

**GOODWILL INDUSTRIES OF
MIDDLE TENNESSEE, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.

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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, 2006 and 2005, 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, 2006 and 2005, 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, Vaden & Associates, P.C.

Nashville, Tennessee
April 13, 2007

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

ASSETS

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,069,399	\$ 3,082,247
Accounts and grants receivable, net	514,502	402,961
Inventory	912,549	771,443
Prepaid expenses	<u>288,797</u>	<u>137,829</u>
Total current assets	<u>4,785,247</u>	<u>4,394,480</u>
NONCURRENT ASSETS		
Investments - board designated	1,650,863	1,032,637
Investments - deferred compensation plan	285,915	199,225
Land, buildings and equipment, net	14,633,232	10,521,788
Other	<u>64,345</u>	<u>44,895</u>
Total assets	<u>\$21,419,602</u>	<u>\$16,193,025</u>

LIABILITIES AND NET ASSETS

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,465,904	\$ 1,916,094
Deferred revenue	5,244	14,741
Current portion of notes payable	<u>598,916</u>	<u>403,838</u>
Total current liabilities	<u>3,070,064</u>	<u>2,334,673</u>
NONCURRENT LIABILITIES		
Deferred compensation plan liability	285,915	199,225
Notes payable, net of current portion	<u>4,750,380</u>	<u>3,242,010</u>
Total liabilities	<u>8,106,359</u>	<u>5,775,908</u>
NET ASSETS		
Unrestricted:		
Designated for long-term investment	1,650,863	1,032,637
Other unrestricted	<u>11,662,380</u>	<u>9,384,480</u>
Total net assets	<u>13,313,243</u>	<u>10,417,117</u>
Total liabilities and net assets	<u>\$21,419,602</u>	<u>\$16,193,025</u>

See accompanying notes to financial statements.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENTS OF ACTIVITIES

	Year Ended December 31,	
	2006	2005
	Unrestricted	
REVENUES, GAINS, AND OTHER SUPPORT		
Store sales, net of related discounts	\$18,330,349	\$16,016,934
Contributed value of donated merchandise	<u>10,621,794</u>	<u>9,249,258</u>
Retail operations	28,952,143	25,266,192
Grants and fees received from governmental agencies	259,985	233,163
Salvage sales	1,561,003	1,325,219
Contract income	543,141	406,083
United Way contributions	48,868	47,611
Administrative fees	55,418	54,193
Contributions	259,200	27,618
Other	41,752	10,907
Investment income, net	<u>210,620</u>	<u>83,556</u>
Total revenues, gains, and other support	<u>31,932,130</u>	<u>27,454,542</u>
EXPENSES		
Program services	25,560,213	22,481,653
Supporting services	<u>3,475,791</u>	<u>3,433,887</u>
Total expenses	<u>29,036,004</u>	<u>25,915,540</u>
Increase in net assets	2,896,126	1,539,002
Net assets at beginning of year	<u>10,417,117</u>	<u>8,878,115</u>
Net assets at end of year	<u>\$13,313,243</u>	<u>\$10,417,117</u>

See accompanying notes to financial statements.

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

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase in net assets	\$ 2,896,126	\$ 1,539,002
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,209,776	1,177,278
Gain on disposal of fixed asset	(35,079)	-
Gains on investments, net	(53,580)	(12,520)
Changes in operating assets and liabilities:		
Accounts and grants receivable, net	(111,540)	(108,705)
Inventory	(141,106)	(80,700)
Prepaid expenses	(150,968)	(35,321)
Other assets	(19,450)	1,180
Accounts payable, accrued expenses and deferred compensation	613,517	369,521
Deferred revenue	(9,497)	72
Net cash provided by operating activities	<u>4,198,199</u>	<u>2,849,807</u>
Cash flows from investing activities:		
Purchases of investments	(628,355)	(1,111,255)
Proceeds from sale of investments	-	322,637
Purchase of land, buildings and equipment	<u>(5,286,140)</u>	<u>(913,910)</u>
Net cash used in investing activities	<u>(5,914,495)</u>	<u>(1,702,528)</u>
Cash flows from financing activities:		
Principal payments on notes payable	(598,326)	(389,004)
Proceeds from issuance of notes payable	<u>2,301,774</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>1,703,448</u>	<u>(389,004)</u>
Net (decrease) increase in cash and cash equivalents	(12,848)	758,275
Cash and cash equivalents at beginning of year	<u>3,082,247</u>	<u>2,323,972</u>
Cash and cash equivalents at end of year	<u>\$ 3,069,399</u>	<u>\$ 3,082,247</u>
Supplemental cash flow information:		
Cash paid during the year for interest	<u>\$ 216,131</u>	<u>\$ 158,398</u>

See accompanying notes to financial statements.

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

	Year Ended December 31, 2006		
	Program <u>Services</u>	Supporting <u>Services</u>	Total <u>Expenses</u>
Salaries	\$14,447,917	\$1,975,975	\$16,423,892
Occupancy	4,784,548	158,245	4,942,793
Payroll taxes	1,586,204	190,188	1,776,392
Supplies	982,036	57,175	1,039,211
Employee benefits	625,980	96,004	721,984
Advertising, printing and publications	650,129	84,539	734,668
Travel and vehicles	490,473	43,555	534,028
Telephone	180,451	33,514	213,965
Insurance general liability	100	122,609	122,709
Credit card fees	239,830	20	239,850
Interest	120,884	95,247	216,131
Equipment rent and maintenance	119,720	15,544	135,264
Professional fees	127,498	101,031	228,529
Dues payment to affiliated organization	-	136,683	136,683
Noncapitalized purchases	87,967	31,374	119,341
Postage	82,314	9,578	91,892
Employee relations	3,730	70,957	74,687
Other	18,005	5,000	23,005
Bank service charge	18,529	5,776	24,305
Conferences and meetings	5,043	6,266	11,309
Dues	5,022	8,664	13,686
Awards and grants	<u>1,030</u>	<u>874</u>	<u>1,904</u>
Total expenses before depreciation	24,577,410	3,248,818	27,826,228
Depreciation	<u>982,803</u>	<u>226,973</u>	<u>1,209,776</u>
Total expenses	<u>\$25,560,213</u>	<u>\$ 3,475,791</u>	<u>\$29,036,004</u>

Year Ended December 31, 2005

<u>Program Services</u>	<u>Supporting Services</u>	<u>Total Expenses</u>
\$12,433,110	\$1,749,924	\$14,183,034
4,312,647	257,092	4,569,739
1,380,209	168,837	1,549,046
868,304	47,330	915,634
683,231	130,940	814,171
636,831	70,952	707,783
437,539	42,252	479,791
175,515	24,027	199,542
141	193,812	193,953
185,072	-	185,072
-	157,046	157,046
132,467	14,441	146,908
91,694	52,475	144,169
-	133,208	133,208
112,293	20,422	132,715
67,094	8,563	75,657
3,205	55,007	58,212
13,220	26,075	39,295
15,007	14,400	29,407
7,726	7,723	15,449
2,590	3,840	6,430
<u>1,190</u>	<u>811</u>	<u>2,001</u>
21,559,085	3,179,177	24,738,262
<u>922,568</u>	<u>254,710</u>	<u>1,177,278</u>
<u>\$22,481,653</u>	<u>\$3,433,887</u>	<u>\$25,915,540</u>

See accompanying notes to financial statements.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 is 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, 2006 and 2005.

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, 2006 and 2005.

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.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 2006 and 2005, the Organization recognized contributed merchandise with an estimated fair value of \$10,621,794 and \$9,249,258, 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.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 \$629,251 in 2006 and \$611,837 in 2005.

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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Trade, contract services and other	\$ 504,972	\$ 387,295
Billings under grants and rehabilitation programs	<u>13,300</u>	<u>19,436</u>
Subtotal	518,272	406,731
Less: Allowance for uncollectibles	<u>(3,770)</u>	<u>(3,770)</u>
Accounts and grants receivable, net	<u>\$ 514,502</u>	<u>\$ 402,961</u>

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

C. INVESTMENTS

Investments consist of the following at December 31, 2006 and 2005:

	<u>2006</u>			<u>2005</u>		
	<u>Cost or Donated Value</u>	<u>Market Value</u>	<u>Unrealized Appreciation</u>	<u>Cost or Donated Value</u>	<u>Market Value</u>	<u>Unrealized Appreciation</u>
Investments-Board Designated:						
Equitable Trust						
Funds	\$1,610,440	\$1,650,863	\$40,423	\$1,032,637	\$1,032,637	\$ -
457(b) Plan T. Rowe						
Price	<u>230,223</u>	<u>285,915</u>	<u>55,692</u>	<u>166,517</u>	<u>199,225</u>	<u>32,708</u>
	<u>\$1,840,663</u>	<u>\$1,936,778</u>	<u>\$96,115</u>	<u>\$1,199,154</u>	<u>\$1,231,862</u>	<u>\$32,708</u>

Investment income, net is comprised of the following:

	<u>2006</u>	<u>2005</u>
Interest and dividend income	\$157,040	\$71,036
Net realized and unrealized investment gains	<u>53,580</u>	<u>12,520</u>
Investment income, net	<u>\$210,620</u>	<u>\$83,556</u>

D. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Land	\$ 2,243,098	\$ 1,355,311
Buildings	7,243,020	7,221,657
Building improvements	1,740,418	1,681,318
Leasehold improvements	2,225,363	2,151,170
Plant equipment	1,504,406	1,074,301
Store equipment	2,490,101	2,274,427
Office equipment	1,569,515	1,221,574
Material collection vehicles and equipment	2,068,179	1,709,094
Construction in progress	<u>2,610,564</u>	<u>-</u>
	23,694,664	18,688,852
Less accumulated depreciation	<u>(9,061,432)</u>	<u>(8,167,064)</u>
	<u>\$ 14,633,232</u>	<u>\$ 10,521,788</u>

Estimated cost to complete construction in progress at December 31, 2006 was approximately \$510,000, relating primarily to the construction of the Spring Hill facility.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

E. NOTES PAYABLE

Notes payable at December 31, 2006 and 2005 consists of the following:

	<u>2006</u>	<u>2005</u>
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, 2006 and 2005.	\$ 1,521,392	\$ 1,727,042
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, 2006 and 2005.	1,719,262	1,918,806

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

E. NOTES PAYABLE - Continued

	<u>2006</u>	<u>2005</u>
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 (5.14% 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, 2006	2,000,000	-
Other notes payable	<u>108,642</u>	<u>-</u>
Total notes payable	5,349,296	3,645,848
Less current portion	<u>(598,916)</u>	<u>(403,838)</u>
Long-term portion	<u>\$ 4,750,380</u>	<u>\$ 3,242,010</u>

Required principal payments on notes payable are as follows:

Year Ending <u>December 31,</u>	
2007	\$ 598,916
2008	621,750
2009	627,400
2010	655,376
2011	684,617
Thereafter	<u>2,161,237</u>
	<u>\$5,349,296</u>

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, 2006 were \$1,500,000.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

F. COMMITMENTS

The annual rentals under lease contracts for the Organization's retail stores totaled \$2,790,175 and \$2,634,296 for 2006 and 2005, 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, 2006.

<u>Year Ending</u> <u>December 31,</u>	
2007	\$ 3,465,823
2008	3,370,853
2009	3,006,002
2010	2,496,334
2011	1,642,417
Thereafter	<u>2,383,149</u>
	<u>\$16,364,578</u>

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.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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.

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.

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

	<u>2006</u>	<u>2005</u>
DMHMR Day Services/Follow		
Along/Summer Program	\$149,093	\$146,149
Training Fees/Private Pay/Community Work Sites	91,515	74,795
DHS Vocational Evaluation/Work Adjustment/JDP	3,625	2,219
MDHA - Youth Enrichment	10,000	10,000
City of Clarksville	<u>5,752</u>	<u>-</u>
	<u>\$259,985</u>	<u>\$233,163</u>

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 2006 and 2005, 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 2006 and 2005 totaled \$143,994 and \$131,084, 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, 2006 and 2005 amounted to \$285,915 and \$199,225, 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 \$251,385 and \$215,141 at December 31, 2006 and 2005, respectively. The Organization has stop loss insurance to cover catastrophic claims.

K. RELATED PARTY TRANSACTIONS

The Organization purchased advertising services in the amount of \$418,168 and \$268,133 in 2006 and 2005, 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 \$55,418 and \$54,193 in 2006 and 2005, respectively.

During 2006 and 2005, the Organization paid certain expenses on behalf of GGS. At December 31, 2006 and 2005, the Organization was due \$93,456 and \$75,715, respectively, from GGS. This receivable is included in accounts and grants receivable in the accompanying statements of financial position.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

K. RELATED PARTY TRANSACTIONS - Continued

During 2006 and 2005, the Organization purchased legal services in the amount of \$24,175 and \$13,372, respectively, from a Firm affiliated with a member of the Board of Directors.

During 2006 and 2005, the Organization had written, general liability policies with premiums paid in the amount of \$400 and \$229,459, respectively, with a Company affiliated with a member of the Board of Directors.

During 2006 and 2005, 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 2006, the organization purchased construction services in the amount of \$1,630,044 from a Company affiliated with a member of the Board of Directors.

The Organization received a contribution of \$225,000 during 2006 from a will for which a member of the Board of Directors was named as the trustee.

