100.0%</u>

Estimated future benefit payments through 2025:

Year ending December 31,	
2017	\$ 423,823
2018	320,404
2019	348,692
2020	240,262
2021	456,503
2022-2025	<u>1,537,165</u>
	<u>\$ 3,326,849</u>

**GOODWILL OF SILICON VALLEY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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, 2016:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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.

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 2,194,252	\$ 3,875,162	\$ -	\$ 6,069,414

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

**GOODWILL OF SILICON VALLEY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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.

In October 2016, the Organization entered into an affiliation agreement with Expandability, a nonprofit corporation that provides persons with disabilities access to adaptive technology and career transition services. The Organization provided facility and admin support under a management agreement dated October 1, 2016. In addition, two members of the Organization's management team are now members of Expandability's Board of Directors. As of the report date, the Organization and Expandability are two separate entities with no intent to consolidate. The Organization invoiced Expandability \$60,856 from October 1, 2016 to December 31, 2016 of which \$52,624 related to reimbursable expenses and \$5,774 related to services provided under a management agreement. The Organization had a receivable balance from the Expandability totaling \$58,398 that is included in accounts receivable as of December 31, 2016.

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, 2016

	Federal CFDA Number	Pass-through Grantor's Number/Grant Number	Grant Period/Period In Current Fiscal Year	Award Amount	Revenue	Expenditure	Type of Program
<u>FEDERAL ASSISTANCE</u>							
<u>US Department of Labor</u>							
Direct Program:							
Training To Work 3 - Adult Reentry	17.27	PE-27382-15-60-A-6	07/01/15 - 09/28/18	\$ 1,137,655	\$ 463,275	\$ 463,275	Major
Homeless Veterans Reintegration Project	17.805	HV-27445-15-60-5-6	07/1/15 - 03/31/17	300,000	204,237	204,237	
Homeless Veterans Reintegration Project	17.805	HV-27445-15-60-5-6	07/01/16 - 03/31/18	300,000	93,152	93,152	
				<u>600,000</u>	<u>297,389</u>	<u>297,389</u>	Major
Total US Department of Labor				1,737,655	760,664	760,664	
<u>US Department of Veterans Affairs</u>							
Direct Program:							
Supportive Services for Veteran Families	64.033	14- CA- 013	10/1/15 - 9/30/16	455,940	453,831	453,831	
Total US Department of Veterans Affairs				<u>455,940</u>	<u>453,831</u>	<u>453,831</u>	Non Major
<u>US Department of Education</u>							
21st Century Community Learning Centers:							
Pass Through:							
State of California Department of Education	84.287C	15- 14535-V927-8A	7/1/15 - 12/31/16	750,000	448,784	448,784	
State of California Department of Education	84.287C	15- 14535-V927-6A	7/1/15 - 12/31/16	250,000	113,131	113,131	
State of California Department of Education	84.287C	16- 14535-V927-8A	7/1/16 - 12/31/17	750,000	297,318	297,318	
State of California Department of Education	84.287C	16- 14535-V927-6A	7/1/16 - 12/31/17	250,000	84,023	84,023	
Total US Department of Education				<u>2,000,000</u>	<u>943,256</u>	<u>943,256</u>	Major
Total federal assistance				4,193,595	2,157,751	2,157,751	
<u>NON-FEDERAL ASSISTANCE</u>							
Others							
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	7/1/15- 6/30/16	500,000	230,776	230,776	
County of Santa Clara - New Opportunity Work Program	N/A	N/A	7/1/16- 6/30/18	1,440,000	288,218	288,218	
County of Santa Clara - New Opportunity Work Program - CDCR	N/A	N/A	7/1/15- 6/30/16	235,000	77,766	77,766	
County of Santa Clara - New Opportunity Work Program - CDCR	N/A	N/A	7/1/16- 6/30/17	150,000	35,723	35,723	
County of Santa Clara - New Opportunity Work Program	N/A	N/A	7/1/15- 6/30/16	50,000	7,323	7,323	
County of Santa Clara - In-Custody Contract Phase I	N/A	N/A	1/18/16- 6/30/18	575,000	160,067	160,067	
County of Santa Clara - New Opportunity Work Program - PRC	N/A	N/A	10/1/15- 6/30/16	202,880	180,569	180,569	
County of Santa Clara - New Opportunity Work Program - PRC	N/A	N/A	7/1/16 - 9/30/16	52,435	28,715	28,715	
County of Santa Clara - New Opportunity Work Program - PRC	N/A	N/A	10/1/16- 6/30/17	209,865	37,831	37,831	
County of Santa Clara - Measure A funding	N/A	N/A	7/1/15- 6/30/16	<u>299,610</u>	<u>56,341</u>	<u>56,341</u>	
Total Others				<u>3,964,113</u>	<u>1,352,652</u>	<u>1,352,652</u>	
Total non-federal assistance				<u>3,964,113</u>	<u>1,352,652</u>	<u>1,352,652</u>	
Total governmental assistance				<u>\$ 8,157,708</u>	<u>\$ 3,510,403</u>	<u>\$ 3,510,403</u>	

See accompanying independent auditors' report and notes to schedule of 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, 2016 AND 2015

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 Principles, 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.

The Company does not elect to use the 10% de minimis cost rate under Uniform Guidance 200.510(b)(5).

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, 2016, 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 29, 2017.

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

Petrinovich Pugh & Company, LLP

San Jose, California
March 29, 2017

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, 2016. 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, 2016.

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 29, 2017

SECTION IV

SCHEDULES 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, 2016

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 15-14535-V927-8A, 15-14535-V927-6A, 16-14535-V927-8A, 16-14535-V927-6A;

The following two grants under Cluster of Programs: Training to Work 3 – Adult Reentry – CFDA 17.27, Grant number PE-27382-15-60-A-6; Homeless Veterans Reintegration Project – CFDA 17.805, Grant number HV-27445-15-60-5-6.

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, 2016

There were no prior year findings from the previous audit reports requiring follow up during the year ended December 31, 2016.