

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

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

December 31, 2010

Goodwill Industries International, Inc. and Related Entity

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Accountants

and Consultants

Independent Auditor's Report on the Consolidated Financial Statements and Supplementary Schedule of Expenditures of Federal Awards

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, 2010 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 2009 consolidated financial statements and, in our report dated March 5, 2010, 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 2010, 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 2010 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, 2010, 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 our report dated, March 4, 2011, 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 consolidated financial statements 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Washington, DC
March 4, 2011

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Goodwill Industries International, Inc. and Related Entity

Consolidated Statements of Financial Position

December 31,	2010				2009
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Assets					
Cash and cash equivalents - Note B	\$ 1,374,484	\$ -	\$ -	\$ 1,374,484	\$ 1,799,932
Investments - Notes B, C, & D	5,497,424	4,318,258	1,186,202	11,001,884	7,572,466
Accounts and notes receivable - Note E	703,111			703,111	826,448
Pledges receivable		40,269		40,269	47,505
Grants receivable - Note F	5,195,134			5,195,134	2,443,477
Prepaid expenses and other assets	486,611			486,611	523,885
Property and equipment - Notes G, H, & I	8,627,902			8,627,902	8,916,335
Total assets	\$ 21,884,666	\$ 4,358,527	\$ 1,186,202	\$ 27,429,395	\$ 22,130,048
Liabilities and Net Assets					
Liabilities					
Accounts payable	\$ 5,215,327	\$ -	\$ -	\$ 5,215,327	\$ 2,934,164
Accrued expense - Note D	1,812,035			1,812,035	1,403,655
Deferred revenue	322,467			322,467	548,435
Capital lease obligation - Note H	66,715			66,715	101,815
Bonds payable - Note I	1,800,000			1,800,000	2,100,000
Interest rate swap agreement - Notes B & I	60,169			60,169	-
Security deposit - Note M	21,883			21,883	21,883
Guarantee reserve - Note M				-	15,502
Total liabilities	9,298,596	-	-	9,298,596	7,125,454
Net assets - Notes J & K	12,586,070	4,358,527	1,186,202	18,130,799	15,004,594
Total liabilities and net assets	\$ 21,884,666	\$ 4,358,527	\$ 1,186,202	\$ 27,429,395	\$ 22,130,048

See notes to the consolidated financial statements.

Goodwill Industries International, Inc. and Related Entity

Consolidated Statements of Activities

<i>Year Ended December 31,</i>	2010			2009	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and support					
Federal awards	\$ 29,430,113	\$ -	\$ -	\$ 29,430,113	\$ 15,856,085
Membership dues	17,172,054			17,172,054	16,670,380
Contributions - Note L	1,683,567	3,768,514		5,452,081	4,897,141
Program services fees	2,094,709			2,094,709	1,763,206
Investment income - Note C	122,199	30,837		153,036	159,397
Rental - Note M	297,239			297,239	297,240
Participation fees	196,553			196,553	60,625
Legacies and bequests	166,930			166,930	39,892
Other income	16,325			16,325	36,210
	51,179,689	3,799,351	-	54,979,040	39,780,176
Net assets released from restriction - satisfaction of purpose restrictions - Note J	1,083,919	(1,083,919)		-	-
Total revenue and support	52,263,608	2,715,432	-	54,979,040	39,780,176
Expense					
Program services					
Sponsored programs and grants - Note N	30,571,540			30,571,540	18,196,519
Direct services to membership	12,562,942			12,562,942	12,566,588
Support services to membership	4,989,756			4,989,756	4,375,749
Total program services	48,124,238			48,124,238	35,138,856
Management and general services					
General and administrative	3,612,653			3,612,653	3,423,233
Resource development	473,040			473,040	340,932
Total management and general	4,085,693			4,085,693	3,764,165
Total expense	52,209,931	-	-	52,209,931	38,903,021
Change in net assets from operations	53,677	2,715,432	-	2,769,109	877,155
Net gain on investments - Note C	421,152	59,505	(78,894)	401,763	641,313
Joint venture - Note M	15,502			15,502	(10,737)
Unrealized loss on interest rate swap agreement - Note I	(60,169)			(60,169)	-
Loss on sale of property and equipment				-	(29,617)
Change in net assets	430,162	2,774,937	(78,894)	3,126,205	1,478,114
Net assets, beginning of year	12,155,908	1,583,590	1,265,096	15,004,594	13,526,480
Net assets, end of year	\$ 12,586,070	\$ 4,358,527	\$ 1,186,202	\$ 18,130,799	\$ 15,004,594

See notes to the consolidated financial statements.
Certain 2009 amounts have been reclassified for comparative purposes.

Goodwill Industries International, Inc. and Related Entity

Consolidated Statements of Cash Flows

Year Ended December 31,	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 3,126,205	\$ 1,478,114
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net gain on investments	(401,763)	(641,313)
Unrealized loss on interest rate swap agreement	60,169	-
Loss on sale of property and equipment	-	29,617
Depreciation and amortization	880,480	1,084,674
Uncollectible accounts	51,898	85,139
Changes in assets and liabilities:		
Accounts and notes receivable	71,439	176,966
Pledges receivable	7,236	21,341
Grants receivable	(2,751,657)	(263,455)
Prepaid expenses and other assets	37,274	(48,305)
Accounts payable	2,281,163	2,551,119
Accrued expense	408,380	(1,729,352)
Deferred revenue	(225,968)	312,366
Guarantee reserve	(15,502)	(95,556)
Total adjustments	403,149	1,483,241
Net cash provided by operating activities	3,529,354	2,961,355
Cash flows from investing activities		
Purchases of property and equipment	(592,047)	(797,028)
Purchases of investments	(3,053,233)	(4,794,453)
Proceeds from sales of investments	25,578	3,522,099
Net cash used in investing activities	(3,619,702)	(2,069,382)
Cash flows from financing activities		
Principal payment on bonds payable	(300,000)	(100,000)
Principal payments on capital lease obligation	(35,100)	(44,030)
Net cash used in financing activities	(335,100)	(144,030)
Net (decrease) increase in cash and cash equivalents	(425,448)	747,943
Cash and cash equivalents, beginning of year	1,799,932	1,051,989
Cash and cash equivalents, end of year	\$ 1,374,484	\$ 1,799,932
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 69,142	\$ 126,535
Noncash investing and financing transaction Donated property and equipment	\$ -	\$ 128,006

See notes to the consolidated financial statements.
Certain 2009 amounts have been reclassified for comparative purposes.

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

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 intra-entity 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. 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.

At December 31, 2010, the Organization had net operating loss carry-forwards resulting from its unrelated business activities which could be applied against future years' taxable income. The net operating loss carry-forwards expire at various dates through 2030. Under generally accepted accounting standards, the net operating losses resulted in a net deferred tax asset of \$82,661 at December 31, 2009, which was included in prepaid expenses and other assets in the accompanying consolidated statements of financial position. During 2010, management determined that the net operating loss carry-forwards would expire before they could be used to offset taxable income in future years. Thus, the net deferred tax asset created by the net operating loss carry-forwards was completely offset by a valuation allowance and amounts to \$0 at December 31, 2010.

The Organization believes that it has appropriate support for any income tax positions taken. Therefore, management has not identified any uncertain income tax positions. At a minimum, the December 31, 2007 through 2010 tax years are open for examination by 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.

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. Accordingly, actual results could differ from estimates.

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and cash equivalents: For financial statement purposes, the Organization considers demand deposits, certificates of deposit, and repurchase agreements to be cash equivalents. Investment portfolio cash is not included in cash and cash equivalents because it is held for long-term purposes.

Pledges receivable: Pledges receivable primarily consist of amounts due within one year and have been recorded at net realizable value. The Organization provides for probable losses on pledges 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. The allowance for doubtful pledges amounted to \$8,125 and \$17,429 at December 31, 2010 and 2009, respectively.

Deferred revenue: Deferred revenue consists of meeting registrations, event sponsorships, and GoodTrak fees. Revenue relating to meeting registrations and event sponsorships is recognized in the period when the meeting or event occurs. Fees related to GoodTrak, which is GII's web-based software system that allows client tracking and case management for Goodwill members, is recognized using a straight-line method over the user's service period.

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.

Participation fees: Participation fees are received from members participating in the Goodwill Recovery Corps, which is part of the AmeriCorps federal award.

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.

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Prior-year comparative totals: The consolidated financial statements include certain 2009 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 2009 consolidated financial statements, from which the summarized information was derived.

Subsequent events: Subsequent events have been evaluated through March 4, 2011.

B. CONCENTRATIONS AND OTHER RISKS

Credit risk: The Organization maintains demand deposits, certificates of deposit, and a repurchase agreement with commercial banks and financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portion of cash and cash equivalents are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Organization.

Market risk: The Organization invests funds in various types of marketable securities. Such investments are exposed to market and credit risks. The Organization's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying consolidated financial statements may not be reflective of the portfolio's value during subsequent periods.

Interest rate risk: The Organization has bonds payable with a variable rate of interest. To minimize the unpredictability of interest payments, the Organization has entered into an interest rate swap agreement to convert the interest portion of its obligation from a variable rate to a fixed rate. Therefore, interest payments are calculated using the fixed interest rate and no other cash payments are required in relation to the interest rate swap agreement unless it is terminated prior to maturity. In the event of termination prior to maturity, the amount paid or received in termination would be calculated as the net present value, using current interest rates, of the remaining interest payments due through the end of the original term of the agreement.

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

C. INVESTMENTS

In accordance with generally accepted accounting principles, the Organization 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 are measured on a recurring basis at fair value using Level 1 inputs and consist of the following, at December 31,:

	2010	2009
Portfolio cash	\$ 3,893,281	\$ 1,602,710
Mutual funds - equities *	2,406,739	2,159,804
Mutual funds - bonds	<u>4,701,864</u>	<u>3,809,952</u>
	<u>\$ 11,001,884</u>	<u>\$ 7,572,466</u>

* Investments in equity mutual funds, which are held to fund the deferred compensation described in Note D, amounted to \$74,881 and \$53,521 at December 31, 2010 and 2009, respectively.

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

	2010	2009
Interest and dividends	\$ 189,961	\$ 189,431
Investment fees	<u>(36,925)</u>	<u>(30,034)</u>
	<u>\$ 153,036</u>	<u>\$ 159,397</u>
Unrealized gain	\$ 458,182	\$ 712,500
Realized loss	<u>(56,419)</u>	<u>(71,187)</u>
	<u>\$ 401,763</u>	<u>\$ 641,313</u>

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

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 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 \$74,881 and \$53,521 for the years ended December 31, 2010 and 2009, 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's contributions on behalf of each eligible employee equal 7.5% of the employee's compensation plus 4.3% of compensation in excess of the Social Security Average Annual Wage in effect on the first day of the plan year. The Organization's contributions to the plan were \$852,239 and \$748,830 for the years ended December 31, 2010 and 2009, respectively.

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,:

	2010	2009
Member organizations *	\$ 1,029,580	\$ 1,159,585
Other receivables	<u>296,588</u>	<u>240,401</u>
	1,326,168	1,399,986
Less allowance for doubtful accounts and notes	<u>(623,057)</u>	<u>(573,538)</u>
	<u>\$ 703,111</u>	<u>\$ 826,448</u>

* Includes various membership dues receivables that have been converted to non-interest bearing notes totaling \$544,761 and \$627,568 at December 31, 2010 and 2009, respectively.

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

F. GRANTS RECEIVABLE

Grants receivable consist of amounts due from government agencies. Management periodically reviews the status of all grants receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the government agency and the age of the receivable balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful accounts was recorded. Grants receivable consist of the following at December 31,:

	2010	2009
SCSEP	\$ 3,218,929	\$ 1,426,619
Good Guides	867,962	665,360
Pathways out of poverty	747,611	-
Good Prospects	236,647	-
AmeriCorps	78,828	303,547
Agrability	45,157	37,288
OHSA	-	10,663
	\$ 5,195,134	\$ 2,443,477

G. 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,:

	2010	2009
Land	\$ 1,500,000	\$ 1,500,000
Building and improvements	7,936,639	7,848,423
Furniture and equipment	4,780,441	4,510,314
Artwork	60,000	60,000
	14,277,080	13,918,737
Less accumulated depreciation and amortization	(5,649,178)	(5,002,402)
	\$ 8,627,902	\$ 8,916,335

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

H. CAPITAL LEASE OBLIGATION

The Organization has entered into a capital equipment lease for three copiers which expires September 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 was recorded as an asset and is being amortized over the life of the related lease. The leased equipment has the following book value at December 31,:

	2010	2009
Office equipment	\$ 142,836	\$ 142,836
Less accumulated amortization	<u>(103,159)</u>	<u>(55,547)</u>
	<u>\$ 39,677</u>	<u>\$ 87,289</u>

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

Year Ending December 31,	Amount
2011	\$ 40,254
2012	<u>30,191</u>
	70,445
Less amount representing interest	<u>(3,730)</u>
	<u>\$ 66,715</u>

I. DEBT OBLIGATIONS

Bonds payable: The Organization had tax-exempt bonds payable which were issued by Maryland Economic Development Corporation, the original trustee. The original principal amount of the bonds was \$3,700,000, which was used for the purchase of land and building at 15810 Indianola Drive. During 2010, the bonds were purchased from the original trustee by SunTrust Bank (the Bank). Although the outstanding principal amount was not changed, the interest terms changed. The Organization has signed a credit agreement with the Bank that stipulates payment terms relating to principal and interest.

The bonds mature on February 1, 2034 and interest is based on LIBOR plus 2.5%, multiplied 67% and a margin rate factor (as determined by the Bank). The bonds are secured by the land and building at 15810 Indianola Drive.

The agreement with the Bank contains various debt covenants, including requirements that the Organization maintain unrestricted liquidity of greater than 15% and maintain a cash flow to debt service ratio of not less than 1.15 to 1. At December 31, 2010 and 2009, the Organization was in compliance with the debt covenants.

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

I. DEBT OBLIGATIONS - CONTINUED

Future principal payments under the credit agreement are as follows:

Year Ending December 31,	Amount
2011	\$ 100,000
2012	100,000
2013	100,000
2014	100,000
2015	100,000
Thereafter	1,300,000
	<u>\$ 1,800,000</u>

Interest rate swap agreement: The Organization has entered into an interest rate swap agreement. This agreement is intended to allow the Organization to minimize the risk of future interest rate fluctuations related to the bonds payable described above. As the variable interest rate on the bonds payable increases, the interest rate swap liability decreases. The agreement expires February 1, 2034 and has a fixed interest rate of 2.24%.

The fair value of the interest rate swap is the estimated amount that the Bank would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties. In particular, the fair value of the interest rate swap agreement was based on the Bank's income approach calculation using Level 3 inputs. In its calculation, the Bank estimated the fair value of the liability based on both the present value of projected future interest rates and the fixed rate stipulated in the agreement. Management believes the bank's calculation to be a reasonable approximation of the fair value of the liability under the interest rate swap agreement, which amounted to \$60,169 at December 31, 2010. The change in the liability under the interest rate swap agreement was recorded as an unrealized loss within the consolidated statement of activities.

J. NET ASSETS

Unrestricted net assets: 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 \$950,400 and \$850,952 at December 31, 2010 and 2009, respectively.

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

J. NET ASSETS - CONTINUED

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

	2010	2009
Endowment Funds (Note K)	\$ 90,392	\$ 58,205
Alumni Century Fund	11,571	11,571
Alumni Travel Fund	1,485	5,228
Anthony Family Foundation	35,000	15,000
Bank of America - GoodSen\$e	-	3,818
Bank of America - Good A\$\$et\$	35,297	113,021
Casey Foundation	49,310	13,634
Charles Schwab - Good A\$\$et\$	378,480	-
Disaster Relief Fund	80,232	80,232
Disaster Relief Fund - Human Needs	3,487	3,487
Disaster Relief Fund - Ike	1,816	1,816
Disaster Relief Fund - Infrastructure	51,022	50,318
Dulin CEO Recruitment and Training Fund	73,744	67,835
Dulin Senior Management Fund	140,878	132,878
Dulin Srategic Planning Fund	15,846	15,846
Elsine Katz Fund	4,116	5,169
Foltz Fund	-	36,200
Goizueta Foundation	326,165	416,251
Lumina Foundation	250,000	-
Matthews Entrepreneurial Award	232	188
Mott Foundation GW Staffing Services	3,787	116,218
Mott MicroEnterprises Grant	25,457	113,208
Public Policy Fund	144,601	144,351
Robert Watkins Award Fund	23,851	24,851
Tornado Relief Fund	15,755	15,755
Tracfone Wireless, Inc.	79,717	-
Walmart Foundation - Beyond Jobs Program	2,352,791	-
<i>International activities:</i>		
Endowment Funds (Note K)	93,588	68,603
Asia Associations - Going Global Fund	250	250
Going Global Fund	40,858	40,858
International Foundation Grant Zimbabwe	1,305	1,305
Oakland/Phillippine Fund	13,163	13,163
Revolving No - Interest Loan Fund	2,000	2,000
Russia Training Fund	1,500	1,500
UMCOR Grant For Russia	10,831	10,831
	\$ 4,358,527	\$ 1,583,590

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

J. NET ASSETS - CONTINUED

Net assets are released from restrictions either as a result of the expiration of a time restriction or due to the satisfaction of a purpose restriction. The following net assets were released from restriction due to the satisfaction of their purpose restrictions during the year ended December 31, 2010:

Endowment Funds (Note K)	\$ 30,771
Alumni Travel Fund	3,743
Bank of America - GoodSen\$	3,818
Bank of America - Good A\$\$et\$	77,724
Charles Schwab - Good A\$\$et\$	71,521
Casey Foundation	164,325
Disaster Relief Fund - Infrastructure	20,000
Dulin CEO Recruitment and Training Fund	26,090
Dulin Senior Management Fund	40,000
Elsine Katz Fund	1,053
Foltz Fund	121,100
Goizueta Foundation	90,086
Matthews Entrepreneurial Award	6,056
Mott Foundation GW Staffing Services	168,991
Mott MicroEnterprises Grant	87,751
Robert Watkins Award Fund	1,000
Tracfone Wireless, Inc.	20,282
Walmart Foundation - Beyond Jobs Program	147,608
<i>International activities:</i>	
Endowment Funds (Note K)	2,000
	\$ 1,083,919

K. ENDOWMENTS

The Organization's endowments consist of donor-restricted endowment funds which are classified within permanently restricted net assets. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Director'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 temporarily restricted activities until appropriated for spending.

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

K. ENDOWMENTS – CONTINUED

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that achieves constant growth of the distribution amount and the corpus. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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.

Spending Policy and How Investment Objectives Relate to Spending Policy

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 equity securities.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor originally contributed as an endowment fund to the Organization. In accordance with generally accepted accounting principles, deficiencies of this nature would be reported within unrestricted net assets. However, there were no funds with deficiencies at December 31, 2010 and 2009.

Endowment funds consisted of the following at December 31, 2010 with 2009 totals:

	2010			Total	2009
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
Frank F. Flegal Education and Training	\$ -	\$ 61,742	\$ 20,000	\$ 81,742	\$ 53,233
Kenneth K. King Training Trust *		26,881	837,300	864,181	820,121
Richard and Lois England *		1,769	100,571	102,340	221,616
<i>International activities:</i>					
Barker Education		9,591	123,131	132,722	132,574
Gerald Clore Training		79,629	100,000	179,629	159,160
Sioux City		4,368	5,200	9,568	5,200
	\$ -	\$ 183,980	\$ 1,186,202	\$ 1,370,182	\$ 1,391,904

* The endowment fund's gift instrument provides instructions that investment appreciation (depreciation) should be included in permanently restricted.

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

K. ENDOWMENTS – CONTINUED

Changes in endowment funds consist of the following for the year ended December 31, 2010 with 2009 totals:

	2010				2009
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Endowment funds, January 1, 2010	\$ -	\$ 126,808	\$ 1,265,096	\$ 1,391,904	\$ 1,273,372
Investment return					
Interest and dividends		32,695		32,695	39,948
Investment fees		(514)		(514)	(10,594)
Realized loss		(13,078)	(4,972)	(18,050)	(4,932)
Unrealized gain (loss)		70,840	(73,922)	(3,082)	119,171
Appropriations	-	89,943	(78,894)	11,049	143,593
		(32,771)		(32,771)	(25,061)
Endowment funds, December 31, 2010	\$ -	\$ 183,980	\$ 1,186,202	\$ 1,370,182	\$ 1,391,904

L. IN-KIND CONTRIBUTIONS

The Organization receives various in-kind contributions. In particular, donated services are recognized as contributions and expensed in accordance with generally accepted accounting principles (GAAP). In order to meet the criteria for recognition in the consolidated financial statements, contributions of in-kind services must (a) create or enhance non-financial assets or (b) require specialized skills, be performed by people with those skills, and would otherwise be purchased by the Organization.

The Organization received in-kind contributions which were recorded at their estimated fair values during the years ended December 31,:

	2010	2009
Advertising	\$ 1,444,500	\$ 1,619,000
Professional services	196,900	149,038
Property and equipment (software)	-	128,006
Intangible asset (domain name)	-	27,500
	\$ 1,641,400	\$ 1,923,544

Goodwill Industries International, Inc. and Related Entity

Notes to the Consolidated Financial Statements

M. COMMITMENTS & CONTINGENCIES

Tenant lease: The Organization has an operating lease agreement to provide office space in its building to an unrelated tenant. The lease agreement expires in 2014 and the tenant provided a security deposit of \$21,883 equal to the first month's rent. Rental revenue was \$297,239 and \$297,240 for the years ended December 31, 2010 and 2009, respectively. Future minimum rental receipts are as follows:

Year Ending December 31,	Amount
2011	\$ 315,104
2012	324,559
2013	334,291
2014	<u>285,510</u>
	<u>\$ 1,259,464</u>

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. After the dissolution, the Organization guaranteed the RST store lease for a specified period. Therefore, the Organization recorded a guarantee reserve liability of \$15,502 at December 31, 2009.

During 2010, the guarantee period ended and the balance of the guarantee reserve liability was written off. Therefore, the Organization recognized a gain of \$15,502 during the year ended December 31, 2010. Joint venture expenses included foreign currency transaction adjustments and legal expenses relating to the guarantee which amounted to \$10,737 during the year ended December 31, 2009.

Government grants: Amounts received or receivable from government agencies relating to grants are subject to audit and adjustment by the government agencies. The amount, if any, of expenditures which may be potentially disallowed cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

N. PASS THROUGH AWARDS AND GRANTS

The following is a summary of federal awards and private foundation grants which were passed through to the Organization's members during the years ended December 31,:

	2010	2009
Federal awards	\$ 26,712,197	\$ 14,782,649
Private foundation grants	<u>225,647</u>	<u>1,764,451</u>
	<u>\$ 26,937,844</u>	<u>\$ 16,547,100</u>

T A T E



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A Professional Corporation

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Accountants

and Consultants

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, 2010, 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 information on the following page 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
March 4, 2011

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Goodwill Industries International, Inc. and Related Entity

Details of Expense

Year Ended December 31, 2010

	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	
Salaries	\$ 2,195,033	\$ 5,697,737	\$ 1,997,080	\$ 9,889,850	\$ 1,432,949	\$ 259,603	\$ 11,582,402
Employee benefits	332,561	1,115,226	428,054	1,875,841	215,825	50,184	2,141,850
Payroll taxes	168,913	403,915	140,792	713,620	99,543	17,063	830,226
Personnel expenses	2,696,507	7,216,878	2,565,926	12,479,311	1,748,317	326,850	14,554,478
Awards and grants	26,957,820	462,097	160,346	27,580,263			27,580,263
Professional fees	459,655	1,100,308	789,630	2,349,593	574,299	73,555	2,997,447
Printing, publications, and advertising	2,073	1,480,173	96,661	1,578,907	485	1,092	1,580,484
Conferences and conventions	86,173	293,580	649,746	1,029,499	204,766	8,226	1,242,491
Travel and agency vehicles	263,845	313,792	81,030	658,667	130,614	10,654	799,935
Real estate related expenses	1,500	216,576	106,435	324,511	257,369	9,809	591,689
Supplies	40,922	166,468	92,273	299,663	95,852	5,065	400,580
Professional dues	4,203	161,646	134,227	300,076	53,616	6,622	360,314
Telephone and communications	23,488	200,710	71,371	295,569	48,623	9,090	353,282
Rental and maintenance		188,035	33,882	221,917	29,786	4,214	255,917
Seminar and training fees	9,304	102,719	25,626	137,649	30,394	2,679	170,722
Income tax expense - deferred				-	82,661		82,661
Employee relations		12,874	622	13,496	58,770	418	72,684
Postage and shipping	5,893	30,128	26,017	62,038	6,582	611	69,231
Scholarships	20,157		44,658	64,815			64,815
Bond interest		27,324	9,715	37,039	25,711	1,238	63,988
Bad debt				-	51,898		51,898
Bank service charges			184	184	31,234		31,418
Capital lease interest		3,137	1,115	4,252	760	142	5,154
	30,571,540	11,976,445	4,889,464	47,437,449	3,431,737	460,265	51,329,451
Depreciation and amortization		586,497	100,292	686,789	180,916	12,775	880,480
Total expense	\$ 30,571,540	\$ 12,562,942	\$ 4,989,756	\$ 48,124,238	\$ 3,612,653	\$ 473,040	\$ 52,209,931

Goodwill Industries International, Inc.

Schedule of Expenditures of Federal Awards Year Ended December 31, 2010

Federal Grantor <i>Pass Through Grantor</i> CFDA Program Title	Federal CFDA Number	Other Identifying Number	Federal Expenditures
U.S. Department of Labor			
Senior Community Service Employment Program (SCSEP) - Note B	17.235	Various	\$ 16,142,497
Senior Community Service Employment Program (SCSEP) - Note B	ARRA 17.235	AD184205W0	1,290,832
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - Note B	ARRA 17.275	Various	2,459,235
Occupational Safety and Health_ Susan Harwood Training Grants	17.502	SH178140860F24	102,381
Subtotal U.S. Department of Labor			19,994,945
U.S. Department of Justice			
Recovery Act Edward Byrne Memorial Competitive Grant Program - Note B	ARRA 16.808	2009-SC-B9-0035	8,506,284
Corporation for National and Community Service			
AmeriCorps - Note B	94.006	07NDHMD002	419,234
AmeriCorps - Note B	ARRA 94.006	09RNHMD001	361,837
Subtotal Corporation for National and Community Service			781,071
U.S. Department of Agriculture			
<i>Purdue University</i>			
Cooperative Extension Service	10.500	80000262124-AG	147,813
Total Expenditures of Federal Awards			\$ 29,430,113

Goodwill Industries International, Inc.

Notes to the Schedule of Expenditures of Federal Awards

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

The following is a summary of federal awards which were passed through to subrecipients during the year ended December 31, 2010:

Federal Grantor CFDA Program Title	Federal CFDA Number	Pass Through Amount
U.S. Department of Labor		
Senior Community Service Employment Program (SCSEP)	17.235	\$ 15,483,902
Senior Community Service Employment Program (SCSEP)	ARRA 17.235	1,214,840
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	ARRA 17.275	2,061,846
Subtotal U.S. Department of Labor		18,760,588
U.S. Department of Justice		
Recovery Act Edward Byrne Memorial Competitive Grant Program	ARRA 16.808	7,361,824
Corporation for National and Community Service		
AmeriCorps	94.006	363,070
AmeriCorps	ARRA 94.006	226,715
Subtotal Corporation for National and Community Service		589,785
Total Awards Passed Through		\$ 26,712,197



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, 2010, and have issued our report thereon dated March 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and, with respect to GII for 2010, 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 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 internal control over financial reporting 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 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.

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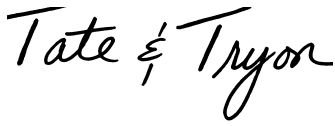
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Compliance and Other Matters

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 grants, 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 black ink that reads "Tate & Tryon". The signature is written in a cursive, flowing style.

Washington, DC
March 4, 2011



Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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 could have a direct and material effect on each of GII’s major federal programs for the year ended December 31, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control over Compliance

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 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 GII’s internal control over compliance.

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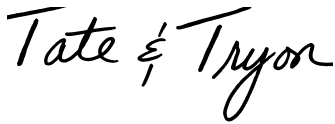
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Internal Control over Compliance - Continued

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 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 typed name and date.

Washington, DC
March 4, 2011

Goodwill Industries International, Inc.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2010

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
- Deficiency(ies) in internal control 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 program:

- 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 program:

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
Senior Community Service Employment Program
(CFDA 17.235 & ARRA 17.235)

Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
(CFDA ARRA 17.275)
- U.S. Department of Justice
Recovery Act Edward Byrne Memorial Competitive Grant Program
(CFDA ARRA 16.808)

Dollar threshold used to distinguish between Type A and Type B programs:

\$882,900

Auditee qualified as low-risk auditee?

Yes No

Goodwill Industries International, Inc.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2010

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.