

**Audited Consolidating Financial Statements,  
Supplementary Information, and  
Reports Required by Government Auditing  
Standards and the Uniform Guidance**

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

*December 31, 2017*

# Goodwill Industries International, Inc. and Related Entities

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# Independent Auditor’s Report

To the Board of Directors  
Goodwill Industries International, Inc.  
and Related Entities

## Report on the Financial Statements

We have audited the accompanying consolidating financial statements of Goodwill Industries International, Inc. and Related Entities (the Organization), which comprise the consolidating statement of financial position as of December 31, 2017, and the related consolidating statements of activities and cash flows for the year then ended, and the related notes to the consolidating financial statements.

## Management’s Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidating 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 consolidating financial statements are free from material misstatement. The financial statements of 15810 Indianola Drive, LLC (the LLC) and Goodwill Mission and Job Creation Services, Inc. (GMJCS) were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating financial statements in order to design 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 accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidating financial statements.

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 2017 consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of Goodwill Industries International, Inc. and Related Entities as of December 31, 2017, 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.

### **Summarized Comparative Information**

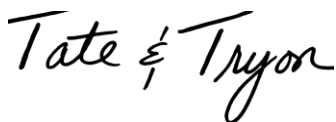
We have previously audited the Organization's 2016 consolidating financial statements, and our report thereon dated March 23, 2017, expressed an unmodified opinion on those audited consolidating financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidating financial statements from which it has been derived.

### **Supplementary and Other Information**

Our audit was conducted for the purpose of forming an opinion on the consolidating financial statements as a whole. The consolidated schedule of functional expense is presented for purposes of additional analysis and is not a required part of the consolidating financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the consolidating 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 consolidating financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidating financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018 on our consideration of Goodwill Industries International, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 Goodwill Industries International, Inc.'s internal control over financial reporting and compliance.



Washington, DC  
March 22, 2018

# Goodwill Industries International, Inc. and Related Entities

## Consolidating Statement of Financial Position December 31, 2017 with 2016 Totals

	2017				2016
	GII / LLC	GMJCS	Eliminations	Total	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 2,493,444	\$ 1,015,692	\$ -	\$ 3,509,136	\$ 4,295,947
Investments	16,337,069			16,337,069	13,207,791
Accounts receivable	952,604		(12,095)	940,509	1,000,334
Pledges receivable	803,137			803,137	1,086,189
Grants receivable	4,768,306			4,768,306	2,990,357
Prepaid expenses and other assets	745,430	8,675		754,105	746,896
Notes receivable		2,958,963		2,958,963	5,819,337
Property and equipment	8,208,022			8,208,022	7,442,050
<b>Total assets</b>	<b>\$ 34,308,012</b>	<b>\$ 3,983,330</b>	<b>\$ (12,095)</b>	<b>\$ 38,279,247</b>	<b>\$ 36,588,901</b>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Accounts payable	\$ 6,725,874	\$ 12,095	\$ (12,095)	\$ 6,725,874	\$ 4,080,584
Funds held for others				-	500,000
Accrued expense	2,390,033	15,724		2,405,757	2,494,245
Deferred revenue	374,970			374,970	467,124
Rebates payable	77,228			77,228	77,228
Notes payable		2,974,643		2,974,643	5,848,508
Bonds payable				-	1,200,000
Interest rate swap agreement				-	5,946
<b>Total liabilities</b>	<b>9,568,105</b>	<b>3,002,462</b>	<b>(12,095)</b>	<b>12,558,472</b>	<b>14,673,635</b>
<b>Net assets</b>					
Unrestricted	15,569,468	980,868		16,550,336	16,262,074
Temporarily restricted	7,755,824			7,755,824	4,329,757
Permanently restricted	1,414,615			1,414,615	1,323,435
<b>Total net assets</b>	<b>24,739,907</b>	<b>980,868</b>	<b>-</b>	<b>25,720,775</b>	<b>21,915,266</b>
<b>Total liabilities and net assets</b>	<b>\$ 34,308,012</b>	<b>\$ 3,983,330</b>	<b>\$ (12,095)</b>	<b>\$ 38,279,247</b>	<b>\$ 36,588,901</b>

# Goodwill Industries International, Inc. and Related Entities

## Consolidating Statement of Activities Year Ended December 31, 2017 with 2016 Totals

	2017				2016
	GII / LLC	GMJCS	Eliminations	Total	Total
<b>Unrestricted activities</b>					
Revenue and support					
Federal awards	\$ 25,241,764	\$ -	\$ -	\$ 25,241,764	\$ 14,759,582
Membership dues	20,716,618			20,716,618	20,689,176
In-kind contributions	17,346,116			17,346,116	22,273,745
Program service fees	2,475,800			2,475,800	3,171,841
Legacies and bequests	474,669			474,669	828,183
Rental	286,892			286,892	274,547
Contributions	200,125			200,125	424,807
Other income	77,759	149,095	(63,973)	162,881	217,468
Investment income	100,145			100,145	131,392
	66,919,888	149,095	(63,973)	67,005,010	62,770,741
Net assets released from restriction	5,286,270			5,286,270	4,519,388
Total revenue and support	72,206,158	149,095	(63,973)	72,291,280	67,290,129
Expense					
Program services					
Direct services to membership	37,225,550	135,899	(63,973)	37,297,476	42,988,697
Sponsored programs and grants	30,029,817			30,029,817	18,606,536
Support services to membership	1,091,101			1,091,101	1,872,071
Total program services	68,346,468	135,899	(63,973)	68,418,394	63,467,304
Management and general services					
General and administrative	3,556,037			3,556,037	3,547,256
Resource development	460,234			460,234	545,845
Total management and general services	4,016,271	-	-	4,016,271	4,093,101
Total expense	72,362,739	135,899	(63,973)	72,434,665	67,560,405
Change in unrestricted net assets from operations	(156,581)	13,196	-	(143,385)	(270,276)
Net gain on investments	492,316			492,316	272,126
Gain on interest rate swap	5,946			5,946	21,383
Loss on disposal of equipment	(361)			(361)	(13,006)
Bad debt expense	(66,254)			(66,254)	(75,802)
Change in unrestricted net assets	275,066	13,196	-	288,262	(65,575)
<b>Temporarily restricted activities</b>					
Contributions	8,657,053			8,657,053	2,466,367
Net gain on investments	33,598			33,598	14,177
Investment income	21,686			21,686	28,377
Net assets released from restriction	(5,286,270)			(5,286,270)	(4,519,388)
Change in temporarily restricted net assets	3,426,067	-	-	3,426,067	(2,010,467)
<b>Permanently restricted activities</b>					
Net gain on investments	91,180			91,180	35,444
Change in permanently restricted net assets	91,180	-	-	91,180	35,444
<b>Change in net assets</b>	3,792,313	13,196	-	3,805,509	(2,040,598)
Net assets, beginning of year	20,947,594	967,672	-	21,915,266	23,955,864
<b>Net assets, end of year</b>	\$ 24,739,907	\$ 980,868	\$ -	\$ 25,720,775	\$ 21,915,266

See notes to the consolidating financial statements.

# Goodwill Industries International, Inc. and Related Entities

## Consolidating Statement of Cash Flows Year Ended December 31, 2017 with 2016 Totals

Year Ended December 31,	2017				2016
	GII / LLC	GMJCS	Eliminations	Total	Total
<b>Cash flows from operating activities</b>					
Change in net assets	\$ 3,792,313	\$ 13,196	\$ -	\$ 3,805,509	\$ (2,040,598)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:					
Net gain on investments	(617,094)			(617,094)	(321,747)
Bad debt expense	(66,254)			(66,254)	(75,802)
Change in allowance for doubtful notes receivable		(13,491)		(13,491)	737
Depreciation and amortization	1,191,802			1,191,802	1,015,114
Gain on interest rate swap	(5,946)			(5,946)	(21,383)
Loss on disposal of equipment	361			361	13,006
Changes in assets and liabilities:					
Accounts receivable	125,746		333	126,079	(17,634)
Pledges receivable	283,052			283,052	(1,081,189)
Grants receivable	(1,777,949)			(1,777,949)	(582,181)
Prepaid expenses and other assets	(15,670)	8,461		(7,209)	(67,152)
Accounts payable	2,645,290	333	(333)	2,645,290	172,229
Funds held for others		(500,000)		(500,000)	500,000
Accrued expense	(74,031)	(14,457)		(88,488)	(25,357)
Deferred revenue	(92,154)			(92,154)	(36,654)
Rebates payable	-			-	(732,772)
Total adjustments	1,597,153	(519,154)	-	1,077,999	(1,260,785)
Net cash provided by (used in) operating activities	5,389,466	(505,958)	-	4,883,508	(3,301,383)
<b>Cash flows from investing activities</b>					
Proceeds from sales of investments	15,554,441			15,554,441	4,939,083
Purchases of investments	(18,066,625)			(18,066,625)	(900,088)
Purchases of property and equipment	(1,958,135)			(1,958,135)	(775,432)
Net cash (used in) provided by investing activities	(4,470,319)	-	-	(4,470,319)	3,263,563
<b>Cash flows from financing activities</b>					
Proceeds from payments on notes receivable		2,873,863		2,873,863	1,645,942
Payments of principal on notes payable		(2,873,863)		(2,873,863)	(1,645,942)
Payment of principal on bonds payable	(1,200,000)			(1,200,000)	(100,000)
Payments for issuance of notes receivable		-		-	(1,808,178)
Proceeds from issuance of notes payable		-		-	1,575,000
Net cash used in financing activities	(1,200,000)	-	-	(1,200,000)	(333,178)
<b>Net decrease in cash and cash equivalents</b>	(280,853)	(505,958)	-	(786,811)	(370,998)
Cash and cash equivalents, beginning of year	2,774,297	1,521,650	-	4,295,947	4,666,945
<b>Cash and cash equivalents, end of year</b>	\$ 2,493,444	\$ 1,015,692	\$ -	\$ 3,509,136	\$ 4,295,947
<b>Supplemental disclosure of cash flow information:</b>					
Cash received during the year for interest	\$ -	\$ 160,668	\$ -	\$ 160,668	\$ 203,373
Cash paid during the year for interest	\$ (22,514)	\$ (100,038)	\$ -	\$ (122,552)	\$ (195,635)

See notes to the consolidating financial statements.

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Goodwill Industries International, Inc. (GII), was established in 1902 and was later incorporated (1910) in the Commonwealth of Massachusetts. GII functions as a member association comprised of a network of independent community-based Goodwill organizations in the United States and Canada and international affiliates. GII works to enhance the dignity and quality of life of individuals and families by strengthening communities, eliminating barriers to opportunity, and helping people in need reach their full potential through learning and the power of work. GII facilitates member-to-member sharing, knowledge transfer and direct and supportive services to assist members in providing local community mission services. Each local Goodwill organization is an autonomous member of GII that operates as a nonprofit corporation. This independence affords local Goodwill organizations the flexibility to respond to community needs and opportunities. GII also advocates on behalf of its membership with the Federal government, corporate, foundation, and international entities.

*15810 Indianola Drive, LLC (the LLC)* was organized in 2004 under the laws of the State of Delaware. The LLC operates, uses, develops, improves, renovates, maintains, manages, leases, and, when applicable, sells, exchanges, or otherwise disposes of real, personal, and mixed property. The LLC is a single-member limited liability company owned entirely by GII.

*Goodwill Mission and Job Creation Services, Inc. (GMJCS)* was organized in 2012 under the laws of the District of Columbia. GMJCS advances the creation of jobs and services for people with disabilities and economic disadvantages by providing funds and working capital to Goodwill member organizations with terms that are more beneficial than Goodwill organizations could obtain from conventional commercial lending sources. GMJCS is controlled by GII through sole corporate membership.

Principles of consolidation: The consolidating financial statements include the accounts of GII, the LLC, and GMJCS (collectively referred to as the Organization). Significant intra-entity accounts and transactions have been eliminated in consolidation.

Income taxes: GII is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code. As a single-member limited liability company, the LLC is treated as a disregarded entity for income tax purposes. Therefore, the LLC's financial activity is reported in conjunction with GII's Federal income tax filings.

GMJCS is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation within the meaning of Section 509(a)(3) of the Internal Revenue Code.

The Organization is subject to income tax on its unrelated business activities, such as income from the virtual member market place and rental income, which is debt financed. However, the Organization has generated net operating loss carry-forwards resulting from these taxable activities. The net operating loss carry-forwards, which may be applied against future years' taxable income, approximated \$481,000 at December 31, 2017. The net operating loss carry-forwards will expire at various dates through 2037. A deferred tax asset has not been recognized due to the uncertainty of realizing a benefit from the net operating loss carry-forwards.



# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of accounting: The Organization prepares its consolidating financial statements on the accrual basis of accounting. Revenue other than contributions is recognized when earned and expense when the obligation is incurred.

Use of estimates: The preparation of consolidating financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Cash and cash equivalents: The Organization classifies demand deposits as cash and cash equivalents. Cash and cash equivalents held by GMJCS as of December 31, 2017, and 2016 included \$1,000,000 which was required to be designated as a loan loss reserve related to the notes payable. Cash, money market funds, and certificates of deposit held within the investment portfolio are not included in cash and cash equivalents because they are held for investment purposes.

Prepaid expenses and other assets: Prepaid expenses and other assets primarily consist of various costs which have been paid in advance of the period in which the Organization expects to incur the obligation.

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

Contributions: Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, as applicable. Within temporarily restricted net assets, amounts are reclassified to unrestricted net assets when restrictions expire.

Program services: Program service descriptions are as follows:

*Direct services to membership:* Direct services to membership includes consultations, executive professional development, training seminars, events such as the Annual Meeting of the Conference of Executives and the Delegate Assembly, data processing and analysis, assistance in the development of national and local communications materials, and the loan program provided by GMJCS.

*Sponsored programs and grants:* Sponsored programs and grants includes efforts to equip autonomous local Goodwill organizations to enhance career navigation, skills training, credentialing, financial wellness, and diversity, inclusion and equitable outcomes services; to connect persons served to improved job and career opportunities; to develop higher quality job opportunities for people with disabilities and disadvantages; to improve workforce development systems for diverse populations, and to build family economic success.

*Support services to membership:* Support services to membership include international activities, government relations, and strategic sourcing.

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Management and general services: Management and general services descriptions are as follows:

*General and administrative:* The general and administrative service includes expenditures related to administrative and governance activities, maintaining the building, and managing the financial responsibilities of the Organization.

*Resource development:* The resource development service includes expenditures that encourage and secure financial support for the Organization.

Functional allocation of expenses: The costs of providing various program and supporting services have been summarized on a functional basis in the accompanying consolidating statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Measure of operations: The Organization does not include 1) net gain on investments; 2) unrealized gain on interest rate swap; 3) bad debt expense; and 4) loss on the disposal of equipment in the change in unrestricted net assets from operations.

Prior-year comparative totals: The consolidating financial statements include certain 2016 summarized comparative information in total but not by net asset class for each separate entity. Such information does not include sufficient detail to constitute a complete presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the 2016 consolidating financial statements, from which the summarized information was derived.

Litigation: From time to time, the Organization may be involved in litigation. At present, management does not believe that the outcome of any litigation will have a material impact on the Organization's consolidating financial position.

Subsequent events: Subsequent events have been evaluated through March 22, 2018, which is the date the consolidating financial statements were available to be issued.

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

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### B. CONCENTRATIONS AND RISKS

Credit risk: The Organization maintains demand deposits and money market funds at financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. Government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Organization. However, the Organization has not experienced losses on these accounts in the past, and management believes the risk of loss, if any, to be minimal.

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

### C. INVESTMENTS

In accordance with generally accepted accounting principles, the Organization uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes;

Level 2 – Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, such as bid/ask spreads and liquidity discounts.

Investments recorded at fair value which were valued using Level 1 inputs include equities and mutual funds, the fair values for which were based on quoted prices for identical assets in active markets. Management believes the estimated fair value of investments to be a reasonable approximation of the exit price for the assets.

Investments valued using Level 2 inputs include corporate bonds, U.S. Government obligations and mortgage-backed securities which were based on the fair values of the underlying investments as determined by the fund managers. Management believes the fund managers' estimates to be reasonable approximations of the fair value of the investments.

Investments recorded at cost include cash, money market funds, and certificates of deposit. Investments recorded at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

### C. INVESTMENTS - CONTINUED

Investments consisted of the following at December 31,:

<b>2017</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments, at fair value				
Equity mutual funds	\$ 1,874,298	\$ 1,874,298	\$ -	\$ -
U.S. Government obligations	1,468,232	-	1,468,232	-
Equities	1,344,072	1,344,072	-	-
Mortgage-backed securities	1,114,716	-	1,114,716	-
Corporate bonds	1,102,555	-	1,102,555	-
Fixed income mutual funds	739,623	739,623	-	-
<b>Investments carried at fair value</b>	<b>\$ 7,643,496</b>	<b>\$ 3,957,993</b>	<b>\$ 3,685,503</b>	<b>\$ -</b>
Investments, at cost				
Cash and money market funds	8,493,528			
Certificates of deposit	200,045			
<b>Total investments</b>	<b>\$ 16,337,069</b>			
<b>2016</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments, at fair value				
Fixed income mutual funds	\$ 5,200,439	\$ 5,200,439	\$ -	\$ -
Equity mutual funds	3,528,703	3,528,703	-	-
<b>Investments carried at fair value</b>	<b>\$ 8,729,142</b>	<b>\$ 8,729,142</b>	<b>\$ -</b>	<b>\$ -</b>
Investments, at cost				
Cash and money market funds	4,478,649			
Certificates of deposit	-			
<b>Total investments</b>	<b>\$ 13,207,791</b>			

Investment income consisted of the following for the years ended December 31,:

	<b>2017</b>	<b>2016</b>
Interest and dividends	\$ 160,668	\$ 195,363
Investment fees	(38,837)	(35,594)
	<b>\$ 121,831</b>	<b>\$ 159,769</b>

Net gain on investments consisted of the following for the years ended December 31,:

	<b>2017</b>	<b>2016</b>
Unrealized gain	\$ 565,049	\$ 360,515
Realized gain (loss)	52,045	(38,768)
	<b>\$ 617,094</b>	<b>\$ 321,747</b>

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

### D. RETIREMENT PLANS

Deferred compensation: The Organization has a deferred compensation agreement with a key employee under Section 457(f) of the Internal Revenue Code. During the year ended December 31, 2016, an agreement ended, therefore, the Organization provided a distribution representing full satisfaction of its obligation. A new 457(f) agreement went into effect during 2016. The Organization's accrual of contributions under its deferred compensation plans totaled \$53,250 and \$48,000 for the years ended December 31, 2017 and 2016, respectively. The deferred compensation liability is included in accrued expense and totaled approximately \$101,250 and \$48,000 at December 31, 2017 and 2016, respectively.

Defined contribution: The Organization has a defined contribution 403(b) thrift plan which is available to all full-time employees who have completed six months of service. The Organization's contributions on behalf of each eligible employee equal 7.5% of the employee's compensation plus 4.3% of compensation in excess of the Social Security Average Annual Wage in effect on the first day of the plan year. The Organization's contributions to the plan, excluding applicable forfeitures, totaled \$1,064,287 and \$1,095,887 for the years ended December 31, 2017 and 2016, respectively.

### E. ACCOUNTS RECEIVABLE

Accounts receivable includes revenue that is owed to the Organization primarily related to membership dues and other programs. Accounts receivable are recorded at the gross, or face amount, less an allowance for doubtful accounts. The allowance is determined based on management's experience and collection efforts. Balances that remain outstanding after the Organization has used reasonable collection efforts are written off.

Accounts receivable consisted of the following at December 31,:

	<b>2017</b>	<b>2016</b>
Membership dues	\$ 769,077	\$ 715,472
GoodTrak	155,456	83,316
Member agreements *	152,185	22,780
Other receivables	117,157	104,138
Services and supplies	96,933	359,473
	1,290,808	1,285,179
Less allowance for doubtful accounts receivable	(350,299)	(284,845)
	<b>\$ 940,509</b>	<b>\$ 1,000,334</b>

\* Member agreements represent payment plans for certain members in order for them to pay overdue membership dues within a negotiated time period. The allowance for doubtful accounts receivable related to member agreements totaled \$123,000 and \$16,000 at December 31, 2017 and 2016, respectively.

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

### F. PLEDGES RECEIVABLE AND REBATES PAYABLE

*Pledges receivable:* The Organization records pledges receivable (unconditional promises to give contributions) that are expected to be collected within one year at net realizable value. The Organization provides for probable losses on pledges receivable using the allowance method. The allowance is determined based on management's experience and collection efforts. Balances that remain outstanding after the Organization has used reasonable collection efforts are written off. Pledges receivable consisted entirely of amounts due for the National PSA Campaign. Pledges receivable that are collectable in over a year are recorded at a discount. Pledges receivable, recorded net of the combined allowance and discount of \$117,363, totaled \$803,137 as of December 31, 2017. Pledges receivable, recorded net of the combined allowance and discount of \$186,811, totaled \$1,086,189 as of December 31, 2016.

*Rebates payable:* In prior years, the Organization obtained commitments in excess of its goal for the National PSA Campaign. In addition, the Organization had previously indicated its intention to provide rebates to the member donors relating to amounts received in excess of the project budget. During the year ended December 31, 2016, the Organization gave members the option to receive their rebate or apply funds to the current National PSA Campaign, with many members choosing to apply funds to new pledges. Remaining rebates payable totaled \$77,228 at December 31, 2017 and 2016.

### G. GRANTS RECEIVABLE

Grants receivable relate to amounts due from federal government agencies and other grantors resulting from allowable costs incurred under the grants. Management periodically reviews the status of all grants receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the U.S. government agency or grantor, and the age of the receivable balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful accounts had been recorded. The Organization has not written off grants receivable during either of the years ended December 31, 2017 and 2016.

Grants receivable consisted of the following at December 31,:

	<b>2017</b>	<b>2016</b>
U.S. Department of Labor		
Senior Community Service		
Employment Program (SCSEP)	\$ 3,540,742	\$ 1,906,574
Reentry Employment Opportunities (LifeLaunch)	583,630	157,694
H-1B Job Training Grants (Careers in Technology)	274,655	118,927
U.S. Department of Justice		
Juvenile Mentoring Program (Good Guides)	365,279	807,162
Subtotal - federal grants receivable	4,764,306	2,990,357
Private grants		
Goodwill Digital Career Accelerator	4,000	-
	<b>\$ 4,768,306</b>	<b>\$ 2,990,357</b>

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

### H. NOTES RECEIVABLE

The Organization (specifically, GMJCS) has issued loan proceeds totaling approximately \$8,700,000 to twelve Goodwill members and, in return, has obtained notes receivable from the members. The notes bear interest at a rate of 3.5% per annum and mature on various dates through 2020.

The notes receivable have been recorded at their unpaid principal balances, less an allowance for doubtful notes receivable, which represents potential loan losses. Management determined potential loan losses based on an assessment of the current status of individual loans, the member borrower's ability to repay, and current economic conditions. The determination of the allowance is inherently subjective, and it is reasonably possible that a change in this estimate could occur in the near term, as new information becomes available.

Future anticipated payments of principal on the notes receivable are as follows:

Year Ending December 31,	Amount
2018	\$ 1,733,083
2019	1,025,444
2020	<u>216,116</u>
	2,974,643
Less allowance for doubtful notes receivable	<u>(15,680)</u>
	<b><u>\$ 2,958,963</u></b>

### I. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$3,000 are recorded at cost and depreciated using the straight-line method over the following estimated useful lives: building – 30 years; building improvements – 10 years; and furniture, equipment, and software – 3 to 5 years. Land and artwork are not depreciated.

Property and equipment consisted of the following at December 31,:

	2017	2016
Land	\$ 1,500,000	\$ 1,500,000
Building and improvements	8,391,196	8,362,296
Furniture and equipment	2,530,888	2,438,763
Software	4,819,542	3,147,080
Artwork	<u>60,000</u>	<u>60,000</u>
	17,301,626	15,508,139
Less accumulated depreciation and amortization	<u>(9,093,604)</u>	<u>(8,066,089)</u>
	<b><u>\$ 8,208,022</u></b>	<b><u>\$ 7,442,050</u></b>

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

### J. DEBT OBLIGATIONS

Notes payable: The Organization (specifically, GMJCS) has notes payable to three private foundations for use in making program related investments through loans to member organizations (see notes receivable described in Note H). The notes payable had a maximum principal totaling \$10,000,000 and interest is determined at a rate of 2% per annum. The Organization began making principal and interest payments in September 2014. As of July 15, 2016, the period for disbursements under the agreement ended. The organization is currently in the process of procuring additional funding sources.

In accordance with the terms of the loan document, cash of at least \$1,000,000 is held at a bank and has been designated as a loan loss reserve which would be used to absorb the first \$1,000,000 of loss from any qualified loans as a result of late payments or loan charge-offs.

The loan document contains various financial and non-financial debt covenants, including the requirement that GMJCS maintain positive unrestricted net assets. GMJCS was in compliance with the various debt covenants at December 31, 2017 and 2016. The loan document also describes various events of default and, in accordance with these terms, GMJCS had not defaulted on the loans during the years ended December 31, 2017 and 2016.

Future anticipated payments of principal on the notes payable are as follows:

Year Ending December 31,	Amount
2018	\$ 1,733,083
2019	1,025,444
2020	<u>216,116</u>
	<u><b>\$ 2,974,643</b></u>

Bonds payable: The Organization, (specifically, GII/LLC) previously held tax-exempt bonds payable which were issued by Maryland Economic Development Corporation, the original trustee. The original principal amount of the bonds was \$3,700,000, which was used for the purchase of land and building at 15810 Indianola Drive. During 2010, the bonds were purchased from the original trustee by a bank. Although the outstanding principal amount was not changed, the interest terms changed. The Organization had signed a credit agreement with the bank that stipulated payment terms relating to principal and interest. The bonds were originally scheduled to mature on February 1, 2034 and interest was based on one month LIBOR plus 2.5%, multiplied by 67% and a margin rate factor (as determined by the Bank).

During the year ended December 31, 2017, the Organization paid off its bonds payable in full, thus the liability was discharged and the deed of trust on the building and land was released.



# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

### J. DEBT OBLIGATIONS - CONTINUED

*Interest rate swap agreement:* The Organization (specifically, GII/LLC) previously held an interest rate swap agreement with a fixed interest rate of 2.24%, which was intended to minimize the risk of future interest rate fluctuations related to the bonds payable described above. The interest rate swap agreement expired on April 14, 2017.

The fair value of the interest rate swap agreement was the estimated amount that the swap issuer would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties. In particular, the fair value of the interest rate swap agreement was based on an income approach calculation using Level 3 inputs. In the calculation, the swap issuer estimated the fair value of the liability based on the present value of projected future interest rates and the fixed rate stipulated in the agreement. The projected future interest rates were determined by the swap issuer using proprietary modeling schemes. Management believes the calculation to be a reasonable approximation of the fair value of the liability under the interest rate swap agreement. The change in the liability under the interest rate swap agreement was recorded as a gain and has been reported in the consolidating statement of activities.

The fair value of the interest rate swap agreement consisted of the following as of and for the years ended December 31,:

	<b>2017</b>	<b>2016</b>
Interest rate swap agreement, beginning	\$ 5,946	\$ 27,329
Gain on interest rate swap	(5,946)	(21,383)
Interest rate swap agreement, ending	\$ -	\$ 5,946

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

### K. NET ASSETS

*Unrestricted:* Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects - such as by board designation.

Unrestricted net assets consisted of the following at December 31,:

	<b>2017</b>	<b>2016</b>
Undesignated - general operations	\$ 14,594,966	\$ 13,106,704
Designated		
Bonds repayment reserve	-	1,200,000
Loan loss reserve	1,000,000	1,000,000
International activities	955,370	955,370
	<b>\$ 16,550,336</b>	<b>\$ 16,262,074</b>

*Temporarily restricted:* Temporarily restricted net assets include those net assets whose use by the Organization has been donor restricted by specific time or purpose limitations.

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

	<b>2017</b>	<b>2016</b>
Private Foundation Funds	\$ 6,304,671	\$ 2,544,388
Operations Funds	1,041,773	1,422,668
International Funds	13,166	13,166
Endowments		
Operations Funds	197,070	168,096
International Funds	199,144	181,439
Subtotal Endowments	396,214	349,535
	<b>\$ 7,755,824</b>	<b>\$ 4,329,757</b>

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

### K. NET ASSETS – CONTINUED

Net assets are released from restrictions due to either the expiration of a time restriction or the satisfaction of a purpose restriction.

Net assets released from restrictions consisted of the following during the years ended December 31,:

	<b>2017</b>	<b>2016</b>
Private Foundation Funds	\$ 4,700,125	\$ 3,613,310
Operations Funds	577,631	778,405
International Funds	-	118,010
Endowments		
Operations Funds	8,514	9,663
	<b>\$ 5,286,270</b>	<b>\$ 4,519,388</b>

### L. ENDOWMENTS

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

#### *Interpretation of Relevant Law*

The Board of Director's interpretation of the Commonwealth of Massachusetts law underlies the Organization's net asset classification of donor-restricted endowment funds as requiring the preservation of the fair value of the original gift. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Absent explicit direction from the donor regarding the classification of investment income from the permanently restricted endowments, investment income is recorded in temporarily restricted activities until appropriated for spending.

#### *Return Objectives and Risk Parameters*

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

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

### L. ENDOWMENTS - CONTINUED

#### *Strategies Employed for Achieving Objectives*

To satisfy its long-term objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places more emphasis on fixed income securities than equity securities to achieve its long-term return objectives within prudent risk constraints.

#### *Spending Policy and How Investment Objectives Relate to Spending Policy*

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a balanced portfolio comprised of cash, money market funds, fixed income securities, and equity securities.

#### *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor originally contributed as an endowment fund to the Organization. In accordance with generally accepted accounting principles, deficiencies of this nature would be reported within unrestricted net assets. However, there were no funds with deficiencies at December 31, 2017 and 2016.

Endowment funds consisted of the following at December 31, 2017, with 2016 totals:

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operations Funds					
Kenneth K. King Training Trust *	\$ -	\$ 63,320	\$ 1,012,665	\$ 1,075,985	\$ 995,860
Richard and Lois England *		17,581	153,619	171,200	148,908
Frank F. Flegal Education and Training		116,169	20,000	136,169	118,432
International Funds					
Gerald Clore Training		184,366	100,000	284,366	267,578
Barker Education		5,407	123,131	128,538	128,447
Sioux City		9,371	5,200	14,571	13,745
	<b>\$ -</b>	<b>\$ 396,214</b>	<b>\$ 1,414,615</b>	<b>\$ 1,810,829</b>	<b>\$ 1,672,970</b>

\* The gift instruments for these endowment funds include donor instructions indicating that investment appreciation (depreciation) should be included in permanently restricted net assets.

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

### L. ENDOWMENTS - CONTINUED

Changes in endowment funds consisted of the following for the year ended December 31, 2017, with 2016 totals:

	2017				2016
	Temporarily		Permanently		Total
	Unrestricted	Restricted	Restricted	Total	
Endowment funds, beginning	\$ -	\$ 349,535	\$ 1,323,435	\$ 1,672,970	\$ 1,605,145
Investment return					
Interest and dividends		33,301		33,301	37,212
Investment fees		(11,840)	-	(11,840)	(15,762)
Unrealized gain (loss)		25,615	79,021	104,636	55,663
Realized gain		8,117	12,159	20,276	375
	-	55,193	91,180	146,373	77,488
Appropriations		(8,514)		(8,514)	(9,663)
Endowment funds, ending	<b>\$ -</b>	<b>\$ 396,214</b>	<b>\$ 1,414,615</b>	<b>\$ 1,810,829</b>	<b>\$ 1,672,970</b>

### M. IN-KIND CONTRIBUTIONS

The Organization received in-kind contributions related to Public Service Announcements (PSA) which were recorded at the estimated fair value provided by the donor. The Organization also received in-kind contributions of professional services from consultants and attorneys.

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

In-kind contributions consisted of the following during the years ended December 31,:

	2017	2016
Public Service Announcements	\$ 16,890,754	\$ 21,662,191
Professional services	455,362	611,554
	<b>\$ 17,346,116</b>	<b>\$ 22,273,745</b>

# Goodwill Industries International, Inc. and Related Entities

## Notes to the Consolidating Financial Statements

### N. COMMITMENTS & CONTINGENCIES

Tenant lease: The Organization has an operating lease agreement to provide general office and showroom space in its building to an unrelated tenant which expires in 2019. The Organization received a security deposit from the tenant of \$21,883, which is equal to the first month's rent. Rental revenue totaled \$286,892 and \$274,547 for the years ended December 31, 2017 and 2016 respectively. Future minimum cash basis rental receipts are as follows:

Year Ending December 31,	Amount
2018	\$ 290,133
2019	<u>246,794</u>
	<u>\$ 536,927</u>

Government grants: Federal award revenue provided by U.S. government agencies in relation to expenditures incurred under grant agreements may be subject to audit or adjustment by the government agencies. The expenditures which may be disallowed as a result of an audit cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

Loan commitment: During the year ended December 31, 2016, GMJCS had recorded an amount totaling \$500,000 in Funds Held for Others for amounts approved but awaiting disbursement to a Goodwill organization borrower. The commitment was cancelled during 2017 and the funds were returned to the lenders.

Conditional promises to give: As a routine part of its operations, the Organization is the recipient of conditional promises to give from various funding sources. The revenue from these arrangements is contingent upon the occurrence of future events and are revocable at any time. Thus, no revenue or receivables related to these items have been recognized in the financial statements. Revenue will be recognized if, and when, specified events occur. Likewise, the Organization makes conditional promises to give to subrecipients which are contingent upon the occurrence of future events and are revocable at any time. Thus, no expense or payables related to these items have been recognized in the financial statements.

### O. EXPENDITURES TO SUBRECIPIENTS

The following chart summarizes expenditures of federal awards, including expenditures to subrecipients, for the years ended December 31,:

	2017	2016
Expenditures to subrecipients	\$ 23,820,550	\$ 13,756,149
Expenditures used directly	<u>1,421,214</u>	<u>1,003,433</u>
	<u>\$ 25,241,764</u>	<u>\$ 14,759,582</u>

# Goodwill Industries International, Inc. and Related Entities

## Consolidated Schedule of Functional Expense Year Ended December 31, 2017

	Program Services				Management and General Services		Total
	Direct Services to Membership	Sponsored		Total	General		
		Programs and Grants	Support Services to Membership		Administrative Services	Resource Development	
Salaries	\$ 9,793,517	\$ 1,463,984	\$ 431,231	\$ 11,688,732	\$ 1,490,255	\$ 320,446	\$ 13,499,433
Employee benefits	2,287,730	344,954	105,969	2,738,653	299,076	68,229	3,105,958
Payroll taxes	711,415	97,513	30,378	839,306	105,455	23,347	968,108
Personnel expenses	12,792,662	1,906,451	567,578	15,266,691	1,894,786	412,022	17,573,499
Awards and grants	638,840	26,248,211	28,749	26,915,800	942		26,916,742
Public Service Announcements (in-kind)	16,890,754			16,890,754			16,890,754
Professional fees	2,506,290	1,447,387	180,273	4,133,950	248,478	10,662	4,393,090
Conferences and conventions	1,335,623	49,266	42,527	1,427,416	199,197	8,333	1,634,946
Real estate related expenses	383,441		49,853	433,294	442,435	5,338	881,067
Rental and maintenance	576,028		17,359	593,387	168,889	57	762,333
Travel and agency vehicles	453,745	193,531	60,865	708,141	27,031	5,536	740,708
Professional dues	248,926	259	60,061	309,246	11,118	3,945	324,309
Supplies	109,776	128,480	17,119	255,375	50,103	718	306,196
Telephone and communications	134,173	16,878	13,184	164,235	111,471		275,706
Seminar and training fees	158,137	34,668	7,309	200,114	14,339	9,777	224,230
Printing, publications, and advertising	77,636	3,834	3,446	84,916	202		85,118
Employee relations	51,037	375	3,550	54,962	29,674	1,052	85,688
Interest on notes payable	71,849			71,849			71,849
Bank service charges	12,148		3,421	15,569	22,161	76	37,806
Interest on bonds payable	9,117		1,079	10,196	12,158	160	22,514
Postage and shipping	12,353	477	660	13,490	2,754	64	16,308
	36,462,535	30,029,817	1,057,033	67,549,385	3,235,738	457,740	71,242,863
Depreciation and amortization	834,941		34,068	869,009	320,299	2,494	1,191,802
<b>Total expense</b>	<b>\$ 37,297,476</b>	<b>\$ 30,029,817</b>	<b>\$ 1,091,101</b>	<b>\$ 68,418,394</b>	<b>\$ 3,556,037</b>	<b>\$ 460,234</b>	<b>\$ 72,434,665</b>

# Goodwill Industries International, Inc.

## Schedule of Expenditures of Federal Awards Year Ended December 31, 2017

<b>Federal Agency CFDA Program Title</b>	<b>CFDA Number</b>	<b>Contract Numbers</b>	<b>Total Federal Expenditures</b>	<b>Expenditures to Subrecipients</b>
<b>U.S. Department of Labor</b>				
Senior Community Service				
Employment Program (SCSEP)	17.235	Note 3	\$ 20,485,310	\$ 19,691,595
Reentry Employment Opportunities (LifeLaunch)	17.270	Note 3	1,762,438	1,490,079
H-1B Job Training Grants (Careers in Technology)	17.268	Note 3	909,853	726,666
<b>U.S. Department of Justice</b>				
Juvenile Mentoring Program (Good Guides)	16.726	Note 3	2,084,163	1,912,210
<b>Total Expenditures of Federal Awards</b>			<b>\$ 25,241,764</b>	<b>\$ 23,820,550</b>

See notes to the schedule of expenditures of federal awards.



# Goodwill Industries International, Inc.

## Notes to the Schedule of Expenditures of Federal Awards

### 1. ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (SEFA) reports the costs of federal award activity on the accrual basis of accounting. The SEFA includes the federal award activity of Goodwill Industries International, Inc. (GII) for the year ended December 31, 2017.

The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of GII, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of GII.

For new awards or modifications of existing awards after December 26, 2014, the expenditures reported in the SEFA follow the cost principles contained in the Uniform Guidance. For existing awards prior to December 26, 2014, the expenditures follow the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. The cost principles indicate that certain types of expenditures are not allowable or reimbursements of allowable costs are limited as to reimbursement.

### 2. INDIRECT COSTS

GII records all expenditures of federal awards using a direct cost methodology. Therefore, GII does not record indirect costs for its federal award programs. In this manner, GII has elected not to use the 10% de minimis indirect cost rate, which is allowed in accordance with the Uniform Guidance.

### 3. CONTRACT NUMBERS

Federal expenditures from Federal agencies were included in awards under the following contracts for the year ended December 31, 2017:

<b>U.S. Department of Labor</b>			
Senior Community Service			
Employment Program (SCSEP)	17.235		
AD-29500-16-55-A24		\$	10,493,319
AD-30461-17-55-A24			9,991,991
			<u>20,485,310</u>
Reentry Employment Opportunities (LifeLaunch)	17.270		
YF-29325-16-60-A-24			1,360,857
PE-30788-17-60-A-24			401,581
			<u>1,762,438</u>
H-1B Job Training Grants (Careers in Technology)	17.268		
HG-29347-16-60-A-24			909,853
<b>U.S. Department of Justice</b>			
Juvenile Mentoring Program (Good Guides)	16.726		
2013-JU-FX-0025			2,108
2015-JU-FX-0010			2,082,055
			<u>2,084,163</u>
		\$	<u>25,241,764</u>



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

To the Board of Directors  
Goodwill Industries International, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and, with respect to Goodwill Industries International, Inc. (GII) only, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidating financial statements of Goodwill Industries International, Inc. and Related Entities (the Organization), which comprise the consolidating statement of financial position as of December 31, 2017, the related consolidating statements of activities, and cash flows for the year then ended, and the related notes to the consolidating financial statements, and have issued our report thereon dated March 22, 2018. The financial statements of 15810 Indianola Drive, LLC (the LLC) and Goodwill Mission and Job Creation Services, Inc. (GMJCS) were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not extend to the related entities.

## Internal Control over Financial Reporting

In planning and performing our audit of the consolidating financial statements, we considered GII'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 consolidating financial statements, but not for the purpose of expressing an opinion on the effectiveness of GII's internal control. Accordingly, we do not express an opinion on the effectiveness of GII'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 GII'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.

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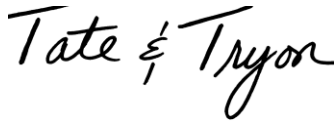
202/293-2208

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether GII's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

### **Purpose of this Report**

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

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

Washington, DC  
March 22, 2018



# Independent Auditor’s Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors  
Goodwill Industries International, Inc.

## Report on Compliance for Each Major Federal Program

We have audited Goodwill Industries International, Inc. (GII)’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of GII’s major federal programs for the year ended December 31, 2017. GII’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

### Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to each federal program.

### Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of GII’s major federal programs 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GII’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of GII’s compliance.

### Opinion on Each Major Federal Program

In our opinion, GII complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE

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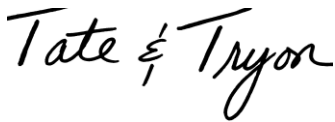
## Report on Internal Control over Compliance

Management of GII 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 GII's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GII's internal control over compliance.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Washington, DC  
March 22, 2018

# Goodwill Industries International, Inc.

## Schedule of Findings and Questioned Costs Year Ended December 31, 2017

### Section I – Summary of Auditor’s Results

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over the major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  None reported

Type of auditor's report issued on compliance for the major programs: Unmodified

Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a)?  Yes  No

Identification of major programs: CFDA Numbers:

U.S. Department of Labor  
Senior Community Service  
Employment Program (SCSEP) 17.235

H-1B Job Training Grants (Careers in Technology) 17.268

Dollar threshold used to distinguish between Type A and Type B programs: \$757,253

Auditee qualified as low-risk auditee?  Yes  No

# Goodwill Industries International, Inc.

## Schedule of Findings and Questioned Costs

*Year Ended December 31, 2017*

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### **Section II – Findings Related to the Financial Statements**

No matters were reported.

### **Section III – Findings and Questioned Costs Related to Federal Awards**

No matters were reported.