

**GOODWILL INDUSTRIES OF  
SOUTHEAST IOWA  
Iowa City, Iowa**

**FINANCIAL STATEMENTS  
December 31, 2005**

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## Independent Auditor's Report

Board of Directors  
Goodwill Industries of Southeast Iowa  
Iowa City, Iowa

We have audited the accompanying statement of financial position of Goodwill Industries of Southeast Iowa as of December 31, 2005, 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 2004 financial statements and, in our report dated February 18, 2005, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Southeast Iowa as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2006 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Clifton Gunderson LLP*

Iowa City, Iowa  
February 20, 2006

**FINANCIAL STATEMENTS**

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2005**  
**With Comparative Totals for 2004**

**ASSETS**

	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$1,331,610	\$ 523,210
Restricted cash - capital campaign, loan covenant	536,290	599,561
Short-term investments	474,622	1,083,637
Restricted short-term investments - capital campaign, loan covenant	604,965	-
Accounts receivable, less allowance for doubtful accounts of \$27,280 in 2005 and \$6,341 in 2004	527,752	543,260
Unconditional promises to give:		
Contributions receivable, current maturities, less allowance for uncollectible contributions of \$10,915 in 2005 and \$6,265 in 2004	215,710	119,043
Grants receivable	215,961	97,630
Interest receivable	4,408	-
Donated goods inventory	83,762	81,905
Prepaid expenses	<u>178,542</u>	<u>70,241</u>
Total current assets	<u>4,173,622</u>	<u>3,118,487</u>
<b>LONG-TERM RECEIVABLES</b>		
Unconditional promises to give:		
Contributions receivable, less current maturities above, less allowance for uncollectible contributions of \$11,654 in 2005 and \$9,649 in 2004, less discount to present value of \$17,278 in 2005 and \$15,705 in 2004	<u>213,105</u>	<u>183,327</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	1,177,359	1,177,359
Buildings	5,397,811	4,783,925
Improvements	833,214	713,570
Equipment	<u>2,141,136</u>	<u>2,011,548</u>
Total	9,549,520	8,686,402
Less accumulated depreciation	<u>(4,825,161)</u>	<u>(4,428,687)</u>
Net property and equipment	<u>4,724,359</u>	<u>4,257,715</u>
<b>OTHER ASSETS</b>		
Loan origination fees, less accumulated amortization of \$19,358 in 2005 and \$13,607 in 2004	<u>94,178</u>	<u>92,269</u>
<b>TOTAL ASSETS</b>	<u><u>\$9,205,264</u></u>	<u><u>\$7,651,798</u></u>

## LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 456,031	\$ 140,847
Accounts payable, retainage	21,930	-
Accrued payroll	283,660	267,979
Accrued interest	4,368	2,547
Accrued property taxes	5,856	11,234
Refundable grant advance	10,633	-
Payroll taxes and withholding	153,109	154,286
Accrued compensated absences	326,619	300,278
Accrued retirement benefit	15,329	16,156
Notes payable, current maturities	<u>173,791</u>	<u>176,391</u>
Total current liabilities	1,451,326	1,069,718
<b>LONG-TERM LIABILITIES</b>		
Notes payable, less current maturities above	<u>2,824,288</u>	<u>2,998,061</u>
Total liabilities	<u>4,275,614</u>	<u>4,067,779</u>
<b>NET ASSETS</b>		
Unrestricted	3,300,009	2,673,535
Temporarily restricted	<u>1,629,641</u>	<u>910,484</u>
Total net assets	<u>4,929,650</u>	<u>3,584,019</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$9,205,264</u>	<u>\$7,651,798</u>

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to financial statements.

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2005**  
**With Comparative Totals for 2004**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2005</u>	<u>2004</u>
<b>SUPPORT AND REVENUE</b>				
Public support:				
Contributions	\$ 301,885	\$ 668,138	\$ 970,023	\$ 839,034
United Way	100,592	60,246	160,838	161,934
Change in year-end inventory valuation	<u>1,857</u>	<u>-</u>	<u>1,857</u>	<u>(4,777)</u>
Total public support	<u>404,334</u>	<u>728,384</u>	<u>1,132,718</u>	<u>996,191</u>
Governmental support:				
Grants	530,882	60,000	590,882	398,807
Vocational rehabilitation fees	<u>2,631,426</u>	<u>-</u>	<u>2,631,426</u>	<u>2,443,030</u>
Total governmental support	<u>3,162,308</u>	<u>60,000</u>	<u>3,222,308</u>	<u>2,841,837</u>
Sales of donated goods:				
Store sales	10,163,847	-	10,163,847	9,207,778
Salvage sales	<u>829,295</u>	<u>-</u>	<u>829,295</u>	<u>723,218</u>
Total sales of donated goods	<u>10,993,142</u>	<u>-</u>	<u>10,993,142</u>	<u>9,930,996</u>
Other revenue:				
Contracts with businesses	1,093,081	-	1,093,081	878,134
Interest, vending	63,848	-	63,848	20,438
Rent income	-	-	-	45,057
Lease buyout	415,000	-	415,000	-
Gain on sale of property and equipment	10	-	10	39,927
Net assets released from restrictions	<u>69,227</u>	<u>(69,227)</u>	<u>-</u>	<u>-</u>
Total other revenue	<u>1,641,166</u>	<u>(69,227)</u>	<u>1,571,939</u>	<u>983,556</u>
Total support and revenue	<u>16,200,950</u>	<u>719,157</u>	<u>16,920,107</u>	<u>14,752,580</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2005</u>	<u>2004</u>
<b>EXPENSES</b>				
Program services:				
Retail operations	7,721,026	-	7,721,026	6,722,397
Salvage	162,663	-	162,663	141,789
Contracts with businesses	1,146,122	-	1,146,122	957,290
Solicitation and transportation	985,966	-	985,966	1,000,722
Rehabilitation	<u>3,705,352</u>	<u>-</u>	<u>3,705,352</u>	<u>3,399,813</u>
Total program services	<u>13,721,129</u>	<u>-</u>	<u>13,721,129</u>	<u>12,222,011</u>
Supporting services:				
Fundraising	93,150	-	93,150	124,146
Management and general	<u>1,759,837</u>	<u>-</u>	<u>1,759,837</u>	<u>1,692,394</u>
Total supporting services	<u>1,853,347</u>	<u>-</u>	<u>1,853,347</u>	<u>1,816,540</u>
Total expenses	<u>15,574,476</u>	<u>-</u>	<u>15,574,476</u>	<u>14,038,551</u>
<b>CHANGE IN NET ASSETS</b>	626,474	719,157	1,345,631	714,029
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2,673,535</u>	<u>910,484</u>	<u>3,584,019</u>	<u>2,869,990</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$3,300,009</u>	<u>\$1,629,641</u>	<u>\$4,929,650</u>	<u>\$3,584,019</u>

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to financial statements.

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2005**  
**With Comparative Totals for 2004**

	<u>Program Services</u>			
	<u>Retail</u>		<u>Contracts</u>	<u>Solicitation</u>
	<u>Operations</u>	<u>Salvage</u>	<u>with</u>	<u>and</u>
			<u>Businesses</u>	<u>Transpor-</u>
				<u>tation</u>
Salaries	\$4,085,461	\$ 120,810	\$ 877,707	\$ 402,322
Employee benefits	527,969	10,616	47,590	65,036
Payroll taxes	<u>352,934</u>	<u>11,360</u>	<u>76,576</u>	<u>43,143</u>
Total salaries and related expenses	<u>4,966,364</u>	<u>142,786</u>	<u>1,001,873</u>	<u>510,501</u>
Professional services	6,873	-	7,528	250
Supplies	230,443	7,004	86,009	2,933
Telephone	30,398	178	3,678	3,530
Postage and shipping	31,854	-	7	-
Occupancy	1,932,552	10,186	23,554	161,781
Printing and publications	227,621	195	2,797	563
Travel, trucking, and related expenses	38,801	41	5,787	244,370
Membership dues	1,015	-	150	379
Provision for bad debts	-	1,821	2,367	-
Miscellaneous	<u>66,842</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other expenses	<u>2,566,399</u>	<u>19,425</u>	<u>131,877</u>	<u>413,806</u>
Total expenses before depreciation	7,532,763	162,211	1,133,750	924,307
Depreciation	<u>188,263</u>	<u>452</u>	<u>12,372</u>	<u>61,659</u>
<b>TOTAL 2005 EXPENSES</b>	<u><b>\$7,721,026</b></u>	<u><b>\$ 162,663</b></u>	<u><b>\$1,146,122</b></u>	<u><b>\$ 985,966</b></u>
<b>TOTAL 2004 EXPENSES</b>	<u><b>\$6,722,397</b></u>	<u><b>\$ 141,789</b></u>	<u><b>\$ 957,290</b></u>	<u><b>\$1,000,722</b></u>

		<u>Supporting Services</u>						
<u>Rehabili- tation</u>	<u>Total</u>	<u>Fund- raising</u>	<u>Management and General</u>	<u>Total</u>	<u>Total Expenses</u>			
					<u>2005</u>	<u>2004</u>		
\$2,653,017	\$ 8,139,317	\$ 42,197	\$ 925,542	\$ 967,739	\$ 9,107,056	\$ 8,129,518		
368,520	1,019,731	2,558	48,417	50,975	1,070,706	1,034,672		
<u>223,126</u>	<u>707,139</u>	<u>2,871</u>	<u>62,534</u>	<u>65,405</u>	<u>772,544</u>	<u>808,923</u>		
<u>3,244,663</u>	<u>9,866,187</u>	<u>47,626</u>	<u>1,036,493</u>	<u>1,084,119</u>	<u>10,950,306</u>	<u>9,973,113</u>		
8,793	23,444	19,976	57,035	77,011	100,455	171,604		
27,380	353,769	6,961	55,488	62,449	416,218	375,042		
36,788	74,572	-	15,886	15,886	90,458	74,610		
2,391	34,252	1,455	14,942	16,397	50,649	50,771		
156,057	2,284,130	-	254,172	254,172	2,538,302	2,021,609		
8,808	239,984	8,662	45,024	53,686	293,670	303,117		
150,285	439,284	1,547	35,452	36,999	476,283	466,720		
5,459	7,003	479	110,034	110,513	117,516	110,618		
20,246	24,434	6,655	-	6,655	31,089	22,570		
<u>12,069</u>	<u>78,911</u>	<u>149</u>	<u>33,996</u>	<u>34,145</u>	<u>113,056</u>	<u>82,862</u>		
<u>428,276</u>	<u>3,559,783</u>	<u>45,884</u>	<u>622,029</u>	<u>667,913</u>	<u>4,227,696</u>	<u>3,679,523</u>		
3,672,939	13,425,970	93,510	1,658,522	1,752,032	15,178,002	13,652,636		
<u>32,413</u>	<u>295,159</u>	<u>-</u>	<u>101,315</u>	<u>101,315</u>	<u>396,474</u>	<u>385,915</u>		
<u>\$3,705,352</u>	<u>\$ 13,721,129</u>	<u>\$ 93,510</u>	<u>\$1,759,837</u>	<u>\$1,853,347</u>	<u>\$ 15,574,476</u>			
<u>\$3,399,813</u>	<u>\$ 12,222,011</u>	<u>\$ 124,146</u>	<u>\$1,692,394</u>	<u>\$1,816,540</u>		<u>\$ 14,038,551</u>		

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to financial statements.

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2005**  
**With Comparative Totals for 2004**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$1,345,631	\$ 714,029
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term purposes	(745,501)	(513,919)
Change in year-end inventory valuation	(1,857)	4,777
Change in discount to present value	1,573	15,705
Gain on sale of property and equipment	(10)	(39,927)
Depreciation	396,474	385,915
Amortization	5,751	5,761
Provision for bad debts	31,089	22,570
Reinvested investment earnings	(22,950)	-
Effects of changes in operating assets and liabilities:		
Receivables	(266,338)	(308,232)
Prepaid expenses	(108,301)	(27,203)
Accounts payable	65,856	22,189
Accrued expenses	36,461	59,734
Deferred revenue	<u>10,633</u>	<u>(4,241)</u>
Total cash provided by operating activities	<u>748,511</u>	<u>337,158</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	1,781,000	-
Purchases of investments	(1,754,000)	(147,343)
Purchases of property and equipment	(598,308)	(1,226,724)
Proceeds from sale of property and equipment	<u>10</u>	<u>41,270</u>
Net cash used in investing activities	<u>(571,298)</u>	<u>(1,332,797)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for long-term purposes	745,501	513,919
Payment of loan origination fees	(1,212)	(15,049)
Payments on short-term debt	-	(356,379)
Principal payments on long-term debt	<u>(176,373)</u>	<u>(149,698)</u>
Net cash provided by (used in) financing activities	<u>567,916</u>	<u>(7,207)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	745,129	(1,002,846)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,122,771</u>	<u>2,125,617</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$1,867,900</u>	<u>\$1,122,771</u>

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
December 31, 2005**

Goodwill Industries of Southeast Iowa 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, 60% and Vocational Rehabilitation Fees, 16%.

**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**

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

**Temporarily 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**

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 operates eleven stores in southeast Iowa. The stores provide vocational training opportunities in retail through the processing and sale of materials contributed by the public.

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**December 31, 2005**

**DESCRIPTION OF PROGRAMS (CONTINUED)**

**Salvage**

The salvage program recycles contributed goods and materials.

**Contracts with Businesses**

The contract program offers vocational training to participants through a variety of contracts with businesses in the community.

**Solicitation and Transportation**

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

**Rehabilitation**

The rehabilitation program provides vocational evaluation, counseling, work skill training, job development and job placement.

**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 Statement of Financial Accounting Standards (SFAS) No. 116 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.

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

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**December 31, 2005**

**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. SFAS No. 116, Accounting for Contributions Received and Contributions Made, requires 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 change in year-end valuation.

**INVESTMENTS**

Investments are carried at fair value, determined by quoted market prices, and the net appreciation or depreciation in fair value of investments is reported as an increase or decrease in unrestricted net assets. Interest and dividends are recorded as income when earned. Investment income is also reported in the statement of activities as unrestricted revenue.

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**December 31, 2005**

**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
Furniture, Fixtures & Equipment	3 - 10 years

**LOAN ORIGATION FEES**

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

**ADVERTISING COSTS**

Advertising costs are expensed as incurred.

**FUNCTIONAL EXPENSES**

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

**INCOME TAXES**

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

**RECLASSIFICATION OF AMOUNTS**

Certain amounts as previously reported have been reclassified to conform to the 2005 presentation.

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

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 1 - SHORT-TERM INVESTMENTS**

Short-term investments and restricted short-term investments consist of the following:

	<b><u>Market Value</u></b>
Certificates of deposit	<u>\$1,079,587</u>

**NOTE 2 - UNCONDITIONAL PROMISES TO GIVE**

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

Capital campaign receivables	\$ 468,662
Less: Discount to present value	(17,278)
Less: Allowance for uncollectible pledges	<u>(22,569)</u>
<b>Net unconditional promises to give</b>	<b><u>\$ 428,815</u></b>
Amounts due in:	
Less than one year	\$ 226,625
One to five years	<u>242,037</u>
<b>Total</b>	<b><u>\$ 468,662</u></b>

Interest was imputed at a rate of 3% in discounting long-term promises to give. Of the above conditional promises to give, \$83,760 are from staff or board members of the Organization.

**NOTE 3 - CONDITIONAL PROMISES TO GIVE**

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

The Hall-Perrine Foundation has issued a grant of \$575,000 toward the renovation of the Cedar Rapids center. The grant is issued on a matching basis, whereby the Hall-Perrine Foundation will award one dollar for every two dollars raised for the project through June 30, 2006. Amounts are not recorded in the statement of activities until pledges can be identified that qualify for matching funds. Revenue not yet recognized under the terms of the agreement is \$54,453.

The Organization has been awarded various cost reimbursement grants totaling \$442,900. The budget periods for the grants run throughout 2006. Grant funds are not recognized as revenue until the reimbursements become due. The remaining balance of available grant funds at December 31, 2005 is \$274,096.

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 4 - DEBT**

**Line of credit**

The Organization 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, 2005.

**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 3.63% at December 31, 2005 (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. \$1,600,000

Revenue bond issued by Johnson County, Iowa, payable to Iowa State 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 Iowa State Bank. 1,380,829

Note payable to City of Iowa City, requiring annual installments of \$3,450, including interest at 0%. Final payment is due in July 2010, secured by Iowa City building. 17,250

Total 2,998,079  
Less current portion 173,791

**Long-term portion** \$2,824,288

Future maturities of long-term debt are as follows:

2006	\$ 173,791
2007	183,895
2008	187,939
2009	192,549
2010	197,225
Thereafter	<u>2,062,680</u>
<b>Total</b>	<u><u>\$2,998,079</u></u>

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 5 - NATURE AND AMOUNTS OF TEMPORARY RESTRICTIONS**

Temporarily restricted net assets are available for the following purposes:

United Way and capital campaign pledges - for future periods	\$ 489,061
Property enhanced by Iowa City funding - for subsequent years usage	99,325
Capital campaign funds received - for construction of distribution center	<u>1,041,255</u>
<b>Total</b>	<b><u>\$1,629,641</u></b>

**NOTE 6 - CASH FLOW DISCLOSURES**

Cash paid for interest for the year ended December 31, 2005 was \$144,023. Fixed asset purchases totaling \$264,810 and loan origination costs totaling \$6,448 were incurred but unpaid at December 31, 2005, and thus were excluded from the statement of cash flows for the year then ended. Those amounts were reflected in accounts payable at December 31, 2005.

**NOTE 7 - ADVERTISING COSTS**

Advertising costs for the year ended December 31, 2005 totaled \$239,767.

**NOTE 8 - OBLIGATIONS UNDER OPERATING LEASES**

At December 31, 2005, the Organization leased buildings from which operations are conducted in Iowa City, Cedar Rapids, Coralville, Muscatine, Davenport, Bettendorf, 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:

2006	\$1,227,062
2007	1,158,049
2008	1,157,987
2009	1,166,378
2010	1,173,393
Thereafter	<u>7,621,617</u>
<b>Total</b>	<b><u>\$13,504,486</u></b>

The leases contain various renewal and extension provisions. Lease expense for the year ended December 31, 2005 totaled \$1,280,655.

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 9 - 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, 2005 was \$337,309.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

On October 31, 2005, the Organization entered into a lump sum contract agreement with Garling Construction Company, Inc. for \$1,564,304. The agreement is for the renovation of the 1441 Blairs Ferry Road, Cedar Rapids, Iowa location. Costs incurred under this contract, through December 31, 2005, were \$212,700.

During 2005 the Organization was awarded a grant of \$65,000 from the City of Cedar Rapids to be expended by June 30, 2006. The funds are to assist with the installation of a new heating and ventilation system for the 1441 Blairs Ferry Road, Cedar Rapids, Iowa location. To fulfill grant requirements the Organization entered into a lump sum contract with AAA Mechanical Contractors on September 1, 2005 for \$170,437. Costs incurred under this contract, through December 31, 2005, were \$111,786.

On November 28, 2005 the Organization exercised the option to purchase 2001 Cedar Plaza Drive, Muscatine, Iowa for \$1,610,000. The purchase of the property will be financed with Muscatine County Revenue Bonds. The terms of the option require the purchase take place on or before January 31, 2006.

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 11 - CONCENTRATIONS OF CREDIT RISK**

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 FDIC. Management believes the credit risk related to the uninsured balance is minimal. The Organization entered into a security repurchase agreement with Hills Bank. The investments purchased through the agreements are government securities and are considered cash equivalents. The transactions entered into under the security repurchase agreements are not insured by the Federal Deposit Insurance Corporation, 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 these investments is not of particular concern at this time.

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 12 - 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 \$138,650 have been established in favor of the City as lien holder upon this property. Repayment of a pro-rated portion of the \$138,650 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 13 - 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, 2004, from which the summarized information is derived.

**NOTE 14 - ESTABLISHMENT GRANT**

In 2004 the Organization was awarded a grant of \$39,271 from the Division of Vocational Rehabilitation Services to be earned and expended between November 1, 2004 and September 30, 2005. The funds were to assist in the establishment of employment services in Scott County, Iowa. A summary of expenses relative to this agreement, for the year ended December 31, 2005, are as follows:

Salaries	\$ 28,607
Benefits	<u>8,035</u>
<b>Total</b>	<b><u>\$ 36,642</u></b>

**NOTE 15 - SELF-INSURED DENTAL 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.

In accordance with the Code of Iowa, the Organization has elected, effective January 1, 2005, 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.

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 15 - SELF-INSURED DENTAL PLAN AND UNEMPLOYMENT PLAN**  
**(CONTINUED)**

Obligations for these plans at December 31, 2005, 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, 2005 were \$2,066 for the dental 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 this estimate.

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

**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters Based on  
Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

Board of Directors  
Goodwill Industries of Southeast Iowa  
Iowa City, Iowa

We have audited the financial statements of Goodwill Industries of Southeast Iowa as of and for the year ended December 31, 2005, and have issued our report thereon dated February 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition and response is described in the accompanying schedule of findings as item 05-II-I.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the schedule of findings is not a material weakness.

## Compliance and Other Matters

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

This report is intended solely for the information and use of the board of directors, management 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.

*Clifton Gunderson LLP*

Cedar Rapids, Iowa  
February 20, 2006

**GOODWILL INDUSTRIES OF SOUTHEAST IOWA**  
**SCHEDULE OF FINDINGS**  
**Year Ended December 31, 2005**

**PART I: SUMMARY OF INDEPENDENT AUDITOR'S RESULTS**

1. An unqualified opinion was issued on the financial statements.
2. A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements. The condition is not considered to be a material weakness.
3. The audit did not disclose any non-compliance that is material to the financial statements.

**PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

**05-II-I: Segregation of Duties**

Criteria:

The Organization should have adequate segregation of duties to provide for the accuracy and reliability of the financial statements.

Condition:

The Organization does not have adequate segregation of duties over all accounting transactions.

Context:

Internal controls that are in place could be averted, overridden, or not consistently implemented.

Effect:

As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

Cause:

The Organization has a limited number of personnel performing accounting functions.

Recommendation:

When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities. We recommend the Organization review its operating procedures to obtain the maximum internal control possible under the circumstances.

Management Response:

With a limited number of office employees, segregation of duties is sometimes difficult. Management is aware of the lack of segregation of duties and has considered alternatives to improve the situation. An extensive study of internal controls was performed in 2004 and management has implemented many of the recommendations from that study.

**PART III: OTHER FINDINGS RELATED TO STATUTORY REQUIREMENTS  
AND OTHER MATTERS**

No matters were reported.