



Montemayor Hill & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

GOODWILL INDUSTRIES OF CENTRAL TEXAS

CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2010

GOODWILL INDUSTRIES OF CENTRAL TEXAS

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Montemayor Hill & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Goodwill Industries of Central Texas

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated statement of financial position of Goodwill Industries of Central Texas and subsidiaries (Goodwill) as of December 31, 2010 and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of Goodwill's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 financial statements referred to above present fairly, in all material respects, the financial position of Goodwill as of December 31, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated 18 May 2011, on our consideration of Goodwill's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 consolidated basic financial statements 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 audit of the basic 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.

18 May 2011
Austin, Texas

Montemayor Hill & Company, P.C.

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GOODWILL INDUSTRIES OF CENTRAL TEXAS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2010

(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$5,039,632	\$3,570,545
Receivable, net of allowance for doubtful accounts of \$54,647	1,996,130	2,834,684
Inventory	474,277	392,831
Other	<u>573,567</u>	<u>543,747</u>
	8,083,606	7,341,807
INVESTMENTS		
	210,962	14,080
DEBT ISSUANCE COSTS		
	86,572	93,231
LONG-TERM RECEIVABLES		
	219,821	187,461
PROPERTY AND EQUIPMENT		
	<u>28,579,182</u>	<u>24,328,183</u>
	<u>\$37,180,143</u>	<u>\$31,964,762</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$1,542,639	\$1,272,517
Accrued liabilities	3,109,103	2,271,969
Current portion of long-term debt	<u>695,551</u>	<u>535,123</u>
	5,347,293	4,079,609
LONG-TERM LIABILITIES		
Other long-term liabilities	195,288	128,112
Interest rate swaps	1,059,168	950,916
Long-term debt, net of current portion	<u>11,684,439</u>	<u>10,463,886</u>
	<u>12,938,895</u>	<u>11,542,914</u>
	<u>18,286,188</u>	<u>15,622,523</u>
NET ASSETS		
Unrestricted:		
Undesignated	18,577,779	16,136,961
Board designated endowment funds	<u>213,641</u>	<u>106,197</u>
	18,791,420	16,243,158
Temporarily restricted	<u>102,535</u>	<u>99,081</u>
	<u>18,893,955</u>	<u>16,342,239</u>
	<u>\$37,180,143</u>	<u>\$31,964,762</u>

The accompanying notes are an integral part of this financial statement presentation.

GOODWILL INDUSTRIES OF CENTRAL TEXAS

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

(WITH COMPARATIVE TOTAL FOR YEAR ENDED DECEMBER 31, 2009)

	2010			
	Unrestricted	Temporarily Restricted	Total	2009
REVENUE				
Assisted employment – retail, net of cost of goods sold of \$4,055,560	\$27,369,648	\$0	\$27,369,648	\$24,259,142
Goodwill Temporary Services	8,912,522	0	8,912,522	8,221,431
Assisted employment – industrial	5,157,079	0	5,157,079	4,968,412
Contributed goods	3,235,634	0	3,235,634	2,877,267
Grants	4,248,783	0	4,248,783	4,209,905
Evaluation and training	346,143	0	346,143	325,060
Contributions	398,416	256,686	655,102	505,757
United Way	127,523	0	127,523	131,944
Environmental Business Services	838,021	0	838,021	747,147
Other	270,246	0	270,246	144,223
Gain (Loss) on change in fair value of interest rate swaps	(108,252)	0	(108,252)	645,988
Satisfaction of program restrictions	<u>253,232</u>	<u>(253,232)</u>	<u>0</u>	<u>0</u>
	<u>51,048,995</u>	<u>3,454</u>	<u>51,052,449</u>	<u>47,036,276</u>
EXPENSES				
Program:				
Assisted employment – retail	22,063,483	0	22,063,483	19,862,650
Goodwill temporary services	8,146,952	0	8,146,952	7,589,190
Assisted employment – industrial	4,270,035	0	4,270,035	3,859,795
Evaluation and training	6,905,303	0	6,905,303	6,262,099
Environmental business services	<u>1,497,810</u>	<u>0</u>	<u>1,497,810</u>	<u>1,361,957</u>
	42,883,583	0	42,883,583	38,935,691
Management and general	5,183,357	0	5,183,357	5,657,227
Fundraising	<u>433,793</u>	<u>0</u>	<u>433,793</u>	<u>346,832</u>
	<u>48,500,733</u>	<u>0</u>	<u>48,500,733</u>	<u>44,939,750</u>
CHANGE IN NET ASSETS	2,548,262	3,454	2,551,716	2,096,526
BEGINNING NET ASSETS	<u>16,243,158</u>	<u>99,081</u>	<u>16,342,239</u>	<u>14,245,713</u>
ENDING NET ASSETS	<u>\$18,791,420</u>	<u>\$102,535</u>	<u>\$18,893,955</u>	<u>\$16,342,239</u>

The accompanying notes are an integral part of this financial statement presentation.

GOODWILL INDUSTRIES OF CENTRAL TEXAS

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$2,551,716
Depreciation and amortization	2,072,725
Net loss on disposal of fixed assets	(2,918)
Gain on change in fair value of interest rate swaps	108,252
Unrealized gain on investment	(5,424)
(Increase) decrease in assets:	
Receivables	838,554
Inventory	(81,446)
Other assets	(29,820)
Long-term receivables	34,816
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	1,108,669
Deferred revenue	(1,413)
	<u>6,593,711</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of fixed assets	(6,343,547)
Proceeds from the sale of fixed assets	29,400
Purchase of investments	(191,458)
	<u>(6,505,605)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from issuance of debt	1,931,021
Principal payment on debt	(550,040)
	<u>1,380,981</u>

NET CHANGE IN CASH	1,469,087
BEGINNING CASH AND CASH EQUIVALENTS	<u>3,570,545</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$5,039,632</u>

SUPPLEMENTAL INFORMATION:

CASH PAID FOR INTEREST	<u>\$564,713</u>
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The accompanying notes are an integral part of this financial statement presentation.

GOODWILL INDUSTRIES OF CENTRAL TEXAS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION

Goodwill Industries of Central Texas (Goodwill) is a corporation organized under the Nonprofit Corporation Act of the State of Texas. These consolidated financial statements include the accounts of Goodwill and its wholly-owned subsidiary, Goodwill Temporary Services, Inc. (GTS) and Blue Solutions, which is a controlled corporation.

Goodwill receives grants and contracts from governmental programs to conduct various training programs. Goodwill also operates retail stores that sell materials donated by the public, and perform work-related services through contracts with various entities in the Central Texas area.

GTS is a nonprofit corporation organized for the purpose of providing training and temporary employment for people who are disabled or economically disadvantaged.

Blue Solutions is a nonprofit corporation organized for the purpose of providing employment for disabled and severely handicapped persons under and pursuant to contracts with the United States government and others.

Programs consist of:

Assisted employment-retail – The collection process and sale of donations. Program provides employment and training, outside placement and community service restitution.

Goodwill temporary services – Provides employment through temporary jobs for people with disabilities or other barriers to employment.

Assisted employment-industrial – Provides employment and training for disabled or disadvantaged persons.

Evaluation and training – Program provides identification of work skills and aptitude, instruction in good work habits, employer relationships and methods of locating jobs, skills training and job placement.

Environmental business services – The program provides for diversion of electronic waste from the landfills; collection, processing and sale of electronic donations; increasing environmental awareness within Goodwill; and providing employment and training for people with barriers to employment.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL STATEMENT PRESENTATION

Goodwill reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Goodwill currently has no permanently restricted net assets.

GOODWILL INDUSTRIES OF CENTRAL TEXAS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unrestricted Net Assets

Unrestricted net assets result from operating revenues, unrestricted contributions, and unrestricted dividend and interest income, less program, administrative and fund raising expenses.

Temporarily Restricted Net Assets

Support that is restricted by the donor is recorded as an increase in temporarily restricted net assets. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

BASIS OF ACCOUNTING

Goodwill uses the accrual basis method of accounting. Contracts and grants are recorded as revenue when the funds are considered earned. Cost reimbursement contracts are recorded as revenue when the costs are incurred and contributions are recorded as support when the funds are awarded. Deferred revenue is recognized when grant funds are received prior to incurrence of costs on cost reimbursement contracts. Expenses are recognized when incurred.

CONSOLIDATION

As discussed in Note 1, these financial statements are consolidated to include the activities of the subsidiary entities. All intercompany balances have been eliminated for consolidation purposes.

ESTIMATES

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

CASH EQUIVALENTS

Cash equivalents consist of short-term, highly liquid investments that are readily convertible to cash.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories consist of office supplies, supplies used in performing contracts, and purchased or donated items for resale in the retail stores.

GOODWILL INDUSTRIES OF CENTRAL TEXAS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

RECEIVABLES

Goodwill accounts for its accounts receivables based on contract terms. Receivables are considered past due based on contractual terms. Goodwill provides for uncollectible accounts receivable and pledges receivable through the allowance method of accounting. Under this method, a provision for uncollectible accounts is charged to expense and the allowance account is increased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account and recoveries of previously charged off accounts are added to the account. Grants receivable are considered 100 percent collectible.

DONATED MATERIALS

Donated materials received by Goodwill from the public are recognized as contributions at the time of receipt at estimated fair value, and are included as inventory in the accompanying balance sheet. Costs related to bringing donated materials to a salable condition are included in expenses as incurred, and the proceeds from the sale of such materials are recognized as revenue when sold.

CONTRIBUTIONS

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted contributions are reported as temporarily restricted support and are then reclassified to unrestricted net assets upon satisfaction of the restriction or expiration of the time restriction.

PROPERTY AND EQUIPMENT

Property and equipment acquisitions of items costing greater than \$1,000 and with more than one year useful service life are capitalized at cost, or estimated fair value for donated assets. Assets purchased to which grant funders retain title are capitalized when the cost of the individual assets purchased exceeds \$5,000 and useful service life exceeds one year. Proceeds from the sale of property and equipment are considered income to the funding source that originally purchased the asset. Depreciation is computed under the straight-line method and is based on the assets estimated useful lives as follows:

Furniture and equipment	3 - 10 years
Building	30 - 50 years
Transportation equipment	3 - 7 years

Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

GOODWILL INDUSTRIES OF CENTRAL TEXAS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INCOME TAXES

Goodwill is exempt from income taxes under IRS Code Section 501(c)(3). Therefore, no provision has been made for Federal income taxes in the accompanying consolidated financial statements.

COLLECTIONS

Collections, acquired through purchases and contributions since Goodwill's inception of the Environmental Business Services Computer Museum, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

COMPARATIVE TOTALS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Goodwill's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

NOTE 3: RECEIVABLES

Accounts receivable	\$1,432,053
Grants receivable	501,293
Other receivables	117,431
Allowance for doubtful accounts	<u>(54,647)</u>
	<u>\$1,996,130</u>

NOTE 4: COMPENSATED ABSENCES

Goodwill provides its employees with leave time based on the personnel policy. Unused leave time is paid to employees who are eligible for rehire upon termination based on their current rate of pay. At December 31, 2010, Goodwill has accrued approximately \$763,000 in leave time. This amount is included in accrued expenses in the financial statements.

GOODWILL INDUSTRIES OF CENTRAL TEXAS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: LEASES

Goodwill is obligated under various lease agreements for space and equipment. These leases are classified as operating leases for accounting purposes. In addition to the foregoing minimum rentals, one lease requires the payment of additional rents based upon a percentage of gross sales. Total expense for these leases in 2010 was approximately \$3,900,000. The following is a schedule of future minimum lease payments for the operating leases as of December 31, 2010:

2011	\$3,925,751
2012	3,556,002
2013	3,185,174
2014	3,353,495
2015	2,939,940
Thereafter	<u>12,844,314</u>
	<u>\$29,804,676</u>

The future minimum lease payments above have been reduced by \$24,533 per year, which will be received in the form of annual rent abatement. As of December 31, 2010, the receivables balance related to future rent abatements was \$24,533.

NOTE 6: PROPERTY AND EQUIPMENT

	Beginning Balance <u>2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Ending Balance <u>2010</u>
Building improvements	\$6,379,106	\$1,775,468	(\$150,624)	0	\$8,003,950
Buildings	15,068,771	2,055,326	0	0	17,124,097
Furn and equip	5,391,577	1,437,258	(300,177)	28,678	6,557,336
Land	6,156,929	992,975	0	0	7,149,904
Vehicles	1,250,891	56,160	(196,864)	(134,343)	975,844
GTS equipment	201,351	3,961	(98,612)	(28,678)	78,022
GTS vehicles	0	22,399	0	134,343	156,742
Blue Solu. Equip	11,783	0	0	0	11,783
Accumulated Depr.	<u>(10,132,225)</u>	<u>(2,066,066)</u>	<u>719,795</u>	<u>0</u>	<u>(11,478,496)</u>
	<u>\$24,328,183</u>	<u>\$4,277,481</u>	<u>(\$26,482)</u>	<u>0</u>	<u>\$28,579,182</u>

GOODWILL INDUSTRIES OF CENTRAL TEXAS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: DEBT

Debt at December 31, 2010 consists of the following:

Loan payable to Compass Bank in scheduled monthly principal installments ranging from \$28,000 to \$62,000, plus interest at 65% of LIBOR plus .90%, collateralized by real estate, due January 2024.	\$7,523,336
Loan payable to Compass Bank due in monthly payments of ranging from \$10,000 to \$25,000, plus interest at LIBOR plus 1.90%, due May 9, 2022. Collateralized by real estate in Hutto, Texas.	2,086,055
Construction draw/term loan up to \$2,800,000 payable to Compass Bank. Interest is due monthly during the six month construction period followed by monthly payments of principal and interest sufficient to fully amortize the loan over 15 years. Interest is at Wall Street Journal Prime Floating with a 3% floor, Due June 1, 2025. The rate as of December 31, 2010 was 3.25%. Collateralized by real estate in Lakeway, Texas.	<u>2,770,599</u>
	<u>\$12,379,990</u>
Current portion	\$695,551
Long-term	<u>11,684,439</u>
	<u>\$12,379,990</u>

The debt maturities are:

2011	\$695,551
2012	742,140
2013	776,641
2014	814,901
2015	855,603
Thereafter	<u>8,495,153</u>
	<u>\$12,379,989</u>

Interest expense for the year was approximately \$550,000.

Goodwill's loan agreement with the Compass Bank includes various covenants, including:

1. Audited financial statements due within 150 days of the close of each fiscal year.
2. Quarterly financial statements within 45 days of each quarter.
3. Proper maintenance of properties.
4. Maintain a minimum tangible net worth of at least \$8,200,000, tested quarterly.

GOODWILL INDUSTRIES OF CENTRAL TEXAS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: DEBT

5. Maintain a maximum ratio of indebtedness to tangible net worth of 2.0 to 1.0.
6. Not becoming a party to a merger or consolidation without the written consent of the lender.
7. Obtaining written consent of the lender to pledge or mortgage any of its assets.
8. Obtain written consent of the lender before incurring additional indebtedness in excess of \$250,000.
9. Maintain a minimum fixed charge coverage ratio of at least 1.10 to 1.00, tested quarterly. (The calculation includes cash less \$1,000,000.)
10. Maintain a loan to value ratio of not greater than .8 to 1.0.

NOTE 8: DEFINED CONTRIBUTION PLAN

Goodwill offers a 403(b) tax deferred retirement plan. All employees are eligible to participate on their first day of employment. For employees that are 21 years of age or older, Goodwill will match 50% of an employee's contributions up to 6% of their salary deferral after an employee has been employed for one year and worked 1,000 hours as of January 1 or July 1. Any employee contributions made toward the retirement plan are 100% vested. Participating employees vest employer contributions at 20% per year of service, reaching 100% after five years. Pension expense for the year ended December 31, 2010 was approximately \$197,000.

NOTE 9: INTEREST RATE SWAP

Goodwill uses interest rate swaps as part of its interest rate management strategy. Goodwill entered into two no-hedge interest rate swap transactions to effectively convert variable rate loans to a fixed rate of 4.64% and 7.35%. Interest rate swaps, which expire January 2024 and May 2012, are recorded on the statement of financial position at fair value. Changes in fair value of the interest rate swap are recognized in earnings. The fair value of interest rate swaps were \$1,059,168 on December 31, 2010 and are recorded as a liability on the Consolidated Statement of Financial Position.

NOTE 10: COMMITMENTS

Goodwill has a deferred compensation agreement with an employee subject to IRS Code 457(f). Under the terms of the agreement Goodwill will contribute \$30,000 annually to the account maintained for the benefit of the employee less any amounts contributed annually to the 457(b) Eligible Deferred Compensation Plan. The employee does not have a vested interest or entitlement to the account until the earliest of the following events:

- a. December 31, 2013
- b. termination due to physical or mental disability
- c. death

GOODWILL INDUSTRIES OF CENTRAL TEXAS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: COMMITMENTS

Goodwill also has a 457 (b) Eligible Deferred Compensation Plan (Plan). Annual contributions are made by Goodwill in accordance with the Plan. Ownership of the assets remains the sole property of Goodwill. Goodwill may at any time terminate the agreement.

Both the 457(f) and 457(b) are subject to the claims of general creditors.

The value of this deferred compensation agreement and Plan are included in Long-term Receivables and Accrued Liabilities for \$195,288.

NOTE 11: FAIR VALUE ESTIMATES

	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Cash and cash equivalents	\$5,039,632	\$5,039,632		
Investments	\$210,962	\$210,962	\$210,962	
Long-term receivables	\$219,821	\$219,821		
Long-term debt	\$11,684,438	\$11,684,438		
Other long-term liabilities	\$195,288	\$195,288		
Interest rate swaps	\$1,059,168	\$1,059,168		\$1,059,168
Contributed goods		\$3,235,634		\$3,235,645

The following methods and assumptions were used to estimate the fair values presented above:

Cash and cash equivalent – The fair value is equal to the carrying amount of the asset.

Long-term Receivables – The carrying amount is a reasonable estimate of fair value.

Long-term debt – Based on the borrowing rates currently available to Goodwill for bank loans with similar terms and maturities.

Other long-term liabilities – Based on the fair value of related assets from a 457(b) and 457(f) deferred compensation plans.

Interest rate swaps – The carrying value is the fair value as determined by Compass Bank. During the year ended December 31, 2010, the loss on the change is the fair value of the interest rate swap as reported in the consolidated statement of activities was \$108,252.

Contributed goods – Based on the fair value of similar inventory items.

GOODWILL INDUSTRIES OF CENTRAL TEXAS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of:

Restricted for Youth Programs	\$51,473
Restricted for Future Building	9,000
Restricted for Evaluation and Training Programs	13,734
Restricted for Community Education	<u>28,328</u>
Total Temporarily Restricted Net Assets	<u>\$102,535</u>

NOTE 13: BOARD DESIGNATED NET ASSETS

The Board of Directors of Goodwill Industries of Central Texas has designated \$200,000 of unrestricted net assets for endowment.

NOTE 14: COLLECTIONS

The Environmental Business Services Computer Museum collection is made up of computers and computer related equipment of historical significance acquired through donation. The collection is held for educational, research and curatorial purposes. Each of the items is cataloged, preserved, cared for, and activities verifying their existence and assessment of their condition and historical significance are continually performed.

NOTE 15: CONCENTRATIONS

Approximately 54% of receivables are due from various agencies of the State of Texas.

Approximately 54% of revenue from assisted employment industrial for 2010 was from various agencies of the State of Texas, and 46% was from the Federal government.

Approximately 99% of revenue from Goodwill Temporary Services for 2010 was from various agencies of the State of Texas.

NOTE 16: SUBSEQUENT EVENTS

Goodwill has evaluated subsequent events as of May 18, 2011, the date the financials statements were issued.

Subsequent to year end Goodwill has entered into the following:

- Lease for space in Fredericksburg, Texas. The lease has a term of six years. Total future commitments are approximately \$523,600.
- Contracts to build a store in Austin, Texas in the Southpark Meadows development. The total commitment for these various contracts is approximately \$2,300,000.

GOODWILL INDUSTRIES OF CENTRAL TEXAS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17: ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2010 were approximately \$940,000.



Montemayor Hill & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Goodwill Industries of Central Texas

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*

We have audited the consolidated financial statements of Goodwill Industries of Central Texas (Goodwill) as of and for the year ended December 31, 2010, and have issued our report thereon dated 18 May 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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



Board of Directors
Goodwill Industries of Central Texas
Independent Auditors' 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*

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, Board of Directors, 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.

Mantamagno Hill & Company, P.C.

18 May 2011
Austin, Texas



Montemayor Hill & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Goodwill Industries of Central Texas

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of Goodwill Industries of Central Texas (Goodwill) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2010. Goodwill's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Goodwill's management. Our responsibility is to express an opinion on Goodwill's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 Goodwill's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Goodwill's compliance with those requirements.

In our opinion, Goodwill complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010

Internal Control Over Compliance

The management of Goodwill is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Goodwill's internal control over



Board of Directors
Goodwill Industries of Central Texas
Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and On Internal Control Over
Compliance in Accordance With OMB Circular A-133

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Goodwill's internal control over compliance.

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

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

This report is intended solely for the information and use of the audit committee, management, Board of Directors, 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.

Mantemeyer Hill + Company, P.C.

18 May 2011
Austin, Texas

GOODWILL INDUSTRIES OF CENTRAL TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA#</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Labor:			
Texas Workforce Commission			
Capital Area Workforce Development Board			
WIA Title I Youth *	17.259	WIAY14211	\$332,279
WIA Title I Youth *	17.259	WIA-YEP001.08	11,347
WIA Title I Youth *	17.259	WIA-YEP001.09	<u>1,463,903</u>
			1,807,529
WIA Title I Youth ARRA	ARRA 17.259	WIA-YEP001.03	182,783
Veterans Outreach and Employment Services	17.259	1410XSW005	57,674
Texas Association of Goodwills			
Wagner Peyser	17.207	2908WPB002	7,399
Goodwill Industries International			
Pathways Out of Poverty G3	17.275	GJ-19920-10-60A-24	<u>188,828</u>
Total for U.S. Department of Labor			<u>2,244,213</u>
U.S. Department of Health and Human Services:			
The Office of Family Assistance			
Responsible Fatherhood	93.086	90FR0051/05	58,532
Responsible Fatherhood	93.086	90FR0051/04	<u>190,394</u>
			248,926
Temporary Assistance for Needy Families TANF	93.558		<u>929,331</u>
Total for U.S. Department of Health & Human Services			<u>1,178,257</u>
U.S. Department of Justice			
Goodwill Industries International			
GoodGuides Youth Mentoring Grant	ARRA 16.808	2009-SC-B9-0035	109,716
SafePlace – Recovery Act Transitional Housing	ARRA 16.805	2009-EH-S6-0023	<u>47,006</u>
			<u>156,722</u>
U.S. Department of Education			
Department of Assistive and Rehabilitative Services			
Hands on Hospitality	84.390	538-10-7777- 00000000208	<u>58,890</u>
National Archives and Records Administration			
NHPRC	89.003	NAR10-RB-50097-10	<u>14,450</u>
U.S. Department of Housing & Urban Development:			
Housing Authority of the City of Austin			
CDBG/Entitlement Grant	14.218	HACA-00-P-049	40,500
CDBG/Entitlement Grant	14.218	HACA-09P-0152	58,351
Caritas - Homeless Prevention and			
Rapid Re-Housing Program	ARRA 14.257	HRPR ARRA	<u>37,500</u>
			<u>136,351</u>
Corporation for National & Community Service			
Goodwill Industries International			
AmeriCorps	94.006	07NDHMD002	41,324
AmeriCorps ARRA	ARRA 94.006	07NDHMD002	<u>24,182</u>
			<u>65,506</u>
			<u>\$3,854,389</u>

* Includes \$215,263 in funds passed-through to other entities.

NOTE: See Note 2 to the consolidated financial statements for a summary of significant accounting policies.

See independent auditors' report.

GOODWILL INDUSTRIES OF CENTRAL TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2010

A. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered material weakness(es)?	None Noted
Noncompliance material to financial statements notes?	None

FEDERAL AWARDS

Internal controls over major programs: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered material Weakness(es)?	None Noted
Type of auditors' report issued on compliance with major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?	No
Major program:	CFDA #17.259 CFDA #ARRA 17.259 CFDA #93.558 WIA Title I Youth
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	Yes

B. FINANCIAL STATEMENT FINDINGS

Current year - none
Prior year - none

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

See independent auditors' report.