GOODWILL INDUSTRIES OF
MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.

Table of Contents

CROSSLIN
&ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Board of Directors
Goodwill Industries of Middle Tennessee, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of Goodwill Industries of Middle Tennessee, Inc. (a nonprofit organization) as of December 31, 2007 and 2006, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Middle Tennessee, Inc., as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Crosslin & Associates, P.C.

Nashville, Tennessee
April 8, 2008

2525 West End Avenue, Suite 1100 • Nashville, Tennessee 37203 • phone: 615-320-5500 • fax: 615-329-9465 • www.crosslinpc.com

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31, 2007	December 31, 2006
CURRENT ASSETS		
Cash and cash equivalents	$ 2,304,300	$ 3,069,399
Accounts and grants receivable, net	481,673	514,502
Inventory	1,011,936	912,549
Prepaid expenses	288,558	288,797
Total current assets	4,086,467	4,785,247
NONCURRENT ASSETS		
Investments - board designated	2,144,295	1,650,863
Investments - deferred compensation plan	382,392	285,915
Land, buildings and equipment, net	18,681,520	14,633,232
Other	65,745	64,345
Total assets	$25,360,419	$21,419,602

LIABILITIES AND NET ASSETS

	December 31, 2007	December 31, 2006
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 2,801,088	$ 2,465,904
Deferred revenue	-	5,244
Current portion of notes payable	811,639	598,916
Total current liabilities	3,612,727	3,070,064
NONCURRENT LIABILITIES		
Deferred compensation plan liability	382,392	285,915
Notes payable, net of current portion	6,144,670	4,750,380
Total liabilities	10,139,789	8,106,359
NET ASSETS		
Unrestricted:		
Designated for long-term investment	2,144,295	1,650,863
Other unrestricted	13,076,335	11,662,380
Total net assets	15,220,630	13,313,243
Total liabilities and net assets	$25,360,419	$21,419,602

See accompanying notes to financial statements.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENTS OF ACTIVITIES

	Year Ended December 31,	
	2007	2006
	Unrestricted	
REVENUES, GAINS, AND OTHER SUPPORT		
Store sales, net of related discounts	$22,263,074	$18,330,349
Contributed value of donated merchandise	12,175,999	10,621,794
Retail operations	34,439,073	28,952,143
Grants and fees received	240,567	259,985
Salvage sales	2,651,448	1,561,003
Contract income	343,572	543,141
United Way contributions	53,854	48,868
Administrative fees	65,497	55,418
Contributions	77,257	259,200
Other	78,244	41,752
Investment income, net	211,384	210,620
Total revenues, gains, and other support	38,160,896	31,932,130
EXPENSES		
Program services	31,998,576	25,560,213
Supporting services	4,254,933	3,475,791
Total expenses	36,253,509	29,036,004
Increase in net assets	1,907,387	2,896,126
Net assets at beginning of year	13,313,243	10,417,117
Net assets at end of year	$15,220,630	$13,313,243

See accompanying notes to financial statements.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2007	2006
Cash flows from operating activities:		
Increase in net assets	$ 1,907,387	$ 2,896,126
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,504,625	1,209,776
Gain on disposal of fixed asset	-	(35,079)
Gains on investments, net	(89,572)	(53,580)
Changes in operating assets and liabilities:		
Accounts and grants receivable, net	32,829	(111,540)
Inventory	(99,387)	(141,106)
Prepaid expenses	239	(150,968)
Other assets	(1,400)	(19,450)
Accounts payable, accrued expenses and deferred compensation	431,661	613,517
Deferred revenue	(5,244)	(9,497)
Net cash provided by operating activities	3,681,138	4,198,199
Cash flows from investing activities:		
Purchases of investments	(1,403,841)	(628,355)
Proceeds from sale of investments	903,504	-
Purchase of land, buildings and equipment	(5,552,913)	(5,286,140)
Net cash used in investing activities	(6,053,250)	(5,914,495)
Cash flows from financing activities:		
Principal payments on notes payable	(692,987)	(598,326)
Proceeds from issuance of notes payable	2,300,000	2,301,774
Net cash provided by financing activities	1,607,013	1,703,448
Net decrease in cash and cash equivalents	(765,099)	(12,848)
Cash and cash equivalents at beginning of year	3,069,399	3,082,247
Cash and cash equivalents at end of year	$ 2,304,300	$ 3,069,399
Supplemental cash flow information:		
Cash paid during the year for interest	$ 297,478	$ 216,131

See accompanying notes to financial statements.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended December 31, 2007		
	Program Services	Supporting Services	Total Expenses
Salaries	$17,944,837	$2,380,930	$20,325,767
Occupancy	5,787,090	147,926	5,935,016
Payroll taxes	1,887,160	233,399	2,120,559
Employee benefits	1,234,337	168,495	1,402,832
Supplies	1,257,996	77,309	1,335,305
Advertising, printing and publications	833,068	129,174	962,242
Travel and vehicles	653,923	56,602	710,525
Credit card fees	331,450	240	331,690
Interest	162,173	135,305	297,478
Insurance	3,348	228,448	231,796
Telephone	184,166	46,591	230,757
Professional fees	140,860	75,097	215,957
Equipment rent and maintenance	134,768	9,696	144,464
Dues payment to affiliated organization	-	139,044	139,044
Employee relations	4,730	94,159	98,889
Noncapitalized purchases	68,644	22,656	91,300
Postage	78,223	10,563	88,786
Bank service charge	20,701	6,270	26,971
Other	22,671	4,124	26,795
Conferences and meetings	12,453	7,314	19,767
Dues	5,285	4,739	10,024
Awards and grants	1,820	1,100	2,920
Total expenses before depreciation	30,769,703	3,979,181	34,748,884
Depreciation	1,228,873	275,752	1,504,625
Total expenses	$31,998,576	$4,254,933	$36,253,509

Year Ended December 31, 2006		
Program Services	Supporting Services	Total Expenses
$14,447,917	$1,975,975	$16,423,892
4,784,548	158,245	4,942,793
1,586,204	190,188	1,776,392
625,980	96,004	721,984
982,036	57,175	1,039,211
650,129	84,539	734,668
490,473	43,555	534,028
239,830	20	239,850
120,884	95,247	216,131
100	122,609	122,709
180,451	33,514	213,965
127,498	101,031	228,529
119,720	15,544	135,264
-	136,683	136,683
3,730	70,957	74,687
87,967	31,374	119,341
82,314	9,578	91,892
18,529	5,776	24,305
18,005	5,000	23,005
5,043	6,266	11,309
5,022	8,664	13,686
1,030	874	1,904
24,577,410	3,248,818	27,826,228
982,803	226,973	1,209,776
$25,560,213	$3,475,791	$29,036,004

See accompanying notes to financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Goodwill Industries of Middle Tennessee, Inc. ("the Organization") was incorporated in 1958 as a Tennessee nonprofit corporation. The primary purposes of the Organization are to provide rehabilitation services, training and employment for individuals who have a disability and for people who are economically disadvantaged as a step to their employment in the labor market. The following is a summary of the Organization's significant accounting policies:

Financial Statement Presentation

The Organization classifies its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets depending on the existence and nature of restrictions placed on contributions by donors. In addition, the Organization is required to present a statement of cash flows. Net assets of the Organization are presented as follows:

Unrestricted Net Assets

Undesignated - net assets not subject to donor-imposed stipulations or designated by the Organization.

Designated - net assets designated by the Organization for particular purposes.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization had no temporarily restricted net assets at December 31, 2007 and 2006.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that require that the assets be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. The Organization had no permanently restricted net assets at December 31, 2007 and 2006.

The amount, if any, for each of these classes of net assets is displayed in the statements of financial position and the amount of change in each class of net assets is displayed in the statements of activities.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Investment Securities

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Inventory

The inventory of merchandise consists of items donated to the Organization. Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, requires that contributions be recognized as revenue when received. The Organization considers the fair value of contributed merchandise to be the excess of selling price over processing costs. The captions “store sales, net of related discounts” and “contributed value of donated merchandise” represent the actual amounts received from retail store sales. “Store sales, net of related discounts” represents the proceeds received on retail sales up to actual processing and other costs. During 2007 and 2006, the Organization recognized contributed merchandise with an estimated fair value of $12,175,999 and $10,621,794, respectively, as contribution revenue. This merchandise requires additional processing accomplished through program related efforts by people with disabilities and other disadvantaging conditions before it reaches its point of sale.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Depreciation

Land, buildings and equipment are recorded at cost. Expenditures for ordinary maintenance and repairs are charged to operations. Renewals and betterments that materially extend the life of the asset are capitalized. Depreciation is provided in amounts necessary to allocate the cost of the various classes of assets over their estimated useful lives using the straight-line method. Leasehold improvements are charged to expense over the life of the related lease or the useful life of the asset, whichever is shorter. Estimated useful lives of all major classes of assets are as follows:

Buildings	7 - 39 years
Building improvements	3 - 29 years
Leasehold improvements	3 - 15 years
Equipment	3 - 10 years
Material collection vehicles	3 - 5 years

Recognition of Restricted Revenue

Revenue from restricted grants is recorded based on expenses incurred since these grants are generally on a cost-reimbursement basis.

Income Taxes

The Organization has qualified for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Gifts to the Organization are tax deductible.

Donated Services

The Organization receives donated services from a variety of unpaid volunteers. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort under SFAS No. 116 have not been satisfied.

Allocated Expenses

For purpose of the statements of functional expenses, certain expenses have been allocated between program and supporting services based on estimates made by management.

A. SUMMARY OF 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising Expense

The Organization expenses advertising costs as incurred. Advertising costs charged to expense totaled $809,201 in 2007 and $629,251 in 2006.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless designated for long-term investment.

Fair Value of Financial Instruments

The carrying value of cash, receivables, accounts payable, and accrued expenses approximate fair value because of the short maturity of these instruments. The carrying values of other liabilities and notes payable are not materially different from the estimated fair values of these instruments.

B. ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable consist of the following at December 31, 2007 and 2006:

	2007	2006
Trade, contract services and other	$ 469,297	$ 504,972
Billings under grants and rehabilitation programs	16,146	13,300
Subtotal	485,443	518,272
Less: Allowance for uncollectibles	(3,770)	(3,770)
Accounts and grants receivable, net	$ 481,673	$ 514,502

C. INVESTMENTS

Investments consist of the following at December 31, 2007 and 2006:

	2007			2006		
	Cost or Donated Value	Market Value	Unrealized Appreciation	Cost or Donated Value	Market Value	Unrealized Appreciation
Investments-Board Designated:						
Equitable Trust Funds	$2,069,396	$2,144,295	$ 74,899	$1,610,440	$1,650,863	$40,423
457(b) Plan T. Rowe Price	294,200	382,392	88,192	230,223	285,915	55,692
	$2,363,596	$2,526,687	$163,091	$1,840,663	$1,936,778	$96,115

Investment income, net is comprised of the following:

	2007	2006
Interest and dividend income	$121,812	$157,040
Net realized and unrealized investment gains	89,572	53,580
Investment income, net	$211,384	$210,620

D. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at December 31, 2007 and 2006:

	2007	2006
Land	$ 3,896,842	$ 2,243,098
Buildings	11,630,756	7,243,020
Building improvements	1,954,672	1,740,418
Leasehold improvements	2,752,989	2,225,363
Plant equipment	1,908,911	1,504,406
Store equipment	2,861,964	2,490,101
Office equipment	1,809,271	1,569,515
Material collection vehicles and equipment	2,134,408	2,068,179
Construction in progress	-	2,610,564
	28,949,813	23,694,664
Less accumulated depreciation	(10,268,293)	(9,061,432)
	$ 18,681,520	$ 14,633,232

E. NOTES PAYABLE

Notes payable at December 31, 2007 and 2006, consists of the following:

	2007	2006
Promissory note issued to the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County. Total borrowings under the note amounted to $3,000,000. The proceeds of the borrowing were used to construct a facility used for processing operations and administrative offices. The note requires monthly payments of principal and interest (4.30% per annum) in the amount of $23,072 with a final maturity of March 2013. The note is collateralized by the land, buildings, furniture and equipment financed from the debt. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2007 and 2006.	$ 1,306,595	$ 1,521,392
Promissory note issued to the Industrial Development Board of the City of Berry Hill, Tennessee. Total borrowings under the note amounted to $2,250,000. The proceeds of the borrowing were used to purchase a facility that contains a retail store, attended donation center, employment and training services and commercial services operation. The note requires monthly payments of principal and interest (3.75% per annum) of $22,420 with a final maturity in April 2014. The note is collateralized by the real estate. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2007 and 2006.	1,511,998	1,719,262

E. NOTES PAYABLE - Continued

	2007	2006
Promissory note issued to the Industrial Development Board of Williamson County, Tennessee. Total borrowings under the note amounted to $2,000,000. The proceeds of the borrowing were used to construct a facility that contains a retail store, attended donation center, and employment and training services. The note requires interest only payments until June 2007. From June 2007 until the maturity at May 2017 principal and interest (5.06% per annum) payments of $21,272 are due monthly. The note is collateralized by land, buildings, furniture and equipment. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2007 and 2006.	1,910,109	2,000,000
Promissory note issued to the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County. Total borrowings under this note amounted to $2,300,000. The proceeds of the borrowing were used to purchase a warehouse facility for distribution operations. The note requires monthly payments of principal and interest (5.08% per annum) of $24,485 with a final maturity of June 8, 2017. The note is collateralized by the real estate which was financed by the debt. The loan agreement contains various covenants, which the Organization has met at December 31, 2007.	2,211,537	-
Other notes payable	16,070	108,642
Total notes payable	6,956,309	5,349,296
Less current portion	(811,639)	(598,916)
Long-term portion	$ 6,144,670	$ 4,750,380

E. NOTES PAYABLE - Continued

Required principal payments on notes payable are as follows:

Year Ending December 31,	
2008	$ 811,639
2009	821,332
2010	859,536
2011	899,544
2012	1,021,707
Thereafter	2,542,551
	$6,956,309

The Organization also has a $1,500,000 line-of-credit with a bank. Payments of interest only at the LIBOR rate plus 1.25% per annum are due through June 2008 at which time any outstanding interest and principal are due. Available borrowings at December 31, 2007 were $1,500,000.

F. COMMITMENTS

The annual rentals under lease contracts for the Organization's retail stores totaled $3,472,818 and $2,790,175 for 2007 and 2006, respectively. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2007.

Year Ending December 31,	
2008	$ 3,853,273
2009	3,512,719
2010	2,997,539
2011	2,174,130
2012	1,462,533
Thereafter	2,291,327
	$16,291,521

G. CONCENTRATIONS

Financial instruments that potentially subject the Organization to credit risk consist principally of cash and cash equivalents, investments, and trade receivables. Cash balances are maintained at times in excess of Federal Deposit Insurance Corporation insured amounts.

H. GRANTS

The Organization receives grants and awards from governmental agencies that are used to fund various programs. A brief description of each grant and the related program follows:

Department of Mental Health and Mental Retardation (Day Services, Follow Along, Summer Program) - provides community mental retardation services through the Follow Along and Summer programs.

Day Services assist individuals in learning appropriate work and social skills and habits. It primarily serves individuals who are severely disabled and have mental retardation.

Follow Along Services provides counseling, training, support and job coaching as needed to persons with mental retardation and their employers. These services help individuals maintain employment for an extended period of time.

Metropolitan Development and Housing Agency (Youth Enrichment) - provides work opportunities during the summer months for lower income youths ages 16 and older. An additional grant was received in 2007 to provide customer service training classes to 15 year old youths in the month of June.

The Organization also receives training fees from governmental agencies used to provide additional employment training.

During July 2006, the Organization received a grant from the City of Clarksville to provide employment assistance and job training opportunities for rehabilitated drug offenders with low or no income living in the City of Clarksville.

H. GRANTS - Continued

A summary of fees and grants as reported in the accompanying statements of activities follows:

	2007	2006
DMHMR Day Services/Follow Along/Summer Program	$ 97,315	$149,093
Training Fees/Private Pay/Community Work Sites	111,331	91,515
DHS Vocational Evaluation/Work Adjustment/JDP	9,440	3,625
MDHA - Youth Enrichment	16,060	10,000
City of Clarksville	6,421	5,752
	$240,567	$259,985

I. RETIREMENT PLAN

On May 1, 1991, the Organization implemented the Goodwill Industries of Middle Tennessee Retirement Plan pursuant to Section 403(b) of the Internal Revenue Code of 1986 (the "Code"), as amended. Under the terms of the plan, each eligible employee may contribute a percentage of wages subject to certain limitations. The Organization may match employee contributions at its discretion. For 2007 and 2006, the Organization matched employee contributions up to 4% of employee wages. Contributions to the plan are used to purchase annuities on behalf of the employees. Total retirement plan expense for 2007 and 2006 totaled $152,448 and $143,994, respectively, and is included in employee benefits in the accompanying statements of functional expenses.

The Organization has established a deferred compensation plan ("the 457(b) Plan") pursuant to Code Section 457(b). The 457(b) provides for pre-tax salary deferrals for key employees. Amounts held on behalf of the 457(b) Plan at December 31, 2007 and 2006 amounted to $382,392 and $285,915, respectively.

J. SELF-FUNDED HEALTH INSURANCE

The Organization self-funds health benefits for eligible employees and their dependents. Health insurance expense is recorded on an accrual basis. An accrued liability is recorded at year-end, which estimates the incurred but not reported claims. The liability amounted to $336,952 and $251,385 at December 31, 2007 and 2006, respectively. The Organization has stop loss insurance to cover catastrophic claims.

K. RELATED PARTY TRANSACTIONS

The Organization purchased advertising services in the amount of $504,935 and $418,168 in 2007 and 2006, respectively, from a Company affiliated with a member of the Board of Directors. The arrangement was approved by the Board of Directors prior to commencement.

The Organization has entered into an administrative agreement with Goodwill Government Services, Inc. (GGS) to provide limited administrative and management services to GGS. The total amount of management fees received by the Organization was $65,497 and $55,418 in 2007 and 2006, respectively.

During 2007 and 2006, the Organization paid certain expenses on behalf of GGS. At December 31, 2007 and 2006, the Organization was due $62,176 and $93,456, respectively, from GGS. This receivable is included in accounts and grants receivable in the accompanying statements of financial position.

During 2007 and 2006, the Organization purchased legal services in the amount of $14,728 and $24,175, respectively, from firms affiliated with members of the Board of Directors.

During 2006, the Organization had written, general liability policies with premiums paid in the amount of $400, with a Company affiliated with a member of the Board of Directors.

During 2007 and 2006, the Organization had an agreement, with an investment company affiliated with a member of the Board of Directors, to perform services for the Organization as its agent in connection with negotiations regarding various financial arrangements of the Organization pursuant to the Investment Management Agreement. The investment company has agreed to render financial advisory and related services to the Company on a pro-bono basis. The arrangement was approved by the Board of Directors prior to commencement.

During 2007 and 2006, the Organization purchased construction services in the amount of $1,000,463 and $1,630,044, respectively from a Company affiliated with a member of the Board of Directors.

The Organization received contributions of $29,678 and $225,000 during 2007 and 2006, respectively, from a will for which a member of the Board of Directors was named as the trustee.

Subsequent to December 31, 2007, the Organization purchased office equipment of approximately $69,000 from a company owned by a member of the Board of Directors.