GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS

December 31, 2011

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.

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FRASIERDEAN
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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 statement of financial position of Goodwill Industries of Middle Tennessee, Inc. (a nonprofit organization) as of December 31, 2011, and the related statements of activities, cash flows, and functional expenses for the year 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 audit.

We conducted our audit 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 audit provides 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, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, during 2012 management reviewed the Organization's functional expense classifications and determined that a restatement was necessary to properly reflect fundraising expenses for the year ended December 31, 2011.

Frasier, Dean & Howard, PLLC

April 5, 2012,
July 9, 2012, as to Note 12

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2011

Assets		
Current assets:		
Cash and cash equivalents	$	7,293,235
Accounts and grants receivable, net		721,790
Inventory		1,715,418
Prepaid expenses		199,991
Total current assets		9,930,434
Noncurrent assets:		
Cash and cash equivalents restricted for debt requirement		225,000
Investments - board designated		3,156,568
Investments - deferred compensation plan		682,813
Land, buildings and equipment, net of accumulated depreciation of $14,432,533		27,423,242
Other		87,829
Total assets	$	41,505,886
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$	3,529,909
Deferred revenue		11,537
Current portion of deferred lease incentive		34,784
Current portion of notes payable		932,581
Total current liabilities		4,508,811
Noncurrent liabilities:		
Deferred compensation plan liability		682,813
Deferred lease incentive, net of current portion		478,792
Other liabilities		226,242
Notes payable, net of current portion		6,213,418
Total liabilities		12,110,076
Net assets:		
Unrestricted net assets:		
Undesignated		25,993,938
Designated for long-term investment		3,156,568
Total unrestricted net assets		29,150,506
Temporarily restricted net assets		245,304
Total net assets		29,395,810
Total liabilities and net assets	$	41,505,886

See accompanying notes.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

Changes in unrestricted net assets:	
Revenue, gains, and other support:	
Store sales, net of related discounts	$ 32,327,550
Contributed value of donated merchandise	20,393,157
Retail operations	52,720,707
Salvage sales	3,875,163
Grants and fees received	759,875
Contributions	238,423
Investment income, net	74,359
Other	46,587
United Way contributions	41,466
Administrative fees revenue	2,020
Net assets released from restrictions	1,361
Total revenue, gains, and other support	57,759,961
Expenses:	
Program services	46,203,457
Management and general	5,471,518
Fundraising	493,096
Total expenses	52,168,071
Increase in unrestricted net assets	5,591,890
Changes in temporarily restricted net assets:	
Revenues:	
Contributions	236,700
Net assets released from restrictions	(1,361)
Total revenues	235,339
Increase in temporarily restricted net assets	235,339
Increase in net assets	5,827,229
Net assets, beginning of year	23,568,581
Net assets, end of year	$ 29,395,810

See accompanying notes.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2011

	Program Services	Management and General	Fund-raising	Total
Salaries	$ 25,836,385	$ 3,258,234	$ -	$ 29,094,619
Occupancy	7,200,531	199,514	-	7,400,045
Payroll taxes	2,863,470	254,251	-	3,117,721
Employee benefits	2,617,778	262,544	-	2,880,322
Supplies	1,699,680	100,748	-	1,800,428
Advertising, printing and publications	605,091	134,507	493,096	1,232,694
Travel and vehicles	973,574	86,727	-	1,060,301
Postage	563,911	14,585	-	578,496
Credit card fees	555,909	338	-	556,247
Equipment rent and maintenance	429,109	89,737	-	518,846
Telephone	246,190	63,542	-	309,732
Professional fees	109,370	132,493	-	241,863
Ecommerce fees	238,699	-	-	238,699
Interest	194,629	32,058	-	226,687
Insurance	4,670	193,129	-	197,799
Dues payment to affiliated organization	-	153,480	-	153,480
Noncapitalized purchases	99,110	43,401	-	142,511
Cost of goods sold	97,043	-	-	97,043
Employee relations	50,413	27,655	-	78,068
Other	57,552	6,738	-	64,290
Bank service charge	8,799	12,829	-	21,628
Conferences and meetings	6,304	6,550	-	12,854
Dues	8,349	4,190	-	12,539
Awards and grants	194	75	-	269
Total expenses before depreciation	44,466,760	5,077,325	493,096	50,037,181
Depreciation	1,736,697	394,193	-	2,130,890
Total expenses	$ 46,203,457	$ 5,471,518	$ 493,096	$ 52,168,071

See accompanying notes.

GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2011

Cash flows from operating activities:		
Change in net assets	$	5,827,229
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		2,130,890
Contribution of fixed assets		(199,691)
Gain on disposal of fixed asset		(5,507)
Loss on investments, net		74,918
Loss on investments, net - deferred compensation plan		27,174
Changes in operating assets and liabilities:		
Accounts and grants receivable, net		(86,103)
Inventory		(244,055)
Prepaid expenses		168,111
Other assets		(12,936)
Accounts payable and accrued expenses		536,883
Deferred revenue		5,537
Deferred compensation plan liability		112,731
Deferred lease incentive		(34,784)
Other liabilities		29,702
Net cash provided by operating activities		8,330,099
Cash flows from investing activities:		
Increase in cash and cash equivalents restricted for debt requirement		(225,000)
Purchases of investments		(532,618)
Proceeds from sale of investments		142,985
Purchase of land, buildings, and equipment		(4,743,331)
Net cash used in investing activities		(5,357,964)
Cash flows from financing activities:		
Payments on capital lease obligation		(56,916)
Principal payments on notes payable		(814,695)
Proceeds from issuance of notes payable		1,140,000
Net cash provided by financing activities		268,389
Net increase in cash and cash equivalents		3,240,524
Cash and cash equivalents, beginning of year		4,052,711
Cash and cash equivalents, end of year	$	7,293,235
Supplemental cash flow information:		
Cash paid during the year for interest	$	218,635
Supplemental schedule of noncash investing and financing activities:		
Contribution of fixed assets	$	199,691

See accompanying notes.

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 statement of activities as net assets released from restrictions. The Organization had temporarily restricted net assets of $245,304 at December 31, 2011. In November 2011, the Organization received $236,000 from the Microsoft Unlimited Potential program for services to be provided in 2012.

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, 2011.

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.

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 and Restricted Cash

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. In 2011, the Organization placed $225,000 in a separate account with a financial institution to meet a new debt requirement. The account is non-interest bearing. The debt restriction requires the cash account to remain with the financial institution until the debt is satisfied. The account is reflected in the 2011 statement of financial position as “cash and cash equivalents restricted for debt requirement.”

Accounts and Grants Receivable

Accounts receivable represent amounts due under normal trade terms within 30 days of invoice date. Interest is generally not charged. Management estimates an allowance for doubtful accounts, if any, based on its knowledge of its customers’ individual credit circumstances, the Organization’s historical loss experience and current economic conditions. Delinquent accounts receivable are charged off to the allowance when, in management’s opinion, all collection efforts have been exhausted.

Investments

Investments are stated at fair market value. Realized 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 2011, the Organization recognized contributed merchandise with an estimated fair value of $20,393,157 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.

NOTE 1 – 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

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 follows 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, 2008 through December 31, 2011.

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 have not been satisfied.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocated Expenses

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Expense

The Organization expenses advertising costs as incurred. Advertising costs charged to expense totaled $1,098,269 in 2011.

Subsequent Events

During February 2012, the Organization purchased solar photovoltaic systems to be installed at Goodwill Industries of Middle Tennessee, Inc. properties located at 1015 Herman Street and 1000 Herman Street, Nashville, Tennessee. The cost for both systems will total $1,117,640.

The Organization evaluated subsequent events through April 5, 2012, when these financial statements were available to be issued. Management is not aware of any additional 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.

NOTE 2 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable consist of the following at December 31, 2011:

Trade, contract services and other	$ 710,951
Billings under grants and rehabilitation programs	37,951
	748,902
Less: Allowance for uncollectibles	(27,112)
Accounts and grants receivable, net	$ 721,790

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 or 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, 2011:

Investments – board designated:	
Money market funds	$ 471,348
Fixed income funds:	
Corporate bonds	79,275
Municipal bonds	668,791
Fixed income funds	77,032
High yield funds	190,513
Equities:	
Common stock	409,081
Multi-strategy funds	696,692
Mid cap funds	46,892
Small cap funds	155,075
International funds	214,730

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Alternatives:	
Gold bullion funds	72,803
Commodity funds	20,539
Real estate funds	53,797
Investments – board designated	$ 3,156,568

Investments – deferred compensation plan:	
Growth stock fund	$ 48,618
Midcap growth fund	277,284
Equity income fund	81,555
Capital appreciation fund	258,014
Spectrum income fund	17,342
Investments – deferred compensation plan	$ 682,813

Investment income, net as presented in the 2011 statement of activities is comprised of the following:

Interest and dividend income	$ 149,277
Net realized and unrealized investment loss	(74,918)
Investment income, net	$ 74,359

NOTE 4 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at December 31, 2011:

Land	$ 5,933,167
Land improvements	54,766
Buildings	18,112,147
Building improvements	1,547,068
Leasehold improvements	4,025,692
Plant equipment	2,859,913
Store equipment	3,347,857
Office equipment	2,643,216

NOTE 4 – LAND, BUILDINGS AND EQUIPMENT (Continued)

Material collection vehicles and equipment	2,998,626
Construction in progress	333,323
	41,855,775
Less accumulated depreciation	(14,432,533)
	$ 27,423,242

NOTE 5 – NOTES PAYABLE

Notes payable consist of the following at December 31, 2011:

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 note agreement contains various financial and other covenants, which the Organization has met at December 31, 2011.	$ 599,763
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 note agreement contains various financial and other covenants, which the Organization has met at December 31, 2011.	1,414,607

NOTE 5 – NOTES PAYABLE (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 note 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 note agreement contains various financial and other covenants, which the Organization has met at December 31, 2011.	3,991,629
Promissory note issued to the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County. Total initial borrowings under this note amounted to $1,140,000 at December 31, 2011. Additional borrowings will continue as construction progresses. The debt will total $2,900,000 after construction is complete. The proceeds of the note are to be used to construct a facility that contains a retail store, attended donation center, and Career Solutions center. The note provides for interest only payments through the construction period. Thereafter, the note requires monthly payments of principal and interest (2.57% per annum) of $29,619 with a final maturity of December 21, 2021. The note is collateralized by the Mill Creek property. The note agreement contains various financial and other covenants, which the Organization has met at December 31, 2011.	1,140,000
	7,145,999
Less current portion	(932,581)
Long-term portion	$ 6,213,418

NOTE 5 – NOTES PAYBLE (Continued)

Required principal payments on the notes payable are as follows:

Year ending December 31,	
2012	$ 932,581
2013	1,236,416
2014	1,097,940
2015	1,043,008
2016	1,036,220
Thereafter	1,799,834
	$ 7,145,999

Interest expense associated with notes payable totaled $226,687 for the year ended December 31, 2011.

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 $4,444,100 for 2011. The following is a schedule by year of future minimum rental and common area maintenance payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2011.

Year ending December 31,	
2012	$ 4,495,019
2013	4,063,389
2014	3,725,671
2015	3,463,944
2016	3,031,857
Thereafter	6,662,438
	$ 25,442,318

NOTE 7 – COMMITMENTS (Continued)

During 2009, the Organization began leasing a Human Resources Information System under a noncancelable lease that is classified as a capital lease that expired 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 $53,041 at December 31, 2011. This lease obligation was paid in full during 2011.

NOTE 8 – GRANTS

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

Division of Intellectual Disabilities Services ("DIDS") Day Services

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

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

> Summer Work Services provide 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 funded TRAC in 2011.

Good Prospects program

> 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 in June 2012.

NOTE 8 – GRANTS (Continued)

Department of Human Services ("DHS") Vocational Evaluation/Work Adjustment

The State of Tennessee Department of Human Services, Division of Vocational Rehabilitation provided fee reimbursement for work assessments and on-the-job work experiences for individuals with disabilities.

Regional Transit Authority ("RTA")

The Regional Transit Authority provided partial funding for an administrative assistant. A portion of this assistant's responsibilities includes providing bus passes to qualifying Goodwill clients. This program expires in September 2012.

Microsoft Digital Literacy

In 2011, the Microsoft Unlimited Potential program awarded Goodwill a grant of $236,000. The grant provides for trainers to teach digital literacy classes for the clients in the areas of on-line job search, resume development, completing on-line applications and basic computer literacy. This program was renewed for 2012.

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.

A summary of fees and grants from governmental agencies as reported in the accompanying 2011 statement of activities follows:

Microsoft Digital Literacy	$ 236,000
Training fees/private pay/community work sites	231,219
Good Prospects (Goodwill International)	172,568
DIDS Day Services/Follow Along	67,642
DHS Vocational Evaluation/Work Adjustment/JDP	27,675
MDHA – Youth Enrichment	23,721
Regional Transit Authority	293
Other	757
	$ 759,875

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 2011, 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 2011 totaled $279,273 and is included in employee benefits in the accompanying statement 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, 2011 amounted to $682,813.

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 $516,986 at December 31, 2011 and is included in accounts payable and accrued expenses in the accompanying statement of financial position. The Organization has stop loss insurance to cover catastrophic claims.

NOTE 11 – RELATED PARTY TRANSACTIONS

During 2011, 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.

During the normal course of business, the Organization purchased advertising services in the amount of $848,296 in 2011 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 2011, the Organization purchased legal services in the amounts of $26,170, $10,303 and $13,503, respectively, from three firms affiliated with members of the board of directors.

NOTE 11 – RELATED PARTY TRANSACTIONS (Continued)

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 $2,020 in 2011.

During 2011, the Organization paid certain expenses on behalf of GS. At December 31, 2011, the Organization was due $77,458 from GS. This receivable is included in accounts and grants receivable in the accompanying statement of financial position.

During 2011, the Organization purchased insurance in the amount of $168,515 from a company affiliated with a member of the board of directors.

NOTE 12 – RESTATEMENT

During 2012, management determined that certain advertising expenses previously reported as program expenses were more appropriately classified as fundraising expense. As a result, advertising costs totaling $493,096 previously reported as program expenses have been restated as fundraising costs. The restatement had no effect on total expenses or net assets as previously reported at December 31, 2011.