

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

**FINANCIAL STATEMENTS**

**December 31, 2009 and 2008**

**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, 2009 and 2008, 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, 2009 and 2008, 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 29, 2010

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2009 and 2008**

|   | <b>2009</b>          | <b>2008</b>          |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| Current assets:   |                      |                      |
| Cash and cash equivalents   | \$ 7,188,701         | \$ 3,578,487         |
| Accounts and grants receivable, net   | 531,184              | 435,035              |
| Inventory   | 1,415,373            | 1,126,247            |
| Prepaid expenses  | 387,814              | 252,135              |
| Total current assets  | 9,523,072            | 5,391,904            |
| Noncurrent assets:  |                      |                      |
| Investments - board designated  | 2,596,445            | 2,128,411            |
| Investments - deferred compensation plan  | 411,401              | 290,279              |
| Land, buildings and equipment, net of accumulated depreciation of \$12,331,901 and \$11,542,193, respectively | 21,603,389           | 18,555,931           |
| Other   | 104,652              | 59,770               |
| Total assets  | <u>\$ 34,238,959</u> | <u>\$ 26,426,295</u> |
| <b>Liabilities and Net Assets</b>   |                      |                      |
| Current liabilities:  |                      |                      |
| Accounts payable and accrued expenses   | \$ 2,928,136         | \$ 3,092,224         |
| Deferred revenue  | 6,256                | 7,579                |
| Current portion of capital lease obligation   | 66,146               | -                    |
| Current portion of notes payable  | 1,226,840            | 833,954              |
| Total current liabilities   | 4,227,378            | 3,933,757            |
| Noncurrent liabilities:   |                      |                      |
| Deferred compensation plan liability  | 411,401              | 290,279              |
| Capital lease obligation, net of current portion  | 56,916               | -                    |
| Other liabilities   | 68,499               | -                    |
| Notes payable, net of current portion   | 8,808,082            | 5,322,301            |
| Total liabilities   | <u>13,572,276</u>    | <u>9,546,337</u>     |
| Net assets:   |                      |                      |
| Unrestricted net assets:  |                      |                      |
| Designated for long-term investment   | 2,596,445            | 2,128,411            |
| Other unrestricted  | 18,062,080           | 14,746,547           |
| Total unrestricted net assets   | 20,658,525           | 16,874,958           |
| Temporary restricted net assets   | 8,158                | 5,000                |
| Total net assets  | <u>20,666,683</u>    | <u>16,879,958</u>    |
| Total liabilities and net assets  | <u>\$ 34,238,959</u> | <u>\$ 26,426,295</u> |

See accompanying notes.

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**STATEMENTS OF ACTIVITIES**  
**For the years ended December 31, 2009 and 2008**

|   | <u>2009</u>                 | <u>2008</u>                 |
|---|-----------------------------|-----------------------------|
| Changes in unrestricted net assets:           |                             |                             |
| Revenue, gains, and other support             |                             |                             |
| Store sales, net of related discounts         | \$ 26,279,732               | \$ 24,628,962               |
| Contributed value of donated merchandise      | <u>16,773,828</u>           | <u>13,443,413</u>           |
| Retail operations                             | 43,053,560                  | 38,072,375                  |
| Salvage sales                                 | 2,452,028                   | 2,936,451                   |
| Investment income (loss), net                 | 332,243                     | (213,236)                   |
| Grants and fees received                      | 320,922                     | 253,493                     |
| Administrative fees revenue                   | 63,272                      | 74,937                      |
| Other   | 52,742                      | 53,288                      |
| Contract income                               | 46,680                      | 203,979                     |
| United Way contributions                      | 42,425                      | 50,930                      |
| Contributions                                 | 26,813                      | 45,169                      |
| Net assets released from restrictions         | <u>1,842</u>                | <u>-</u>                    |
| Total revenue and other support               | <u>46,392,527</u>           | <u>41,477,386</u>           |
| Expenses:                                     |                             |                             |
| Program services                              | 37,838,125                  | 35,213,685                  |
| Supporting services                           | <u>4,770,835</u>            | <u>4,609,373</u>            |
| Total expenses                                | <u>42,608,960</u>           | <u>39,823,058</u>           |
| Increase in unrestricted net assets           | 3,783,567                   | 1,654,328                   |
| Changes in temporarily restricted net assets: |                             |                             |
| Revenues:                                     |                             |                             |
| Contributions                                 | 5,000                       | 5,000                       |
| Net assets released from restrictions         | <u>(1,842)</u>              | <u>-</u>                    |
| Total revenues                                | <u>3,158</u>                | <u>5,000</u>                |
| Increase in temporarily restricted net assets | <u>3,158</u>                | <u>5,000</u>                |
| Increase in net assets                        | 3,786,725                   | 1,659,328                   |
| Net assets, beginning of year                 | <u>16,879,958</u>           | <u>15,220,630</u>           |
| Net assets, end of year                       | <u><u>\$ 20,666,683</u></u> | <u><u>\$ 16,879,958</u></u> |

See accompanying notes.

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

|   | <u>Program<br/>Services</u> | <u>Management<br/>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.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the year ended December 31, 2008**

|   | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Total</u>         |
|---|-----------------------------|-----------------------------------|----------------------|
| Salaries                                | \$ 19,661,956               | \$ 2,593,169                      | \$ 22,255,125        |
| Occupancy                               | 6,352,211                   | 172,732                           | 6,524,943            |
| Payroll taxes                           | 2,061,897                   | 207,865                           | 2,269,762            |
| Employee benefits                       | 1,385,421                   | 169,226                           | 1,554,647            |
| Supplies                                | 1,396,250                   | 82,642                            | 1,478,892            |
| Advertising, printing and publications  | 937,698                     | 108,627                           | 1,046,325            |
| Travel and vehicles                     | 779,736                     | 54,318                            | 834,054              |
| Credit card fees                        | 410,146                     | 403                               | 410,549              |
| Interest                                | 147,029                     | 163,348                           | 310,377              |
| Telephone                               | 194,148                     | 55,548                            | 249,696              |
| Insurance                               | 225                         | 244,255                           | 244,480              |
| Professional fees                       | 132,114                     | 110,734                           | 242,848              |
| Equipment rent and maintenance          | 140,287                     | 16,341                            | 156,628              |
| Dues payment to affiliated organization | -                           | 143,352                           | 143,352              |
| Postage                                 | 111,795                     | 11,556                            | 123,351              |
| Noncapitalized purchases                | 47,265                      | 39,140                            | 86,405               |
| Employee relations                      | 5,115                       | 41,880                            | 46,995               |
| Other                                   | 26,418                      | 16,166                            | 42,584               |
| Bank service charge                     | 27,469                      | 13,969                            | 41,438               |
| Conferences and meetings                | 3,918                       | 6,185                             | 10,103               |
| Dues                                    | 5,206                       | 4,213                             | 9,419                |
| Awards and grants                       | 2,142                       | 1,430                             | 3,572                |
|   | <hr/>                       | <hr/>                             | <hr/>                |
| Total expenses before depreciation      | 33,828,446                  | 4,257,099                         | 38,085,545           |
|   | <hr/>                       | <hr/>                             | <hr/>                |
| Depreciation                            | 1,385,239                   | 352,274                           | 1,737,513            |
|   | <hr/>                       | <hr/>                             | <hr/>                |
| Total expenses                          | <u>\$ 35,213,685</u>        | <u>\$ 4,609,373</u>               | <u>\$ 39,823,058</u> |

See accompanying notes.

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2009 and 2008**

|  | <u>2009</u>         | <u>2008</u>         |
|--|---------------------|---------------------|
| Change in net assets:  | \$ 3,786,725        | \$ 1,659,328        |
| Adjustments to reconcile change in net assets to<br>net cash provided by operating activities: |                     |                     |
| Depreciation   | 1,756,880           | 1,737,513           |
| Loss on disposal of fixed asset  | 5,752               | 12,151              |
| (Gains) losses on investments, net   | (214,795)           | 301,580             |
| (Gains) losses on investments, net - 457 plan  | (80,080)            | 160,396             |
| Change in operating assets and liabilities:  |                     |                     |
| Accounts and grants receivable, net  | (96,149)            | 46,638              |
| Inventory  | (289,126)           | (114,311)           |
| Prepaid expenses   | (135,679)           | 36,423              |
| Other assets   | (44,882)            | 5,975               |
| Accounts payable and accrued expenses  | (42,966)            | 199,023             |
| Deferred revenue   | (1,323)             | 7,579               |
| Other liabilities  | 68,499              | -                   |
| Net cash provided by operating activities  | <u>4,712,856</u>    | <u>4,052,295</u>    |
| Cash flows from investing activities:  |                     |                     |
| Purchases of investments   | (497,346)           | (585,365)           |
| Proceeds from sale of investments  | 203,065             | 231,386             |
| Purchase of land, buildings, and equipment   | (4,676,227)         | (1,624,075)         |
| Net cash used in investing activities  | <u>(4,970,508)</u>  | <u>(1,978,054)</u>  |
| Cash flows from financing activities:  |                     |                     |
| Payments on capital lease obligation   | (10,801)            | -                   |
| Principal payments on notes payable  | (821,333)           | (800,054)           |
| Proceeds from issuance of notes payable  | 4,700,000           | -                   |
| Net cash provided by (used in)<br>financing activities   | <u>3,867,866</u>    | <u>(800,054)</u>    |
| Net increase in cash and cash equivalents  | 3,610,214           | 1,274,187           |
| Cash and cash equivalents, beginning of year   | 3,578,487           | 2,304,300           |
| Cash and cash equivalents, end of year   | <u>\$ 7,188,701</u> | <u>\$ 3,578,487</u> |
| Supplemental cash flow information:  |                     |                     |
| Cash paid during the year for interest   | <u>\$ 407,046</u>   | <u>\$ 287,760</u>   |
| Supplemental schedule of noncash investing and financing activities:                           |                     |                     |
| Equipment acquired by capital lease  | <u>\$ 133,863</u>   | <u>\$ -</u>         |

See accompanying notes.



**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

**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:

**Accounting Standards Codification**

The Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") became the sole authoritative source of generally accepted accounting principles in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC had no effect on the Organization's financial position, results from operations, net assets or cash flows.

**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 \$8,158 and \$5,000 and at December 31, 2009 and 2008, 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, 2009 and 2008.

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2009 and 2008**

**NOTE 1 – 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. 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.

**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.

**Fair Values**

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.

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2009 and 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 2009 and 2008, the Organization recognized contributed merchandise with an estimated fair value of \$16,773,828 and \$13,443,413, 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. 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.

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2009 and 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recent Accounting Pronouncements**

On January 1, 2009 the Organization adopted FASB ASC 740-10-25 paragraphs 5 through 17, "Income Taxes" ("FASB ASC 740"). The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. This interpretation 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. FASB ASC 740 must be applied to all existing tax positions upon initial adoption. 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, 2006 through December 31, 2008. Adoption of this pronouncement had no impact on the Organization's financial position or results of operations.

**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.

**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 \$798,357 in 2009 and \$910,275 in 2008.

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2009 and 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**NOTE 2 – ACCOUNTS AND GRANTS RECEIVABLE**

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

|   | <u>2009</u>       | <u>2008</u>       |
|---|-------------------|-------------------|
| Trade, contract services and other                | \$ 528,270        | \$ 432,244        |
| Billings under grants and rehabilitation programs | <u>6,684</u>      | <u>6,561</u>      |
|   | 534,954           | 438,805           |
| Less: Allowance for uncollectibles                | <u>(3,770)</u>    | <u>(3,770)</u>    |
| Accounts and grants receivable, net               | <u>\$ 531,184</u> | <u>\$ 435,035</u> |

**NOTE 3 – INVESTMENTS**

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

|                               | <u>2009</u>                          |                         |   |
|-------------------------------|--------------------------------------|-------------------------|---|
|                               | <u>Cost or<br/>Donated<br/>Value</u> | <u>Market<br/>Value</u> | <u>Unrealized<br/>Appreciation<br/>(Depreciation)</u> |
| Investments-Board Designated: |                                      |                         |   |
| Equitable Trust Funds         | \$ 2,534,066                         | \$ 2,596,445            | \$ 62,379   |
| 457(b) Plan T. Rowe Price     | <u>386,100</u>                       | <u>411,401</u>          | <u>25,301</u>   |
|                               | <u>\$ 2,920,166</u>                  | <u>\$ 3,007,846</u>     | <u>\$ 87,680</u>                                      |

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2009 and 2008**

**NOTE 3 – INVESTMENTS (Continued)**

|                               | <b>2008</b>                                 |                                |  |
|-------------------------------|---|--------------------------------|--|
|                               | <b><u>Cost or<br/>Donated<br/>Value</u></b> | <b><u>Market<br/>Value</u></b> | <b><u>Unrealized<br/>Appreciation<br/>(Depreciation)</u></b> |
| Investments-Board Designated: |   |                                |  |
| Equitable Trust Funds         | \$ 2,356,683                                | \$ 2,128,411                   | \$ (228,272)   |
| 457(b) Plan T. Rowe Price     | <u>349,117</u>                              | <u>290,279</u>                 | <u>(58,838)</u>  |
|                               | <u><u>\$ 2,705,800</u></u>                  | <u><u>\$ 2,418,690</u></u>     | <u><u>\$ (287,110)</u></u>                                   |

Investment income, net is comprised of the following:

|   | <b><u>2009</u></b>       | <b><u>2008</u></b>         |
|---|--------------------------|----------------------------|
| Interest and dividend income                          | \$ 117,448               | \$ 88,344                  |
| Net realized and unrealized investment gains (losses) | <u>214,795</u>           | <u>(301,580)</u>           |
| Investment income (losses), net                       | <u><u>\$ 332,243</u></u> | <u><u>\$ (213,236)</u></u> |

**NOTE 4 – LAND, BUILDINGS AND EQUIPMENT**

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

|  | <b><u>2009</u></b>          | <b><u>2008</u></b>          |
|--|-----------------------------|-----------------------------|
| Land                                       | \$ 3,896,842                | \$ 3,896,842                |
| Buildings                                  | 11,466,802                  | 11,632,392                  |
| Building improvements                      | 1,948,241                   | 2,147,426                   |
| Leasehold improvements                     | 2,708,999                   | 2,744,353                   |
| Plant equipment                            | 2,144,695                   | 2,041,933                   |
| Store equipment                            | 3,059,809                   | 2,939,218                   |
| Office equipment                           | 1,897,549                   | 2,014,559                   |
| Material collection vehicles and equipment | 2,498,586                   | 2,300,716                   |
| Construction in progress                   | <u>4,313,767</u>            | <u>380,685</u>              |
|  | 33,935,290                  | 30,098,124                  |
| Less accumulated depreciation              | <u>(12,331,901)</u>         | <u>(11,542,193)</u>         |
|  | <u><u>\$ 21,603,389</u></u> | <u><u>\$ 18,555,931</u></u> |

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2009 and 2008**

**NOTE 5 – LONG-TERM DEBT**

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

|   | <u>2009</u> | <u>2008</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 in the amount of \$23,072 (4.30% per annum) with a final maturity of March 2013. The note is secured 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, 2009 and 2008.                                    | \$ 848,077  | \$ 1,082,400 |
| 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 interest only payments until April 2004 at which time monthly payments of principal and interest (3.75% per annum) of \$22,420 are required. The note matures in April 2014. This note is secured by the real estate. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2009 and 2008. | 1,073,266   | 1,296,872    |
| 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 requires interest only payments until June 2007. From June 2007 until the maturity at May 2017 principal and interest (5.06% per annum) payments of \$21,272 are due monthly. The note is collateralized by land, buildings, furniture and equipment. The loan agreement contains various financial and other covenants, which the Organization has met at December 31, 2009 and 2008.                       | 1,579,887   | 1,749,358    |

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2009 and 2008**

**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 \$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, 2009 and 2008.

|  |           |           |
|--|-----------|-----------|
|  | 1,833,692 | 2,027,625 |
|--|-----------|-----------|

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 provides for interest only payments at 4.15% per annum through January 2010. Thereafter, the note requires monthly payments of principal and interest (4.15% per annum) of \$47,921 with a final maturity of January 28, 2020. 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, 2009.

|  |                  |          |
|--|------------------|----------|
|  | <u>4,700,000</u> | <u>-</u> |
|--|------------------|----------|

|                      |                     |                     |
|----------------------|---------------------|---------------------|
|                      | 10,034,922          | 6,156,255           |
| Less current portion | <u>(1,226,840)</u>  | <u>(833,954)</u>    |
| Long-term portion    | <u>\$ 8,808,082</u> | <u>\$ 5,322,301</u> |



**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2009 and 2008**

**NOTE 5 – LONG-TERM DEBT (Continued)**

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

| Year ending<br>December 31, |                      |
|-----------------------------|----------------------|
| 2010                        | \$ 1,226,840         |
| 2011                        | 1,301,849            |
| 2012                        | 1,360,295            |
| 2013                        | 1,224,221            |
| 2014                        | 1,014,162            |
| Thereafter                  | <u>3,907,555</u>     |
|                             | <u>\$ 10,034,922</u> |

At December 31, 2008, the Organization also had a \$1,500,000 line-of-credit with a bank. Payments of interest only at the LIBOR rate plus 1.25% per annum were due through June 2009 at which time any outstanding interest and principal was due. Available borrowings at December 31, 2008 were \$1,500,000. The line-of-credit was not renewed.

**NOTE 6 – COMMITMENTS**

The annual rentals under lease contracts for the Organization's retail stores and other facilities totaled \$4,121,577 and \$3,847,617 for 2009 and 2008, 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, 2009.

| Year ending<br>December 31, |                      |
|-----------------------------|----------------------|
| 2010                        | \$ 3,873,412         |
| 2011                        | 3,166,759            |
| 2012                        | 2,441,924            |
| 2013                        | 1,778,101            |
| 2014                        | 1,375,948            |
| Thereafter                  | <u>4,018,588</u>     |
|                             | <u>\$ 16,654,732</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 amount capitalized as lease obligation equals \$123,062 at December 31, 2009. Future minimum lease payments under the agreement as are follows:

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2009 and 2008**

**NOTE 6 – COMMITMENTS (Continued)**

| Year ending<br><u>December 31,</u> |                   |
|------------------------------------|-------------------|
| 2010                               | \$ 66,146         |
| 2011                               | <u>56,916</u>     |
|                                    | <u>\$ 123,062</u> |

**NOTE 7 – 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 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.

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.

Metropolitan Development and Housing Agency (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.

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2009 and 2008**

**NOTE 8 – GRANTS (Continued)**

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

Summer work services 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 Organization also receives training fees from governmental agencies used to provide additional occupational skill training.

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

|  | <u>2009</u>       | <u>2008</u>       |
|--|-------------------|-------------------|
| DMHMR Day Services/Follow Along                | \$ 94,238         | \$ 92,957         |
| Training Fees/Private Pay/Community Work Sites | 149,839           | 132,103           |
| DHS Vocational Evaluation/Work Adjustment/JDP  | 510               | 5,850             |
| MDHA – Youth Enrichment                        | 22,080            | 22,483            |
| Nashville Career Advancement Center            | 54,255            | -                 |
| Other  | <u>-</u>          | <u>100</u>        |
|  | <u>\$ 320,922</u> | <u>\$ 253,493</u> |

**NOTE 9 – 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 2009 and 2008, 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 2009 and 2008 totaled \$175,849 and \$159,973, 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, 2009 and 2008 amounted to \$411,401 and \$290,279, respectively.

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2009 and 2008**

**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 \$389,659 and \$316,221 at December 31, 2009 and 2008, respectively. The Organization has stop loss insurance to cover catastrophic claims.

**NOTE 11 – RELATED PARTY TRANSACTIONS**

During 2009 and 2008, 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 Organization on a pro-bono basis. The arrangement was approved by the Board of Directors prior to commencement.

During the normal course of business, the Organization purchased advertising services in the amount of \$562,751 and \$448,334 and in 2009 and 2008, 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 2009 and 2008, the Organization purchased legal services in the amount of \$41,120 and \$30,904, 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 received by the Organization was \$63,272 and \$74,937 in 2009 and 2008, respectively.

During 2009 and 2008, the Organization paid certain expenses on behalf of GS. At December 31, 2009 and 2008, the Organization was due \$106,816 and \$64,785, respectively, from GS. This receivable is included in accounts and grants receivable in the accompanying statements of financial position.

During 2008, the Organization purchased office equipment in the amount of \$69,715 from a company owned by a member of the Board of Directors.

During 2009, the Organization purchased construction services in the amount of \$3,358,611 from a company affiliated with a member of the Board of Directors.

During 2009, the Organization purchased insurance in the amount of \$132,208 from a company affiliated with a member of the Board of Directors.

**GOODWILL INDUSTRIES OF MIDDLE TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2009 and 2008**

**NOTE 12 – SUBSEQUENT EVENTS**

The Organization evaluated subsequent events through March 29, 2010, when these financial statements were available to be issued. We are 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.