

**Audited Consolidated Financial Statements  
& Reports Required by Government Auditing  
Standards and OMB Circular A-133**

**GOODWILL INDUSTRIES INTERNATIONAL, INC.  
AND RELATED ENTITY**

*December 31, 2008*

# Goodwill Industries International, Inc. and Related Entity

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Accountants

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## Independent Auditor's Report on the Consolidated Financial Statements

To the Board of Directors  
Goodwill Industries International, Inc.  
and Related Entity

We have audited the accompanying consolidated statement of financial position of Goodwill Industries International, Inc. and Related Entity (the Organization) as of December 31, 2008 and, the related consolidated statements of activities, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2007 consolidated financial statements and, in our report dated February 22, 2008, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and, with respect to Goodwill Industries International, Inc. (GII) in 2008, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries International, Inc. and Related Entity as of December 31, 2008, and the changes in their net assets and their cash flows for the year 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 a report dated, February 20, 2009, on our consideration of Goodwill Industries International, Inc.'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 considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of the Organization taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Washington, DC  
February 20, 2009

THE SOUTHERN BUILDING

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805 15TH STREET, NW

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9TH FLOOR

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WASHINGTON, DC

20005

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TELEPHONE

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# Goodwill Industries International, Inc. and Related Entity

## Consolidated Statements of Financial Position

<i>December 31,</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
<b>Assets</b>					
Cash and cash equivalents - Notes B & K	\$ 1,051,989	\$ -	\$ -	\$ 1,051,989	\$ 1,624,054
Investments - Notes B, C, & D	3,634,298	864,576	1,159,925	5,658,799	7,432,869
Accounts and notes receivable - Note E	1,088,553			1,088,553	724,410
Pledges receivable - Note F	6,956	61,890		68,846	103,772
Grants receivable	2,180,022			2,180,022	872,312
Prepaid expenses and other assets	406,195			406,195	389,748
Bond issue costs - Note G	69,385			69,385	72,840
Property and equipment - Notes G, H, & I	9,233,598			9,233,598	9,832,219
<b>Total assets</b>	<b>\$ 17,670,996</b>	<b>\$ 926,466</b>	<b>\$ 1,159,925</b>	<b>\$ 19,757,387</b>	<b>\$ 21,052,224</b>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Accounts payable	\$ 383,045	\$ -	\$ -	\$ 383,045	\$ 704,053
Accrued expenses - Notes D & K	3,133,007			3,133,007	2,312,550
Deferred revenue	236,069			236,069	278,985
Capital lease obligations - Note I	145,845			145,845	84,503
Bonds payable - Note G	2,200,000			2,200,000	2,300,000
Guarantee reserve - Note K	111,058			111,058	360,880
Security deposit - Note K	21,883			21,883	21,883
<b>Total liabilities</b>	<b>6,230,907</b>	<b>-</b>	<b>-</b>	<b>6,230,907</b>	<b>6,062,854</b>
<b>Net assets - Notes J &amp; K</b>	<b>11,440,089</b>	<b>926,466</b>	<b>1,159,925</b>	<b>13,526,480</b>	<b>14,989,370</b>
<b>Total liabilities and net assets</b>	<b>\$ 17,670,996</b>	<b>\$ 926,466</b>	<b>\$ 1,159,925</b>	<b>\$ 19,757,387</b>	<b>\$ 21,052,224</b>

See notes to the consolidated financial statements.  
Certain 2007 amounts have been reclassified for comparative purposes.

# Goodwill Industries International, Inc. and Related Entity

## Consolidated Statements of Activities

<b>Year Ended December 31,</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2008 Total</b>	<b>2007 Total</b>
<b>Revenue and support</b>					
Membership dues	\$ 15,757,230	\$ -	\$ -	\$ 15,757,230	\$ 14,975,685
Grants from government agencies	12,584,132			12,584,132	10,465,066
Program services fees	2,019,691			2,019,691	1,463,677
Contributions	30,805	566,994		597,799	639,370
Rental - Note K	297,237			297,237	297,232
Legacies and bequests	266,351			266,351	50,470
Investment income - Note C	126,755	40,206	739	167,700	560,246
Other income	28,071			28,071	27,704
	31,110,272	607,200	739	31,718,211	28,479,450
Net assets released from restriction - satisfaction of program restrictions	847,587	(847,587)		-	-
<b>Total revenue and support</b>	<b>31,957,859</b>	<b>(240,387)</b>	<b>739</b>	<b>31,718,211</b>	<b>28,479,450</b>
<b>Expense</b>					
<b>Program services</b>					
Sponsored programs and grants	13,338,256			13,338,256	10,936,966
Direct services to membership	10,175,564			10,175,564	9,470,113
Support services to membership	5,121,135			5,121,135	4,497,279
<b>Total program services</b>	<b>28,634,955</b>			<b>28,634,955</b>	<b>24,904,358</b>
<b>Management and general services</b>					
General and administrative	3,360,854			3,360,854	3,123,165
Resource development	455,077			455,077	438,438
<b>Total management and general</b>	<b>3,815,931</b>			<b>3,815,931</b>	<b>3,561,603</b>
<b>Total expense</b>	<b>32,450,886</b>	<b>-</b>	<b>-</b>	<b>32,450,886</b>	<b>28,465,961</b>
Change in net assets from operations	(493,027)	(240,387)	739	(732,675)	13,489
Gain on sale of property and equipment	21,207			21,207	-
Joint venture expenses - Note K	(19,439)			(19,439)	(102,068)
Unrealized loss on investments - Note C	(517,102)		(214,881)	(731,983)	(64,918)
<b>Change in net assets</b>	<b>(1,008,361)</b>	<b>(240,387)</b>	<b>(214,142)</b>	<b>(1,462,890)</b>	<b>(153,497)</b>
Net assets, beginning of year	12,448,450	1,166,853	1,374,067	14,989,370	15,142,867
<b>Net assets, end of year</b>	<b>\$ 11,440,089</b>	<b>\$ 926,466</b>	<b>\$ 1,159,925</b>	<b>\$ 13,526,480</b>	<b>\$ 14,989,370</b>

See notes to the consolidated financial statements.

# Goodwill Industries International, Inc. and Related Entity

## Consolidated Statements of Cash Flows

<i>Year Ended December 31,</i>	2008	2007
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (1,462,890)	\$ (153,497)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Unrealized loss on investments	731,983	64,918
Realized loss (gain) on investments	77,322	(48,778)
Gain on sale of property and equipment	(21,207)	-
Depreciation and amortization	1,215,694	1,206,927
Amortization of bond issue costs	3,455	3,455
Uncollectible accounts (recoveries)	17,374	(89,729)
Changes in assets and liabilities:		
Accounts and notes receivable	(381,517)	345,623
Pledges receivable	34,926	242,777
Grants receivable	(1,307,710)	(114,348)
Prepaid expenses and other assets	(16,447)	(78,532)
Accounts payable	(321,008)	90,450
Accrued expenses	820,457	364,072
Deferred revenue	(42,916)	25,516
Guarantee reserve	(249,822)	(55,625)
Total adjustments	560,584	1,956,726
Net cash (used in) provided by operating activities	(902,306)	1,803,229
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(481,506)	(604,030)
Proceeds from sale of property and equipment	28,477	-
Purchases of investments	(7,313,541)	(5,432,406)
Sales and maturities of investments	8,278,306	4,870,240
Net cash provided by (used in) investing activities	511,736	(1,166,196)
<b>Cash flows from financing activities</b>		
Principal payment on bonds payable	(100,000)	(400,000)
Principal payments on capital lease obligations	(81,495)	(79,319)
Net cash used in financing activities	(181,495)	(479,319)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(572,065)</b>	<b>157,714</b>
Cash and cash equivalents, beginning of year	1,624,054	1,466,340
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,051,989</b>	<b>\$ 1,624,054</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	\$ 71,046	\$ 108,541
Noncash investing and financing transaction		
Cost of equipment	142,836	-
Capital lease obligation	\$ (142,836)	\$ -

See notes to the consolidated financial statements.  
Certain 2007 amounts have been reclassified for comparative purposes.

# Goodwill Industries International, Inc. and Related Entity

## Notes to the Consolidated Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Goodwill Industries International, Inc. (GII) was established in 1902 and incorporated in 1910 to improve the quality of life of people with disabilities and other special needs. GII's membership consists of local Goodwill Industries in the United States, Canada, and internationally. All GII members are autonomous, community-based, nonprofit corporations that provide rehabilitation services, training, placement, and employment for people with disabilities and other disadvantaged persons. GII provides its members with various services, including consulting for workforce development, retail, contracts, strategic planning, education/training, national public relations, and research. GII also represents its membership before the Federal government and international entities.

*15810 Indianola Drive, LLC (LLC)* was organized in 2004 for the purpose of operating, using, developing, improving, renovating, maintaining, managing, leasing, and, when applicable, selling, exchanging, or otherwise disposing of real, personal and mixed property. LLC is a single-member limited liability company owned entirely by GII.

Principles of consolidation: The consolidated financial statements include the accounts of GII and LLC (together referred to as the Organization). Significant intercompany accounts and transactions have been eliminated in consolidation.

Income taxes: GII is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as other than a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code. However, GII is subject to income tax on its unrelated business activities. Gifts to GII are tax deductible.

As a single-member limited liability company, LLC is treated as a "disregarded entity" for income tax purposes. Therefore, LLC's financial activity is reported in conjunction with the Federal income tax filings of GII.

The Organization has timing differences between the consolidated financial statements and the income tax return relating to the recognition of rental revenue and depreciation expense. At December 31, 2008, the Organization had net operating loss carry-forwards resulting from its unrelated business activities of approximately \$217,500 which may be applied against future years' taxable income. The net operating loss carry-forwards expire at various dates through 2028. Under Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes*, the timing differences and net operating losses resulted in a net deferred tax asset of \$64,934 and \$48,457 at December 31, 2008 and 2007, respectively. The net deferred tax asset is included in prepaid expenses and other assets in the accompanying statements of financial position.

FASB Staff Position FIN 48-3 (FSP FIN 48-3), *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Entities*, grants nonpublic organizations the option to defer the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, until the year ended December 31, 2009. As permitted by FSP FIN 48-3, the Organization has elected to delay the implementation of FIN 48 until the year ended December 31, 2009. The Organization records a liability for income taxes when it believes that such an accrual is warranted based on current law or guidance from the appropriate taxing authorities.

Basis of accounting: The Organization prepares its consolidated financial statements on the accrual basis of accounting. Revenue, other than contributions, is recognized when earned and expense when the obligation is incurred.

# Goodwill Industries International, Inc. and Related Entity

## Notes to the Consolidated Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates.

Cash and cash equivalents: For financial statement purposes, the Organization considers demand deposits, certificates of deposit, and repurchase agreements to be cash equivalents. Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes.

Deferred revenue: Deferred revenue primarily consists of annual maintenance (license) and set up fees received from users of GoodTrak, GII's web-based software system that allows client tracking and case management for Goodwill members. Users must pay the set up fee in order to be able to use the license. Thus, both fees are amortized into revenue on a straight-line basis over a twelve-month period, once the software is available for use by the member.

Net assets: For consolidated financial statement purposes, net assets consist of the following:

Unrestricted: Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation.

Undesignated: Undesignated net assets are used for the general operations of the Organization.

Designated: Designated net assets are to be used for the Organization's international activities and amounted to \$717,037 and \$809,902 at December 31, 2008 and 2007, respectively.

Temporarily restricted net assets: Temporarily restricted net assets include those net assets whose use by the Organization has been donor restricted by specified time or purpose limitations. See Note J for details of temporarily restricted net assets.

Permanently restricted: Permanently restricted net assets must be maintained in perpetuity by the Organization. In accordance with donor instructions, the Organization may use the interest and dividends, net of investment fees, earned on permanently restricted net assets for specified purposes. See Note J for details of permanently restricted net assets.

Endowment funds: The Organization's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds as requiring the preservation of the fair value of the original gift. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Absent explicit direction from the donor regarding the classification of investment income from the permanently restricted endowments, investment income is recorded in unrestricted activities.

# Goodwill Industries International, Inc. and Related Entity

## Notes to the Consolidated Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a balanced portfolio comprised of cash, fixed income securities, and equities. To satisfy its long-term objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places more emphasis on fixed income securities than equity securities to achieve its long-term return objectives within prudent risk constraints.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that current law requires the Organization to retain for a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. Such deficiencies may result from unfavorable market fluctuations. There were no such deficiencies as of December 31, 2008 and 2007.

Contributions: Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, as applicable. Within temporarily restricted net assets, amounts are reclassified to unrestricted net assets when restrictions expire.

Program services: Program service descriptions are as follows:

*Sponsored programs and grants:* Sponsored programs and grants includes efforts to develop higher quality job opportunities for people with disabilities and disadvantages, to provide awards for family-strengthening at the local community level, to improve the current workforce development system for the Hispanic population, and to build family economic success.

*Direct services to membership:* Direct services to membership includes consultations, executive professional development, training seminars, data processing, financial and management information, and assistance in the development of national and local communications materials.

*Support services to membership:* Support services to membership includes learning events such as the Conference of Executives and the Delegate Assembly.

Management and general services: Management and general services descriptions are as follows:

*General and administrative:* The general and administrative service includes expenditures to secure proper administrative functioning, maintain the building, and manage the financial responsibilities of the Organization.

*Resource development:* The resource development service includes expenditures that encourage and secure financial support for the Organization.

Functional allocation of expenses: The costs of providing various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

# Goodwill Industries International, Inc. and Related Entity

## Notes to the Consolidated Financial Statements

### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Prior-year comparative totals: The consolidated financial statements include certain 2007 summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a complete presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the 2007 consolidated financial statements, from which the summarized information was derived.

### B. CONCENTRATIONS

Credit risk: The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any such losses in the past, and does not believe it is exposed to any significant financial risk on these account balances due to the use of a repurchase agreement the Organization has in place with a bank.

Market value risk: The Organization also invests funds in professionally managed mutual funds that contain various types of marketable securities. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in these risks, such as the turmoil in world financial markets, could materially affect investment balances and the amounts reported in the consolidated financial statements.

### C. INVESTMENTS

The Organization has implemented Statement of Financial Accounting Standards No. 157 (FAS 157), *Fair Value Measurements*. FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principals (GAAP), and expands disclosures about fair value measurements. FAS 157 uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

Investments, recorded at fair value using Level 1 inputs, consist of the following at December 31,:

	2008	2007
Portfolio cash	\$ 884,294	\$ 1,080,949
Mutual funds - equities	1,506,198	2,504,449
Mutual funds - bonds	<u>3,125,554</u>	<u>3,708,341</u>
	<u>\$ 5,516,046</u>	<u>\$ 7,293,739</u>

# Goodwill Industries International, Inc. and Related Entity

## Notes to the Consolidated Financial Statements

### C. INVESTMENTS - CONTINUED

Endowment accounts, included in investments, consist of the following at December 31,:

	2008	2007
Portfolio cash	\$ 214,160	\$ 190,235
Mutual funds - equities	344,348	558,685
Mutual funds - bonds	601,417	625,147
	<b>\$ 1,159,925</b>	<b>\$ 1,374,067</b>

Investment income consists of the following for the years ended December 31,:

	2008	2007
Interest and dividends	\$ 273,107	\$ 545,686
Investment fees	(28,085)	(34,218)
Realized (loss) gain	(77,322)	48,778
	<b>167,700</b>	<b>\$ 560,246</b>
Unrealized loss	<b>\$ (731,983)</b>	<b>\$ (64,918)</b>

### D. RETIREMENT PLANS

Deferred compensation: The Organization has deferred compensation plans for key employees under Sections 457(b) and 457(f) of the Internal Revenue Code. The Organization's contributions to the deferred compensation plans were \$25,510 and \$76,779 for the years ended December 31, 2008 and 2007, respectively. The plans are funded by mutual funds held by the Organization which are included in investments in the consolidated statements of financial position. The deferred compensation asset and liability amounted to \$115,230 and \$474,823 December 31, 2008 and 2007, respectively.

Defined contribution: The Organization has a defined contribution 403(b) savings plan which is available to all full-time employees who have completed six months of service. The Organization contributes the sum of (a) 7.5% of employees' gross salaries up to the social security average annual wage and (b) 11.8% of such compensation over the social security average annual wage base. The Organization's contributions to the plan were \$740,687 and \$581,128 for the years ended December 31, 2008 and 2007, respectively.

# Goodwill Industries International, Inc. and Related Entity

## Notes to the Consolidated Financial Statements

### E. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consists of amounts owed to the Organization primarily for membership dues or program services. Accounts and notes receivable are recorded at net realizable value. The Organization provides for probable losses on accounts and notes receivable using the allowance method. The allowance is determined based on management's experience and collection efforts. Balances that remain outstanding after the Organization has used reasonable collection efforts are written off. Accounts and notes receivable consist of the following at December 31,:

	<b>2008</b>	<b>2007</b>
Member organizations *	\$ 1,315,386	\$ 979,009
Other receivables	<u>286,367</u>	<u>251,001</u>
	1,601,753	1,230,010
Less allowance for doubtful accounts	<u>(513,200)</u>	<u>(505,600)</u>
	<b><u>\$ 1,088,553</u></b>	<b><u>\$ 724,410</u></b>

\* Includes various membership dues receivables that have been converted to non-interest bearing notes totaling \$572,280 and \$538,472 at December 31, 2008 and 2007, respectively.

### F. PLEDGES RECEIVABLE

Fund raising campaigns began in 2005 to 1) provide disaster relief funds to the victims of recent hurricanes which devastated the gulf coast states and 2) assist the Organization in expanding its programs to the global marketplace. Contributions included cash and pledges receivable up to a five-year period. Pledges to be received in one to five years have been discounted to net present value using discount rates ranging from 1.83% to 4.82%. Pledges receivable consist of the following at December 31,:

	<b>2008</b>	<b>2007</b>
Receivable in less than one year	\$ 31,183	\$ 118,297
Receivable in one to five years	<u>58,084</u>	<u>2,432</u>
	89,267	120,729
Less allowance for doubtful pledges	(17,999)	(16,117)
Less discount to net present value	<u>(2,422)</u>	<u>(840)</u>
	<b><u>\$ 68,846</u></b>	<b><u>\$ 103,772</u></b>

# Goodwill Industries International, Inc. and Related Entity

## Notes to the Consolidated Financial Statements

### G. BONDS PAYABLE

During 2004, tax-exempt bonds payable were issued by Maryland Economic Development Corporation in the amount of \$3,700,000 for the purchase of land and building at 15810 Indianola Drive. Bond issue costs of \$86,371 were capitalized in 2004 and are being amortized on a straight-line basis over 25 years. The bonds bear interest at the lesser of (1) a Weekly Rate and a Commercial Paper Rate or (2) 12%. The bonds are secured by a letter of credit in the amount of \$2,200,000, with the building as collateral. The bonds mature February 1, 2034. The bonds include debt covenants which require that the Organization not enter into unsecured debt greater than \$50,000, maintain unrestricted liquidity of greater than 15% (as defined by the lending institution), and maintain a cash flow to debt service ratio of not less than 1.25 to 1. The Organization obtained a waiver from the bank to enter into the capital lease obligations described in Note I. At December 31, 2008 and 2007, the Organization was in compliance with the remaining debt covenants. Future minimum required payments under the bonds payable are as follows:

Year Ending December 31,	Amount
2009	\$ 100,000
2010	100,000
2011	100,000
2012	100,000
2013	100,000
Thereafter	<u>1,700,000</u>
	<b><u>\$ 2,200,000</u></b>

On January 2, 2009, the Organization paid \$100,000, the required minimum payment, on its tax exempt bonds.

### H. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$3,000 are recorded at cost and depreciated using the straight-line method over the following estimated useful lives: building – 30 years; building improvements – 10 years; and furniture and equipment – 3 to 5 years (or lease term, as in the case of capital leases in Note I). Property and equipment is recorded at cost and consists of the following at December 31,:

	2008	2007
Land	\$ 1,500,000	\$ 1,500,000
Building and improvements	7,834,306	7,823,886
Furniture and equipment	4,225,394	3,906,905
Artwork	<u>60,000</u>	<u>60,000</u>
	13,619,700	13,290,791
Less accumulated depreciation	<u>(4,386,102)</u>	<u>(3,458,572)</u>
	<b><u>\$ 9,233,598</u></b>	<b><u>\$ 9,832,219</u></b>

# Goodwill Industries International, Inc. and Related Entity

## Notes to the Consolidated Financial Statements

### I. CAPITAL LEASE OBLIGATIONS

The Organization has entered into several capital equipment leases expiring at various dates through 2012. The aggregate lease payments were discounted at the inception of the lease and the net present value was recorded as a liability. The fair value of the related equipment (telephone system and certain copiers) was recorded as an asset and is being amortized over the life of the related leases. The leased equipment has the following book value at December 31,:

	2008	2007
Office equipment	\$ 342,607	\$ 291,891
Less accumulated amortization	<u>(196,369)</u>	<u>(222,687)</u>
	<u>\$ 146,238</u>	<u>\$ 69,204</u>

Future minimum lease payments and the present value of payments under the capital lease obligations are as follows:

Year Ending December 31,	Amount
2009	\$ 51,312
2010	40,254
2011	40,254
2012	<u>30,191</u>
	162,011
Less amount representing interest	<u>(16,166)</u>
	<u>\$ 145,845</u>

# Goodwill Industries International, Inc. and Related Entity

## Notes to the Consolidated Financial Statements

### J. RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31,:

	2008	2007
Alumni Century Fund	\$ 11,574	\$ 10,074
Bank of America - GoodSense	3,818	3,818
Casey Foundation	20,190	2,833
Delegate Assembly Travel Fund	2,856	4,000
Disaster Relief Fund	77,732	71,732
Disaster Relief Fund - Human Needs	3,487	4,417
Disaster Relief Fund - Ike	1,816	-
Disaster Relief Fund - Infrastructure	59,123	97,499
Dulin CEO Recruitment and Training Fund	32,955	62,955
Dulin New CEO Recruitment Fund - Member	20,000	-
Dulin Senior Management Fund	146,878	176,878
Dulin Strategic Planning Fund	15,846	15,846
Elsine Katz Fund	6,298	6,948
Frank F. Flegal Education & Training Fund *	22,324	21,660
Goizueta Foundation	-	18,248
Johnnie Taylor Executive Training Fund	-	3,500
Kenneth King Training Trust *	34,174	32,689
Matthews Entrepreneurial Award	137	-
Mott Foundation GW Staffing Services	114,709	-
Mott Foundation Planning Grant Micro-Enterprise	17,575	-
Northwestern Mutual Foundation	-	245,274
Public Policy Fund	144,121	201,314
Robert Watkins Award Fund	25,851	27,851
Tornado Relief Fund	15,755	-
 <i>International Activities:</i>		
Asia Associations - Going Global Fund	250	250
Barker Education Fund *	9,102	5,479
Cambodia - Going Global Fund	-	400
Gerald Clore Fund *	55,238	47,566
International Foundation Grant Zimbabwe	1,305	1,305
Korea - Going Global Fund	-	4,000
Oakland/Philippine Fund	13,163	13,163
Revolving No - Interest Loan Fund	2,000	2,000
Russia Training Fund	1,500	1,500
Time Restricted - Going Global Fund	55,858	72,823
UMCOR Grant For Russia	10,831	10,831
	<b>\$ 926,466</b>	<b>\$ 1,166,853</b>

\* Denotes temporarily restricted net assets relating to endowment funds of \$120,838 and \$107,394 at December 31, 2008 and 2007, respectively.

# Goodwill Industries International, Inc. and Related Entity

## Notes to the Consolidated Financial Statements

### J. RESTRICTED NET ASSETS - CONTINUED

Net assets were released from donor restrictions by incurring expenses satisfying the purposes of the following restrictions during the year ended December 31, 2008:

Casey Foundation	\$	127,643
Clyde Orr Fund		2,500
Delegate Assembly Travel Fund		1,144
Disaster Relief Fund - Human Needs		1,413
Disaster Relief Fund - Ike		21,684
Disaster Relief Fund - Infrastructure		83,768
Dulin CEO Recruitment and Training Fund		60,000
Dulin Senior Management Fund		60,000
Elsine Katz Fund		650
Goizueta Foundation		18,248
Johnnie Taylor Executive Training Fund		3,500
Kenneth King Training Trust *		26,762
Matthews Entrepreneurial Award		7,863
Mott Foundation - GW Staffing Services		58,611
Mott Foundation Planning Grant Micro - Enterprise		17,425
Northwestern Mutual Foundation		245,274
Public Policy Fund		57,642
Robert Watkins Award Fund		2,000
Tornado Relief Fund		30,095
<i>International activities:</i>		
Cambodia - Going Global Fund		400
Korea - Going Global Fund		4,000
Time Restricted - Going Global Fund		16,965
		<b>\$ 847,587</b>

\* Denotes endowment fund appropriation during the year ended December 31, 2008.

Permanently restricted net assets consist of the following at December 31,:

	2008	2007
Frank G. Flegal Endowment Fund	\$ 27,261	\$ 32,125
Kenneth K. King Endowment Fund	705,424	879,036
Richard and Lois England Endowment Fund **	198,909	234,575
<i>International activities:</i>		
Barker Education Fund	123,131	123,131
Gerald Clore Training Fund	100,000	100,000
Sioux City Endowment Fund **	5,200	5,200
	<b>\$ 1,159,925</b>	<b>\$ 1,374,067</b>

\*\* Denotes permanently restricted net assets whose investment income has not been donor restricted for a particular purpose. Therefore, investment income from these funds is recorded in unrestricted activities.

# Goodwill Industries International, Inc. and Related Entity

## Notes to the Consolidated Financial Statements

### J. RESTRICTED NET ASSETS - CONTINUED

The changes in endowment net assets are as follows for the year ended December 31, 2008:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balances at January 1, 2008	\$ -	\$ 107,394	\$ 1,374,067	\$ 1,481,841
Interest and dividends	4,323	44,341		48,664
Investment fees	(453)	(4,135)		(4,588)
Realized (loss) gain *	(1,475)		739	(736)
Unrealized loss *	(9,786)		(214,881)	(224,667)
Total investment return	(7,391)	40,206	(214,142)	(181,327)
Support (appropriation)	7,391	(26,762)		(19,371)
Balances at December 31, 2008	\$ -	\$ 120,838	\$ 1,159,925	\$ 1,280,763

\* The Organization has interpreted donor intent such that capital appreciation and depreciation (realized and unrealized gains or losses) are included in permanently restricted net assets when determining the amount which is to be held in perpetuity. The balance of the original donations to permanently restricted net assets amounts to \$773,331.

### K. COMMITMENTS & CONTINGENCIES

Operating lease: The Organization has a lease agreement with an unrelated tenant for office space in its building. The lease agreement expires in 2014. The Organization received a security deposit of \$21,883 from its tenant equal to the first month's rent. Under the lease agreement, rental revenue was \$297,237 and \$297,232 for the years ended December 31, 2008 and 2007, respectively. Future minimum rental receipts under the lease are as follows:

Year Ending December 31,	Amount
2009	\$ 297,014
2010	305,926
2011	315,104
2012	324,559
2013	334,291
Thereafter	285,510
	\$ 1,862,404

# Goodwill Industries International, Inc. and Related Entity

## Notes to the Consolidated Financial Statements

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### K. COMMITMENTS & CONTINGENCIES - CONTINUED

Other liabilities: During 2003, the Organization began the development of a software program called GoodTrak, which allows member Goodwill organizations to track their client base. The Organization solicited funding of \$190,000 from members to support the project and this support was potentially refundable to the members upon fulfillment of certain criteria. Therefore, the amount funded by members was included in accrued expenses at December 31, 2007. During 2008, the Organization received signed agreements from the members who provided the GoodTrak funding which relieved the Organization of any obligation to provide refunds. Therefore, the Organization recognized \$190,000 in program services revenue during the year ended December 31, 2008.

Goodwill RST joint venture: GII was a 50% member of Goodwill RST (RST), a joint venture charity in England, which was established to employ persons with mental or physical disabilities through the provision of training and employment opportunities. During December 2006, the Board of Directors passed a resolution to dissolve RST.

The Organization guaranteed the RST store lease for a period of 10 years. The lease was executed on January 9, 2004. Under the terms of the lease, if payments are not made within 21 days, the lessor has a right to seek payment through the guarantee. The guarantee was limited to approximately \$500,000, which was the original balance of a bank account in London, England used to secure the guarantee. The balance of the bank account amounts to \$111,058 and \$424,603 at December 31, 2008 and 2007, respectively. Therefore, the Organization has recorded a guarantee reserve liability of \$111,058 and \$360,880 at December 31, 2008 and 2007, respectively.

Contributions to RST were expensed in prior years and were funded by unrestricted net assets designated for international activities that were transferred to the Organization from Goodwill Global, Inc. on January 1, 2005. Unrestricted net assets designated for use in international activities amounted to \$717,037 and \$809,902 at December 31, 2008 and 2007, respectively.

During 2008 and 2007, joint venture expenses amounted to \$19,439 and \$102,068, respectively. Such expenses include foreign currency transaction adjustments and legal expenses relating to this matter.

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## Independent Auditor's Report on the Additional Information

To the Board of Directors  
Goodwill Industries International, Inc.  
and Related Entity

Our report on our audit of the consolidated financial statements of Goodwill Industries International, Inc. and Related Entity (the Organization) as of December 31, 2008, and for the year then ended appears on page one. The audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The details of expenses presented on page eighteen is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The additional financial information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Washington, DC  
February 20, 2009

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# Goodwill Industries International, Inc. and Related Entity

## Details of Expenses Year Ended December 31, 2008

	Program Services				Management and General Services		Total
	Sponsored Programs and Grants	Direct Services to Membership	Support Services to Membership	Total	General Administrative Services	Resource Development	2008
Salaries	\$ 459,704	\$ 5,435,161	\$ 2,180,695	\$ 8,075,560	\$ 1,407,373	\$ 259,743	\$ 9,742,676
Employee benefits	66,032	968,806	446,492	1,481,330	249,343	41,062	1,771,735
Payroll taxes	35,209	397,973	152,528	585,710	103,750	16,787	706,247
Personnel expenses	560,945	6,801,940	2,779,715	10,142,600	1,760,466	317,592	12,220,658
Awards and grants	12,474,910	421,558	16,500	12,912,968			12,912,968
Professional fees	116,430	775,551	488,564	1,380,545	440,701	70,513	1,891,759
Conferences and conventions	74,028	207,281	885,789	1,167,098	136,101	7,432	1,310,631
Travel	65,523	384,237	117,326	567,086	124,767	7,029	698,882
Real estate related expenses		189,720	111,431	301,151	303,843	8,729	613,723
Rental and maintenance		101,655	193,284	294,939	32,053	4,733	331,725
Telephone and communications	1,760	188,180	69,428	259,368	44,800	7,907	312,075
Professional dues	250	49,128	75,248	124,626	58,949	6,029	189,604
Printing, publications, and advertising	28,006	78,183	69,184	175,373	4,275	369	180,017
Supplies	12,297	59,764	33,676	105,737	61,910	1,733	169,380
Seminar and registration fees	128	46,014	19,903	66,045	69,713	875	136,633
Postage and shipping	3,979	38,964	34,709	77,652	6,988	1,225	85,865
Bond interest		29,152	11,913	41,065	27,415	1,361	69,841
Employee relations		227	790	1,017	37,372		38,389
Scholarships		164	26,874	27,038			27,038
Bank service charges				-	24,761		24,761
Bad debt				-	17,374		17,374
Program expense			15,687	15,687			15,687
Interest expense - capital leases		2,718	1,111	3,829	703	127	4,659
Income tax - deferred				-	(16,477)		(16,477)
	13,338,256	9,374,436	4,951,132	27,663,824	3,135,714	435,654	31,235,192
Depreciation and amortization		801,128	170,003	971,131	225,140	19,423	1,215,694
Total	\$ 13,338,256	\$ 10,175,564	\$ 5,121,135	\$ 28,634,955	\$ 3,360,854	\$ 455,077	\$ 32,450,886

# Goodwill Industries International, Inc.

## Schedule of Expenditures of Federal Awards Year Ended December 31, 2008

Federal Grantor CFDA Program Title	Federal CFDA Number	Identifying Number	Federal Expenditures
<b>U.S. Department of Labor</b>			
Employment and Training Administration - Senior Community Service			
2007 Employment Program (SCSEP) - Note B	17.235	AD 16233WS0	\$ 6,251,858
2008 Employment Program (SCSEP) - Note B	17.235	AD 162333FO	5,943,794
Occupational Safety & Health Administration (OSHA)	17.502	SH178140860F24	10,055
<b>Corporation for National and Community Service (CNCS)</b>			
Americorps National Direct Grant	94.006	07NDHMD002	361,312
<b>U.S. Department of Agriculture</b>			
Purdue University Cooperative State			
Research, Education, and Extension Service	10.500	80000262124-AG	17,113
<b>Total Expenditures of Federal Awards</b>			<b>\$ 12,584,132</b>

# Goodwill Industries International, Inc.

## Notes to the Schedule of Expenditures of Federal Awards

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### A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Goodwill Industries International, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

### B. SUBRECIPIENTS

Funds passed through to subrecipients under separate grant agreements are as follows:

Goodwill Industries of the Valley, Inc.	\$ 2,325,462
Goodwill Industries Keystone Area, Inc.	2,213,092
Goodwill Industries of Central Indiana, Inc.	2,208,777
Tacoma Goodwill Industries, Inc.	2,106,072
Goodwill Industries of New Mexico, Inc.	1,844,154
Goodwill Industries of Central Arizona, Inc.	1,147,858
Goodwill Industries of North Georgia, Inc.	91,596
Goodwill Industries of Greater Grand Rapids, Inc.	76,855
Goodwill Industries of Wayne and Holmes Counties, Inc.	39,200
Goodwill Industries of Minnesota, Inc.	33,667
Goodwill Industries of Central Texas, Inc.	31,111
Goodwill Industries of Hawaii, Inc.	16,950
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	\$ 12,134,794

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# Independent Auditor’s Report 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*

To the Board of Directors  
Goodwill Industries International, Inc.

We have audited the consolidated financial statements of Goodwill Industries International, Inc. and Related Entity (the Organization) as of and for the year ended December 31, 2008, and have issued our report thereon dated February 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and, with respect to GII for 2008, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of 15810 Indianola Drive, LLC (LLC) were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not extend to LLC.

## Internal Control over Financial Reporting

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

A **control deficiency** 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 misstatements on a timely basis. A **significant deficiency** is a control deficiency, or combination of control deficiencies, that adversely affects GII’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of GII’s financial statements that is more than inconsequential will not be prevented or detected by GII’s internal control. A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by GII’s internal control.

Our consideration of 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 weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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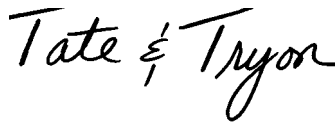
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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether GII'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*.

This report is intended for the information and use of the Board of Directors, management, others within Goodwill Industries International, Inc., and 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.

The image shows a handwritten signature in cursive script that reads "Tate & Tryon". The signature is written in black ink and is positioned above the printed name and date.

Washington, DC  
February 20, 2009

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# Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Directors  
Goodwill Industries International, Inc.

## Compliance

We have audited the compliance of Goodwill Industries International, Inc. (GII) 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, 2008. GII's major federal 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 GII's management. Our responsibility is to express an opinion on GII'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; and 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 GII'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 GII's compliance with those requirements.

In our opinion, GII complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

## Internal Control over Compliance

The management of GII 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 GII'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 GII's internal control over compliance.

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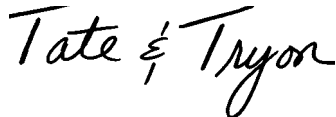
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### **Internal Control over Compliance – Continued**

A **control deficiency** in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A **significant deficiency** is a control deficiency, or combination of control deficiencies, that adversely affects GII's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by GII's internal control. A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by GII's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, others within Goodwill Industries International, Inc., and 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.



Washington, DC  
February 20, 2009

# Goodwill Industries International, Inc.

## Schedule of Findings and Questioned Costs Year Ended December 31, 2008

### Section I – Summary of Audit Results

#### *Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

#### *Federal Awards*

Internal control over the major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  None reported

Type of auditor's report issued on compliance for the major programs: Unqualified

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

Identification of major programs:

U.S. Department of Labor - Employment and Training  
Administration - Senior Community Service  
Employment Program (SCSEP) (CFDA 17.235)

Corporation for National and Community Service  
Americorps National Direct Grant (CFDA 94.006)

Dollar threshold used to distinguish between type A and type B programs: \$377,524

Auditee qualified as low-risk auditee?  Yes  No

# Goodwill Industries International, Inc.

## Schedule of Findings and Questioned Costs *Year Ended December 31, 2008*

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### **Section II – Financial Statement Findings**

No matters were reported.

### **Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

### **Section IV – Prior Year**

No matters were reported.