

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

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FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009



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

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

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

We have audited the accompanying statements of financial position of Goodwill Industries of South Florida, Inc. and Subsidiary ("Goodwill") as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Goodwill'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 as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Morrison, Brown, Argiz & Farra*

June 23, 2011  
Miami, Florida

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

STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31,

<b>ASSETS</b>	<b>(Consolidated) 2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 4,547,904	\$ 3,917,620
Accounts and other receivables, net	8,747,490	6,551,105
Pledges receivable	66,666	-
Inventories	10,423,957	4,722,101
Prepaid expenses and deferred lease charges	307,783	386,799
Other assets	2,558,989	2,460,360
Land, buildings and equipment, net	<u>29,365,724</u>	<u>28,857,473</u>
TOTAL ASSETS	<b><u>\$ 56,018,513</u></b>	<b><u>\$ 46,895,458</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts and trade notes payable	\$ 6,022,335	\$ 3,034,803
Accrued expenses and other liabilities	3,217,124	2,607,114
Mortgage notes, notes payable and lines of credit	20,567,031	21,501,396
Fair value of interest rate swap	-	814,823
Obligations under capital leases	<u>31,264</u>	<u>128,934</u>
TOTAL LIABILITIES	<u>29,837,754</u>	<u>28,087,070</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted (including \$33,334 of board-designated monies)	26,114,093	18,808,388
Temporarily restricted	<u>66,666</u>	<u>-</u>
TOTAL NET ASSETS	<u>26,180,759</u>	<u>18,808,388</u>
TOTAL LIABILITIES AND NET ASSETS	<b><u>\$ 56,018,513</u></b>	<b><u>\$ 46,895,458</u></b>

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

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

STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31,

	<b>(Consolidated)</b>	
	<b>2010</b>	<b>2009</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>		
<b>REVENUES AND SUPPORT:</b>		
Contributions:		
Donated goods sales	\$ 29,253,526	\$ 25,895,610
Contributions	621,878	697,053
Capital expenditure grants (NOTE 7)	626,672	-
United Way allocation	<u>473,106</u>	<u>526,437</u>
<b>TOTAL CONTRIBUTIONS</b>	<b>30,975,182</b>	<b>27,119,100</b>
Manufacturing sales	61,018,444	36,587,615
Service contracts revenue	10,160,146	10,411,900
Commercial services revenue	4,392,038	4,039,269
Rehabilitation fees	3,035,828	2,558,951
Miscellaneous income	<u>47,898</u>	<u>55,304</u>
<b>TOTAL REVENUES AND SUPPORT BEFORE     NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>109,629,536</b>	<b>80,772,139</b>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>-</u>	<u>5,000</u>
<b>TOTAL REVENUES AND SUPPORT</b>	<b><u>109,629,536</u></b>	<b><u>80,777,139</u></b>
<b>EXPENSES:</b>		
Program services:		
Apparel manufacturing	52,640,459	33,488,233
Donated goods operations	23,651,427	21,794,932
Service contracts	9,588,352	9,543,843
Commercial services	5,462,885	4,840,805
Rehabilitation services	<u>5,333,572</u>	<u>4,676,793</u>
<b>TOTAL PROGRAM SERVICES</b>	<b>96,676,695</b>	<b>74,344,606</b>
Supporting services:		
Management and general	4,203,849	3,584,401
Fundraising	<u>570,921</u>	<u>372,918</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b><u>101,451,465</u></b>	<b><u>78,301,925</u></b>
Change in fair value of interest rate swap and loss on extinguishment of interest rate swap	(633,377)	607,532
Unamortized 2003 bond series issue costs	<u>(238,989)</u>	<u>-</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<b><u>7,305,705</u></b>	<b><u>3,082,746</u></b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	66,666	-
Net assets released from restrictions	<u>-</u>	<u>(5,000)</u>
<b>INCREASE IN NET ASSETS</b>	<b>7,372,371</b>	<b>3,077,746</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b><u>18,808,388</u></b>	<b><u>15,730,642</u></b>
<b>NET ASSETS - END OF YEAR</b>	<b><u>\$ 26,180,759</u></b>	<b><u>\$ 18,808,388</u></b>

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

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

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	<b>(Consolidated)</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 7,372,371	\$ 3,077,746
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	275,000	25,000
Depreciation and amortization	1,728,387	1,602,500
Change in fair value of interest rate swap	-	(607,532)
Loss on extinguishment of debt	238,989	-
Loss on extinguishment of interest rate swap	633,377	-
(Increase) decrease in assets:		
Accounts and other receivables, net	(2,471,385)	44,494
Contributions receivable	(66,666)	5,000
Inventories	(5,701,856)	325,309
Prepaid expenses and deferred lease charges	79,016	176,062
Other assets	(28,943)	(126,465)
Increase (decrease) in liabilities:		
Accounts and trade notes payable	2,987,532	(96,247)
Accrued expenses and other liabilities	610,010	154,535
<b>TOTAL ADJUSTMENTS</b>	<u>(1,716,539)</u>	<u>1,502,656</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>5,655,832</u>	<u>4,580,402</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment and building improvements	<u>(2,206,202)</u>	<u>(1,739,678)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(2,206,202)</u>	<u>(1,739,678)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from lines of credit	-	1,136,000
Repayments of lines of credit	(1,875,000)	(961,000)
Proceeds from bond issuance	17,480,000	-
Retirement of principal on bonds payable	(6,925,000)	-
Payment of bond issuance cost	(339,111)	-
Repayment of interest rate swaps	(1,448,200)	-
Payments on debt and capital lease obligations	<u>(9,712,035)</u>	<u>(1,894,577)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(2,819,346)</u>	<u>(1,719,577)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	630,284	1,121,147
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>3,917,620</u>	<u>2,796,473</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><b>\$ 4,547,904</b></u>	<u><b>\$ 3,917,620</b></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid	\$ 1,206,371	\$ 1,422,503
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The accompanying notes are an integral part of these financial statements.

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

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

**1. ORGANIZATION**

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Goodwill Industries of South Florida, Inc. and Subsidiary ("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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**Basis of Consolidation**

The accompanying 2010 financial statements include the accounts of Goodwill and the accounts of Big Blue Box Productions, Inc., ("Big Blue Box"), a wholly owned subsidiary and a corporation formed in April 2010 to create, produce, sell, donate or purchase articles, films or other materials that further the objective or purpose of Goodwill. All intercompany balances and transactions have been eliminated in consolidation as of and for the year ended December 31, 2010.

**Basis of Presentation**

The financial statements of Goodwill have been prepared on the accrual basis of accounting in accordance generally accepted accounting principles ("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. Goodwill has unrestricted, board designated net assets resulting from contributions whose use by Goodwill is not limited by donor-imposed stipulations. Goodwill has earmarked such funds not to be expended for an unspecified period of time.
- 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.
- 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, 2010 and 2009, Goodwill did not have any permanently restricted net assets.

**Significant Customer**

Goodwill has several large contracts with Defense Supply Center Philadelphia ("DSCP") and US Army Natick Soldier System Center ("Natick") for the production of military apparel. Sales to DSCP and Natick accounted for approximately \$57,846,000 or 95% and \$25,375,000 or 69% of total manufacturing sales during 2010 and 2009, respectively. Additionally, the amounts due from DSCP and Natick represent approximately \$5,916,000 or 93% and \$2,292,000 or 69% of the total manufacturing accounts receivable balance of approximately \$6,334,000 and \$3,316,000 at December 31, 2010 and 2009, respectively.

**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.  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

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

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**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 \$300,000 and \$25,000 was recorded in 2010 and 2009, respectively. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

**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 uniforms, navy working uniforms, 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, 2010 and 2009 (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 temporarily restricted 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 2010 or 2009.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

**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 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, 2010 AND 2009

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

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**Taxes Collected from Customers and Remitted to Governmental Authorities**

Goodwill records taxes collected from customers, which are directly imposed on a transaction with that customer, on a net basis. That is, in instances in which Goodwill acts as a collection agent for a taxing authority by collecting taxes that are the responsibility of the customer, Goodwill records the amount collected as a liability and relieves such liability upon remittance to the taxing authority without impacting revenues or expenses.

**Shipping and Handling Activities**

Shipping and handling costs of approximately \$644,000 and \$479,000 are included in program expenses in the Statements of Activities for the years ended December 31, 2010 and 2009, respectively.

**Bond Issue Costs**

Goodwill capitalizes costs associated with the issuance of debt instruments. These costs are amortized on a straight-line method, which approximates the interest rate method, over the term of the debt. In December 2010, Goodwill retired its 2003 Bond Series with the 2010 Bond Series resulting in a loss of \$238,989 relating to the net unamortized bond cost. Additionally, Goodwill capitalized \$339,111 with the issuance of the 2010 Bond Series (see NOTE 6).

**Income Taxes**

Goodwill is registered with the Internal Revenue Service as a non-profit organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from income taxes, except for any taxes which may arise from unrelated business income.

Goodwill recognizes and measures tax positions based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively.

The U.S. Federal jurisdiction is the major tax jurisdiction where Goodwill files income tax returns. Goodwill is generally no longer subject to U.S. Federal examinations by tax authorities for years before 2007.

**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.

**Subsequent Events**

Goodwill has evaluated subsequent events through June 23, 2011, which is the date the financial statements were available to be issued.

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

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

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

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**Adoption of Accounting Pronouncements**

Fair Value Measurements- Liabilities

In August 2009, the FASB issued an accounting standard update to guidance on fair value measurements and disclosure. The updated guidance clarifies that the fair value of a liability can be measured in relation to the quoted price of the liability when the liability trades as an asset in an active market, without adjusting the price for restrictions that prevent the transfer of the liability. This update is effective for annual and interim periods beginning after August 31, 2009. Goodwill has adopted this accounting standard update effective January 1, 2010. The adoption of this update did not have an effect on these financial statements.

Fair Value Measurements

In September 2009, the FASB issued an accounting standard update which amends existing guidance on fair value measurements and disclosures. The update allows an entity to measure the fair value of an investment that has no readily determinable fair market value, on the basis of the net asset value per share as provided by the investee. The update is effective for annual and interim periods beginning after December 15, 2009, with early adoption permitted. Goodwill has adopted this accounting standard update effective January 1, 2010. The adoption of this update did not have an effect on these financial statements.

Not-for-Profit Entities: Mergers and Acquisitions

In April 2009, the FASB issued an accounting standard update which 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. This update also amends existing guidance to make existing guidance on goodwill and other intangible assets applicable to not-for-profit entities. The update is to be applied prospectively with early application prohibited and is effective for fiscal years beginning on or after December 15, 2009. The adoption of this update did not have an effect on these financial statements.

**Recent Accounting Pronouncement**

Fair Value Measurements

In January 2010, the FASB issued an accounting standard update on fair value measurements and disclosures. The update requires more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. This update is not expected to have an effect on Goodwill's financial statements.

Performing Step 2 of the Impairment Analysis

In December 2010, the FASB issued an accounting standard update which amends the criteria for performing Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires performing Step 2 if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption of the amendment is permitted for years beginning after December 15, 2010. Any impairment that may be recorded upon adoption will be recognized as an adjustment to beginning retained earnings in the year of adoption. Goodwill is currently evaluating the effect the update will have on the financial statements.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

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

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**Reclassification**

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

**3. ACCOUNTS AND OTHER RECEIVABLES**

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

	<b>2010</b>	<b>2009</b>
Federal Government	\$ 6,808,656	\$ 2,561,637
State Government	1,662,728	1,940,527
Commercial	576,106	2,073,941
	9,047,490	6,576,105
Less allowance for doubtful accounts	(300,000)	(25,000)
	<b>\$ 8,747,490</b>	<b>\$ 6,551,105</b>

For the years ended December 31, 2010 and 2009, bad debt expense was \$275,000 and \$25,000, respectively.

**4. PLEDGES RECEIVABLE, NET**

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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 Statements of Activities. Pledges 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). During 2010, Goodwill received a pledge from a donor with no stipulated restrictions. Monies received from the pledge amounted to \$33,334 of unconditional promises to give at net realizable value and are considered to be unrestricted, board designated. The remaining amount of the pledge, \$66,666, is included in pledges receivable as of December 31, 2010. The present value discount pertaining to the remaining pledges outstanding is not material to these financial statements. There was no pledges receivable as of December 31, 2009.

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

**5. INVENTORIES**

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Inventories consisted of the following at December 31:

	<b>2010</b>	<b>2009</b>
Raw materials	\$ 2,015,493	\$ 1,048,934
Work in progress	2,444,639	983,843
Finished goods	3,988,130	750,339
Supplies	37,007	25,986
Subtotal	8,485,269	2,809,102
Donated goods	1,938,688	1,912,999
	<b>\$ 10,423,957</b>	<b>\$ 4,722,101</b>

Finished goods at December 31, 2010 were largely comprised of inventories relating to a new product line.

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

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

**6. OTHER ASSETS**

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Other assets consisted of the following at December 31:

	<b>2010</b>	<b>2009</b>
Goodwill	\$ 1,392,000	\$ 1,392,000
Security deposits	277,878	248,944
Bond issuance costs, net of amortization	339,111	269,416
Split-dollar insurance plan	550,000	550,000
	<b>\$ 2,558,989</b>	<b>\$ 2,460,360</b>

**Goodwill**

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. 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, 2010 and 2009.

**Bond Issuance Costs**

Bond issuance costs are amortized over the life of the bonds. Amortization expense for the years ended December 31, 2010 and 2009, included in depreciation and amortization in the Functional Expenses (see NOTE 20), was \$30,436 and \$14,943, respectively. In December 2010, Goodwill wrote off approximately \$239,000 of unamortized issuance costs related to the retirement of the 2003 Bond Series (NOTE 11) as reflected in the Statements of Activities.

**Split-dollar Insurance Plan**

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, 2010 and 2009, the amounts under the split-dollar arrangement totaled \$550,000. 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.

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NOTES TO FINANCIAL STATEMENTS  
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**6. OTHER ASSETS (CONTINUED)**

**Split-dollar Insurance Plan (Continued)**

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, 2010 and 2009, loans under the split-dollar life insurance plan amounted to \$550,000. The loans are collateralized by the life insurance policy for which the net cash surrender value of the policy at December 31, 2010 and 2009 was \$521,260 and \$481,099, respectively.

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

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

	<b>2010</b>	<b>2009</b>
Land	\$ 2,970,339	\$ 2,970,339
Buildings and improvements	21,045,977	20,905,568
Equipment	17,067,156	14,967,881
Leasehold improvements	4,437,052	4,272,999
Other improvements	346,224	326,557
Equipment under capital leases	71,676	288,881
	45,938,424	43,732,225
Less accumulated depreciation and amortization (including accumulated amortization for capital leases of \$9,210 and \$143,937 in 2010 and 2009, respectively)	(16,572,700)	(14,874,752)
	<b>\$ 29,365,724</b>	<b>\$ 28,857,473</b>

Total depreciation expense for land, buildings, leaseholds and other improvements and equipment for the years ended December 31, 2010 and 2009 was approximately \$1,698,000 and \$1,568,000, respectively.

During 2010, Goodwill received an Empowerment Zone grant of \$376,672 from Miami-Dade Community and Economic Development Division to purchase equipment for job creation and business development. The total amount of the grant was spent and is reflected on the Statements of Activities under the caption capital expenditure grants.

During 2010, Goodwill received a \$250,000 grant from the State of Florida Agency for Workforce Innovation to purchase equipment in the manufacturing division for a new contract. The monies received were spent and are reflected on the Statements of Activities under the caption capital expenditure grants.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.  
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NOTES TO FINANCIAL STATEMENTS  
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**8. ACCRUED EXPENSES AND OTHER LIABILITIES**

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

	<b>2010</b>	<b>2009</b>
Accrued payroll	\$ 1,033,207	\$ 1,142,777
Reserve for worker's compensation (see NOTE 18)	718,000	1,138,022
Sales tax payable	213,678	146,129
Miami Herald advance	132,693	140,385
Retirement plan employer match	187,989	163,055
Deferred rent and other liabilities	931,557	109,893
	<b>\$ 3,217,124</b>	<b>\$ 2,607,114</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>2010</b>	<b>2009</b>
Revolving line of credit with maximum borrowings of \$6,000,000 with a balloon payment due July 1, 2011, with interest due monthly at prime rate (3.25% at December 31, 2010 and 2009), collateralized by accounts receivable.	\$ 1,000,000	\$ 2,875,000
Industrial Development Revenue Bonds issued by the Miami-Dade County Industrial Development Authority on May 1, 2003 (Series 2003) 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% at December 31, 2009, 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. Bonds were paid off on December 17, 2010 (see NOTE 11).	-	6,925,000
Promissory note, payable in quarterly principal interest installments at 6.80%, through October 14, 2010, collateralized by equipment. Note was paid off on October 14, 2010.	-	228,733
Promissory note, payable in monthly principal and interest installments through March 30, 2011, with interest at 6.50%, collateralized by equipment. Note was paid off on December 17, 2010.	-	360,645
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. Notes were paid off on December 17, 2010.	-	897,533
Revolving line of credit with maximum borrowings of \$700,000 entered into during December 2007, payable in interest installments through December 1, 2010 with interest at 2.43% at December 31, 2009, respectively, collateralized by property. Line of credit was paid off on December 17, 2010.	-	575,000

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

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

	<u>2010</u>	<u>2009</u>
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. Note was paid off on December 17, 2010.	-	3,592,993
Promissory note entered into during February 2008, payable in monthly principal and interest installments through May, 8, 2015, with interest at 6.50%, collateralized by accounts receivables. Note was paid off on December 17, 2010.	-	865,591
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.	2,087,031	2,285,071
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. Note was paid off on December 17, 2010.	-	2,895,830
Industrial Development Revenue Bonds issued by the Miami-Dade County Industrial Development Authority on December 17, 2010 (Series 2010) with monthly principal interest payments at a variable rate determined on a monthly basis, 1.75% at December 31, 2010, maturing on December 1, 2030. Bonds are collateralized by properties and equipment. (see NOTE 11).	<u>17,480,000</u>	<u>-</u>
Total mortgage notes, notes payable and lines of credit	<b>\$ 20,567,031</b>	<b>\$ 21,501,396</b>

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

Years Ending December 31,

2011	\$ 1,885,812
2012	973,724
2013	2,412,052
2014	775,011
2015	788,683
Thereafter	<u>13,731,749</u>
	<b>\$ 20,567,031</b>

The current maturities of \$1,885,812 include \$1,000,000 of line of credit that Goodwill anticipates will be renewed at similar terms in the ordinary course of business.

Interest expense for the years ended December 31, 2010 and 2009 was \$1,176,671 and \$1,417,409, respectively.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

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

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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 2003 Series bond payable (see NOTE 11). Credit losses from counterparty non-performance are not anticipated. At December 31, 2010 and 2009, the outstanding notional balance was \$0 and \$6,925,000, respectively. 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.

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 liability as of December 31, 2010 and 2009 was \$0 and \$814,823, 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, 2010 and 2009 was (\$135,177) and \$607,532, respectively, and is reflected in the Statements of Activities within the caption of change in fair value of interest rate swap and loss on extinguishment of interest rate swap.

On December 17, 2010, in connection with the bond refinancing, (NOTE 11), Goodwill terminated the above swap as well as an additional swap for \$498,200 and collectively paid \$1,448,200. Goodwill incurred a loss of approximately \$633,377 (collectively \$498,200 and \$135,177) during the year ended December 31, 2010 relating to the termination of the swap agreements which is reflected on the Statements of Activities within the caption Change in fair value of interest rate swap and loss on extinguishment 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. 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 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>
	<b><u>\$ 9,400,000</u></b>

The bonds were 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 was 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 was 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.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

**11. BOND TRANSACTION (CONTINUED)**

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The bonds were set to mature on May 1, 2028 and interest on the bonds was compounded at a weekly rate on a monthly basis. Goodwill was required to make quarterly payments of principal to SunTrust Bank for deposit into a bond-sinking fund, the principal of which was 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.

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 were 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 could remain as bank bonds for a period up to 367 days until those bonds could be re-marketed or an alternative financial structure could be put in place. The bonds were fully re-marketed on September 15, 2009. The letter of credit expired on May 1, 2010 and was extended to December 17, 2010.

In December 17, 2010, Goodwill retired the 2003 Bond Series and a new 2010 Bond Series was issued with a par amount of \$17,480,000 and a maturity date of December 1, 2030. The proceeds were used to refinance the existing Series 2003, refinance several existing loans that were used to purchase facilities, inventory and equipment, and pay swap termination fees. The collateral for the bond includes facilities located at 2121 NW 21<sup>st</sup> Street, 2111 NW 22<sup>nd</sup> Avenue, 461 Palm Avenue, 24311 South Dixie Highway, 2104 w. Commercial Blvd., 550 E. Oakland Park Blvd and equipment located in the main facility.

The financing consists of tax exempt bank qualified bonds and taxable bank loans. The tax exempt bank qualified loans are broken down into two Series. Series 2010A has a principal amount of \$7,000,000 and Series 2010B has a principal amount of \$7,044,600. Both series have a variable interest rate equal to 69% of one-month LIBOR plus 2.10%. Principal payments for both series will start August 1, 2015 and have a maturity date of December 1, 2030. There is a call option, at the option of the bank with a required one-year notice, which includes an interest rate reset at June 30, 2016 and on June 30 of each fifth year thereafter.

The taxable bank loans are made up of Facility C and D and were used to refund existing debt that did not qualify for tax-exempt status. Facility C has a principal amount of \$2,160,000 and a variable interest rate equal to one-month LIBOR plus 1.85%. The principal of Facility C shall be payable beginning February 1, 2011 and has a maturity date of December 31, 2013. Facility D has a principal amount of \$1,275,400 and a variable interest rate of one-month LIBOR plus 2.00%. The principal of Facility D shall be payable beginning December 1, 2013 and has a maturity date of August 1, 2015.

The bank loan agreements contain financial covenants that require Goodwill to maintain a minimum debt service coverage of 1.35 and maximum debt to tangible net worth of 2.25 until December 31, 2011 when it will be reduced to 2.00. Goodwill was in compliance with the financial covenants at December 31, 2010.

Future payments for the bonds at December 31, 2010 are as follows:

Years Ending December 31,	
2011	\$ 674,607
2012	748,374
2013	761,576
2014	775,011
2015	788,683
Thereafter	<u>13,731,749</u>
	<b><u>\$ 17,480,000</u></b>

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

**12. LEASE OBLIGATIONS**

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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, 2010, 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,	
2011	\$ 28,357
2012	<u>4,368</u>
Total	32,275
Less: amount representing interest at 8%	<u>(1,461)</u>
Total obligations under capital leases	<b><u>\$ 31,264</u></b>

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.

At December 31, 2010, the aggregate approximate rental commitments for non-cancelable operating leases are as follows:

Years Ending December 31,	
2011	\$ 4,969,000
2012	4,263,000
2013	4,165,000
2014	4,113,000
2015	4,195,000
Thereafter	<u>37,761,000</u>
	<b><u>\$ 59,466,000</u></b>

Rental expense for store facilities is calculated on a straight line basis and approximated \$6,577,000 and \$5,300,000 for the years ended December 31, 2010 and 2009, 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, 2010 and 2009, this building is not reflected as an asset on the financial statements due to its conditional nature.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

**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, 2010 and 2009, respectively. Net assets of \$0 and \$5,000 were released from donor restrictions due to time restrictions expiring during the years ended December 31, 2010 and 2009, respectively.

**15. DONATED SERVICES**

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Goodwill recognizes donated services from the Miami-Dade Public Schools. The revenues for such services classified under rehabilitation fees on the Statements of Activities totaled \$153,416 in 2010 and \$97,685 in 2009. 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 Public Schools.

**16. REHABILITATION FEES**

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

	<u>2010</u>	<u>2009</u>
Federal and State grants and contracts	\$ 1,824,408	\$ 1,601,692
Miami-Dade and Broward County Public Schools (see NOTE 15)	153,416	97,685
The School Board of Miami Dade County	310,615	332,505
Enterprise zone	407,585	201,426
General contracts	93,351	85,603
Other	<u>246,453</u>	<u>240,040</u>
	<b><u>\$ 3,035,828</u></b>	<b><u>\$ 2,558,951</u></b>

**17. RETIREMENT PLAN**

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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, 2010 and 2009 of \$187,989 and \$163,055, respectively.

**18. WORKERS' COMPENSATION INSURANCE**

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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, 2010 and 2009, the reserve for workers' compensation was \$718,000 and \$1,138,022 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, 2010 and 2009, workers' compensation expense was approximately \$788,000 and \$1,050,000, respectively.

**19. COMMITMENTS AND CONTINGENCIES**

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**Litigation**

Goodwill is exposed to various asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on Goodwill's financial position or the results of its operations.

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

**20. FUNCTIONAL EXPENSES**

Functional expenses for the year ended December 31, 2010 are as follows:

	Program Services					Supporting Services		Total Expenses
	Apparel Manufacturing	Donated Goods Operations	Service Contracts	Commercial Services	Rehabilitation Services	Management and General	Fund Raising	
<b>PAYROLL AND RELATED COSTS</b>								
Disabled wages	\$ 11,221,429	\$ 864,426	\$ 3,978,845	\$ 1,887,947	\$ 268,815	\$ 233,957	\$ 1,576	\$ 18,456,995
Non-disabled wages	3,873,291	9,209,340	2,384,593	1,690,254	2,857,636	1,632,446	4,257	21,651,817
Employee health and welfare benefits	355,177	1,114,054	926,532	180,766	316,804	221,439	-	3,114,772
Other payroll-related expenses	<u>1,523,423</u>	<u>939,899</u>	<u>717,539</u>	<u>359,190</u>	<u>254,748</u>	<u>155,304</u>	<u>1,085</u>	<u>3,951,188</u>
Total payroll and related costs	16,973,320	12,127,719	8,007,509	4,118,157	3,698,003	2,243,146	6,918	47,174,772
<b>EXPENSES</b>								
Occupancy	777,053	8,644,091	190,038	626,585	352,205	253,641	1,284	10,844,897
Professional fees	1,611,907	266,249	190,738	19,802	387,696	705,223	513,026	3,694,641
Materials and supplies (office and commercial)	31,260,909	399,033	987,485	50,644	391,307	91,682	16,645	33,197,705
Telephone	54,170	172,947	47,757	43,900	54,439	103,005	57	476,275
Postage and freight	630,114	21,332	3,509	1,937	5,146	16,914	3,939	682,891
Equipment rental and maintenance	43,824	31,108	16,027	21,867	12,174	35,699	-	160,699
Printing and advertising	29,286	92,637	1,312	19,897	14,069	21,057	1,716	179,974
Travel and transportation	52,171	684,861	78,467	63,346	77,532	69,490	16,758	1,042,625
Conferences and meetings	4,058	5,181	1,370	3,225	-	14,518	9,907	38,259
Special assistance to individuals	-	2,088	-	-	2,950	80,702	-	85,740
Membership dues	3,451	1,054	106	5,279	19,702	232,489	-	262,081
Awards	70	21	2	46	10,029	329	662	11,159
Interest	418,397	127,769	12,844	273,408	173,717	170,536	-	1,176,671
Bad debt	97,784	29,861	3,002	63,898	40,599	39,856	-	275,000
Miscellaneous	<u>-</u>	<u>382,042</u>	<u>1,417</u>	<u>2,943</u>	<u>-</u>	<u>33,278</u>	<u>9</u>	<u>419,689</u>
Total expenses before depreciation and amortization	51,956,514	22,987,993	9,541,583	5,314,934	5,239,568	4,111,565	570,921	99,723,078
Depreciation and amortization	<u>683,945</u>	<u>663,434</u>	<u>46,769</u>	<u>147,951</u>	<u>94,004</u>	<u>92,284</u>	<u>-</u>	<u>1,728,387</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b><u>\$ 52,640,459</u></b>	<b><u>\$ 23,651,427</u></b>	<b><u>\$ 9,588,352</u></b>	<b><u>\$ 5,462,885</u></b>	<b><u>\$ 5,333,572</u></b>	<b><u>\$ 4,203,849</u></b>	<b><u>\$ 570,921</u></b>	<b><u>\$ 101,451,465</u></b>

**GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.  
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**20. FUNCTIONAL EXPENSES (CONTINUED)**

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

	Program Services					Supporting Services		Total Expenses
	Apparel Manufacturing	Donated Goods Operations	Service Contracts	Commercial Services	Rehabilitation Services	Management and General	Fund Raising	
<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.  
AND SUBSIDIARY**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

**21. FAIR VALUE MEASUREMENTS**

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, 2010 for each of the fair value hierarchy levels:

<u>Description</u>	<u>12/31/2010</u>	<u>Fair Value Measurements at December 31, 2010</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Other Unobservable Inputs (Level 3)</u>
LIABILITIES				
Interest rate swap	\$ -	\$ -	\$ -	\$ -

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:

<u>Description</u>	<u>12/31/2009</u>	<u>Fair Value Measurements at December 31, 2009</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Other Unobservable Inputs (Level 3)</u>
LIABILITIES				
Interest rate swap	\$ (814.823)	\$ -	\$ (814.823)	\$ -

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.