

GOODWILL INDUSTRIES OF THE HEARTLAND
Iowa City, Iowa

FINANCIAL STATEMENTS
December 31, 2010

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	2
Statement of Financial Position	3
Statement of Activities	5
Statement of Functional Expenses	7
Statement of Cash Flows	9
Notes to Financial Statements	11
SUPPLEMENTAL INFORMATION	23
Schedule of Activities by Functional Area	24

Independent Auditor's Report

Board of Directors
Goodwill Industries of the Heartland
Iowa City, Iowa

We have audited the accompanying statement of financial position of Goodwill Industries of the Heartland as of December 31, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and, in our report dated April 14, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Industries of the Heartland 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Cedar Rapids, Iowa
April 28, 2011

FINANCIAL STATEMENTS

GOODWILL INDUSTRIES OF THE HEARTLAND
STATEMENT OF FINANCIAL POSITION
December 31, 2010
With Comparative Totals for 2009

ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,116,078	\$ 2,377,443
Restricted cash, capital campaign	-	220,071
Certificates of deposit, current maturities	286,728	280,772
Accounts receivable, less allowance for doubtful accounts of \$9,608 in 2010 and \$23,432 in 2009	757,143	614,602
Unconditional promises to give:		
Contributions receivable, current maturities, less allowance for uncollectible contributions of \$163 in 2010 and \$771 in 2009	3,087	15,879
Grants receivable	176,081	247,926
Interest receivable	1,531	388
Donated goods inventory	141,739	124,200
Prepaid expenses	152,087	163,730
	<u>4,634,474</u>	<u>4,045,011</u>
INVESTMENTS AND LONG-TERM RECEIVABLES		
Restricted certificates of deposit, loan covenant	100,000	100,000
Certificates of deposit, long term	100,152	-
Investments	94,659	-
Unconditional promises to give:		
Contributions receivable, less current maturities above, less allowance for uncollectible contributions of \$0 in 2010 and \$130 in 2009, less discount to present value of \$0 in 2010 and \$1,631 in 2009	-	1,239
	<u>294,811</u>	<u>101,239</u>
Total investments and long-term receivables		
PROPERTY AND EQUIPMENT		
Land	2,527,691	2,527,691
Buildings	10,355,660	10,265,988
Improvements	940,134	927,546
Equipment	1,993,505	1,630,871
Total	15,816,990	15,352,096
Less accumulated depreciation	(5,758,074)	(5,259,087)
	<u>10,058,916</u>	<u>10,093,009</u>
Net property and equipment		
OTHER ASSETS		
Loan origination fees, less accumulated amortization of \$58,471 in 2010 and \$49,803 in 2009	103,118	111,786
	<u>103,118</u>	<u>111,786</u>
TOTAL ASSETS	\$ 15,091,319	\$ 14,351,045

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Accounts payable	\$ 611,073	\$ 460,813
Accrued payroll	519,568	467,366
Payroll taxes and withholding	205,290	190,111
Accrued compensated absences	573,100	514,663
Other accrued expenses	69,888	60,326
Obligations under capital lease, current maturities	-	17,255
Notes payable, current maturities	<u>345,942</u>	<u>337,856</u>
Total current liabilities	<u>2,324,861</u>	<u>2,048,390</u>
LONG-TERM LIABILITIES		
Notes payable, less current maturities above	<u>5,277,026</u>	<u>5,622,917</u>
Total liabilities	<u>7,601,887</u>	<u>7,671,307</u>
NET ASSETS		
Unrestricted	7,317,345	6,259,684
Temporarily restricted	<u>172,087</u>	<u>420,054</u>
Total net assets	<u>7,489,432</u>	<u>6,679,738</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 15,091,319</u>	 <u>\$ 14,351,045</u>

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

GOODWILL INDUSTRIES OF THE HEARTLAND
STATEMENT OF ACTIVITIES
Year Ended December 31, 2010
With Comparative Totals for 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2010</u>	<u>2009</u>
SUPPORT AND REVENUE				
Public support:				
Contributions	\$ 89,362	\$ -	\$ 89,362	\$ 37,377
United Way	115,872	101,500	217,372	222,107
Change in year-end inventory valuation	<u>17,539</u>	<u>-</u>	<u>17,539</u>	<u>8,473</u>
Total public support	<u>222,773</u>	<u>101,500</u>	<u>324,273</u>	<u>267,957</u>
Governmental support:				
Grants	690,946	-	690,946	848,730
Vocational rehabilitation fees	<u>3,789,719</u>	<u>-</u>	<u>3,789,719</u>	<u>3,394,688</u>
Total governmental support	<u>4,480,665</u>	<u>-</u>	<u>4,480,665</u>	<u>4,243,418</u>
Sales of donated goods:				
Store sales	14,917,854	-	14,917,854	14,452,125
Salvage sales	<u>1,553,797</u>	<u>-</u>	<u>1,553,797</u>	<u>1,073,653</u>
Total sales of donated goods	<u>16,471,651</u>	<u>-</u>	<u>16,471,651</u>	<u>15,525,778</u>
Other revenue:				
Contracts with businesses	1,404,454	-	1,404,454	1,328,573
Interest and vending income	27,719	-	27,719	28,186
Miscellaneous	9,805	-	9,805	29,217
Gain on disposal of property and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,060</u>
Total other revenue	<u>1,441,978</u>	<u>-</u>	<u>1,441,978</u>	<u>1,388,036</u>
Net assets released from restrictions	<u>349,467</u>	<u>(349,467)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>22,966,534</u>	<u>(247,967)</u>	<u>22,718,567</u>	<u>21,425,189</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2010</u>	<u>2009</u>
EXPENSES				
Program services:				
Retail operations	10,623,215	-	10,623,215	10,053,031
Salvage	315,084	-	315,084	343,176
Contracts with businesses	1,517,823	-	1,517,823	1,426,128
Solicitation and transportation	1,508,783	-	1,508,783	1,342,858
Rehabilitation	<u>5,562,142</u>	<u>-</u>	<u>5,562,142</u>	<u>5,227,965</u>
Total program services	<u>19,527,047</u>	<u>-</u>	<u>19,527,047</u>	<u>18,393,158</u>
Supporting activities:				
Fundraising	60,059	-	60,059	31,157
Management and general	<u>2,321,767</u>	<u>-</u>	<u>2,321,767</u>	<u>2,096,303</u>
Total supporting activities	<u>2,381,826</u>	<u>-</u>	<u>2,381,826</u>	<u>2,127,460</u>
Total expenses	<u>21,908,873</u>	<u>-</u>	<u>21,908,873</u>	<u>20,520,618</u>
CHANGE IN NET ASSETS	1,057,661	(247,967)	809,694	904,571
NET ASSETS, BEGINNING OF YEAR	<u>6,259,684</u>	<u>420,054</u>	<u>6,679,738</u>	<u>5,775,167</u>
NET ASSETS, END OF YEAR	<u>\$ 7,317,345</u>	<u>\$ 172,087</u>	<u>\$ 7,489,432</u>	<u>\$ 6,679,738</u>

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

GOODWILL INDUSTRIES OF THE HEARTLAND
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2010
With Comparative Totals for 2009

	Program Services			
	Retail Operations	Salvage	Contracts with Businesses	Solicitation and Trans- portation
EXPENSES				
Salaries	\$ 5,543,299	\$ 224,601	\$ 1,089,175	\$ 233,551
Employee benefits	768,796	21,148	60,348	47,033
Payroll taxes	544,535	13,054	87,655	23,167
 Total salaries and related expenses	 6,856,630	 258,803	 1,237,178	 303,751
Professional services	38,315	447	10,031	150
Supplies	351,122	19,975	157,364	135,949
Telephone	51,300	584	5,488	3,610
Postage and shipping	123,718	-	99	-
Occupancy	2,248,917	9,453	45,787	351,214
Printing and publications	375,900	19,959	1,037	1,067
Travel, trucking, and related expenses	56,559	488	32,151	627,440
Membership dues	204	-	632	-
Provision for (recovery of) bad debts	-	-	-	-
Miscellaneous	158,721	1,560	1,274	30
 Total other expenses	 3,404,756	 52,466	 253,863	 1,119,460
 Total expenses before depreciation	 10,261,386	 311,269	 1,491,041	 1,423,211
 Depreciation	 361,829	 3,815	 26,782	 85,572
 TOTAL 2010 EXPENSES	 \$ 10,623,215	 \$ 315,084	 \$ 1,517,823	 \$ 1,508,783
 TOTAL 2009 EXPENSES	 \$ 10,053,031	 \$ 343,176	 \$ 1,426,128	 \$ 1,342,858

Supporting Activities						
Rehabili- tation	Total	Management and General			Total Expenses	
		Fund- raising	General	Total	2010	2009
\$ 3,994,216	\$ 11,084,842	\$ 42,219	\$ 1,105,249	\$ 1,147,468	\$ 12,232,310	\$ 11,433,316
608,201	1,505,526	6,551	114,552	121,103	1,626,629	1,510,199
423,024	1,091,435	4,619	94,670	99,289	1,190,724	1,119,066
<u>5,025,441</u>	<u>13,681,803</u>	<u>53,389</u>	<u>1,314,471</u>	<u>1,367,860</u>	<u>15,049,663</u>	<u>14,062,581</u>
32,532	81,475	-	148,917	148,917	230,392	188,357
44,544	708,954	162	110,596	110,758	819,712	641,392
45,146	106,128	1,124	15,148	16,272	122,400	128,314
618	124,435	-	16,549	16,549	140,984	88,775
78,101	2,733,472	791	362,991	363,782	3,097,254	3,022,981
12,156	410,119	2,335	44,159	46,494	456,613	420,331
209,055	925,693	1,801	19,080	20,881	946,574	935,657
6,538	7,374	-	138,253	138,253	145,627	139,710
(7,782)	(7,782)	(738)	-	(738)	(8,520)	3,018
35,128	196,713	1,195	54,934	56,129	252,842	211,409
<u>456,036</u>	<u>5,286,581</u>	<u>6,670</u>	<u>910,627</u>	<u>917,297</u>	<u>6,203,878</u>	<u>5,779,944</u>
5,481,477	18,968,384	60,059	2,225,098	2,285,157	21,253,541	19,842,525
80,665	558,663	-	96,669	96,669	655,332	678,093
<u>\$ 5,562,142</u>	<u>\$ 19,527,047</u>	<u>\$ 60,059</u>	<u>\$ 2,321,767</u>	<u>\$ 2,381,826</u>	<u>\$ 21,908,873</u>	
<u>\$ 5,227,965</u>	<u>\$ 18,393,158</u>	<u>\$ 31,157</u>	<u>\$ 2,096,303</u>	<u>\$ 2,127,460</u>		<u>\$ 20,520,618</u>

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

GOODWILL INDUSTRIES OF THE HEARTLAND
STATEMENT OF CASH FLOWS
Year Ended December 31, 2010
With Comparative Totals for 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 809,694	\$ 904,571
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term purposes	(16,400)	(59,102)
Change in year-end inventory valuation	(17,539)	(8,473)
Change in discount to present value	(1,631)	(56)
Gain on disposal of property and equipment	-	(2,060)
Depreciation	655,332	678,093
Amortization	8,668	8,101
Provision for (recovery of) bad debts	(8,520)	3,018
Reinvested investment earnings	(3,942)	(11,840)
Unrealized gain on investments	(1,762)	-
Effects of changes in operating assets and liabilities:		
Receivables	(47,657)	(103,921)
Prepaid expenses	11,643	20,143
Accounts payable	(19,288)	181,768
Accrued expenses	135,380	158,180
	<u>1,503,978</u>	<u>1,768,422</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from matured certificates of deposit	377,555	614,769
Purchases of certificates of deposit	(479,721)	(221,861)
Purchases of mutual funds	(92,897)	-
Purchases of property and equipment	(451,691)	(2,330,359)
Proceeds from sales of property and equipment	-	3,500
	<u>(646,754)</u>	<u>(1,933,951)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term purposes	16,400	59,102
Payment of loan origination fees	-	(31,563)
Proceeds from long-term debt	-	4,900,000
Principal payments on obligations under capital lease	(17,255)	(47,630)
Principal payments on long-term debt	(337,805)	(3,112,823)
	<u>(338,660)</u>	<u>1,767,086</u>
Net cash provided by (used in) financing activities		

	<u>2010</u>	<u>2009</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	518,564	1,601,557
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,597,514</u>	<u>995,957</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,116,078</u>	<u>\$ 2,597,514</u>

Cash and cash equivalents are presented on the statement of financial position as follows:

Cash and cash equivalents	\$ 3,116,078	\$ 2,377,443
Restricted cash - capital campaign	<u>-</u>	<u>220,071</u>
	<u>\$ 3,116,078</u>	<u>\$ 2,597,514</u>

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

GOODWILL INDUSTRIES OF THE HEARTLAND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Goodwill Industries of the Heartland was incorporated in November 1965 in the State of Iowa as a non-profit entity established for the purpose of providing vocational rehabilitation services, training, placement, and employment for mentally and physically disabled individuals and other disadvantaged persons. The Organization's fiscal year ends on December 31. Significant accounting policies followed by the Organization are presented below.

The Organization's revenue is generated from two primary sources with percentages of total annual revenue as follows: Retail Operations, 66% and Vocational Rehabilitation Fees, 17%.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with 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, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Net Assets

Net assets are based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Unrestricted net assets includes all net assets which are neither temporarily or permanently restricted.

Temporarily restricted net assets includes contributed net assets for which donor imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

Permanently restricted net assets include contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Description of Programs

The Organization operates the following programs:

Retail Operations. The retail program is a vital funding source that supports the mission through the processing and sale of materials donated by the public and provides vocational training and employment to individuals facing barriers to independence. The retail program operates twelve stores in southeast Iowa and Rock Island County, Illinois.

Salvage. Donated goods that do not meet quality standards for sale in a store contribute revenue for the mission as they are recycled through a third party vendor.

GOODWILL INDUSTRIES OF THE HEARTLAND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Programs (continued)

Contracts with Businesses. This program supports the mission by providing a variety of vocational training opportunities both within the Organization and through businesses in the community. The programs offer vocational training, work skills development and job placement for clients with disabilities and other barriers to employment.

Solicitation and Transportation. The solicitation and transportation program provides merchandise to the retail and contract programs.

Rehabilitation. The rehabilitation program advances the social and economic well-being of people who experience barriers to independence through a number of programs and services. The program offers a variety of vocational services; including work training, work experience, job placement and post employment support. Services also include life skills training, social and recreational opportunities and assistance to individuals wishing to maintain their independence by offering support with everyday tasks.

Support and Revenue

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Amounts received which are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are recorded as receivables and as support when received. Conditional contributions are not recorded until all conditions have been satisfied, at which time they are recognized as support. Advances received on conditional contributions are recorded as refundable advances until all conditions have been satisfied.

Fees received in advance of services performed are recorded as deferred revenue.

Bequests are recorded when the probate court declares the will valid and the amount is determinable.

The Organization receives contributions of donated services from unpaid volunteers. No amounts have been recognized in the statement of activities because the criteria for revenue recognition under financial accounting standards have not been satisfied.

Contributed property and equipment are recorded at estimated fair value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

GOODWILL INDUSTRIES OF THE HEARTLAND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue (continued)

The Organization accounts for grants as exchange transactions and recognizes grant revenue upon fulfillment of requirements detailed in the grant documents.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with an original maturity of three months or less as cash and cash equivalents.

Accounts Receivable

Accounts receivable are uncollateralized customer obligations which generally require payment within thirty days from the invoice date. Accounts receivable are stated at the invoice amount. Account balances with invoices over ninety days old are considered delinquent. Payments of accounts receivable are applied to the specific invoices identified on the customers remittance advice or, if unspecified, to the earliest unpaid invoices. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management reviews individual accounts receivable balances that exceed ninety days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts. In addition, a general valuation allowance is established based principally on historical experience.

Inventory

The Organization receives contributions of goods and materials (inventory) and processes these contributions as merchandise available for sale in its retail thrift stores. Financial accounting standards require that contributions received be recognized as revenues or gains in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Contributions should be measured at their fair value.

The Organization believes that the inventory of contributed goods and materials does not possess an attribute that is easily measurable or verifiable with sufficient reliability to determine an inventory value at the time of donation. It is only through the value-added processes that prepare the donated inventory for sale that the donated inventory has value. Accordingly, contributed goods and materials inventory are valued at zero prior to being offered for sale. The Organization considers the costs associated with bringing the donated inventory to sale (i.e., donation collection, transportation, sorting and pricing expenses) in its estimate of the fair value of inventory. The difference between year-end inventory valuations is shown on the statement of activities as a change in year-end inventory valuation.

GOODWILL INDUSTRIES OF THE HEARTLAND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are carried at fair value with unrealized and realized gains and losses on investments reported as an increase or decrease in unrestricted, temporarily restricted, or permanently restricted net assets based upon donor-imposed restrictions.

Investment income (loss), including interest, dividends and realized and unrealized gain or losses on investments, is reported in the statement of activities as unrestricted, temporarily restricted, or permanently restricted revenue based upon donor-imposed restrictions. Gains and investment income that are limited to specific uses by donor-imposed restrictions are reported in unrestricted net assets when the restrictions are met in the same reporting period as the gains and income are recognized.

Property and Equipment

Property and equipment is stated at cost if purchased or at fair market value on the date received if donated. Major expenditures for improvements and those that substantially increase useful lives are capitalized. Maintenance, repairs and minor renewals are expensed as paid. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Depreciation is provided on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

Buildings	5 - 40 years
Improvements	5 - 20 years
Equipment	3 - 10 years

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Loan Origination Fees

Loan origination fees are being amortized on a straight-line basis over the life of the related loan.

GOODWILL INDUSTRIES OF THE HEARTLAND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are expensed as incurred.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various program services and supporting activities. Expenses that can be identified with a specific program and supporting activity are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Sales Taxes

State sales tax is imposed on certain services billed to customers in Illinois. The Organization collects that sales tax from customers and remits the entire amount to the State. The Organization's policy is to exclude the tax collected and remitted to the State from revenue and expenses.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar sections of State income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes. In addition, the Organization is not classified as a private foundation.

The Organization files information returns in the U.S. federal jurisdiction. The federal information returns of the Organization for 2007 and later are subject to examination by the IRS, generally for three years after they were filed.

NOTE 2 - UNCONDITIONAL PROMISES TO GIVE

Included in contributions receivable are the following unconditional promises to give:

Capital campaign receivables	\$ 3,250
Less: Allowance for uncollectible pledges	<u>(163)</u>
Net unconditional promises to give	<u><u>\$ 3,087</u></u>
Amounts due in:	
Less than one year	<u><u>\$ 3,250</u></u>

GOODWILL INDUSTRIES OF THE HEARTLAND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 - CONDITIONAL PROMISES TO GIVE

The following conditional promises to give were not recognized as assets in the statement of financial position:

The Organization has been awarded various cost reimbursement grants totaling \$714,347. The budget periods for the grants run throughout 2011. Grant funds are not recognized as revenue until the reimbursements become due. The remaining balance of available grant funds at December 31, 2010 is \$443,063.

NOTE 4 - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

GOODWILL INDUSTRIES OF THE HEARTLAND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds are securities listed on a national market or exchange and valued at the last sale price, or if there is no sale and the market is still considered active, at the last transaction price before year-end.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Short term bond fund	<u>\$ 94,659</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,659</u>

NOTE 5 - DEBT

Lines of credit

The Organization has a revolving line of credit with Hills Bank and Trust of \$1,000,000. It carries a fixed interest rate of 7.25% with a maturity date of April 2012. There was no outstanding balance at December 31, 2010. The Organization also has a revolving line of credit with Smith Barney. It carries a variable interest rate. The maximum draw amount is set at 65% of the Organization's investment balance. There was no outstanding balance at December 31, 2010.

Long-term debt

Revenue bond issued by Linn County, Iowa, payable to Wells Fargo Bank, requiring annual installments of \$100,000, including variable rate interest at 0.48% at December 31, 2010 (maximum rate of 10%). Final payment is due in December 2021, and the note is secured by the Cedar Rapids buildings and land and all business assets. \$ 1,100,000

Revenue bond issued by Johnson County, Iowa, payable to MidWestOne Bank, requiring monthly installments of \$12,144, including interest at 5.125%. Final payment is due in January 2019, secured by Iowa City distribution center and Iowa City building. A compensating balance of \$100,000 is required to be kept on deposit at MidWestOne Bank. 954,896

GOODWILL INDUSTRIES OF THE HEARTLAND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 5 - DEBT (CONTINUED)

Long-term debt (continued)

Revenue bond issued by Muscatine County, Iowa, payable to Wells Fargo Bank, requiring semi-annual installments of \$62,417, including interest at 5%. Final payment is due in January 2021, secured by the Muscatine building.	973,148
Revenue bond issued by City of Coralville, Iowa payable to Hills Bank & Trust, requiring monthly installments of \$12,862, including interest at 3.9%. Final payment is due in July 2034, secured by the Coralville building.	2,364,155
Note payable to Hills Bank & Trust, requiring monthly installments of \$1,841, including interest at 6.25%. Final payment is due in February 2028, secured by the Washington store.	<u>230,769</u>
Total	5,622,968
Less current portion	<u>345,942</u>
Long-term portion	<u>\$ 5,277,026</u>

Future maturities of long-term debt are as follows:

2011	\$ 345,942
2012	357,624
2013	370,731
2014	384,070
2015	398,076
Thereafter	<u>3,766,525</u>
Total	<u>\$ 5,622,968</u>

NOTE 6 - NATURE AND AMOUNTS OF TEMPORARY RESTRICTIONS

Temporarily restricted net assets are available for the following periods and purposes:

United Way - for future periods	\$ 101,500
Property enhanced by Iowa City funding - for subsequent years usage	67,500
Unconditional promises to give - for future periods	<u>3,087</u>
Total	<u>\$ 172,087</u>

GOODWILL INDUSTRIES OF THE HEARTLAND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 7 - CASH FLOW DISCLOSURES

Cash paid for interest for the year ended December 31, 2010 was \$249,722. During the year ended December 31, 2010, the Organization's non-cash investing activities included the purchase of \$169,548 of equipment that was included in accounts payable at December 31, 2010.

NOTE 8 - ADVERTISING COSTS

Advertising costs for the year ended December 31, 2010 totaled \$405,727.

NOTE 9 - OBLIGATIONS UNDER OPERATING LEASES

At December 31, 2010, the Organization leased buildings from which operations are conducted in Iowa City, Cedar Rapids, Marion, Muscatine, Davenport, Bettendorf, Clinton, Vinton, Burlington, and Fairfield, Iowa and Moline and Rock Island, Illinois. In addition, the Organization leases office equipment for administrative use. The following is a summary of minimum lease payments required under these agreements:

2011	\$ 1,524,670
2012	1,477,715
2013	1,567,306
2014	1,569,698
2015	1,324,454
Thereafter	<u>7,655,402</u>
Total	<u>\$15,119,244</u>

Minimum lease payments exclude rentals under renewal options which, as of December 31, 2010, are not reasonably assured of being exercised. Also excluded are rentals under lease agreements with an original term of one year or less. Lease expense for the year ended December 31, 2010 totaled \$1,421,816.

The Organization plans to expand operations into Burlington and Fairfield, Iowa in 2011. In 2010, the Organization entered into fifteen year lease agreements for buildings in each of those communities. However, the leases won't become effective until sometime in 2011 when the Organization is able to move into the buildings. The amounts due under these leases are included in the summary of minimum lease payments above based on estimated start dates at stated lease amounts. Subsequent to December 31, 2010, the obligations for certain build-out costs of these two buildings were in dispute between the lessor and the Organization. The potential impact on monthly lease payments was not quantifiable at April 28, 2011, the date the financial statements were available to be issued.

Subsequent to December 31, 2010, the Organization entered into a lease agreement for office equipment. The lease term is sixty months and requires monthly payments of \$4,729.

GOODWILL INDUSTRIES OF THE HEARTLAND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 10 - RETIREMENT PLAN

The Organization has a defined contribution retirement plan as described in section 403(b) of the Internal Revenue Code. The Organization contributes four percent of eligible employee wages. In addition, the Organization will match employee contributions dollar for dollar up to three percent of an eligible employee's wages. Eligible employees have the potential to receive a maximum contribution from the Organization of seven percent. To be eligible for employer contributions, employees must be 18 years old, have had one year of service, and worked at least 1,000 hours. Employer contributions are vested at twenty percent after two years of employment, with full vesting after six years of employment. The Organization's expense under this plan for the year ended December 31, 2010 was \$471,891.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Organization has contracted with a carrier to provide transportation services to transport its goods. The contract expires in November 2013 and at December 31, 2010 requires a weekly fixed charge of \$2,035 as well as variable charges such as for mileage and stop charges. The fixed and variable charge rates will be adjusted annually.

The Organization is involved in various legal proceedings arising in the normal course of business. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Organization's financial statements.

NOTE 12 - DISCLOSURES ABOUT CERTAIN CONCENTRATIONS

Cash balances

The Organization maintains cash balances in local banks. At various times during the course of the year the Organization's deposits at the bank will exceed the maximum amount insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2010, the Organization had \$2,691,113 of cash deposited in excess of the insured limits. This amount includes deposits of \$2,474,729 that are subject to a security repurchase agreement with Hills Bank & Trust. The transactions entered into under the security repurchase agreement are not insured by the FDIC, the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund. It is the opinion of management that the risk associated with the uninsured balance and these investments is not of particular concern at this time.

Concentration of credit

The Organization is subject to a certain degree of vulnerability due to concentrations of accounts receivable and revenue from major funding sources. Revenue from Iowa Medicaid Enterprise represented 12% of total revenue for the year ended December 31, 2010. Accounts receivable includes \$282,363 of amounts owed from Iowa Medicaid Enterprise as of December 31, 2010.

GOODWILL INDUSTRIES OF THE HEARTLAND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 13 - PROPERTY LIEN

In consideration of grant funds and a 0% loan received from the City of Iowa City for property improvements at the Iowa City, Iowa training center, liens in the amount of \$168,650 have been established in favor of the City as lien holder upon this property. Repayment of a pro-rated portion of the \$168,650 is required if the Organization does not continue to provide employment assistance and services to low-income persons at the property enhanced with the funding. The liens expire at various times through June 30, 2026.

NOTE 14 - SELF-INSURED DENTAL PLAN, HEALTH PLAN AND UNEMPLOYMENT PLAN

Dental claims of participants and dependents are processed by Prime Benefit Systems. The plan is responsible for paying dental benefits up to a pre-established maximum amount for any one participant or dependent.

The Organization contracts with Wellmark Blue Cross Blue Shield to provide health benefits to employees. In order to lower the participant's deductible and out-of-pocket maximum, the Organization implemented a split-funded medical expense reimbursement plan. The plan reimburses medical charges that are not reimbursed by Wellmark but are eligible and covered by the underlying Wellmark contract. The claims are processed by a third-party administrator.

In accordance with the Code of Iowa, the Organization has elected to reimburse Iowa Workforce Development for benefits paid to former employees of the Organization. This election is in lieu of the Organization making deposits with Iowa Workforce Development based on a predetermined contribution rate. Unemployment claims are processed for the Organization by a third-party administrator.

Obligations for these plans at December 31, 2010, for claims incurred but not reported at that date, are calculated based on claims submitted subsequent to year end and an estimate based on plan history for unremitted claims. Accrued plan obligations at December 31, 2010 were \$4,211 for the dental plan, \$9,726 for the medical expense reimbursement plan and \$0 for the unemployment plan. Management believes this accrual is adequate based on information currently known. However, claim payments based on actual claims ultimately filed could differ significantly from these estimates.

NOTE 15 - PRIOR YEAR SUMMARIZED INFORMATION

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 comparative presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2009, from which the summarized information is derived.

GOODWILL INDUSTRIES OF THE HEARTLAND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 16 - SUBSEQUENT EVENTS

Management evaluated subsequent events through April 28, 2011, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2010, but prior to April 28, 2011, that provided additional evidence about conditions that existed at December 31, 2010, have been recognized in the financial statements for the year ended December 31, 2010. Events or transactions that provided evidence about conditions that did not exist at December 31, 2010, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2010.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

GOODWILL INDUSTRIES OF THE HEARTLAND
SCHEDULE OF ACTIVITIES BY FUNCTIONAL AREA
Year Ended December 31, 2010
With Comparative Totals for 2009

	<u>Program Services</u>			
	<u>Retail, Salvage, Solicitation, & Transportation</u>	<u>Contracts with Businesses</u>	<u>Rehabilitation</u>	<u>Total</u>
SUPPORT AND REVENUE				
Public support	\$ 17,539	\$ 4,929	\$ 212,443	\$ 234,911
Governmental support	-	-	4,480,665	4,480,665
Sales of donated goods	16,471,651	-	-	16,471,651
Other revenue	<u>7,880</u>	<u>1,404,454</u>	<u>-</u>	<u>1,412,334</u>
Total support and revenue	<u>16,497,070</u>	<u>1,409,383</u>	<u>4,693,108</u>	<u>22,599,561</u>
EXPENSES				
Salaries	6,001,451	1,089,175	3,994,216	11,084,842
Employee benefits	836,977	60,348	608,201	1,505,526
Payroll taxes	<u>580,756</u>	<u>87,655</u>	<u>423,024</u>	<u>1,091,435</u>
Total salaries and related expenses	<u>7,419,184</u>	<u>1,237,178</u>	<u>5,025,441</u>	<u>13,681,803</u>
Professional services	38,912	10,031	32,532	81,475
Supplies	507,046	157,364	44,544	708,954
Telephone	55,494	5,488	45,146	106,128
Postage and shipping	123,718	99	618	124,435
Occupancy	2,609,584	45,787	78,101	2,733,472
Printing and publications	396,926	1,037	12,156	410,119
Travel, trucking, and related expenses	684,487	32,151	209,055	925,693
Membership dues	204	632	6,538	7,374
Provision for (recovery of) bad debts	-	-	(7,782)	(7,782)
Miscellaneous	<u>160,311</u>	<u>1,274</u>	<u>35,128</u>	<u>196,713</u>
Total other expenses	<u>4,576,682</u>	<u>253,863</u>	<u>456,036</u>	<u>5,286,581</u>
Total expenses before depreciation	11,995,866	1,491,041	5,481,477	18,968,384
Depreciation	<u>451,216</u>	<u>26,782</u>	<u>80,665</u>	<u>558,663</u>
Total expenses	<u>12,447,082</u>	<u>1,517,823</u>	<u>5,562,142</u>	<u>19,527,047</u>
2010 CHANGE IN NET ASSETS	<u>\$ 4,049,988</u>	<u>\$ (108,440)</u>	<u>\$ (869,034)</u>	<u>\$ 3,072,514</u>
2009 CHANGE IN NET ASSETS	<u>\$ 3,811,685</u>	<u>\$ (85,951)</u>	<u>\$ (793,654)</u>	<u>\$ 2,932,080</u>

Supporting Activities

<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>	<u>Total</u>	
			<u>2010</u>	<u>2009</u>
\$ 89,362	\$ -	\$ 89,362	\$ 324,273	\$ 267,957
-	-	-	4,480,665	4,243,418
-	-	-	16,471,651	15,525,778
<u>1,319</u>	<u>28,325</u>	<u>29,644</u>	<u>1,441,978</u>	<u>1,388,036</u>
<u>90,681</u>	<u>28,325</u>	<u>119,006</u>	<u>22,718,567</u>	<u>21,425,189</u>
42,219	1,105,249	1,147,468	12,232,310	11,433,316
6,551	114,552	121,103	1,626,629	1,510,199
<u>4,619</u>	<u>94,670</u>	<u>99,289</u>	<u>1,190,724</u>	<u>1,119,066</u>
<u>53,389</u>	<u>1,314,471</u>	<u>1,367,860</u>	<u>15,049,663</u>	<u>14,062,581</u>
-	148,917	148,917	230,392	188,357
162	110,596	110,758	819,712	641,392
1,124	15,148	16,272	122,400	128,314
-	16,549	16,549	140,984	88,775
791	362,991	363,782	3,097,254	3,022,981
2,335	44,159	46,494	456,613	420,331
1,801	19,080	20,881	946,574	935,657
-	138,253	138,253	145,627	139,710
(738)	-	(738)	(8,520)	3,018
<u>1,195</u>	<u>54,934</u>	<u>56,129</u>	<u>252,842</u>	<u>211,409</u>
<u>6,670</u>	<u>910,627</u>	<u>917,297</u>	<u>6,203,878</u>	<u>5,779,944</u>
60,059	2,225,098	2,285,157	21,253,541	19,842,525
-	96,669	96,669	655,332	678,093
<u>60,059</u>	<u>2,321,767</u>	<u>2,381,826</u>	<u>21,908,873</u>	<u>20,520,618</u>
<u>\$ 30,622</u>	<u>\$ (2,293,442)</u>	<u>\$ (2,262,820)</u>	<u>\$ 809,694</u>	
<u>\$ 15,822</u>	<u>\$ (2,043,331)</u>	<u>\$ (2,027,509)</u>		<u>\$ 904,571</u>