PBTK
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.

FINANCIAL STATEMENTS AND REGULATORY REPORTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

6100 Elton Avenue, Ste. 1000 • Las Vegas, Nevada 89107 • 702-384-1120 • fax 702-870-2474 • pbtk.com

TABLE OF CONTENTS

P B T K
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Board of Directors
Goodwill Industries of Southern Nevada, Inc.
North Las Vegas, Nevada

We have audited the accompanying financial statements of the Goodwill Industries of Southern Nevada, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

An audit performed in accordance with applicable professional standards is a process designed to obtain reasonable assurance about whether the Organization's financial statements are free from material misstatement. This process involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements to enable the design of audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

Management's Responsibility for the Financial Statements. Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility. Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of and for the years ended December 31, 2013 and 2012, and its changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

6100 Elton Avenue, Ste. 1000 • Las Vegas, Nevada 89107 • 702-384-1120 • fax 702-870-2474 • pbtk.com

Other Reporting Required by *Government Auditing Standards*. In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2014, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Piercy Bowler Taylor & Kern

Las Vegas, Nevada
April 18, 2014

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

		2013		2012
ASSETS				
Current assets				
Cash	$	**804,540**	$	1,068,428
Accounts receivable		**139,937**		159,626
Contracts receivable		**88,001**		49,309
Grants receivable		**314,755**		236,301
Inventory		**4,142,702**		3,413,380
Prepaid expenses and other		**250,530**		162,863
		5,740,465		5,089,907
Property and equipment, net of accumulated depreciation		**2,896,289**		2,878,707
Certificate of deposit, restricted		**500,000**		500,000
Deposits		**86,543**		81,586
	$	**9,223,297**	$	8,550,200
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$	**632,931**	$	626,695
Accrued expenses		**2,728,427**		1,879,873
Lines of credit payable		**863,410**		877,499
Deferred gain on sale-leaseback		**610,692**		610,692
Long-term debt		**177,112**		204,783
		5,012,572		4,199,542
Long-term liabilities				
Deferred gain on sale-leaseback		**4,529,300**		5,139,992
Long-term debt		**251,706**		428,722
		9,793,578		9,768,256
Net assets (deficit)				
Unrestricted		**(643,801)**		(1,277,887)
Temporarily restricted		**73,520**		59,831
		(570,281)		(1,218,056)
	$	**9,223,297**	$	8,550,200

See notes to financial statements

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Changes in unrestricted net assets		
Revenues and gains		
Contributions	$ 1,022,502	$ 546,620
Grants:		
American Recovery and Reinvestment Act of 2009		44,170
Other	1,627,823	972,570
Goods contributed for sale	23,870,865	22,037,404
Sale of purchased goods	442,205	289,569
Less cost of goods sold	(878,045)	(765,511)
Vocational assistance programs	516,511	633,969
Deferred gain amortization on sale-leaseback	610,692	610,692
Special events	90,105	67,951
Less direct benefit costs	(49,007)	(39,792)
Interest	2,738	8,406
Other	3,411	6,631
	27,259,800	24,412,679
Net assets released from restrictions	91,311	173,059
	27,351,111	24,585,738
Expenses		
Program services	24,786,457	22,457,285
Support services:		
Management and general	1,079,293	1,132,289
Fundraising	657,097	364,096
	26,522,847	23,953,670
Unallocated payments to affiliated organization	194,178	163,943
	26,717,025	24,117,613
Increase in unrestricted net assets	634,086	468,125
Changes in temporarily restricted net assets		
Contributions	105,000	70,000
Net assets released from restrictions	(91,311)	(173,059)
Increase (decrease) in temporarily restricted net assets	13,689	(103,059)
Increase in net assets	647,775	365,066
Net assets (deficit), beginning of year:	(1,218,056)	(1,583,122)
Net assets (deficit), end of year	$ (570,281)	$ (1,218,056)

See notes to financial statements

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Program	Management and General	Fundraising	Total
2013				
Personnel:				
Salaries	$ 13,544,654	$ 589,784	$ 359,073	$ 14,493,511
Payroll taxes	1,091,289	47,519	28,930	1,167,738
Employee benefits	641,320	27,925	17,002	686,247
	15,277,263	665,228	405,005	16,347,496
Advertising	263,764	11,485	6,992	282,241
Equipment rent and maintenance	567,492	24,711	15,044	607,247
Insurance	605,959	26,386	16,064	648,409
Interest	57,341	2,497	1,520	61,358
Meetings and conferences	52,512	2,286	1,392	56,190
Rent	4,249,527	185,040	112,656	4,547,223
Office	356,749	15,534	9,458	381,741
Client assistance	668,846	29,124	17,731	715,701
Postage	513,898	22,377	13,624	549,899
Printing and duplication	56,622	2,465	1,501	60,588
Professional fees	69,008	3,005	1,829	73,842
Property taxes	122,616	5,339	3,251	131,206
Security	63,353	2,759	1,680	67,792
Supplies	509,165	22,171	13,498	544,834
Telecommunications	192,321	8,374	5,099	205,794
Travel	50,743	2,210	1,345	54,298
Vehicles and mileage	336,493	14,652	8,921	360,066
Depreciation and amortization	772,785	33,650	20,487	826,922
	$ 24,786,457	$ 1,079,293	$ 657,097	$ 26,522,847
2012				
Personnel:				
Salaries	$ 12,244,424	$ 617,360	$ 198,517	$ 13,060,301
Payroll taxes	988,361	49,833	16,024	1,054,218
Employee benefits	492,547	24,834	7,986	525,367
	13,725,332	692,027	222,527	14,639,886
Advertising	366,923	18,500	5,948	391,371
Equipment rent and maintenance	515,185	25,975	8,352	549,512
Insurance	557,370	28,102	9,037	594,509
Interest	52,918	2,668	858	56,444
Meetings and conferences	51,138	2,578	829	54,545
Rent	3,673,060	185,195	59,551	3,917,806
Office	369,962	18,653	5,997	394,612
Client assistance	311,762	15,719	5,055	332,536
Postage	592,685	29,883	9,608	632,176
Printing and duplication	53,144	2,680	862	56,686
Professional fees	62,669	3,160	1,016	66,845
Property taxes	97,486	4,915	1,581	103,982
Security	56,165	2,832	911	59,908
Supplies	418,189	21,085	6,780	446,054
Telecommunications	208,899	10,533	3,387	222,819
Travel	58,210	2,935	944	62,089
Vehicles and mileage	312,543	15,758	5,067	333,368
Depreciation and amortization	973,645	49,091	15,786	1,038,522
	$ 22,457,285	$ 1,132,289	$ 364,096	$ 23,953,670

See notes to financial statements

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities		
Increase in net assets	$ 647,775	$ 365,066
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization of property and equipment	826,922	1,033,462
Amortization of deferred gain on sale-leaseback	(610,692)	(610,692)
(Increase) decrease in operating assets:		
Accounts receivable	19,689	33,291
Contracts receivable	(38,692)	17,773
Grants receivable	(78,454)	(19,654)
Inventory	(729,322)	(828,632)
Prepaid expenses and other	(87,667)	(121,589)
Deposits	(4,957)	(11,379)
Increase (decrease) in operating liabilities		
Accounts payable	6,236	232,958
Accrued expenses	848,554	599,941
Net cash provided by operating activities	799,392	690,545
Cash flows from investing activities		
Proceeds from reduction of investment		500,000
Purchase of property and equipment	(844,504)	(1,328,442)
Net cash used in investing activities	(844,504)	(828,442)
Cash flows from financing activities		
Proceeds from issuance of debt	8,439,241	7,777,732
Repayment of long-term debt	(8,658,017)	(7,944,399)
Net cash provided by (used in) financing activities	(218,776)	(166,667)
Net increase (decrease) in cash	(263,888)	(304,564)
Cash, beginning of year	1,068,428	1,372,992
Cash, end of year	$ 804,540	$ 1,068,428
Supplemental cash flow information		
Interest paid	$ 61,358	$ 56,445

See notes to financial statements

1. Nature of operations, concentrations, risks and uncertainties:

Activities. Goodwill Industries of Southern Nevada, Inc. (the Organization) is a not-for-profit corporation that solicits and collects donated materials, processes and resells them to the general public, and provides employment and training services to people with disabilities and other barriers to employment. Approximately 2% and 1% of the Organization's sales in 2013 and 2012, respectively, came from what is termed "purchased" product. Purchased goods totaled \$283,884 and \$162,628 during 2013 and 2012, respectively, representing 1% and 1%, respectively, of the total costs and expenses of the Organization.

The Organization operates under, and has the use of, the Goodwill name as allowed under an in-substance franchise license agreement with Goodwill Industries International, Inc. The agreement requires payment of "dues" (which are in-substance royalties) based on sales and other specified factors. Such dues or royalty expense is designated as "unallocated payments to affiliated organization" in the statement of activities.

The Organization funds job training, employment placement services and other community programs by selling donated, "gently used" items through its retail, post-retail and e-commerce operations. Its nationally certified workforce development services target job seekers with disabilities and other barriers to employment. The Organization's largest workforce development program currently, Career Connections, specializes in increasing the employability of hard-to-place job seekers who face barriers to employment by giving them access to skills training opportunities, job search tools, career advice, one-on-one counseling, job leads and supportive services. The Organization's more traditional workforce development programs deliver vocational rehabilitation services, including assessment, training, job placement and job coaching, to clients with disabilities. During 2013 and 2012, the number of individuals receiving services from all programs combined totaled 10,507 and 8,691, respectively. Of these individuals, 2,021 and 1,800 were placed into jobs in 2013 and 2012, respectively.

Concentrations, risks and uncertainties. The Organization operates exclusively in Southern Nevada. In addition, the United States has been experiencing a severe and widespread recession accompanied, among other things, by declines in retail activity and weakness in the commercial banking system, all of which are likely to continue to have far-reaching effects on the economic activity in the country for an indeterminate period. The near and long-term impact and duration of these factors on the Nevada economy and the Organization's future operating activities and cash flows cannot be predicted at this time but may be substantial.

From time-to-time, the Organization carries cash and cash equivalents on deposit with financial institutions in excess of federally-insured limits, and the risk of loss related to such concentrations may be substantial as a result of the economic conditions discussed in the foregoing paragraph. The extent of a future loss to be sustained as a result of uninsured deposits in the event of a future failure of a financial institution, if any, however, is not subject to estimation at this time.

Tax-exempt status. The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). Therefore, contributions to the Organization qualify for the charitable contributions deduction to the extent provided by Section 170 of the IRC.

Because there are no known circumstances that would place the Organization's status as a tax-exempt organization in jeopardy, and because it does not engage in unrelated business income activities, no provision has been made for uncertain tax positions taken or to be taken. At December 31, 2013, under the normal three-year statute of limitations, related to examination by the Internal Revenue Service (IRS), tax years 2010, 2011 and 2012 remain open.

2. Summary of significant accounting policies:

Basis of presentation. The accompanying financial statements have been presented in accordance with accounting principles generally accepted in the United States (GAAP) applicable to not-for-profit organizations.

The Organization has elected not to adopt the option available under GAAP to measure any of its eligible financial instruments or other items at estimated fair value. Accordingly, the Organization continues to measure all of its assets and liabilities on the historical cost basis of accounting except as otherwise prescribed by GAAP and disclosed herein.

Accounts and contracts receivable. Receivables are carried at estimated net realizable value, are short-term, and non-interest bearing. In establishing an allowance for doubtful collection, if any, the Organization considers the customer's or contributor's apparent financial condition, payment history, the Organization's relationship with the customer or contributor, the relative strength of the Organization's legal position, the related cost of any proceedings, and general and local economic conditions. Receivables are deemed to be delinquent when payments are past due 30 days and written off when they are determined to be uncollectible based on an evaluation by management of facts and circumstances. The maximum losses that the Organization would incur if a customer or contributor failed to pay would be limited to the carrying value after any allowances provided.

Inventory. Donated inventory is valued at expected sales price and was $4,101,589 and $3,337,078 at December 31, 2013 and 2012, respectively. Purchased inventory is recorded at cost and values are subject to adjustment to estimated market value, if lower, at year end.

Property and equipment. Property and equipment (Note 3) is stated at cost, or if donated, at the estimated fair value at the time it is received, based on level 2 or level 3 inputs, as defined by GAAP. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which for leasehold improvements are limited to the lease term, excluding contingent renewal option periods (Note 8).

Revenue recognition. All contributions are recognized as support in the statement of activities in the period received, including bequests and unconditional pledges receivable, at their estimated net realizable value, discounted to present value if due in more than one year. Uncollectible pledges receivable, if any, are charged as expenses in the statement of activities. Bequests are recognized at the time the Organization's right to them is established to the extent the value of the proceeds is subject to reasonable estimation.

Revenues from exchange transactions, including substantially all current year grants and contracts, are recognized when earned. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the presence and nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions" except that donor restrictions met in the same period received are reported as unrestricted support. Unless otherwise specified by the donors, contributions of long-lived assets are considered restricted only until the assets are placed into service at which time the assets are reclassified to unrestricted net assets.

Donated goods and services. Goods contributed for sale are recorded in revenue at expected selling prices. Accordingly, no acquisition costs are recognized for the sales of such goods.

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets, (b) require specialized skills, (c) are performed by people with those skills, and (d) would otherwise be purchased by the Organization. Contributions include donated services valued at $379,853 and $336,489 during 2013 and 2012, respectively.

Use of estimates. Timely preparation of financial statements in conformity with GAAP requires management to make estimates that affect reported amounts, some of which may require revision in future years.

Functional expenses. Certain costs and expenses have been allocated among the programs and support services benefited, based primarily upon estimates by management.

Advertising. The Organization uses advertising to promote its programs among the beneficiaries it serves. The costs of advertising are expensed as incurred.

Reclassification. Certain minor reclassifications to prior period amounts have been made to conform to the current period presentation.

3. Property and equipment:

	2013	2012
Leasehold improvements	$ 963,924	$ 1,119,447
Office equipment, furniture and fixtures	3,916,394	3,984,726
Construction in progress	53,038	67,402
	4,933,356	5,171,575
Less accumulated depreciation and amortization	(2,037,067)	(2,292,868)
	$ 2,896,289	$ 2,878,707

4. Temporarily restricted net assets:

Net assets temporarily restricted for certain program activities were $73,520 and $59,831 at December 31, 2013 and 2012, respectively.

5. Related party transactions:

Board member contributions for 2013 and 2012 were $66,786 and $15,520, respectively.

The Organization leases a store location from a company in which a Board member is a principal. Rent expense on this lease totaled $340,233 and $326,083 in 2013 and 2012, respectively.

Board members provide legal and development services to the Organization. Fees for these services totaled $12,915 and $20,728 in 2013 and 2012, respectively.

6. Federal grants:

In July 2011, the Organization was approved to receive federally funded grant awards, of $600,000. In July 2012 and May 2013, this award was amended approving the Organization to receive an additional $1,200,000 and $1,000,000 respectively, of which approximately $900,000 is estimated to be expended in 2014.

7. Long-term liabilities:

In 2007, the Organization entered into a sale-leaseback arrangement that was accounted for under the financing method as defined and required by GAAP since the Organization retained continuing involvement in the property in the form of an option to repurchase the property. In 2010, however, the repurchase option was removed from the lease agreement, by amendment, thereby resulting in a change to sales lease-back accounting. Accordingly, in 2010, the property and associated debt were removed and a net deferred gain of $7,582,760 was recorded, which will be amortized at the rate of $610,692 annually over the remaining life of the lease, scheduled to end in June 2022. As of December 31, 2013 and 2012, the net deferred gain was $5,139,992 and $5,750,684, respectively.

In September 2012, the Organization amended the terms of their revolving line of credit reducing the line from $1,000,000 to $500,000. The amendment also reduced its collateral of a $1,000,000 certificate of deposit with the lender to $500,000. Interest only is payable at a 1.60% fixed rate. The certificate of deposit matures in March 2014 and is expected to be renewed for an additional 6 month term. The line of credit was renewed and expires in September 2014.

The reduction in the collateralized certificate of deposit allowed the Organization to execute another revolving line of credit with the same lender for $500,000 that is collateralized by its operating cash accounts. Interest only is payable monthly at a variable interest rate as defined in the agreement not to exceed 25.0%. This line of credit also expires in September 2014.

The Organization is obligated for several loans. These obligations are payable in monthly installments ending at various dates through January 2017, including interest from 1.65% to 4.50%. Future maturities of loans at December 31, 2013, were as follows:

2014	$ 145,936
2015	112,570
2016	109,998
2017	9,217
	377,721
Less current portion	(145,936)
	$ 231,785

The Organization is also obligated for capital equipment leases collateralized by equipment. These obligations are payable in monthly installments ending at various dates through January 2017, including interest from 0% to 10.50%. Future maturities of capital leases at December 31, 2013, were as follows:

2014	$ 31,176
2015	17,308
2016	2,613
Present value of total payments	51,097
Plus portion representing interest	2,138
Total future minimum payments	$ 53,235

8. Commitments:

Operating leases. The Organization has operating lease arrangements as lessee for retail and donation locations, vehicles and office equipment expiring at various dates through 2026.

The Organization has several leases with purchase or renewal options to extend the lease terms in multiple consecutive occurrences. The Organization's operating leases are collateralized by the rented equipment, retail locations, equipment, furniture, furnishings, appliances, goods, trade fixtures, inventory, chattels and personal property. These leases contain provisions for annual adjustments to the base rent. One lease has future renewal options for which the availability is contingent on the Organization's net worth at the time of renewal.

Aggregate minimal rental commitments on leases with remaining terms of one year or more at December 31, 2013, are summarized as follows:

2014	$ 4,001,784
2015	3,937,903
2016	3,965,203
2017	3,972,528
2018	3,851,407
Thereafter	16,779,501

Total rent expense for all operating leases for 2013 and 2012 was $4,007,396 and $3,474,701, respectively.

9. Subsequent events:

Management has evaluated subsequent events for possible recognition or disclosure through April 18, 2014, the date the financial statements were available to be issued. No events were identified that require recognition or disclosure in the financial statements.

PBTK
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Goodwill Industries of Southern Nevada, Inc.
North Las Vegas, Nevada

We have audited, in accordance with the 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, the financial statements of the Goodwill Industries of Southern Nevada, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 18, 2014.

Internal Control over Financial Reporting. In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters. As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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*.

6100 Elton Avenue, Ste. 1000 • Las Vegas, Nevada 89107 • 702-384-1120 • fax 702-870-2474 • pbtk.com

We noted certain matters that we reported to management of the Organization in a separate letter dated April 18, 2014.

Purpose of this Report. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Piercy Bowler Taylor & Kern

Las Vegas, Nevada
April 18, 2014

SINGLE AUDIT
AND
ACCOMPANYING INFORMATION

P B T K
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

INDEPENDENT AUDITORS' 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 AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors
Goodwill Industries of Southern Nevada, Inc.
North Las Vegas, Nevada

We have audited the compliance of the Goodwill Industries of Southern Nevada, Inc. (the Organization) with the types of compliance requirements described in the Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2013. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility. The Organization's management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility. Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. 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 the Organization'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Major Federal Program. In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance. The Organization's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 the Organization's internal control over compliance.

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

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133. We have audited the financial statements of the Organization as of and for the year ended December 31, 2013, and have issued our report thereon dated April 18, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Piercy Bowler Taylor & Kern

Las Vegas, Nevada
April 18, 2014

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Federal Grantor/Pass-though Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
United States Department of Labor, Employment and Training Administration			
Passed through *workforce* CONNECTIONS			
WIA Cluster *			
WIA Adult Program	17.258	11-ADW-WIA-GRN-GDW-02	$ 440,353
WIA Dislocated Workers	17.260	11-ADW-WIA-GRN-GDW-02	204,538
WIA Adult Program	17.258	11-WIA-ADW-GDW-04	115,959
WIA Dislocated Workers	17.260	11-WIA-ADW-GDW-04	41,486
WIA Dislocated Workers	17.278	11-WIA-ADW-GDW-05	264,327
WIA Dislocated Workers	17.260	11-WIA-ADW-GDW-05	72,677
WIA Youth Activities	17.259	23-FCY/YD-WA-GDW-01	32,983
WIA Youth Activities	17.259	23-FCY/YD-WA-GDW-01	149,205
Total United States Department of Labor, Employment and Training Administration			1,321,528
United States Department of Homeland Security			
Emergency Food and Shelter National Board Program	97.024		81,873
			$ 1,403,401

* A "major" program

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1. Reporting Entity

The accompanying schedule of expenditures of federal awards (the schedule) presents the activity of all federal financial assistance programs of Goodwill Industries of Southern Nevada, Inc. (the Organization). The reporting entity is defined in Note 1 to the financial statements. The schedule includes all expended federal financial assistance received directly from federal agencies and that passed through other entities.

Note 2. Basis of Presentation

The schedule includes the federal grant activity of the Organization presented on the accrued basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

Section I - Summary of Auditors' Results:

Financial Statements:

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

CFDA Number:	17.258, 17.259, 17.260, 17.278
Name of Federal Program or Cluster:	WIA cluster: WIA Adult Program, WIA Dislocated Workers, WIA Youth Activities
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	No

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*:

None Reported

Section III – Findings and questioned costs for federal awards, including audit findings as defined in Circular A-133 Section .510(a):

None Reported

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*:

2012-1

Criteria:	Non-level rent increases are to be recognized on a straight-line basis over the term of the lease agreement.
Condition:	One store lease entered into during the year included nine months of free rent for which the total rental payments was not recorded on a straight-line basis over the term of the lease agreement.
Effect:	Reasonable assurance that transactions involving non-level rents are accurately recognized and financial statements are free of material errors are presented using the appropriate basis of accounting as required by accounting principles generally accepted in the United States.
Cause:	Failure to adopt, effectively implement and monitor compliance with policies and procedures designed to provide reasonable assurance that lease transactions are accurately recognized and financial statements, free of material errors, and appropriately presented.
Current status:	No significant exceptions were noted in the current years audit procedures, and therefore, this finding appears to have been corrected.

Section III – Findings and questioned costs for federal awards, including audit findings as defined in Circular A-133 Section .510(a):

2012-2

Program:	U.S. Department of Labor, Employment and Training Administration: WIA cluster: WIA Adult Program, WIA Dislocated Workers. CFDA #17.258, #17.278.
Specific requirements:	Documentation supporting on-the-job training (OJT) payments shall be complete, accurate and retained.
Condition and context:	Of the 18 OJT payments tested, we noted four payments were miscalculated using unapproved rates, two lacked required signatures on time cards, three did not include supporting documentation, and one employment contract included the signature of the Organization's Director of Mission Services' for both the Organization and the employer.
Questioned costs:	Undetermined.
Effect:	Reasonable assurance that the accuracy and completeness of OJT payments cannot be readily attained.
Cause:	Failure to adopt, effectively implement and monitor compliance with policies and procedures designed to provide reasonable assurance that OJT payments are accurate and complete.
Current status:	No significant exceptions were noted in the current years audit procedures, and therefore, this finding appears to have been corrected.

Section III – Findings and questioned costs for federal awards, including audit findings as defined in Circular A-133 Section .510(a):

2012-3

Program:	U.S. Department of Labor, Employment and Training Administration: WIA cluster: WIA Adult Program, WIA Dislocated Workers. CFDA #17.258, #17.278.
Specific requirements:	Documentation supporting program participant eligibility shall be complete, accurate and retained.
Condition and context:	Of the 37 participants files selected for testing, one did not include adequate documentation for the determination of participant eligibility.
Questioned costs:	Undetermined.
Effect:	Reasonable assurance of participant eligibility cannot readily be attained.
Cause:	Failure to adopt, effectively implement and monitor compliance with policies and procedures designed to provide reasonable assurance that required participant eligibility documentation is complete, accurate and retained.
Current status:	No significant exceptions were noted in the current years audit procedures, and therefore, this finding appears to have been corrected.

Section III – Findings and questioned costs for federal awards, including audit findings as defined in Circular A-133 Section .510(a):

2012-4

Program:	U.S. Department of Labor, Employment and Training Administration: WIA cluster: WIA Adult Program, WIA Dislocated Workers. CFDA #17.258, #17.278.
Specific requirements:	Supervisory review of reports is performed to assure accuracy and completeness of data and information included in the reports.
Condition and context:	Of the four quarterly reports submitted to *workforce* CONNECTIONS, we noted that the report for the quarter ending June 30, 2012, specified the wrong contract number.
Questioned costs:	Not applicable.
Effect:	The expenditures for a particular award may not be tracked accurately.
Cause:	Failure to adopt, effectively implement and monitor compliance with policies and procedures designed to provide reasonable assurance that required reports are prepared accurately.
Current status:	No significant exceptions were noted in the current years audit procedures, and therefore, this finding appears to have been corrected.