

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

FINANCIAL STATEMENTS

December 31, 2010 and 2009

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
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, 2010 and 2009, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of Goodwill Industries of Middle Tennessee, Inc.'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2010 and 2009, 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.

Frasier, Dean & Howard, PLLC

March 25, 2011

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,052,711	\$ 7,188,701
Accounts and grants receivable, net	635,687	531,184
Inventory	1,471,363	1,415,373
Prepaid expenses	368,102	387,814
Total current assets	6,527,863	9,523,072
Noncurrent assets:		
Investments - board designated	2,981,758	2,596,445
Investments - deferred compensation plan	570,082	411,401
Land, buildings and equipment, net of accumulated depreciation of \$13,678,411 and \$12,331,901, respectively	24,605,603	21,603,389
Other	74,893	104,652
Total assets	<u>\$ 34,760,199</u>	<u>\$ 34,238,959</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,993,026	\$ 2,928,136
Deferred revenue	6,000	6,256
Current portion of capital lease obligation	56,916	66,146
Current portion of deferred lease incentive	34,784	-
Current portion of notes payable	829,098	1,226,840
Total current liabilities	3,919,824	4,227,378
Noncurrent liabilities:		
Deferred compensation plan liability	570,082	411,401
Capital lease obligation, net of current portion	-	56,916
Deferred lease incentive, net of current portion	513,576	-
Other liabilities	196,540	68,499
Notes payable, net of current portion	5,991,596	8,808,082
Total liabilities	11,191,618	13,572,276
Net assets:		
Unrestricted net assets:		
Undesignated	20,576,858	18,062,080
Designated for long-term investment	2,981,758	2,596,445
Total unrestricted net assets	23,558,616	20,658,525
Temporary restricted net assets	9,965	8,158
Total net assets	23,568,581	20,666,683
Total liabilities and net assets	<u>\$ 34,760,199</u>	<u>\$ 34,238,959</u>

See accompanying notes.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENTS OF ACTIVITIES
For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Changes in unrestricted net assets:		
Revenue, gains, and other support:		
Store sales, net of related discounts	\$ 28,441,164	\$ 26,279,732
Contributed value of donated merchandise	18,052,528	16,773,828
	<hr/>	<hr/>
Retail operations	46,493,692	43,053,560
Salvage sales	2,905,602	2,452,028
Grants and fees received	334,402	320,922
Investment income, net	281,483	332,243
Contributions	114,819	26,813
Other	65,646	52,742
United Way contributions	41,670	42,425
Administrative fees revenue	40,101	63,272
Contract income	1,650	46,680
Net assets released from restrictions	3,193	1,842
	<hr/>	<hr/>
Total revenue, gains, and other support	50,282,258	46,392,527
Expenses:		
Program services	41,502,220	37,838,125
Management and general	4,980,812	4,770,835
	<hr/>	<hr/>
Total expenses	46,483,032	42,608,960
	<hr/>	<hr/>
Increase in unrestricted net assets before extraordinary item	3,799,226	3,783,567
Extraordinary item - flood loss	899,135	-
	<hr/>	<hr/>
Increase in unrestricted net assets	2,900,091	3,783,567
Changes in temporarily restricted net assets:		
Revenues:		
Contributions	5,000	5,000
Net assets released from restrictions	(3,193)	(1,842)
	<hr/>	<hr/>
Total revenues	1,807	3,158
	<hr/>	<hr/>
Increase in temporarily restricted net assets	1,807	3,158
	<hr/>	<hr/>
Increase in net assets	2,901,898	3,786,725
Net assets, beginning of year	20,666,683	16,879,958
	<hr/>	<hr/>
Net assets, end of year	<u>\$ 23,568,581</u>	<u>\$ 20,666,683</u>

See accompanying notes.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2010

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 23,054,527	\$ 3,005,031	\$ 26,059,558
Occupancy	6,925,352	178,919	7,104,271
Payroll taxes	2,493,126	235,438	2,728,564
Employee benefits	2,050,380	207,446	2,257,826
Supplies	1,407,839	74,823	1,482,662
Advertising, printing and publications	936,372	115,908	1,052,280
Travel and vehicles	766,442	60,474	826,916
Credit card fees	620,531	526	621,057
Equipment rent and maintenance	336,974	106,467	443,441
Interest	290,749	94,509	385,258
Postage	367,672	15,135	382,807
Telephone	219,710	64,771	284,481
Professional fees	117,304	101,053	218,357
Dues payment to affiliated organization	-	151,812	151,812
Insurance	1,316	148,362	149,678
Noncapitalized purchases	116,350	16,617	132,967
Other	113,239	5,056	118,295
Employee relations	30,255	33,744	63,999
Cost of goods sold	50,925	-	50,925
Bank service charge	28,561	14,255	42,816
Dues	4,447	8,297	12,744
Conferences and meetings	5,393	6,387	11,780
Awards and grants	724	330	1,054
	<hr/>	<hr/>	<hr/>
Total expenses before depreciation	39,938,188	4,645,360	44,583,548
	<hr/>	<hr/>	<hr/>
Depreciation	1,564,032	335,452	1,899,484
	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 41,502,220</u>	<u>\$ 4,980,812</u>	<u>\$ 46,483,032</u>

See accompanying notes.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 21,103,467	\$ 2,893,256	\$ 23,996,723
Occupancy	6,619,398	126,953	6,746,351
Payroll taxes	2,227,257	234,229	2,461,486
Employee benefits	1,945,997	196,267	2,142,264
Supplies	1,328,786	84,606	1,413,392
Advertising, printing and publications	837,238	91,676	928,914
Travel and vehicles	610,474	43,165	653,639
Credit card fees	518,809	490	519,299
Interest	246,668	158,774	405,442
Postage	259,551	13,954	273,505
Equipment rent and maintenance	200,507	67,444	267,951
Telephone	203,045	60,312	263,357
Professional fees	125,989	87,661	213,650
Dues payment to affiliated organization	-	151,812	151,812
Insurance	1,004	108,341	109,345
Noncapitalized purchases	56,170	31,440	87,610
Other	72,597	3,486	76,083
Employee relations	15,287	39,107	54,394
Bank service charge	33,364	14,095	47,459
Conferences and meetings	6,591	8,813	15,404
Cost of goods sold	12,504	-	12,504
Dues	5,666	4,550	10,216
Awards and grants	567	713	1,280
	<hr/>	<hr/>	<hr/>
Total expenses before depreciation	36,430,936	4,421,144	40,852,080
	<hr/>	<hr/>	<hr/>
Depreciation	1,407,189	349,691	1,756,880
	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 37,838,125</u>	<u>\$ 4,770,835</u>	<u>\$ 42,608,960</u>

See accompanying notes.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,901,898	\$ 3,786,725
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,899,484	1,756,880
Contribution of fixed assets	(7,805)	-
(Gain) loss on disposal of fixed asset	(10,287)	5,752
Gains on investments, net	(151,401)	(214,795)
Gains on investments, net - deferred compensation plan	(77,581)	(80,080)
Change in operating assets and liabilities:		
Accounts and grants receivable, net	(104,503)	(96,149)
Inventory	(55,990)	(289,126)
Prepaid expenses	19,712	(135,679)
Other assets	29,759	(44,882)
Accounts payable and accrued expenses	64,890	(164,088)
Deferred revenue	(256)	(1,323)
Deferred compensation plan liability	158,681	121,122
Deferred lease incentive	548,360	-
Other liabilities	128,041	68,499
Net cash provided by operating activities	<u>5,343,002</u>	<u>4,712,856</u>
Cash flows from investing activities:		
Purchases of investments	(501,955)	(497,346)
Proceeds from sale of investments	186,943	203,065
Purchase of land, buildings, and equipment	(4,883,606)	(4,676,227)
Net cash used in investing activities	<u>(5,198,618)</u>	<u>(4,970,508)</u>
Cash flows from financing activities:		
Payments on capital lease obligation	(66,146)	(10,801)
Principal payments on notes payable	(3,214,228)	(821,333)
Proceeds from issuance of notes payable	-	4,700,000
Net cash (used in) provided by financing activities	<u>(3,280,374)</u>	<u>3,867,866</u>
Net (decrease) increase in cash and cash equivalents	(3,135,990)	3,610,214
Cash and cash equivalents, beginning of year	7,188,701	3,578,487
Cash and cash equivalents, end of year	<u>\$ 4,052,711</u>	<u>\$ 7,188,701</u>
Supplemental cash flow information:		
Cash paid during the year for interest	<u>\$ 398,328</u>	<u>\$ 407,046</u>
Supplemental schedule of noncash investing and financing activities:		
Contribution of fixed assets	<u>\$ 7,805</u>	<u>\$ -</u>
Equipment acquired by capital lease	<u>\$ -</u>	<u>\$ 133,863</u>
Notes payable refinanced	<u>\$ 4,350,000</u>	<u>\$ -</u>

See accompanying notes.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 – 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 presents its financial statements in accordance with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. 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 statements of activities as net assets released from restrictions. The Organization had temporarily restricted net assets of \$9,965 and \$8,158 and at December 31, 2010 and 2009, respectively.

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, 2010 and 2009.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor 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.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of Restricted Revenue

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

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.

Investments

Investments are stated at fair market value. Unrealized gains and losses as well as appreciation or depreciation in market value are reflected in the accompanying financial statements.

Inventory

The inventory of merchandise consists of items donated to the Organization. Accounting principles generally accepted in the United States of America require 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 2010 and 2009, the Organization recognized contributed merchandise with an estimated fair value of \$18,052,528 and \$16,773,828, 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.

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.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Depreciation (Continued)

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

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.

The Organization has adopted Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidance for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has not recognized any tax related interest and penalties in the accompanying financial statements. Federal tax years that remain open for examination include the years ended December 31, 2007 through December 31, 2010. This pronouncement had no impact on the Organization's financial statements.

Donated Services

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

Allocated Expenses

For purposes 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 (Continued)
December 31, 2010 and 2009

NOTE 1 – 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 \$872,335 in 2010 and \$798,357 in 2009.

Subsequent Events

The Organization evaluated subsequent events through March 25, 2011, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

In January 2011, the Organization was notified of its having been selected as an award recipient for a Microsoft Elevate America grant. The award of \$236,000 allows the Organization to hire trainers to provide day long computer basics training at each Career Solutions center for all active clients. The program begins March 2011.

NOTE 2 – ACCOUNTS AND GRANTS RECEIVABLE

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

	<u>2010</u>	<u>2009</u>
Trade, contract services and other	\$ 612,619	\$ 528,270
Billings under grants and rehabilitation programs	<u>36,389</u>	<u>6,684</u>
	649,008	534,954
Less: Allowance for uncollectibles	<u>(13,321)</u>	<u>(3,770)</u>
Accounts and grants receivable, net	<u>\$ 635,687</u>	<u>\$ 531,184</u>

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization has an established process for determining fair values. Fair values are based upon quoted market prices, where available. If listed prices or quotes are not available, fair values are based upon market-based or independently-sourced market data. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while 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 estimate of fair value at the reporting date. Generally accepted accounting principles have a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are explained as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Investments are stated at fair value, with fair value determined based on quoted prices in active markets for identical assets (Level 1), and consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Investments – board designated:		
Money market funds	\$ 56,653	\$ 284,220
Fixed income funds:		
Corporate bonds	254,613	304,779
Municipal bonds	533,180	107,549
Fixed income funds	481,391	358,498
High yield funds	57,129	-
U.S. government agency bonds	-	49,782
Equities:		
Common stock	381,268	800,338
Multi-strategy funds	588,092	-
Mid cap funds	120,943	341,415
Small cap funds	63,532	98,204
International funds	147,239	-

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Alternatives:

Gold bullion funds	150,235	41,850
Financial trends	57,333	65,074
Real estate funds	90,150	28,721
Commodity funds	-	26,731
Commodity trends	-	67,759
Diversified trends	<u>-</u>	<u>21,525</u>

Investments – board designated	<u>\$ 2,981,758</u>	<u>\$ 2,596,445</u>
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Investments – deferred compensation plan:

Growth stock fund	\$ 36,535	\$ 26,117
Midcap growth fund	257,194	186,847
Equity income fund	60,962	38,043
Capital appreciation fund	210,713	160,394
Spectrum income fund	<u>4,678</u>	<u>-</u>

Investments – deferred compensation plan	<u>\$ 570,082</u>	<u>\$ 411,401</u>
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Investment income, net as presented in the statements of activities is comprised of the following:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 130,082	\$ 117,448
Net realized and unrealized investment gains	<u>151,401</u>	<u>214,795</u>
Investment income, net	<u>\$ 281,483</u>	<u>\$ 332,243</u>

NOTE 4 – LAND, BUILDINGS AND EQUIPMENT

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

	<u>2010</u>	<u>2009</u>
Land	\$ 3,896,842	\$ 3,896,842
Land improvements	54,766	-
Buildings	17,380,353	11,466,802
Building improvements	2,024,216	1,948,241
Leasehold improvements	3,895,866	2,708,999
Plant equipment	2,606,977	2,144,695

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 4 – LAND, BUILDINGS AND EQUIPMENT (Continued)

Store equipment	3,166,704	3,059,809
Office equipment	2,470,766	1,897,549
Material collection vehicles and equipment	2,740,054	2,498,586
Construction in progress	<u>47,470</u>	<u>4,313,767</u>
	38,284,014	33,935,290
Less accumulated depreciation	<u>(13,678,411)</u>	<u>(12,331,901)</u>
	<u>\$ 24,605,603</u>	<u>\$ 21,603,389</u>

NOTE 5 – LONG-TERM DEBT

Long-term debt consists of the following at December 31:

	<u>2010</u>	<u>2009</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 required monthly payments of principal and interest in the amount of \$23,072 (4.30% per annum) with a final maturity of March 2013. The note was secured by the land, buildings, furniture and equipment financed from the debt. The loan agreement contained various financial and other covenants, which the Organization had met at December 31, 2009. The note was paid in full during 2010.	\$ -	\$ 848,077
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 required interest only payments until April 2004 at which time monthly payments of principal and interest (3.75% per annum) of \$22,420 were required. The note matures in April 2014. The note is secured by the real estate. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2010 and 2009.	841,160	1,073,266

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 5 – LONG-TERM DEBT (Continued)

Promissory note issued to the Industrial Development Board of Williamson County. 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 required 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 were due monthly. The note was collateralized by land, buildings, furniture and equipment. The loan agreement contained various financial and other covenants, which the Organization had met at December 31, 2009. The note was paid in full during 2010.

- 1,579,887

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 real estate which was financed by the debt. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2010 and 2009.

1,629,534 1,833,692

Promissory note issued to the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County. Total borrowings under this note amounted to \$4,700,000. The proceeds of the borrowing were used to construct a new facility for Career Solutions operations on existing property. The note provided for interest only payments at 4.15% per annum through January 2010. Thereafter, the note required monthly payments of principal and interest (4.15% per annum) of \$47,921 with a final maturity of January 28, 2020. The note was collateralized by real estate which was financed by the debt. The loan agreement contained various financial and other covenants, which the Organization had met at December 31, 2009. This note was retired in connection with the loan agreement obtained during 2010.

- 4,700,000

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 5 – LONG-TERM DEBT (Continued)

Promissory note issued to the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County. Total borrowings under this note amounted to \$4,350,000. The proceeds of the borrowing were used to refinance the new Career Solutions operations facility completed during 2010. The note provides for interest only payments at 2.80% per annum through February 2011. Thereafter, the note requires monthly payments of principal and interest (2.80% per annum) of \$45,612 with a final maturity of February 28, 2020. The note is collateralized by the Career Solutions building. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2010.

	4,350,000	-
	6,820,694	10,034,922
Less current portion	<u>(829,098)</u>	<u>(1,226,840)</u>
Long-term portion	<u>\$ 5,991,596</u>	<u>\$ 8,808,082</u>

Required principal payments on the long-term debt are as follows:

Year ending	
<u>December 31,</u>	
2011	\$ 829,098
2012	917,795
2013	952,186
2014	806,319
2015	743,803
Thereafter	<u>2,571,493</u>
	<u>\$ 6,820,694</u>

Interest expense associated with notes payable is reflected in the statements of activities for the years ended December 31, 2010 and 2009 as \$385,258 and \$405,442, respectively. During 2010, interest costs of \$80,612 were incurred and capitalized in conjunction with the construction of the Career Solutions building.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 6 – 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.

NOTE 7 – COMMITMENTS

The annual rentals under lease contracts for the Organization's retail stores and other facilities totaled \$4,313,604 and \$4,121,577 for 2010 and 2009, respectively. The following is a schedule by year 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, 2010.

Year ending <u>December 31,</u>	
2011	\$ 3,968,798
2012	3,143,776
2013	2,590,782
2014	2,217,614
2015	1,992,901
Thereafter	<u>4,570,608</u>
	<u>\$ 18,484,479</u>

During 2009, the Organization began leasing a Human Resources Information System under a noncancelable lease that is classified as a capital lease that expires in 2011. The lease agreement contains a bargain purchase option at the end of the lease term. The lease provides for twenty-four monthly payments of \$5,783 including interest at 3.50%. The asset capitalized as a result of this arrangement had a cost of \$138,798, net of accumulated amortization of \$19,858 at December 31, 2010. The amount recognized as a current capital lease obligation equals \$56,916 at December 31, 2010.

NOTE 8 – 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(s) follows:

Division of Intellectual Disabilities Services (two programs: Day Services and Follow Along Services)

Day Services assist individuals with developmental disabilities in learning appropriate work and social skills and habits within the Goodwill work environment.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 8 – GRANTS (Continued)

Follow Along Services provide individuals with developmental disabilities counseling, training, support and job coaching as needed at a community employer's facility. These services help individuals maintain employment for an extended period of time. This program was discontinued by the state of Tennessee on July 1, 2010.

Metropolitan Development and Housing Agency ("MDHA") (Youth Enrichment Grant) (two programs: Summer Work Services and TRAC)

Summer Work Services provides youth, age 16-18 with disabilities or who are considered disadvantaged, with paid work opportunities both within Goodwill and at community employers.

TRAC training program provides youth, age 14-18 with disabilities or who are considered disadvantaged, with customer service skills and job readiness training. MDHA did not fund TRAC training program during summer 2010.

Nashville Career Advancement Center ("NCAC") (one program, summer work experiences for low income youth)

Summer work experiences provide youth, age 14-17 who meet specific income qualifications, with paid work experiences both inside Goodwill and at other not-for-profit and governmental agencies. The NCAC summer program was conducted only for the summer 2009.

The Organization also receives training fees from governmental agencies used to provide additional occupational skill training. Community-based organizations and some employers pay for their clients to participate in computer, forklift or security guard training.

Good Prospects program, new as of July 1, 2010

Goodwill Industries International is the primary grantee of a Department of Labor grant to improve internet connectivity and provide additional computers to the Organization's Career Solutions centers and to provide industry-recognized, certificate training for counselors. The Organization is a sub-grantee, receiving \$349,300 over a two year period. The grant expires June 2012.

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

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 8 – GRANTS (Continued)

	<u>2010</u>	<u>2009</u>
DMHMR Day Services/Follow Along	\$ 73,646	\$ 94,238
Training Fees/Private Pay/Community Work Sites	136,917	149,839
Good Prospects (Goodwill International)	89,105	-
DHS Vocational Evaluation/Work Adjustment/JDP	19,124	510
MDHA – Youth Enrichment	12,500	22,080
Nashville Career Advancement Center	-	54,255
Other	<u>3,110</u>	<u>-</u>
	<u>\$ 334,402</u>	<u>\$ 320,922</u>

NOTE 9 – RETIREMENT PLAN

On May 1, 1991, the Organization implemented the Goodwill Industries of Middle Tennessee Retirement Plan (the “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 2010 and 2009, 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. Retirement plan expense for 2010 and 2009 totaled \$215,154 and \$175,849, respectively, and is included in employee benefits in the accompanying statements of functional expenses.

During 2002, the Organization established a deferred compensation plan (“the 457 Plan”) pursuant to Code Section 457. The 457 Plan provides for pre-tax salary deferrals for key employees. Amounts held at December 31, 2010 and 2009 amounted to \$570,082 and \$411,401, respectively.

NOTE 10 – SELF-FUNDED HEALTH INSURANCE

During 2003, the Organization began to self-fund 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 \$516,063 and \$389,659 at December 31, 2010 and 2009, respectively and is included in accounts payable and accrued expenses in the accompanying statements of financial position. The Organization has stop loss insurance to cover catastrophic claims.

NOTE 11 – RELATED PARTY TRANSACTIONS

During 2010 and 2009, 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

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 11 – RELATED PARTY TRANSACTIONS (Continued)

to the Investment Management Agreement. The investment company has agreed to render financial advisory and related services to the Organization on a pro-bono basis through February 2010. The arrangement was approved by the board of directors prior to commencement. The board member retired from board of directors in 2010 and the investment company began charging fees in March 2010.

During the normal course of business, the Organization purchased advertising services in the amount of \$683,430 and \$562,751 in 2010 and 2009, 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.

During 2010 and 2009, the Organization purchased legal services in the amount of \$17,785 and \$41,120, respectively, from a firm affiliated with a member of the board of directors.

The Organization has entered into an administrative agreement with Government Services, Inc. ("GS") to provide limited administrative and management services to GS. The total amount of management fees earned by the Organization was \$40,101 and \$63,272 in 2010 and 2009, respectively.

During 2010 and 2009, the Organization paid certain expenses on behalf of GS. At December 31, 2010 and 2009, the Organization was due \$121,740 and \$106,816, respectively, from GS. This receivable is included in accounts and grants receivable in the accompanying statements of financial position.

During 2010 and 2009, the Organization purchased construction services in the amount of \$1,286,575 and \$3,358,611, respectively, from a company affiliated with a member of the board of directors.

During 2010 and 2009, the Organization purchased insurance in the amount of \$140,355 and \$132,208, respectively, from a company affiliated with a member of the board of directors.

NOTE 12 – EXTRAORDINARY ITEM-FLOOD LOSS

During May 2010, the Organization sustained damage to buildings and equipment from the effects of a historic flood in middle Tennessee. The Organization's headquarters facility and the new Career Solutions facility as well as other locations incurred significant damage. The facilities damaged are located in areas not prone to flooding. As a result, the costs to repair facilities and replace certain equipment are reflected as an extraordinary item in the statement of activities for the year ended December 31, 2010. Total costs incurred during the year ended December 31, 2010 amounted to \$899,135.