

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

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**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009 AND 2008**

## **GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of  
Goodwill Industries of South Florida, Inc.

We have audited the accompanying statements of financial position of Goodwill Industries of South Florida, Inc. ("Goodwill") as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of Goodwill. 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 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2010, on our consideration of Goodwill's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 22-23) is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not required as part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Morrison, Brown, Argiz & Farra*

Miami, Florida  
June 10, 2010

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

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STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31,

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 3,917,620	\$ 2,796,473
Accounts and other receivables, net	6,551,105	6,620,599
Contributions receivable	-	5,000
Inventories	4,722,101	5,047,410
Prepaid expenses and deferred lease charges	386,799	562,861
Other assets	2,460,360	2,368,292
Land, buildings and equipment, net	<u>28,857,473</u>	<u>28,685,898</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 46,895,458</u></b>	<b><u>\$ 46,086,533</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts and trade notes payable	\$ 3,034,803	\$ 3,131,050
Accrued expenses and other liabilities	2,607,114	2,452,579
Mortgage notes, notes payable and lines of credit	21,501,396	23,081,693
Fair value of interest rate swap	814,823	1,422,355
Obligations under capital leases	<u>128,934</u>	<u>268,214</u>
<b>TOTAL LIABILITIES</b>	<b><u>28,087,070</u></b>	<b><u>30,355,891</u></b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted	18,808,388	15,725,642
Temporarily restricted	<u>-</u>	<u>5,000</u>
<b>TOTAL NET ASSETS</b>	<b><u>18,808,388</u></b>	<b><u>15,730,642</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 46,895,458</u></b>	<b><u>\$ 46,086,533</u></b>

The accompanying notes are an integral part of these financial statements.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

**STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31,**

	<b>2009</b>	<b>2008</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>		
<b>REVENUES AND SUPPORT:</b>		
Contributions:		
Donated goods sales	\$ 25,895,610	\$ 23,546,200
Contributions including donated goods	697,053	2,972,853
United Way allocation	<u>526,437</u>	<u>570,123</u>
<b>TOTAL CONTRIBUTIONS</b>	<b>27,119,100</b>	<b>27,089,176</b>
Manufacturing sales	36,587,615	24,395,017
Service contracts revenue	10,411,900	10,402,759
Commercial services revenue	4,039,269	3,315,077
Rehabilitation fees	2,558,951	2,658,499
Miscellaneous income	<u>55,304</u>	<u>34,941</u>
<b>TOTAL REVENUES AND SUPPORT BEFORE     NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>80,772,139</b>	<b>67,895,469</b>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u><b>5,000</b></u>	<u><b>5,500</b></u>
<b>TOTAL REVENUES AND SUPPORT</b>	<u><b>80,777,139</b></u>	<u><b>67,900,969</b></u>
<b>EXPENSES:</b>		
Program services:		
Apparel manufacturing	33,488,233	24,749,026
Donated goods operations	21,794,932	19,197,562
Service contracts	9,543,843	9,416,156
Commercial services	4,840,805	4,058,034
Rehabilitation services	<u>4,676,793</u>	<u>4,750,347</u>
<b>TOTAL PROGRAM SERVICES</b>	<b>74,344,606</b>	<b>62,171,125</b>
Supporting services:		
Management and general	3,584,401	3,528,905
Fundraising	<u>372,918</u>	<u>447,180</u>
<b>TOTAL EXPENSES</b>	<u><b>78,301,925</b></u>	<u><b>66,147,210</b></u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<b>2,475,214</b>	<b>1,753,759</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Net assets released from restrictions	<u>(5,000)</u>	<u>(5,500)</u>
<b>INCREASE IN NET ASSETS PRIOR TO CHANGE IN FAIR VALUE OF INTEREST RATE SWAP</b>	<b>2,470,214</b>	<b>1,748,259</b>
Change in fair value of interest rate swap	<u>607,532</u>	<u>(884,196)</u>
<b>CHANGE IN NET ASSETS</b>	<b>3,077,746</b>	<b>864,063</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u><b>15,730,642</b></u>	<u><b>14,866,579</b></u>
<b>NET ASSETS - END OF YEAR</b>	<u><b>\$ 18,808,388</b></u>	<u><b>\$ 15,730,642</b></u>

The accompanying notes are an integral part of these financial statements.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

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**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,**

	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	<u>\$ 3,077,746</u>	<u>\$ 864,063</u>
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,602,500	1,571,377
Decrease in bond funds held by trustee	-	424,432
Change in fair value of interest rate swap	(607,532)	884,196
Conversion of debt to contributions (NOTE 9)	-	(1,685,700)
(Increase) decrease in assets:		
Accounts and other receivables	69,494	(788,265)
Contributions receivable	5,000	5,500
Inventories	325,309	(1,041,177)
Prepaid expenses and deferred lease charges	176,062	90,804
Other assets	(126,465)	(17,646)
Increase (decrease) in liabilities:		
Accounts and trade notes payable	(96,247)	(1,005,058)
Accrued expenses and other liabilities	<u>154,535</u>	<u>(894,207)</u>
<b>TOTAL ADJUSTMENTS</b>	<u><b>1,502,656</b></u>	<u><b>(2,455,744)</b></u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u><b>4,580,402</b></u>	<u><b>(1,591,681)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment and building improvements	<u>(1,739,678)</u>	<u>(1,545,711)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u><b>(1,739,678)</b></u>	<u><b>(1,545,711)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from lines of credit	175,000	943,870
Proceeds from issuance of debt	-	5,070,000
Payments on debt and capital lease obligations	<u>(1,894,577)</u>	<u>(1,732,747)</u>
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<u><b>(1,719,577)</b></u>	<u><b>4,281,123</b></u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,121,147	1,143,731
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>2,796,473</u>	<u>1,652,742</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><b>\$ 3,917,620</b></u>	<u><b>\$ 2,796,473</b></u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Interest paid	<u><b>\$ 1,422,503</b></u>	<u><b>\$ 1,326,518</b></u>
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The accompanying notes are an integral part of these financial statements.

# GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.

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## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

### 1. ORGANIZATION

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Goodwill Industries of South Florida, Inc. ("Goodwill") is a not-for-profit organization established in 1959. The purpose of Goodwill is to help people with disabilities and special needs make the transition to independence. Goodwill provides vocational rehabilitation, training and employment to help people achieve employment and self-sufficiency. Goodwill operates numerous entrepreneurial activities such as collecting and selling donated materials, manufacturing and contracting services with the private and public sectors. These activities serve as tools for the training and employment of individuals with disabilities and special needs as well as providing revenues to support Goodwill's mission.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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#### FASB Accounting Standards Codification

On July 1, 2009, the Financial Accounting Standards Board ("FASB") issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles," which establishes the FASB Accounting Standards Codification (the "ASC") as the source of authoritative principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). This standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

#### Basis of Presentation

The financial statements of Goodwill have been prepared on the accrual basis of accounting in accordance GAAP.

Net assets and revenues and support are classified into three categories of net assets based on the existence or absence of donor-imposed restrictions. The three net asset categories are as follows:

- **Unrestricted** - Net assets that are free of donor-imposed restrictions; all revenues, gains and losses that are not changes in permanently or temporarily restricted net assets.
- **Temporarily Restricted** - Net assets whose use by Goodwill is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of Goodwill pursuant to those stipulations. As of December 31, 2009, Goodwill did not have any temporarily restricted net assets.
- **Permanently Restricted** - Net assets whose use by Goodwill is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of Goodwill. As of December 31, 2009 and 2008, Goodwill did not have any permanently restricted net assets.

#### Significant Customer

Goodwill has several large contracts with Defense Supply Center Philadelphia ("DSCP") for the production of military apparel. Sales to DSCP accounted for approximately \$25,375,000 or 69% and \$14,915,000 or 61% of total manufacturing sales during 2009 and 2008, respectively. Additionally, the amounts due from DSCP represent approximately \$2,292,000 or 69% and \$1,690,000 or 51% of the total manufacturing accounts receivable balance of approximately \$3,316,000 and \$3,344,000 at December 31, 2009 and 2008, respectively. Subsequently, Goodwill has received approximately \$3,299,000 of the manufacturing receivable outstanding at December 31, 2009.

#### Use of Estimates

The preparation of financial statements in conformity with GAAP 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Cash and Cash Equivalents

All highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents.

#### Accounts and Other Receivables

Management monitors the collection status of its accounts receivable balance on an ongoing basis. Based on management's analysis of possible bad debts, an allowance for doubtful accounts of \$25,000 and \$0 was recorded in 2009 and 2008, respectively.

#### Inventories

Inventories consist of merchandise purchased and used in Goodwill's manufacturing process, including the production of aprons, flags, garrison caps, army combat uniforms, battle dress uniforms, airman battle uniform, navy working uniform, and fleece jackets. Inventories are stated at the lower of cost (first-in, first-out basis) or market. Finished goods inventory includes the cost of applicable labor and materials. In addition, Goodwill records inventory for donated goods at estimated fair value, which is determined based on its future economic benefit.

#### Other Assets

Other assets consist primarily of goodwill, representing the excess of the purchase price over the fair values of the net assets of acquired businesses. Goodwill is reviewed at least annually for impairment. Other intangible assets that are not deemed to have an indefinite life are amortized over their estimated useful lives and reviewed for impairment upon the occurrence of certain triggering events in accordance with the provisions of an accounting standard on Goodwill and other intangible assets. Goodwill believes that no impairment of goodwill exists at December 31, 2009 and 2008 (see NOTE 6).

#### Land, Buildings and Equipment, net

Land, buildings and equipment are stated at cost or, if donated to Goodwill, at fair value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation of buildings and equipment is computed on a straight-line basis over the estimated useful lives of the assets.

Estimated useful lives of land, buildings and equipment are as follows:

<u>Asset</u>	<u>Life</u>
Building and improvements	39 - 50 years
Equipment	5 - 15 years
Equipment held under capital leases	5 - 7 years
Leasehold improvements	Shorter of useful life or lease term

#### Long-Lived Assets

Goodwill reviews its long-lived assets for possible impairment at least annually, and more frequently if circumstances warrant. Impairment is determined to exist when estimated amounts recoverable through future cash flows from operations on an undiscounted basis are less than the long-lived asset carrying values. If a long-lived asset is determined to be impaired, it is written down to its estimated fair value to the extent that the carrying amount exceeds the fair value of the long-lived asset. No write-downs for impairment of long-lived assets were recorded in 2009 or 2008.

## GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.

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### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### Contributions

Contributions received or made, including unconditional promises to give, are recognized as revenues or expenses in the period received or made at their estimated fair value. Contributions are considered to be available for the general programs of Goodwill unless specifically restricted by the donor. Goodwill records gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, Goodwill reports the support as unrestricted.

### Manufacturing Sales

Manufacturing sales consist of products manufactured for a fixed or determinable fee based on contractual terms. Product revenue is recognized when delivery has occurred and collectability is probable. Goodwill does not offer price concessions or discounts. Goodwill is generally not contractually obligated to accept returns, except for defective products. Based on management's analysis of historical returns, it has been determined that an allowance for estimated returns is not necessary.

### Service Contracts Revenue, Commercial Services Revenue and Rehabilitation Fees

Program services are supported by grants and/or contracts. Revenues are recorded as related expenditures are incurred and services are performed under the provisions of the agreements. Revenue for training contracts that require certain performance standards to be met by the participants is recognized on a straight-line basis, which approximately matches the expenses incurred in the program. The unexpended portion of such revenues may be available for application to approved expenditures in future years or repayable to granting agencies.

### Functional Allocation of Expenses

The costs of providing services have been allocated on a functional basis among apparel manufacturing, donated goods operations, service contracts, commercial services, rehabilitation services, management and general and fundraising expenses. Allocations are generally made on a specific identification basis by program activity and supporting services benefited. Occupancy and depreciation expenses are allocated to cost centers based on square footage (see NOTE 20).

### Derivative Financial Instruments

Goodwill adopted the provision of an accounting standard for utilizing derivative instruments and hedging activities. The standard requires that all derivative financial instruments, such as interest rate swaps contracts and foreign exchange contracts, be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. If the derivative is a hedge, depending on the nature of the hedge, a change in fair value of the derivative will either be offset against the change in the fair value of a hedge asset or liability through earnings.

Goodwill utilizes interest rate swaps to manage interest rate costs and to hedge against risks associated with changing interest rates. Goodwill designates interest rate swaps as hedges of specific debt instruments and accounts for them using the short-cut method, as described in the accounting standard. Interest differentials on interest rate swaps are recognized as adjustments to interest incurred on the related debt instruments (See NOTE 10).

## GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.

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### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### Fair Value of Financial Instruments

In February 2007, the FASB issued an accounting standard on the fair value option for financial assets and financial liabilities. The standard gives the organization the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The standard also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Goodwill did not elect the option to record financial instruments at fair value.

### Income Taxes

Goodwill is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Goodwill currently has no unrelated business income. Accordingly, no provision for income tax is required for revenues derived from its tax-exempt function.

### Uncertainty in Income Taxes

Under an accounting standard, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of this accounting standard had no impact on Goodwill's financial statements. Goodwill does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. No interest or penalties were accrued as of January 1, 2009, as a result of the adoption of the accounting standard. For the year ended December 31, 2009, there were no interest or penalties recorded or included in the financial statements.

### Concentrations of Credit Risk

Financial instruments, which potentially subject Goodwill to concentrations of credit risk, consist primarily of cash and cash equivalents maintained in financial institutions in excess of the FDIC insured limit of \$250,000. By policy, Goodwill limits the amount of credit risk exposure to any one financial institution. Although cash balances may exceed federally insured limits at times during the year, Goodwill has not experienced and does not expect to incur any losses in such accounts.

### Adoption of Accounting Pronouncements

#### Subsequent Events

In May 2009, the FASB issued an accounting standard which establishes general standards of accounting for and disclosure of events that occur after the Statements of Financial Position date but before financial statements are issued or are available to be issued. The standard was adopted for the year ending December 31, 2009. Goodwill has evaluated subsequent events through June 10, 2010, which is the date the financial statements were available to be issued.

#### Fair Value Measurements

In April 2009, the FASB issued an accounting standard regarding determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly, which provides guidelines for making fair value measurements more consistent with the principles presented in existing accounting guidance regarding fair value. The guidance in this standard is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Early adoption is only permitted for entities which also elect to early adopt certain other accounting standards. The adoption of this standard did not have an impact on Goodwill's financial statements.

## GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Adoption of Accounting Pronouncements (continued)

#### Disclosures about Derivative Instrument and Hedging Activities

In March 2008, the FASB issued an accounting standard which amends and expands the disclosure requirements of existing accounting guidance on derivatives. The accounting standard requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value of derivative instruments and their gains and losses, and disclosures about credit-risk-related contingent features in derivative agreements. The standard is effective for fiscal years and interim periods beginning after November 15, 2008 and was adopted for the year ended December 31, 2009 (NOTE 10).

#### Net Asset Classification of Funds

In February 2008, the FASB issued authoritative guidance on the net classification of donor-restricted endowment funds for a not-for-profit that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") of 2006. As of April 2010, the state of Florida had not adopted the enacted version of UPMIFA. This guidance improves disclosures about an organization's endowment funds (both donor-restricted and board designated) whether or not the organization is subject to UPMIFA. Exempt organizations are required to follow the laws and regulations of the Florida Uniform Management of Institutional Funds Act ("FUMIFA").

In initially applying the guidance, the Organization shall report any resulting net asset reclassifications in a separate line item within the Organization's Statement of Activities for that period. If the Organization applies the provisions of this guidance subsequent to the period in which UPMIFA is first effective, the reclassification shall be reported in those financial statements in the earliest comparative period presented for which UPMIFA was effective. If the period in which UPMIFA first became effective is not presented, the effects of the reclassification shall be reported retrospectively in the earliest period presented. The provisions of this guidance shall be effective for fiscal years ending after December 15, 2008 and have been adopted by Goodwill. The adoption of this statement did not have a material effect on Goodwill's financial statements. Goodwill did not have an endowment fund for the years ended December 31, 2009 and 2008.

#### The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued an accounting standard on the fair value option for financial assets and financial liabilities. The standard gives the Organization the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. If the fair value option is elected, changes in fair value would be recorded in earnings at each subsequent reporting date. The standard was effective for Goodwill's 2009 fiscal year. The adoption of this statement did not have a material effect on Goodwill's financial statements.

### Recent Accounting Pronouncement

#### Not-for-Profit Entities: Mergers and Acquisitions

In April 2009, the FASB issued an accounting standard on not-for-profit entities mergers and acquisitions. The standard provides guidance on accounting for a not-for-profit's combination with one or more other not-for-profit entities, businesses, or non-profit activities. The standard also makes accounting for goodwill and other intangible assets applicable to not-for-profit entities. The standard is to be applied prospectively with early application prohibited and is effective for fiscal years beginning on or after December 15, 2009. Goodwill does not believe this standard will have a material effect on the financial statements.

### Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

# GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

### 3. ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
Federal Government	\$ 2,561,637	\$ 2,655,241
State Government	1,940,527	2,341,014
Commercial	<u>2,073,941</u>	<u>1,624,344</u>
	6,576,105	6,620,599
Less allowance for doubtful accounts	<u>(25,000)</u>	<u>-</u>
	<u>\$ 6,551,105</u>	<u>\$ 6,620,599</u>

### 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2009 and 2008 were \$0 and \$5,000, respectively, and represent unconditional promises to give at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Amortization of the discounts is included in contributions in the Statement of Activities. Contributions receivable are classified as temporarily restricted net assets on the Statements of Financial Position due to time. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets (see NOTE 14).

All contributions receivable are expected to be collected. Therefore, no allowance for doubtful accounts is recorded in these financial statements.

### 5. INVENTORIES

Inventories consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
Raw materials	\$ 1,048,934	\$ 1,312,826
Work in progress	983,843	774,483
Finished goods	750,339	1,075,230
Supplies	<u>25,986</u>	<u>21,286</u>
Subtotal	2,809,102	3,183,825
Donated goods	<u>1,912,999</u>	<u>1,863,585</u>
	<u>\$ 4,722,101</u>	<u>\$ 5,047,410</u>

Finished goods at December 31, 2008 were largely comprised of inventories relating to a new product line.

### 6. OTHER ASSETS

Other assets consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
Goodwill	\$ 1,392,000	\$ 1,392,000
Security deposits	248,944	241,933
Bond issuance costs, net of amortization	269,416	284,359
Split-dollar insurance plan	<u>550,000</u>	<u>450,000</u>
	<u>\$ 2,460,360</u>	<u>\$ 2,368,292</u>

## GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

#### 6. OTHER ASSETS (CONTINUED)

Goodwill represents the excess of the purchase price over the fair values of the net assets of the business acquired. Goodwill acquired two companies on May 13, 2003 and May 15, 2003, respectively. The companies were purchased for \$2,500,000.

The transactions were accounted for as purchases and the cost of the transactions exceeded the fair value of assets acquired by \$1,392,000. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually.

The goodwill impairment test has two steps. The first step identifies potential impairments by comparing the fair value of a reporting unit with its book value, including goodwill. If the fair value of the reporting unit exceeds the carrying amount, goodwill is not impaired and the second step is not necessary. If the carrying value exceeds the fair value, the second step calculates the possible impairment loss by comparing the implied fair value of goodwill with the carrying amount. If the implied goodwill is less than the carrying amount, a write-down is recorded. Based on its most recent analysis, Goodwill believes that no impairment of goodwill exists at December 31, 2009 and 2008.

Bond issuance costs are amortized over the life of the bonds. Amortization expense for the years ended December 31, 2009 and 2008, included in depreciation and amortization in the Functional Expenses (see NOTE 20), was \$14,943.

In 2003, the Board of Directors of Goodwill approved a split-dollar life insurance plan to provide a retirement income to the President and CEO of Goodwill. The retirement income arrangement was provided to the President and CEO for his services of over twenty years in the absence of an adequate retirement plan available through standard arrangements. The split-dollar arrangement provides for the periodic premiums required under the life insurance contract which are treated as a series of loans secured by the life insurance policy.

At December 31, 2009 and 2008, the amounts under the split-dollar arrangement totaled \$550,000 and \$450,000, respectively. The face value of the life insurance policy is \$1,800,000. The repayment of the loans will be from death benefits on the insured.

In the event that the employee voluntarily terminates their participation in the plan, the employee is to repay the employer, the cumulative premiums plus accumulated interest at the applicable federal rate through the date the premiums were funded. The repayment will be accomplished first through the cash surrender value of the insurance policy and the remaining portion will be paid in cash from the employee. The plan meets IRS applicable requirements and is considered a common practice among non-profit organizations in order to retain valuable executives.

Although the plan is expected to be for an indefinite period of time, the employer also retains the right to terminate the plan provided that the policy continues in effect in accordance with its terms and as such, termination by the employer will not accelerate the recovery of the cumulative premiums made. The planned periodic annual premium is \$40,000. Failure to pay a planned periodic premium will not, in itself, cause the policy to terminate so long as the excess amounts funded over the periodic annual premium in previous years cover for the annual premium required under the policy for any particular year not funded. Goodwill has no obligation to make any premium payments for the plan.

For the year ended December 31, 2009 and 2008, loans under the split-dollar life insurance plan amounted to \$100,000. The loans are collateralized by the life insurance policy for which the net cash surrender value of the policy at December 31, 2009 and 2008 was \$481,099 and \$342,799, respectively.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**7. LAND, BUILDINGS AND EQUIPMENT, NET**

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

	<b>2009</b>	<b>2008</b>
Land	\$ 2,970,339	\$ 2,970,339
Buildings and improvements	20,905,568	20,768,532
Equipment	14,540,785	13,769,864
Leasehold improvements	4,272,999	3,441,278
Other improvements	326,557	326,557
Equipment under capital leases	715,977	715,977
	43,732,225	41,992,547
Less accumulated depreciation and amortization (including accumulated amortization for capital leases of \$713,158 and \$711,919 in 2009 and 2008, respectively)	(14,874,752)	(13,306,649)
	<b>\$ 28,857,473</b>	<b>\$ 28,685,898</b>

Total depreciation and amortization expense for land, buildings, leaseholds and other improvements and equipment for the years ended December 31, 2009 and 2008 was \$1,568,103 and \$1,543,078, respectively.

**8. ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities consisted of the following at December 31:

	<b>2009</b>	<b>2008</b>
Accrued payroll	\$ 1,142,777	\$ 1,127,512
Reserve for worker's compensation (see NOTE 18)	1,138,022	989,756
Sales tax payable	146,129	136,621
Miami Herald advance	140,385	148,077
Other liabilities	39,801	50,613
	<b>\$ 2,607,114</b>	<b>\$ 2,452,579</b>

**9. MORTGAGE NOTES, NOTES PAYABLE AND LINES OF CREDIT**

Mortgage notes, notes payable and lines of credit consisted of the following at December 31:

	<b>2009</b>	<b>2008</b>
Revolving line of credit with maximum borrowings of \$4,500,000 with a balloon payment due May 2010, with interest due monthly at prime rate (3.25% and 5.00% at December 31, 2009 and 2008, respectively), collateralized by accounts receivable. Goodwill received a commitment letter from the same financial institution to renew the line of credit in June 2010 and the loan documents are expected to be signed in the normal course of business and increase the line of credit to \$6,000,000 through July 1, 2011.	\$ 2,875,000	\$ 2,700,000

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

**9. MORTGAGE NOTES, NOTES PAYABLE AND LINES OF CREDIT (CONTNUED)**

	<u>2009</u>	<u>2008</u>
Industrial Development Revenue Bonds issued by the Miami-Dade County Industrial Development Authority with principal payments made on a quarterly basis of \$136,250 and monthly interest payments at a variable rate determined on a weekly basis, .40% and 1.27% at December 31, 2009 and 2008, respectively, maturing on May 1, 2028. During October 2007, the interest rate was fixed at a rate of 4.12% (see NOTE 10). Bonds are collateralized by properties and equipment (see NOTE 11).	6,925,000	6,925,000
Promissory note, payable in quarterly principal interest installments at 6.80%, through October 14, 2010, collateralized by equipment.	228,733	441,747
Promissory note, payable in monthly principal and interest installments through March 30, 2011, with interest at 6.50%, collateralized by equipment.	360,645	701,120
Promissory notes entered into during May 2007, July 2007 and January 2008, payable in monthly principal and interest installments through May 2011 with interest at 7.75%, collateralized by equipment and leasehold improvements.	897,533	1,183,245
Revolving line of credit with maximum borrowings of \$700,000 entered into during December 2007, payable in interest installments through September 1, 2010 with interest at 2.43% and 4.10% at December 31, 2009 and 2008, respectively, collateralized by property.	575,000	575,000
Term promissory note entered into during December 2007, payable in monthly principal and interest installments through December 19, 2014 with interest at 7.39%, collateralized by property.	3,592,993	3,648,177
Promissory note entered into during February 2008, payable in monthly principal and interest installments through May 2010, with interest at 6.50%, collateralized by accounts receivables. Goodwill renewed the promissory note effective May 8, 2010 through May 8, 2015 and will pay interest at 5.00%.	865,591	966,000
Term promissory note entered into during May 2008, payable in monthly principal and interest installments through May 2013, with interest at 6.50%, collateralized by account receivables.	2,285,071	2,470,678
Term promissory note entered into during July 2008, payable in monthly principal and interest installments through July 2011, with interest at 6.50%, collateralized by property.	2,895,830	2,970,726

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

**9. MORTGAGE NOTES, NOTES PAYABLE AND LINES OF CREDIT (CONTINUED)**

	<u>2009</u>	<u>2008</u>
Promissory note entered into during October 2008, payable in monthly principal and interest installments through October 2009 with interest at 4.56% at December 31, 2009, collateralized by property. Loan paid off in October 2009.	-	<u>500,000</u>
Total mortgage notes, notes payable and lines of credit	<b><u>\$ 21,501,396</u></b>	<b><u>\$ 23,081,693</u></b>

The aggregate amount of required payments on debt is as follows:

Years Ending December 31,

2010	\$ 6,070,447	
2011	3,798,701	
2012	719,010	
2013	2,152,591	
2014	3,745,647	
Thereafter	<u>5,015,000</u>	
	<b><u>\$ 21,501,396</u></b>	

The current maturities of \$6,070,447 include \$4,315,591 of lines of credit and a loan that Goodwill anticipates will be renewed at similar terms in the ordinary course of business.

Interest expense for the years ended December 31, 2009 and 2008 was \$1,417,409 and \$1,315,995, respectively.

On February 14, 2005, Goodwill entered into a loan agreement with the City of Miami under the Community Development Block Grant Program in the amount of \$2,000,000. Proceeds were used for the renovation of a warehouse to develop a Goodwill Superstore and Flag Center. The property served as loan collateral. The loan was granted under the condition that Goodwill would create 400 new jobs in Allapattah, City of Miami, during the period of January 1, 2005 to July 1, 2008. On April 18, 2008, the City of Miami converted the remaining loan balance of \$1,685,700 to contributions since Goodwill exceeded the requirements of creating 400 new jobs. The terms under the agreement were considered met when Goodwill created the specified number of jobs during the timeframe mentioned above. There are no other conditions requiring creation of additional jobs in the future or maintenance of jobs created. On May 6, 2008, the City of Miami recorded a satisfaction of mortgage acknowledging full payment and satisfaction of the loan. There are no future obligations under the agreement involving the property renovated with such funds. For the year ended December 31, 2008, the conversion of debt to contributions has been reflected on the Statements of Activities under the caption contributions. Excluding the contributions recorded from the conversion of debt, change in net assets prior to the effect on the interest rate swap expense would have amounted to \$62,559 for the year ended December 31, 2008.

**10. FAIR VALUE OF INTEREST RATE SWAP**

During October 2007, Goodwill entered into a derivative financial instrument with a lender to manage the overall borrowing costs associated with \$7,480,000 of its bond payable (see NOTE 11) which matures on March 1, 2028. Credit losses from counterparty non-performance are not anticipated. At December 31, 2009 and 2008, the outstanding notional balance was \$6,925,000. This agreement fixed the interest rate at 4.12%. The swap is a cash flow hedge, as it has been designated against the bond payable carrying a variable rate of interest and converts such loan to fixed debt. Amounts received or paid as a result of the swap agreement are recognized as an expense called change in fair value of interest rate swap on the Statements of Activities.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

**10. FAIR VALUE OF INTEREST RATE SWAP (CONTINUED)**

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The net effect on Goodwill's operating results is that interest on a portion of the variable rate debt is being hedged based on fixed interest rates. The interest rate swap contract is reflected at fair value in Goodwill's Statements of Financial Position and the related gain or loss is recognized as a change in net assets. The fair value of the interest rate swap as of December 31, 2009 and 2008 was \$814,823 and \$1,422,355 liability, respectively, which is reflected on the Statements of Financial Position as fair value of interest rate swap. The fair value is based on dealer quotations which generally represent an estimate of the amount Goodwill would pay or receive to terminate the agreement at the reporting date. The change in fair value related to the interest rate swap at December 31, 2009 and 2008 was \$607,532 and (\$884,196), respectively, and is reflected in the Statements of Activities within the caption of change in fair value of interest rate swap.

**11. BOND TRANSACTION**

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On May 13, 2003, the Miami-Dade County Industrial Development Authority ("IDA") issued Industrial Development Revenue Bonds (Goodwill Industries of South Florida, Inc. Project), Series 2003 in the amount of \$9,400,000 million. The proceeds of the bonds enabled Goodwill to (1) purchase the assets and operating rights of two privately owned companies involved in the flag manufacturing and embroidery business, (2) refinance existing debt on the main location, and (3) expand Goodwill's main facility located at 2121 NW 21<sup>st</sup> Street in Miami.

The proceeds of the bonds were to be used as follows:

Purchase of assets and operating rights of two privately owned companies	\$ 2,529,074
Refinancing of existing debt	2,914,986
Expansion of main facility	3,713,429
Bond issuance costs	<u>242,511</u>
	<u>\$ 9,400,000</u>

The bonds are secured by a letter of credit issued by SunTrust Bank with a term expiring no later than seven years from May 1, 2003. The letter of credit is secured by the following: a first mortgage and security interest on three real property store locations owned by Goodwill, a first mortgage and security interest that is on parity with a \$1,000,000 mortgage securing the Economic Development Administration of the Federal Department of Commerce, a second mortgage and security interest pertaining to the expansion project, and a first security interest in various plant equipment of Goodwill including the equipment received upon acquisition of the two companies.

The bonds will mature on May 1, 2028 and interest on the bonds will be compounded at a weekly rate on a monthly basis. Goodwill is required to make quarterly payments of principal to SunTrust Bank for deposit into a bond-sinking fund, the principal of which will be used to affect the optional redemption of bonds.

On October 1, 2008, an amendment was made to the letter of credit modifying the terms of the required mandatory principal redemption. The required quarterly payments were stopped and resumed on March 1, 2010. A payment of \$210,000 was made as stipulated by the amendment on March 1, 2010. No amount was earmarked at December 31, 2009 and 2008 as stipulated in the amendment.

# GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

### 11. BOND TRANSACTION (CONTINUED)

Maturities and sinking fund requirements as included in NOTE 9 related specifically to the Industrial Development Revenue Bonds are as follows:

Years Ending December 31,	
2010	\$ 210,000
2011	425,000
2012	425,000
2013	425,000
2014	425,000
Thereafter	<u>5,015,000</u>
	<u>\$ 6,925,000</u>

In May 2009, due to a credit rating downgrade of the financial institution that provided the Letter of Credit to secure the tax exempt variable rate demand bonds issued by Goodwill Industries of South Florida in 2003, a significant portion of the bonds were tendered back to the trustee. These bonds are being held by the financial institution as bank bonds at a rate of Prime + 0.50%. At June 22, 2009, such bonds amounted to \$5,840,000. Under the Letter of Credit Agreement between Goodwill and the financial institution, the bonds can remain as bank bonds for a period up to 367 days until those bonds can be re-marketed or an alternative financial structure can be put in place. The bonds were fully re-marketed on September 15, 2009. The letter of credit expires on May 1, 2010 and has been extended to December 1, 2010. Management is currently working with several financial institutions to come up with a financial structure that will consolidate the bond and several loans into an \$18 million Tax Exempt Bond by December 1, 2010. Management believes that even if the net tax exempt bond is not obtained, Goodwill has the ability and wherewithal to obtain a letter of credit.

### 12. LEASE OBLIGATIONS

Goodwill leases certain vehicles and equipment under capital leases for its store and service contract operations. The vehicle leases also provide for the payment by Goodwill of fuel and mileage expenses.

As of December 31, 2009, future minimum lease payments under capitalized leases are included on the accompanying financial statements as "obligations under capital leases" and are summarized below:

Years Ending December 31,	
2010	\$ 114,228
2011	22,112
2012	<u>900</u>
	137,240
Less amount representing interest at 8%	<u>8,306</u>
Total obligations under capital leases	<u>\$ 128,934</u>

In addition to the capital lease commitments, Goodwill is obligated under various operating leases for store facilities. These store leases provide for the payment by Goodwill of the property taxes and are subject to yearly increases, not to exceed 5%, based on the consumer price index.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

**12. LEASE OBLIGATIONS (CONTINUED)**

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At December 31, 2009, the aggregate approximate rental commitments for noncancelable operating leases are as follows:

Years Ending December 31,	
2010	\$ 5,203,000
2011	4,255,000
2012	4,064,000
2013	4,022,000
2014	3,899,000
Thereafter	<u>26,018,000</u>
	<b>\$ 47,461,000</b>

Rental expense for store facilities was \$5,300,277 and \$4,565,814 for the years ended December 31, 2009 and 2008, respectively, and is included within the caption of occupancy in the Functional Expenses (see NOTE 20).

**13. BUSINESS LEASE**

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During October 2004, Goodwill ("Landlord") entered into a business lease agreement with the City of Miami (the "City", "Tenant") to use the land owned by the landlord, and the building built on it with monies from the City, for a municipal parking garage and incidental storage and office uses related to such garage operations. The parking garage is to be operated, managed, and administered by the Tenant in substantially the same manner as all other off-street parking facilities belonging to the City of Miami Department of Off-Street Parking. The lease is for 20 years for \$1 per year. The Landlord has exclusive use of one hundred fifty (150) parking spaces, for parking only, at no rental charge. Upon the termination of the lease, the Tenant agrees that it will peacefully surrender and deliver the premises to the Landlord. At December 31, 2009 and 2008, this building is not reflected as an asset on the financial statements due to its conditional nature.

**14. NET ASSETS**

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Temporarily restricted net assets represent contributions received or receivable that are designated for use in general operations for periods after December 31, 2009 and 2008, respectively. Net assets of \$5,000 and \$5,500 were released from donor restrictions due to time restrictions expiring during the years ended December 31, 2009 and 2008, respectively.

**15. DONATED SERVICES**

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Goodwill recognizes donated services from the Miami-Dade and Broward County Public Schools. The revenues for such services classified under rehabilitation fees on the Statements of Activities totaled \$97,685 in 2009 and \$197,436 in 2008. Expenses for the same amount were also recognized as non-disabled wages in training programs. The value of the services donated was based on yearly teaching salaries provided by the Miami-Dade and Broward County Public Schools.

# GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

### 16. REHABILITATION FEES

Rehabilitation fees consisted of the following for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Federal and State grants and contracts	\$ 1,601,692	\$ 1,886,900
Miami-Dade and Broward County		
Public Schools (see NOTE 15)	97,685	197,436
The School Board of Miami Dade County	332,505	292,965
Enterprise zone	201,426	103,343
General contracts	85,603	43,173
Other	<u>240,040</u>	<u>134,682</u>
	<u>\$ 2,558,951</u>	<u>\$ 2,658,499</u>

### 17. RETIREMENT PLAN

Effective August 1997, Goodwill elected to change its retirement plan from a 403(b) plan to a 401(k) plan. The plan is for eligible employees who have reached the age of 21 and completed one year of service. Goodwill contributes a matching amount determined on a yearly basis. Goodwill made contributions to the plan during the years ended December 31, 2009 and 2008 of \$163,055 and \$66,583, respectively.

### 18. WORKERS' COMPENSATION INSURANCE

On June 1, 2003, Goodwill became self-insured under the laws of the State of Florida for workers' compensation. Goodwill uses the services of a third party administrator to handle all claims for Goodwill. Goodwill maintains commercial excess coverage with independent insurance carriers for workers' compensation above the self-insurance retention of \$500,000. Goodwill maintains a reserve for current and future claims based on historical experience and information provided by the third party administrator. At December 31, 2009 and 2008, the reserve for workers' compensation was \$1,138,022 and \$989,756 respectively, and is included in accrued expenses and other liabilities in the Statements of Financial Position (see NOTE 8). For the years ended December 31, 2009 and 2008, workers' compensation expense was approximately \$1,050,000 and \$671,000, respectively.

### 19. RELATED PARTIES

A former member of the Board of Directors who resigned in September 2009 has an ownership interest in a consulting agency that provides monthly training services to sales associates. Service fees paid to this agency amounted to \$60,000 and \$40,000 for the years ended December 31, 2009 and 2008, respectively.

Services were provided in the ordinary course of business at prices and on terms and conditions that Goodwill believes are the same as those that would result from arms-length negotiations between unrelated parties.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**20. FUNCTIONAL EXPENSES**

Functional expenses for the year ended December 31, 2009 are as follows:

	<u>Program Services</u>					<u>Supporting Services</u>		
	<u>Apparel Manufacturing</u>	<u>Donated Goods Operations</u>	<u>Service Contracts</u>	<u>Commercial Services</u>	<u>Rehabilitation Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total Expenses</u>
<b>PAYROLL AND RELATED COSTS</b>								
Disabled wages	\$ 8,026,041	\$ 882,131	\$ 3,880,341	\$ 1,700,216	\$ 227,595	\$ 213,953	\$ -	\$ 14,930,277
Non-disabled wages	3,344,388	8,176,694	2,268,323	1,426,607	2,590,222	1,393,143	-	19,199,377
Employee health and welfare benefits	315,838	1,106,300	974,591	179,959	281,200	195,782	-	3,053,670
Other payroll-related expenses	<u>1,311,629</u>	<u>913,250</u>	<u>802,199</u>	<u>341,752</u>	<u>248,920</u>	<u>147,334</u>	<u>-</u>	<u>3,765,084</u>
Total payroll and related costs	12,997,896	11,078,375	7,925,454	3,648,534	3,347,937	1,950,212	-	40,948,408
<b>EXPENSES</b>								
Occupancy	462,083	8,034,440	222,431	472,987	219,294	159,568	1,553	9,572,356
Professional fees	997,511	306,945	193,780	30,054	360,475	517,581	317,113	2,723,459
Materials and supplies (office and commercial)	17,189,437	356,748	999,745	54,091	275,560	111,058	50,479	19,037,118
Telephone	52,486	152,596	43,473	41,151	53,144	57,173	-	400,023
Postage and freight	464,641	34,101	3,272	1,550	5,936	13,364	676	523,540
Equipment rental and maintenance	111,074	71,186	21,566	27,943	15,820	39,718	-	287,307
Printing and advertising	24,727	70,076	982	14,766	9,797	17,306	-	137,654
Travel and transportation	34,062	604,565	74,118	58,460	68,583	52,969	1,726	894,483
Conferences and meetings	2,659	1,938	707	1,306	-	12,725	-	19,335
Special assistance to individuals	-	4,462	500	-	-	56,000	-	60,962
Membership dues	2,418	738	74	2,800	15,206	252,651	-	273,887
Awards	-	-	-	-	-	1,075	-	1,075
Interest	503,998	153,909	15,472	329,346	209,258	205,426	-	1,417,409
Bad debt	8,889	2,715	273	5,809	3,691	3,623	-	25,000
Miscellaneous	<u>-</u>	<u>324,599</u>	<u>828</u>	<u>7,066</u>	<u>-</u>	<u>43,545</u>	<u>1,371</u>	<u>377,409</u>
Total expenses before depreciation and amortization	32,851,881	21,197,393	9,502,675	4,695,863	4,584,701	3,493,994	372,918	76,699,425
Depreciation and amortization	<u>636,352</u>	<u>597,539</u>	<u>41,168</u>	<u>144,942</u>	<u>92,092</u>	<u>90,407</u>	<u>-</u>	<u>1,602,500</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b><u>\$ 33,488,233</u></b>	<b><u>\$ 21,794,932</u></b>	<b><u>\$ 9,543,843</u></b>	<b><u>\$ 4,840,805</u></b>	<b><u>\$ 4,676,793</u></b>	<b><u>\$ 3,584,401</u></b>	<b><u>\$ 372,918</u></b>	<b><u>\$ 78,301,925</u></b>

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**20. FUNCTIONAL EXPENSES (CONTINUED)**

Functional expenses for the year ended December 31, 2008 are as follows:

	Program Services					Supporting Services		
	Apparel Manufacturing	Donated Goods Operations	Service Contracts	Commercial Services	Rehabilitation Services	Management and General	Fund Raising	Total Expenses
<b>PAYROLL AND RELATED COSTS</b>								
Disabled wages	\$ 6,062,858	\$ 782,488	\$ 4,119,352	\$ 1,559,172	\$ 238,889	\$ 222,739	\$ -	\$ 12,985,498
Non-disabled wages	3,182,135	7,184,279	2,010,889	918,481	2,723,840	1,490,262	-	17,509,886
Employee health and welfare benefits	291,484	1,092,185	979,661	172,776	291,775	203,393	-	3,031,274
Other payroll-related expenses	<u>948,773</u>	<u>747,893</u>	<u>694,265</u>	<u>256,086</u>	<u>237,351</u>	<u>150,461</u>	<u>-</u>	<u>3,034,829</u>
<b>Total payroll and related costs</b>	<b>10,485,250</b>	<b>9,806,845</b>	<b>7,804,167</b>	<b>2,906,515</b>	<b>3,491,855</b>	<b>2,066,855</b>	<b>-</b>	<b>36,561,487</b>
<b>EXPENSES</b>								
Occupancy	511,593	6,902,745	269,877	459,407	229,955	164,873	1,817	8,540,267
Professional fees	583,915	294,396	213,626	36,025	313,568	473,986	372,043	2,287,559
Materials and supplies (office and commercial)	11,351,527	296,864	854,526	52,787	219,110	69,789	60,285	12,904,888
Telephone	57,982	136,810	44,587	43,533	70,722	54,539	-	408,173
Postage and freight	589,130	15,113	3,777	1,598	10,774	9,947	-	630,339
Equipment rental and maintenance	95,427	62,395	41,532	24,345	28,786	33,190	-	285,675
Printing and advertising	20,315	14,056	530	7,561	6,346	9,229	150	58,187
Travel and transportation	41,869	572,944	91,702	70,028	77,270	57,886	70	911,769
Conferences and meetings	1,584	741	825	1,391	-	13,268	5,920	23,729
Special assistance to individuals	1,778	7,125	55	1,162	838	41,909	-	52,867
Membership dues	2,133	652	65	3,594	15,895	221,215	-	243,554
Awards	-	-	-	-	-	1,045	-	1,045
Interest	466,474	146,567	14,320	304,825	193,678	190,131	-	1,315,995
Miscellaneous	<u>-</u>	<u>309,563</u>	<u>1,499</u>	<u>1,174</u>	<u>-</u>	<u>31,168</u>	<u>6,895</u>	<u>350,299</u>
<b>Total expenses before depreciation and amortization</b>	<b>24,208,977</b>	<b>18,566,816</b>	<b>9,341,088</b>	<b>3,913,945</b>	<b>4,658,797</b>	<b>3,439,030</b>	<b>447,180</b>	<b>64,575,833</b>
<b>Depreciation and amortization</b>	<b><u>540,049</u></b>	<b><u>630,746</u></b>	<b><u>75,068</u></b>	<b><u>144,089</u></b>	<b><u>91,550</u></b>	<b><u>89,875</u></b>	<b><u>-</u></b>	<b><u>1,571,377</u></b>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b><u>\$ 24,749,026</u></b>	<b><u>\$ 19,197,562</u></b>	<b><u>\$ 9,416,156</u></b>	<b><u>\$ 4,058,034</u></b>	<b><u>\$ 4,750,347</u></b>	<b><u>\$ 3,528,905</u></b>	<b><u>\$ 447,180</u></b>	<b><u>\$ 66,147,210</u></b>

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

**21. FAIR VALUE MEASUREMENTS**

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The ASC established a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Goodwill has the ability to access.
- Level 2 Inputs to the valuation methodology include:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability;
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Goodwill 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 fair value measurement at the reporting date.

The following table represents Goodwill's financial instruments measured at fair value on a recurring basis at December 31, 2009 for each of the fair value hierarchy levels:

	Level 1	Level 2	Level 3	Total
<b>LIABILITIES</b>				
Interest rate swap	\$ -	\$ (814,823)	\$ -	\$ (814,823)

The following table represents Goodwill's financial instruments measured at fair value on a recurring basis at December 31, 2008 for each of the fair value hierarchy levels:

	Level 1	Level 2	Level 3	Total
<b>LIABILITIES</b>				
Interest rate swap	\$ -	\$ (1,422,355)	\$ -	\$ (1,422,355)

The interest rate swap agreement is held with a financial institution. Fair value is estimated based upon open-market quotes for identical or comparable assets from reputable third-party brokers using market-based inputs, adjusted for credit risk.

There were no financial assets measured at fair value on a recurring and non-recurring basis and no liabilities on a non-recurring basis.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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	<u>CFDA/ CSFA Number</u>	<u>Contract/ Grant Number</u>	<u>2009</u>
DEPARTMENT OF CHILDREN AND FAMILIES:			
Passed through State of Florida Department of Children Developmental Services and Disabilities	93.677	KLJ030/KLJ51/JL219/JL236	\$ 23,500
DEPARTMENT OF EDUCATION:			
Passed through State of Florida Department of Education Division of Vocational Rehabilitation Services (Contracted Services)	84.126	VS965/VT615/VX085	555,065
Passed through State of Florida Department of Education Division of Vocational Rehabilitation Services (Contracted Services)	84.126	VS955/VS015/VJ485	<u>109,137</u>
TOTAL DEPARTMENT OF EDUCATION			<u>664,202</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 687,702</u>

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

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**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**NOTE A. GENERAL**

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The Schedule of Expenditures of Federal Awards represent all of the federal awards to Goodwill during the year ended December 31, 2009.

**NOTE B. BASIS OF ACCOUNTING**

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The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

**NOTE C. BASIS OF PRESENTATION**

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The accompanying Schedule of Expenditures of Federal Awards includes the federal awards to Goodwill during the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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The Board of Directors of  
Goodwill Industries of South Florida, Inc.

We have audited the financial statements of Goodwill Industries of South Florida, Inc. ("Goodwill") as of and for the year ended December 31, 2009, and have issued our report thereon dated April 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Goodwill's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Goodwill's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Goodwill's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Goodwill's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Board of Directors  
Goodwill Industries of South Florida, Inc.  
Page Two

This report is intended solely for the information and use of the Board of Directors, management and specific legislative or regulatory bodies, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Morison, Brown, Arizola & Fama*

Miami, Florida  
June 10, 2010

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors of  
Goodwill Industries of South Florida, Inc.

**Compliance**

We have audited the compliance of Goodwill Industries of South Florida, Inc. ("Goodwill") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. Goodwill's major federal award programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Goodwill's management. Our responsibility is to express an opinion on Goodwill's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Goodwill's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Goodwill's compliance with those requirements.

In our opinion, Goodwill complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2009.

**Internal Control over Compliance**

The management of Goodwill is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Goodwill's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Goodwill's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employee, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected in a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of Directors, management, specific legislative or regulatory bodies, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Marion Brown, Regina L. Torres*

Miami, Florida  
June 10, 2010

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL PROGRAMS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Programs**

Internal control over major programs/projects:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor’s report issued on compliance for major programs/projects Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  Yes  No

**Federal CFDA Number**

84.126

**Name of Federal Program**

Vocational Rehabilitation Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.**

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL PROGRAMS - (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**CURRENT YEAR FINDINGS**

None

**PRIOR YEAR FINDINGS**

None

**SECTION III – MAJOR FEDERAL PROGRAMS - FINDINGS AND QUESTIONED COSTS**

**CURRENT YEAR FINDINGS**

None

**PRIOR YEAR FINDINGS**

None