
GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC.
AND SUBSIDIARIES AND GOODWILL
FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
COMBINING FINANCIAL STATEMENTS
Together with Independent Auditors' Report
DECEMBER 30, 2017 AND DECEMBER 31, 2016

GREENWALT^{CPAs}

We Deliver Peace of Mind



INDEPENDENT AUDITORS' REPORT

To the Boards of Directors of
Goodwill of Central and Southern Indiana, Inc. and subsidiaries
and Goodwill Foundation of Central and Southern Indiana, Inc.:

We have audited the accompanying combining financial statements of Goodwill of Central and Southern Indiana, Inc. and subsidiaries and Goodwill Foundation of Central and Southern Indiana, Inc. (Indiana not-for-profit corporations), collectively referred to as "the Organizations", which comprise the combining statement of financial position as of December 30, 2017 and the related combining statements of activities, functional expenses, and cash flows for the year then ended, and related notes to the combining financial statements.

Management's Responsibility for the Combining Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combining financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combining financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combining 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 entity's internal control. Accordingly, we express no such opinion. An audit 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 combining 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 combining financial statements referred to above present fairly, in all material respects, the combining financial position of the Organizations as of December 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organizations' December 31, 2016 combining financial statements and our report dated March 02, 2017 expressed an unmodified opinion on those combining financial statements. In our opinion, the summarized comparative information, as of and for the year ended December 31, 2016 is consistent in all material respects, with the audited combining financial statements from which it has been derived.

March 01, 2018

Greenwalt CPAs, Inc.

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 30, 2017 WITH SUMMARIZED COMPARATIVE INFORMATION AS OF DECEMBER 31, 2016

ASSETS	Unrestricted		Temporarily Restricted		Eliminations	Totals	
	Goodwill Industries	Goodwill Foundation	Goodwill Industries	Goodwill Foundation		December 30, 2017	December 31, 2016
CURRENT ASSETS							
Cash and cash equivalents	\$ 7,057,951	\$ 111,942	\$ 6,999,790	\$ 73,074	\$ -	\$ 14,242,757	\$ 11,369,377
Trade accounts receivable, net	5,262,891	-	-	-	(192,120)	5,070,771	6,030,945
Contributions and pledges receivable, net	-	21,187	-	851,720	-	872,907	10,314,633
Other receivables, net	367,676	-	-	-	-	367,676	523,015
Inventories	6,017,007	-	-	-	-	6,017,007	5,115,749
Prepayments	796,606	-	-	-	-	796,606	1,531,493
Due from other funds	-	-	-	-	-	-	-
<i>Total current assets</i>	<u>19,502,131</u>	<u>133,129</u>	<u>6,999,790</u>	<u>924,794</u>	<u>(192,120)</u>	<u>27,367,724</u>	<u>34,885,212</u>
LONG-TERM ASSETS							
Land and improvements	15,531,152	-	-	-	-	15,531,152	13,580,545
Buildings and improvements	54,218,517	-	-	-	-	54,218,517	47,517,253
Equipment	42,053,349	-	-	-	-	42,053,349	37,893,255
Projects in progress	867,860	-	-	-	-	867,860	531,395
	112,670,878	-	-	-	-	112,670,878	99,522,448
Accumulated depreciation	(50,867,490)	-	-	-	-	(50,867,490)	(45,653,752)
<i>Net property and equipment</i>	<u>61,803,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,803,388</u>	<u>53,868,696</u>
Investments	7,171,062	36,583,421	-	2,726,904	-	46,481,387	35,552,437
Deposits	80,000	-	-	-	-	80,000	80,000
Other assets	-	1,800	-	-	-	1,800	1,800
<i>Total long-term assets</i>	<u>69,054,450</u>	<u>36,585,221</u>	<u>-</u>	<u>2,726,904</u>	<u>-</u>	<u>108,366,575</u>	<u>89,502,933</u>
<i>Total assets</i>	<u>\$ 88,556,581</u>	<u>\$ 36,718,350</u>	<u>\$ 6,999,790</u>	<u>\$ 3,651,698</u>	<u>\$ (192,120)</u>	<u>\$ 135,734,299</u>	<u>\$ 124,388,145</u>
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Bank line of credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,895,000
Current portion of bonds and notes payable	1,276,745	-	-	-	-	1,276,745	1,125,000
Accounts payable	4,228,241	192,120	-	-	(192,120)	4,228,241	5,934,940
Accrued liabilities	5,414,532	-	-	-	-	5,414,532	5,546,803
Due to other funds	-	-	-	-	-	-	-
<i>Total current liabilities</i>	<u>10,919,518</u>	<u>192,120</u>	<u>-</u>	<u>-</u>	<u>(192,120)</u>	<u>10,919,518</u>	<u>16,501,743</u>
LONG-TERM LIABILITIES							
Bonds and notes payable, net of deferred bond costs of \$109,408 at December 30, 2017 and \$119,283 at December 31, 2016	15,915,076	-	-	-	-	15,915,076	14,980,717
Other long-term liabilities	296,140	-	-	-	-	296,140	134,538
<i>Total long-term liabilities</i>	<u>16,211,216</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,211,216</u>	<u>15,115,255</u>
<i>Total liabilities</i>	<u>27,130,734</u>	<u>192,120</u>	<u>-</u>	<u>-</u>	<u>(192,120)</u>	<u>27,130,734</u>	<u>31,616,998</u>
COMMITMENTS AND CONTINGENCIES (NOTES 7, 8, 10, 13 AND 14)							
NET ASSETS	<u>61,425,847</u>	<u>36,526,230</u>	<u>6,999,790</u>	<u>3,651,698</u>	<u>-</u>	<u>108,603,565</u>	<u>92,771,147</u>
<i>Total liabilities and net assets</i>	<u>\$ 88,556,581</u>	<u>\$ 36,718,350</u>	<u>\$ 6,999,790</u>	<u>\$ 3,651,698</u>	<u>\$ (192,120)</u>	<u>\$ 135,734,299</u>	<u>\$ 124,388,145</u>

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 30, 2017
WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted		Temporarily Restricted		Eliminations	Totals	
	Goodwill Industries	Goodwill Foundation	Goodwill Industries	Goodwill Foundation		December 30, 2017	December 31, 2016
REVENUE							
Sales - donated goods	\$ 91,468,024	\$ -	\$ -	\$ -	\$ -	\$ 91,468,024	\$ 80,864,419
Sales - purchased goods	30,179	-	-	-	-	30,179	43,543
Commercial services	15,660,009	-	-	-	-	15,660,009	16,644,033
Mission advancement	7,333,310	-	-	-	-	7,333,310	7,455,154
Education services	28,159,330	-	351,000	-	-	28,510,330	26,570,983
Interest and dividend income	85,435	1,537,054	-	87,625	-	1,710,114	1,153,722
Realized gain on investments	16,295	1,203,158	-	70,542	-	1,289,995	158,407
Unrealized gain on investments	(20,009)	4,217,355	-	244,471	-	4,441,817	1,598,130
Net loss on disposition of property	(167,595)	-	-	-	-	(167,595)	(1,922)
Gain on interest rate swap hedge	124,644	-	-	-	-	124,644	110,480
Other, net	2,015,933	-	-	-	(647,088)	1,368,845	639,274
<i>Total revenue</i>	<u>144,705,555</u>	<u>6,957,567</u>	<u>351,000</u>	<u>402,638</u>	<u>(647,088)</u>	<u>151,769,672</u>	<u>135,236,223</u>
SUPPORT							
United Way allocation	590,936	-	-	-	-	590,936	373,415
Memorials	-	19,332	-	-	-	19,332	20,727
Bequests	-	313,371	-	-	-	313,371	136,124
Annual and capital campaign contributions	11,880	341,508	-	1,274,331	-	1,627,719	1,149,241
Other contributions	9,527,901	-	-	-	(1,557,185)	7,970,716	10,652,171
<i>Total support</i>	<u>10,130,717</u>	<u>674,211</u>	<u>-</u>	<u>1,274,331</u>	<u>(1,557,185)</u>	<u>10,522,074</u>	<u>12,331,678</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>2,543,592</u>	<u>825,654</u>	<u>(2,543,592)</u>	<u>(825,654)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total revenue and support</i>	<u>157,379,864</u>	<u>8,457,432</u>	<u>(2,192,592)</u>	<u>851,315</u>	<u>(2,204,273)</u>	<u>162,291,746</u>	<u>147,567,901</u>
EXPENSES							
Retail and commercial services	94,058,883	66,075	-	-	(66,075)	94,058,883	86,838,743
Mission advancement	9,522,270	999,204	-	-	(999,204)	9,522,270	8,727,415
Education services	26,303,614	213,678	-	-	(213,678)	26,303,614	24,655,044
General and administrative	15,588,095	543,523	-	-	(328,228)	15,803,390	14,709,159
Fundraising	771,171	597,088	-	-	(597,088)	771,171	746,052
<i>Total expenses</i>	<u>146,244,033</u>	<u>2,419,568</u>	<u>-</u>	<u>-</u>	<u>(2,204,273)</u>	<u>146,459,328</u>	<u>135,676,413</u>
CHANGE IN NET ASSETS	<u>11,135,831</u>	<u>6,037,864</u>	<u>(2,192,592)</u>	<u>851,315</u>	<u>-</u>	<u>15,832,418</u>	<u>11,891,488</u>
NET ASSETS, BEGINNING OF YEAR	<u>50,290,016</u>	<u>30,488,366</u>	<u>9,192,382</u>	<u>2,800,383</u>	<u>-</u>	<u>92,771,147</u>	<u>80,879,659</u>
NET ASSETS, END OF YEAR	<u>\$ 61,425,847</u>	<u>\$ 36,526,230</u>	<u>\$ 6,999,790</u>	<u>\$ 3,651,698</u>	<u>\$ -</u>	<u>\$ 108,603,565</u>	<u>\$ 92,771,147</u>

**GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.**

COMBINING STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 30, 2017

WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016

	Retail and Commercial Services	Mission Advancement	Education Services	General and Administrative	Fundraising	Eliminations	Totals	
							December 30, 2017	December 31, 2016
Salaries and wages	\$ 39,353,063	\$ 6,660,595	\$ 12,953,369	\$ 7,421,157	\$ 876,376	\$ (415,734)	\$ 66,848,826	\$ 62,386,070
Employee benefits	9,536,499	1,417,476	3,975,178	1,857,411	96,913	-	16,883,477	15,783,430
Professional services	4,846,679	408,753	1,235,080	2,335,934	39,991	(9,827)	8,856,610	7,967,510
Supplies	5,608,456	177,751	351,124	196,781	67,143	-	6,401,255	6,503,633
Cost of sales	6,057,894	-	-	-	-	-	6,057,894	7,313,161
Occupancy	21,172,102	404,474	2,947,541	2,014,155	75,049	(39,247)	26,574,074	23,410,339
Advertising and printing	889,888	4,284	214,852	418,915	19,400	(9,700)	1,537,639	1,327,857
Travel and transportation	1,676,428	221,206	452,916	571,248	91,825	(45,576)	2,968,047	2,342,771
Staff development	15,534	60,030	169,802	46,464	849	-	292,679	209,118
Memberships and dues	3,200	4,260	78,709	289,394	989	-	376,552	245,470
Management fees to affiliate	-	-	-	50,000	-	(50,000)	-	-
Client tuition, training and assistance	48,994	102,796	-	-	-	-	151,790	141,189
Student services	-	-	1,755,153	-	-	-	1,755,153	198,033
Depreciation and amortization	4,047,258	30,794	1,990,283	472,128	4,269	-	6,544,732	6,223,073
Bad debt	97,088	6,391	49,753	-	-	-	153,232	243,881
Interest	381,616	-	127,205	75,585	-	-	584,406	517,443
Foundation grants to Goodwill of Central and Southern Indiana, Inc. and subsidiaries	66,075	999,204	213,678	278,228	-	(1,557,185)	-	-
Other	324,184	23,460	2,649	104,218	95,455	(77,004)	472,962	766,790
	94,124,958	10,521,474	26,517,292	16,131,618	1,368,259	\$ (2,204,273)	\$ 146,459,328	\$ 135,579,768
Eliminations	(66,075)	(999,204)	(213,678)	(328,228)	(597,088)			
	<u>\$ 94,058,883</u>	<u>\$ 9,522,270</u>	<u>\$ 26,303,614</u>	<u>\$ 15,803,390</u>	<u>\$ 771,171</u>			

See accompanying notes to combining financial statements.

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 30, 2017
WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016

NET CHANGE IN CASH AND CASH EQUIVALENTS

	Goodwill Industries	Goodwill Foundation	Eliminations	Totals	
				December 30, 2017	DECEMBER 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	\$ 8,943,239	\$ 6,889,179	\$ -	\$ 15,832,418	\$ 11,891,488
Depreciation and amortization	6,544,732	-	-	6,544,732	6,223,073
Gain on interest rate swap hedge	(124,644)	-	-	(124,644)	(110,480)
Realized gain on investments	(16,295)	(1,273,700)	-	(1,289,995)	(158,407)
Unrealized (gain) loss on investments	20,009	(4,461,826)	-	(4,441,817)	(1,598,130)
Net loss on disposition of property	167,595	-	-	167,595	1,922
Contribution received in merger	(7,550,677)	-	-	(7,550,677)	-
<i>(Increase) decrease in operating assets:</i>					
Trade accounts receivable, net	973,003	-	-	973,003	120,915
Contributions payable and pledges receivable, net	10,000,000	(558,274)	-	9,441,726	(8,433,899)
Other receivables, net	155,339	-	55,352	210,691	153,687
Inventories	(708,415)	-	-	(708,415)	(666,155)
Prepayments	734,887	-	-	734,887	173,962
Deposits	-	-	-	-	(26,452)
Other assets	-	-	-	-	-
<i>Increase (decrease) in operating liabilities:</i>					
Accounts payable and accrued liabilities	(2,328,683)	55,352	(55,352)	(2,328,683)	1,298,976
Other long-term liabilities	163,695	-	-	163,695	(43,107)
<i>Net cash provided by operating activities</i>	<u>16,973,785</u>	<u>650,731</u>	<u>-</u>	<u>17,624,516</u>	<u>8,827,393</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of investments	(2,000,000)	(2,350,599)	-	(4,350,599)	(4,223,216)
Proceeds from sales of investments	2,439,290	1,235,481	-	3,674,771	2,038,562
Proceeds from sales of fixed assets	9,846	-	-	9,846	-
Capital expenditures	(8,069,096)	-	-	(8,069,096)	(5,199,413)
<i>Net cash used in investing activities</i>	<u>(7,619,960)</u>	<u>(1,115,118)</u>	<u>-</u>	<u>(8,735,078)</u>	<u>(7,384,067)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Borrowing (repayment) on line of credit, net	(3,895,000)	-	-	(3,895,000)	1,745,000
Cash received in merger (Note 17)	267,689	-	-	267,689	-
Principal payments on bonds and notes payable	(2,388,747)	-	-	(2,388,747)	(1,458,980)
<i>Net cash provided by (used in) financing activities</i>	<u>(6,016,058)</u>	<u>-</u>	<u>-</u>	<u>(6,016,058)</u>	<u>286,020</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>3,337,767</u>	<u>(464,387)</u>	<u>-</u>	<u>2,873,380</u>	<u>1,729,346</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>10,719,974</u>	<u>649,403</u>	<u>-</u>	<u>11,369,377</u>	<u>9,640,031</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 14,057,741</u>	<u>\$ 185,016</u>	<u>\$ -</u>	<u>\$ 14,242,757</u>	<u>\$ 11,369,377</u>
SUPPLEMENTAL CASH FLOWS INFORMATION					
Cash paid for interest	<u>\$ 508,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 508,821</u>	<u>\$ 419,107</u>
NON-CASH INVESTING ACTIVITIES					
Buildings, improvements, and equipment acquired in merger	\$ 6,587,769	\$ -	\$ -	\$ 6,587,769	\$ -
Investments acquired in merger	4,521,309	-	-	4,521,309	-
<i>Total non-cash investing activities</i>	<u>\$ 11,109,078</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,109,078</u>	<u>\$ -</u>
NON-CASH FINANCING ACTIVITIES					
Bonds acquired in merger	<u>\$ 3,474,851</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to combining financial statements.

**GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.**
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF COMBINATION

The accompanying combining financial statements include the consolidated accounts of Goodwill of Central and Southern Indiana, Inc. and its controlled subsidiary companies (collectively referred to as "Goodwill") and Goodwill Foundation of Central and Southern Indiana, Inc. ("Foundation"). Goodwill and the Foundation (collectively referred to as the "Organizations") are considered related companies. All material inter-company accounts and transactions have been eliminated.

DESCRIPTION OF ORGANIZATIONS

Goodwill of Central and Southern Indiana, Inc. ("GCSI") and its subsidiaries, GW Commercial Services, Inc. ("GWCS") and Goodwill Education Initiatives, Inc. ("GEI") (collectively referred to as "Goodwill") are Indiana non-profit organizations that offer employment, education, health, and related services to disadvantaged adults and young people throughout central and southern Indiana. Goodwill defines disadvantaged individuals as those with a barrier to employment such as a disability, a criminal history, and/or a low education level (less than a high school diploma).

GCSI's Retail operation collects donations of used clothing and household items and sells them through a network of 67 thrift stores, four warehouse outlet centers and three vintage stores. Excess and unsalable donated items are sold through salvage and recycling channels. Unique items, jewelry and books are often sold through e-commerce channels. The Retail operation also accepts and sells donated automobiles, using a third party only for vehicle towing and auction services. The Retail operation employs nearly 2,550 individuals, more than 60% of whom have barriers to employment. These operations generate revenue and cash flow that fund a large portion of GCSI's other mission-related operations and its general and administrative expenses.

GCSI's Commercial Services ("CS") operation provides a variety of outsource packaging, assembly and fulfillment services to external customers, employing over 200 people with disabilities and other barriers.

GWCS is operated under common management with GCSI's Commercial Services operations and provides rehabilitative training and jobs for people who have significant disabilities, primarily through service contracts with various federal governmental entities pursuant to AbilityOne (formerly known as the Javits-Wagner-O'Day Act of 1971). AbilityOne requires certain federal governmental entities to purchase selected products and services, via such contracts, from non-profit agencies employing blind or significantly disabled individuals. GWCS operates 11 AbilityOne contracts at government sites in Indianapolis, Indiana and employs approximately 150 people with significant disabilities.

GCSI's Mission Advancement ("MA") operation provides case management, counseling, training, education, job coaching, job placement and related supportive services, for disabled, disadvantaged, unemployed and under-employed individuals who wish to find and retain employment and increase their economic self-sufficiency. MA also manages programs designed to provide holistic whole-family services to Goodwill's low-wage workers and students, as well as to low-income first-time expectant mothers and their families. The CS and MA segments of GCSI are funded by a combination of contracts with external customers, service contracts with federal and state governmental entities, United Way grants, private grants and gifts from individuals and foundations, and subsidies from GCSI's Retail operation.

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

DESCRIPTION OF ORGANIZATIONS, CONTINUED

GEI provides educational opportunities designed to enable young people and adults to prepare for more productive lives. GEI operates public charter high schools in central Indiana under the provisions of the Indiana Charter School laws and the chartering authorities of the Mayor of Indianapolis and the Indiana Charter School Board. The following table provides more information regarding GEI's charter schools.

School Name	School Location	Chartering Authority	Number of Years in Operation	Student Enrollment at December 30, 2017
Indianapolis Metropolitan High School	Indianapolis, IN (at GCSI headquarters facility)	Mayor of Indianapolis	14	284
The Excel Center for Adult Learners	Three locations in Indianapolis, IN, including one at GCSI headquarters facility	Mayor of Indianapolis	7	1,057
The Excel Center - Anderson	Anderson, IN	Indiana Charter School Board	6	313
The Excel Center - Kokomo	Kokomo, IN	Indiana Charter School Board	5	345
The Excel Center - Lafayette	Lafayette, IN	Indiana Charter School Board	5	315
The Excel Center - Richmond	Richmond, IN	Indiana Charter School Board	5	280
The Excel Center - West	Indianapolis, IN	Mayor of Indianapolis	5	371
The Excel Center - University Heights	Indianapolis, IN	Mayor of Indianapolis	3	390
The Excel Center - Noblesville	Noblesville, IN	Indiana Charter School Board	3	184
The Excel Center - Shelbyville	Shelbyville, IN	Indiana Charter School Board	2	124
The Excel Center - Clarksville	Clarksville, IN	Indiana Charter School Board	1	186
Total				3,849

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

DESCRIPTION OF ORGANIZATIONS, CONTINUED

The schools contract with GCSI for certain business support services, including marketing, human resources, finance, technology and facilities management. The schools receive the majority of their funding from the Indiana Department of Education. Their revenues are supplemented with funds from the United States Department of Education, private grants, gifts and support from GCSI. Indianapolis Metropolitan High School (the Met) primarily serves at-risk students in grades 9-12. The Excel Centers primarily serve adults who previously dropped out of high school and are seeking their high school diplomas rather than a GED.

Goodwill is a member of Goodwill Industries International, Inc. (GII). Goodwill operates autonomously and reports its financial results independent of GII or any other GII-affiliated entity. Goodwill operates in a geographic territory assigned to it by GII encompassing 39 counties in central and southern Indiana.

Goodwill is a member agency of United Way of Central Indiana, Inc and Metro United Way (Louisville, KY). In 2017 and 2016, Goodwill received United Way grants of \$590,936 and \$373,415, respectively.

Goodwill Foundation of Central and Southern Indiana, Inc. (Foundation) was organized in 1971 as an Indiana not-for-profit corporation. The purpose of the Foundation is to solicit financial support from the general public and to disburse such funds to support Goodwill and GEI, to help establish new programs or services for disabled and disadvantaged individuals in central and southern Indiana, further Goodwill's educational efforts, provide college scholarships to qualifying graduates of GEI's charter schools and attract promising college students to careers in human services by providing scholarships and internships. The Foundation has common management with Goodwill, reimburses Goodwill for certain fundraising expenses and pays Goodwill a management fee. The accompanying financial statements of Goodwill have not been consolidated with those of the Foundation due to less than a majority voting interest and lack of controlling financial interest between the two organizations.

BASIS OF ACCOUNTING AND USE OF ESTIMATES

The accompanying combining financial statements were prepared on the accrual basis of accounting. The preparation of combining financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combining financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates. For annual financial reporting purposes, Goodwill utilizes a 52-week period ending on the Saturday closest to December 31.

SUMMARIZED COMPARATIVE INFORMATION

The combining financial statements include certain prior year summarized comparative information in total, but not by net asset class and functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organizations' combining financial statements for the year ended December 31, 2016, from which the summarized information was derived.

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

CASH AND CASH EQUIVALENTS

The Organizations consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Organizations maintain cash balances at commercial banks. Accounts at the banks are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 30, 2017, the Organizations maintained cash and cash equivalents in excess of the FDIC coverage limits.

Cash equivalents include \$6,049,618 of certificates of deposit that are recorded at cost.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are unsecured customer obligations generally requiring payment within 30 days of the invoice date.

Accounts receivable are stated at the amount billed to the customer or at amounts determined by public statute. Generally, customer account balances with invoices dated over 30 days are considered delinquent.

Management individually reviews all accounts receivable balances that are past due, and based on an assessment of current creditworthiness and other factors, estimates the portion, if any, of the balance that will not be collected.

INVENTORIES

The retail store and e-commerce operations of Goodwill contain donated inventories. These items have little or no economic value to Goodwill when first received and therefore are not recorded at the time of donation. Donated goods are sold through retail store, e-commerce, salvage and recycling sales channels. Costs included in donated goods inventory include those incurred to collect, transport and process donated items to place them for sale in Goodwill's retail stores, e-commerce operations, or to salvage and recycling dealers. Retail store, e-commerce, recycling and salvage sales are reflected in the statement of activities as sales - donated goods.

Goodwill's commercial services operation has purchased inventories generally classified as raw material, work in process and finished goods. These inventories are valued in the financial statements at standard cost. Cost of sales is included in retail and commercial services expenses in the statement of functional expenses.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at historical cost. Donated property is recorded at the fair market value at the date of donation. Depreciation is computed on the straight-line method over estimated useful lives ranging from 10 to 30 years for buildings and building improvements and from 3 to 10 years for equipment and other capital assets. Leasehold improvements are depreciated over a period of time not exceeding the life of the corresponding property lease. Material property additions and improvements are capitalized and expenditures for normal maintenance and repairs are expensed as incurred.

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
 AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
 NOTES TO COMBINING FINANCIAL STATEMENTS
 DECEMBER 30, 2017 AND DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Goodwill accumulates certain costs for capital projects until the projects are placed in service, at which time they become depreciable fixed assets. Goodwill's statement of financial position reflected projects in progress totaling \$867,860 and \$531,395 at December 30, 2017 and December 31, 2016, respectively.

NET ASSETS

The Organizations maintain the following classifications of net assets:

Unrestricted

These include revenue and expenses from the regular operations of the Organizations, the uses of which are at the discretion of management and the Boards of Directors.

Temporarily Restricted

These include contributions and grants with restrictions specified by the donors or grantors.

CONTRIBUTIONS AND PLEDGES

Contributions and pledges are recognized when the donor makes an unconditional promise to give to the Organizations and are recorded at their fair values as revenues and assets in the period promised. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organizations use the allowance method to estimate uncollectible pledges receivable. The allowance is based on historical experience and management's analysis of specific promises made.

The following unconditional promises to give are included in contributions and pledges receivable, net:

	December 30, <u>2017</u>	December 31, <u>2016</u>
Contributions and pledges receivable	\$ 889,467	\$ 10,331,193
Allowance for uncollectible pledges	<u>(16,560)</u>	<u>(16,560)</u>
Net unconditional promises to give	<u>\$ 872,907</u>	<u>\$ 10,314,633</u>
Amounts due in:		
Less than one year	\$ 889,467	\$ 10,331,193
One to five years	<u>-</u>	<u>-</u>
Total	<u>\$ 889,467</u>	<u>\$ 10,331,193</u>

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

EXPENSE ALLOCATION

Expenses have been classified as retail and commercial services, mission advancement, education services, general and administrative, and fundraising. The Organizations use actual direct expenditures and cost allocations, based on estimates of time and usage by personnel and programs, to classify their expenses.

ADVERTISING

Advertising and printing expenses totaled \$1,537,639 and \$1,327,857 in 2017 and 2016, respectively. The Organizations' policy is to record advertising expenditures in the period in which they are incurred.

SUBSEQUENT EVENTS

Subsequent events have been considered through March 01, 2018, which was the date the financial statements were available to be issued. See Note 6.

2. TAX STATUS

The Organizations are Indiana not-for-profit corporations, exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. However, if income was generated from certain activities not directly related to the Organizations' tax-exempt purposes, such income would be subject to taxation as unrelated business income. The Organizations are not considered private foundations as defined in Section 509(a) of the Internal Revenue Code.

3. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are summarized as follows:

	December 30, <u>2017</u>	December 31, <u>2016</u>
Trade accounts receivable	\$ 5,409,091	\$ 6,335,957
Less – allowance for uncollectible accounts	<u>(338,320)</u>	<u>(305,012)</u>
Trade accounts receivable, net	<u>\$ 5,070,771</u>	<u>\$ 6,030,945</u>

4. INVENTORIES

Inventories shown on Goodwill's statement of financial position are summarized as follows:

	December 30, <u>2017</u>	December 31, <u>2016</u>
Donated goods	\$ 5,545,046	\$ 4,126,585
Purchased goods	<u>471,961</u>	<u>989,164</u>
	<u>\$ 6,017,007</u>	<u>\$ 5,115,749</u>

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

5. INVESTMENTS

The Organizations' investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value in the statement of financial position (see Note 15). The Foundation's alternative investments consist of private equity and natural resources fund of fund vehicles. These investments are not readily marketable, are less liquid than the Organizations' other investments and are carried at estimated fair values provided by the investment managers. The investment managers report the respective estimated fair values on a one- or two-quarter lag and management includes all current quarter cash activity in the estimated fair values reported at the statement of financial position date. The Foundation reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of alternative investments. Those estimated fair values may differ materially from the values that would have been used had a ready market for these investments existed (see Note 15). Realized and unrealized investment gains and losses are reported in the statement of activities.

At December 30, 2017 and December 31, 2016, the Organizations held the following investment securities:

	<u>Goodwill</u>	<u>Foundation</u>	<u>Total</u>
<u>December 30, 2017</u>			
Mutual funds and exchange-traded investments	\$ 7,171,062	\$ 33,518,163	\$ 40,689,225
Alternative investments	-	5,792,162	5,792,162
Total investments-market value	<u>\$ 7,171,062</u>	<u>\$ 39,310,325</u>	<u>\$ 46,481,387</u>
Total investments-cost basis	<u>\$ 7,212,609</u>	<u>\$ 27,540,463</u>	<u>\$ 34,753,072</u>
	<u>Goodwill</u>	<u>Foundation</u>	<u>Total</u>
<u>December 31, 2016</u>			
Mutual funds and exchange traded investments	\$ 3,092,756	\$ 26,676,535	\$ 29,769,291
Alternative investments	-	5,783,146	5,783,146
Total investments – market value	<u>\$ 3,092,756</u>	<u>\$ 32,459,681</u>	<u>\$ 35,552,437</u>
Total investments – cost basis	<u>\$ 3,114,524</u>	<u>\$ 27,887,258</u>	<u>\$ 31,001,782</u>

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

6. BONDS AND NOTES PAYABLE

- a. Goodwill has a committed line of credit with a commercial bank, expiring September 2019. This line of credit provides for maximum borrowings of \$5,000,000 and bears interest at one-month LIBOR plus 1.75% (a total of 3.24% at December 30, 2017). As of December 30, 2017 and December 31, 2016, Goodwill had \$0 and \$3,895,000, respectively, outstanding on the line of credit. The line of credit includes a non-use fee of 0.15% of the unused balance. In 2017 and 2016, Goodwill paid \$7,459 and \$4,355, respectively, in non-use fees.

GEI had a line of credit with a commercial bank, which expired September 2017 and was not renewed. This line of credit provided for maximum borrowings of \$1,500,000 and bore interest at one-month LIBOR plus 1.75%. As of December 31, 2016, GEI had no outstanding balance on the line of credit. The line of credit included a non-use fee of 0.15% of the unused balance. In 2017 and 2016, GEI paid \$556 and \$1,706 in non-use fees.

- b. In December 2006, Goodwill issued \$12 million of tax-exempt long-term bonds, the proceeds of which were used to build 2 new retail stores, refinance then-existing debt and remodel Goodwill's Indianapolis headquarters campus to accommodate new charter high school space and related ancillary facilities. The bonds bear interest at an adjustable interest rate and currently re-price every seven days based on market conditions. The interest rate approximates the quoted weekly Securities Industry and Financial Markets Association (SIFMA) Index rate. In 2017, the interest rate on the bonds ranged from 0.77% to 1.68%. Goodwill is required to make annual principal payments of \$600,000, through 2026. The outstanding balance of the bonds payable at December 30, 2017 and December 31, 2016 was \$6,000,000 and \$6,600,000, respectively.

Goodwill maintains a direct-pay letter of credit facility with a commercial bank that secures Goodwill's 2006 tax exempt bonds. Goodwill paid fees equal to 80 basis points in 2017 and 2016 to the bank to maintain the letter of credit. Goodwill paid letter of credit fees for the 2006 bonds of \$56,869 and \$54,235 in 2017 and 2016, respectively, which is included in interest expense on the statement of functional expenses.

Goodwill also pays remarketing fees to a remarketing agent for the 2006 bonds, equal to 0.10% of the amount of bonds outstanding. Goodwill paid \$6,053 and \$11,188 of remarketing fees in 2017 and 2016, respectively.

Goodwill was party to an interest rate swap in order to manage interest rate risk on the 2006 portion of its bond debt. The swap expired in 2017. The swap agreement provided for Goodwill to pay a fixed interest rate of 3.85% for ten years in exchange for the underlying floating interest rate. At December 31, 2016, the swap had a negative fair value of \$57,111. The fair value of the swap at December 31, 2016 is included in other long-term liabilities on the statement of financial position. The change in fair value during 2017 and 2016 is recorded as a gain on interest rate swap on the statement of activities.

Subsequent to December 30, 2017, Goodwill refinanced its 2006 tax-exempt bond debt. The new loan is an unsecured taxable loan with a seven-year term and a fixed interest rate of 2.86%. The proceeds of the loan paid off the existing tax-exempt bonds, including all principal and accrued interest, and the bank letter of credit and remarketing fee agreement were terminated without penalty.

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

6. BONDS AND NOTES PAYABLE, CONTINUED

- c. As a result of the Merger (Note 17), Goodwill acquired approximately \$3.5 million of tax-exempt bond debt originally issued in 2009. The bonds are held by a bank, and are secured by mortgages on two Goodwill properties. The bonds bear interest at an adjustable interest rate and currently re-price every seven days based on market conditions. The interest rate approximates the quoted weekly Securities Industry and Financial Markets Association (SIFMA) Index rate. In 2017, the interest rate on the bonds ranged from .77% to 1.68%. Goodwill is required to make monthly principal payments of \$10,050, plus interest, through 2019. The outstanding balance of the bonds payable at December 30, 2017 was \$2,201,229. Goodwill made additional principal payments of \$1.3 million in 2017.

The 2009 bonds are subject to an interest rate swap, the notional amount of which was \$3,401,229 at December 30, 2017. The swap agreement provides for Goodwill to pay a fixed interest rate of 4% for ten years, through March, 2019, in exchange for the underlying floating interest rate. At December 30, 2017 the swap had a negative fair value of \$55,018. The fair value of the swap is included in other long-term liabilities on the statement of financial position and the change in fair value from 2017 to 2016 is recorded as a gain on interest rate swap hedge on the statement of activities.

- d. In February 2014, Goodwill issued \$10.5 million of tax-exempt bonds through the Indiana Finance Authority. The bonds have a 20-year term and have a 2.57% fixed interest rate for the first seven (7) years, through March 02, 2021. Goodwill made monthly interest payments beginning August 01, 2014 and monthly principal and interest payments beginning May 01, 2016. The bonds are held by a commercial bank for the first seven years, after which Goodwill has the right to refinance the then-outstanding principal, renegotiate the interest rate and/or place the bonds in the open market via a remarketing agent and trustee. The bonds are unrated and are not specifically secured by any collateral or credit enhancement vehicles. Proceeds of the bonds were used to finance construction of four retail stores and significant remodeling at Goodwill's Indianapolis headquarters facility. The outstanding balance of bonds payable under the 2014 issuance at December 30, 2017 and December 31, 2016 was \$9,100,000 and \$9,625,000, respectively.
- e. Total interest expense as shown on the statement of functional expenses consists of the following:

	<u>2017</u>	<u>2016</u>
Bond, notes payable and line of credit interest	\$ 503,595	\$ 436,085
Letter of credit fees	56,869	54,235
Remarketing fees	6,053	11,188
Bond amortization expenses	9,874	9,874
Line of credit non-use fees	<u>8,015</u>	<u>6,061</u>
Total interest expense	<u>\$ 584,406</u>	<u>\$ 517,443</u>

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

6. BONDS AND NOTES PAYABLE, CONTINUED

e. The aggregate maturities of long-term debt are as follows for the following fiscal years:

2018	\$	1,276,745
2019		1,282,927
2020		1,289,361
2021		1,296,058
2022		1,303,027
Thereafter		<u>10,853,111</u>
	\$	<u>17,301,229</u>

f. Bond issuance costs relating to the 2006 and 2014 bond issues have been recorded at cost and are being amortized using the straight-line method over the term of the bonds. Debt issuance costs of \$109,408 and \$119,283 were netted with bonds payable at December 30, 2017 and December 31, 2016, respectively.

7. WORKER'S COMPENSATION

Goodwill maintains a high-deductible worker's compensation insurance policy, under which Goodwill pays the first \$100,000 of each claim. Goodwill's insurer pays the remainder of each claim that exceeds \$100,000. Goodwill maintains an estimated liability for open claims based on the insurer's claims information.

At December 30, 2017 and December 31, 2016, the liabilities for worker's compensation claims were \$90,552 and \$212,477, respectively, which are included in accrued liabilities on the statement of financial position.

Goodwill incurred \$643,050 and \$819,612 in 2017 and 2016, respectively, for worker's compensation insurance expense and administration fees.

Goodwill maintains a direct pay letter of credit with a commercial bank as credit security for the high deductible worker's compensation policy. The letter of credit amount was \$500,000 in 2017 and 2016. Goodwill pays 1.55% annually for the letter of credit.

8. ENVIRONMENTAL LIABILITY

Goodwill is part of an Indiana Department of Environmental Management (IDEM) investigation related to certain environmental claims at and near Goodwill's Indianapolis headquarters building. Goodwill has accrued \$35,062 and \$126,056 at December 30, 2017 and December 31, 2016, respectively. The accrual is based on estimates, quotes and actual charges for mitigation efforts, ongoing monitoring and legal fees related to the IDEM investigation. Goodwill incurred \$234,619 of expense in 2017 related to this matter, with no expense in 2016, which is reflected as part of occupancy expenses in the statement of functional expenses.

**GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.**
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

8. ENVIRONMENTAL LIABILITY, CONTINUED

Goodwill's insurance carriers were notified of the IDEM investigation as of May 27, 2015. Goodwill believes its contracts with the insurance carriers are enforceable for claims related to the IDEM investigation. However, Goodwill would be responsible for any amounts that its insurance carriers do not cover. Goodwill is currently assessing any potential receivables to be recorded for recoveries from the insurance carriers. As of December 30, 2017 and December 31, 2016, no receivable has been recorded. Future revisions in Goodwill's estimates of these claims could materially impact its results of operations and financial position. Goodwill uses the best information available to determine the level of accrued liabilities and Goodwill believes their accruals are adequate.

9. TEMPORARILY RESTRICTED NET ASSETS

In December 2016, Goodwill received a restricted \$10 million Grant from a third party funder to support employment opportunities, Nurse Family Partnership, philanthropy, and data capacity related to its merger with Goodwill of Southern Indiana, Inc. ("Merger" – see Merger Note 17). During 2017 and 2016, Goodwill incurred \$2.2 million and \$1.1 million, respectively, of grant-eligible expenses. The grant activity is reflected as other contributions in the Statement of Activities.

Temporarily restricted net assets are generated primarily through private grants and are available for the following purposes as of December 30, 2017 and December 31, 2016:

	<u>Goodwill</u>	<u>Foundation</u>	<u>Total</u>
<u>December 30, 2017</u>			
Youth and adult education	\$ 383,424	\$ 2,182,746	\$ 2,566,170
Employment opportunities	2,534,005	-	2,534,005
Nurse-Family Partnership	2,849,226	953,009	3,802,235
Philanthropy	537,895	-	537,895
Data capacity	695,240	-	695,240
Targeted adult skills training	-	179,272	179,272
Other workforce development initiatives	-	336,671	336,671
	<u>\$ 6,999,790</u>	<u>\$ 3,651,698</u>	<u>\$ 10,651,488</u>

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

9. TEMPORARILY RESTRICTED NET ASSETS, CONTINUED

	<u>Goodwill</u>	<u>Foundation</u>	<u>Total</u>
<u>December 31, 2016</u>			
Youth and adult education	\$ 316,610	\$ 1,624,801	\$ 1,941,411
Employment opportunities	4,375,772	-	4,375,772
Nurse-Family Partnership	3,000,000	-	3,000,000
Philanthropy	700,000	-	700,000
Data capacity	800,000	-	800,000
Targeted adult skills training	-	525,424	525,424
Other workforce development initiatives	-	650,158	650,158
	<u>\$ 9,192,382</u>	<u>\$ 2,800,383</u>	<u>\$ 11,992,765</u>

10. LEASE OBLIGATIONS

Goodwill leases 55 retail stores and 18 other buildings used in operations. The lease agreements have terms of up to 15 years and certain leases have one or more renewal options for up to an additional five years per option. Aggregate rental expense for 2017 and 2016, including common area maintenance charges, totaled \$11,341,862 and \$10,524,969, respectively. Four of Goodwill's retail store leases contain a right of first refusal. This right provides Goodwill an option to purchase the store at fair market value if the landlord has a bona fide offer from a third party. Fair market value is the price offered by a third party in an arms-length transaction. Goodwill's management cannot determine if it would elect to purchase any of the stores for which it has a right of first refusal.

Goodwill leases office equipment. Rent expense under these leases was \$646,873 and \$538,438 for 2017 and 2016, respectively.

Goodwill leases vehicles, equipment and drivers used in operations. The leases expire in March 2021. Fixed lease costs are \$9,222 weekly and variable costs are \$0.1625 per mile driven. Labor rates for drivers vary from \$19.90 to \$21.61 per straight-time hour. Goodwill entered into a lease for vehicles for their Commercial Services division. The lease expires in April 2022. Fixed costs are \$2,716 monthly and variable costs are \$0.09 per mile driven. Goodwill's expense under these leases was \$2,833,717 and \$1,583,385 for 2017 and 2016, respectively.

GEI leases two of its locations from GCSI and the rest from third parties. The effects of the lease between GEI and GCSI have been eliminated in consolidation. Aggregate rental expense for 2017 and 2016 was \$1,485,552 and \$1,462,430, respectively. The lease agreements have terms of up to 10 years from the lease commencement date and certain leases have one or more renewal options for up to an additional five years per option.

GEI leases equipment used in operations. Aggregate rental expenses for 2017 and 2016 was \$122,084 and \$111,797, respectively. The leases have varying expiration dates through October 2022.

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

10. LEASE OBLIGATIONS, CONTINUED

Future minimum rental payments required under operating leases that have initial or remaining lease terms as of December 30, 2017 are as follows for the fiscal years ending:

2018	\$ 12,556,668
2019	11,881,772
2020	10,847,777
2021	8,290,135
2022	6,529,274
Thereafter	<u>40,513,827</u>
	<u>\$ 90,619,453</u>

11. RETIREMENT PLANS

Goodwill maintains a discretionary thrift plan which allows eligible employees to contribute pre-tax gross income, subject to certain IRS limitations. Goodwill matches 100% of eligible employees' pre-tax contributions up to 6% of gross income. Goodwill may also make additional discretionary contributions to the plan. Employer matching contributions vest after three years or in the event of death or disability. Employer discretionary contributions vest after five years or in the event of death or disability. Goodwill's expense relating to contributions to the thrift plan for 2017 and 2016 was \$1,254,314 and \$1,108,974, respectively.

12. RELATED PARTY TRANSACTIONS

GEI leases an Excel Center facility owned by an entity controlled by a GCSI board member. The lease for the facility has a 10-year term and has a rent rate comparable to similar facilities in the same geographic area. The board member recused himself from all board of directors' discussion and voting related to the lease transaction.

13. FUTURE GRANT AUDITS

Under the terms of federal grants awarded to Goodwill, periodic audits are required and certain costs may be challenged as to allowability under the terms of the grants. Such audits could lead to reimbursement to the grantor. Management believes the likelihood that material costs incurred by Goodwill will be disallowed is remote.

14. SELF INSURANCE

Goodwill self-insures for employee and dependent medical benefits up to a per-individual annual maximum of \$150,000 and an aggregate maximum of approximately \$8.2 million. Goodwill purchases reinsurance which pays individual claims that exceed \$150,000 per year, in accordance with the provisions of the Affordable Care Act.

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

14. SELF INSURANCE, CONTINUED

The reinsurer reviews claims annually and upon renewal of the reinsurance policy each year may establish higher specific maximums on selected individuals with high claims risks. Goodwill purchases claims administration services from a third party administrator. Self insured medical expenses and related administrative costs were \$6,591,121 and \$5,772,745 for 2017 and 2016, respectively.

Goodwill maintains an estimated liability for incurred but not reported medical claims based on average claim costs and claims processing lag times. At December 30, 2017 and December 31, 2016, the estimated liability was \$1,064,078 and \$840,119, respectively, and is included in accrued liabilities in the statement of financial position.

15. FAIR VALUE MEASUREMENTS

Accounting Standards for Fair Value Measurement define fair value as the price that would be received for an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Those standards also establish a three-level fair value hierarchy for disclosure that prioritizes valuations based on whether the significant inputs used to estimate fair value are observable, giving highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and lowest priority to valuations primarily based on unobservable inputs (level 3 measurements). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Fair values measured on a recurring basis at December 30, 2017 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Input (Level 3)</u>
Fixed income mutual funds	\$ 7,171,062	\$ 7,171,062	\$ -	\$ -
Domestic equity mutual funds	19,752,457	19,752,457	-	-
International equity mutual funds	13,765,706	13,765,706	-	-
Natural resources limited partnership	3,370,322			
Private equity limited partnership	2,401,597			

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

15. FAIR VALUE MEASUREMENTS, CONTINUED

Equity hedge funds	20,243			
Total investments	46,481,387	40,689,225	-	-
Contributions and pledges receivable	872,907	-	872,907	-
Total assets	<u>\$ 47,354,294</u>	<u>\$ 40,689,225</u>	<u>\$ 872,907</u>	<u>\$ -</u>
Interest rate swap	<u>\$ (55,018)</u>	<u>\$ -</u>	<u>\$ (55,018)</u>	<u>\$ -</u>

Fair values measured on a recurring basis at December 31, 2016 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Input (Level 3)</u>
Fixed income mutual funds	\$ 3,092,756	\$ 3,092,756	\$ -	\$ -
Domestic equity mutual funds	15,345,022	15,345,022	-	-
International equity mutual funds	11,331,513	11,331,513	-	-
Natural resources limited partnership	3,059,149			
Private equity limited partnership	2,694,570			
Equity hedge funds	<u>29,427</u>			
Total investments	35,552,437	29,769,291	-	-
Contributions and Pledges receivable	<u>10,314,633</u>	<u>-</u>	<u>10,314,633</u>	<u>-</u>
Total assets	<u>\$ 45,867,070</u>	<u>\$ 29,769,291</u>	<u>\$ 10,314,633</u>	<u>\$ -</u>
Interest rate swap	<u>\$ (57,111)</u>	<u>\$ -</u>	<u>\$ (57,111)</u>	<u>\$ -</u>

During 2017, Accounting Standards Update 2015-07, *Disclosures for Certain Investments that Calculate Net Asset Value Per Share* became effective. This update removes the requirement to categorize within the fair value hierarchy all in investments for which fair value is measured using the net asset value per share practical expedient. As such, certain investments have not been classified in the fair value hierarchy table. The 2016 fair value measurement disclosures have been restated for this change.

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

15. FAIR VALUE MEASUREMENTS, CONTINUED

Fair values for investments other than alternative investments are determined by reference to readily available quoted market prices and other relevant information generated by market transactions. Fair value for the interest rate swap is determined by the prevailing one-month LIBOR rate at the valuation date. Fair value for contributions and pledges receivable is determined by calculating the present value of future cash in flows due beyond one year from the statement of financial position date using an estimated rate of return from the year the pledges are received. These methodologies have not changed since the prior year.

At December 30, 2017, the Foundation holds fund of fund alternative investments in the following sectors:

<u>Fund Type</u>	<u>Total Amount Committed</u>	<u>Net Amount Funded at December 30, 2017</u>	<u>Fair Value at December 30, 2017</u>
Natural resources (a)	\$ 5,000,000	\$ 2,347,948	\$ 3,370,322
Private equity (b)	2,500,000	1,477,109	2,401,597
Equity hedge (c)	-	20,243	20,243
	<u>\$ 7,500,000</u>	<u>\$ 3,845,300</u>	<u>\$ 5,792,162</u>

At December 31, 2016, the Foundation held Fund of Fund alternative investments in the following sectors:

<u>Fund Type</u>	<u>Total Amount Committed</u>	<u>Net Amount Funded at December 31, 2016</u>	<u>Fair Value at December 31, 2016</u>
Natural resources (a)	\$ 5,000,000	\$ 2,347,948	\$ 3,059,149
Private equity (b)	2,500,000	1,477,109	2,694,570
Equity hedge (c)	-	29,427	29,427
	<u>\$ 7,500,000</u>	<u>\$ 3,854,484</u>	<u>\$ 5,783,146</u>

(a) The Foundation has invested in two separate natural resources funds. Both funds invest primarily in energy – specifically, natural gas and oil production, distribution, transportation, storage, generation and transmission; timber – specifically, agricultural land investments focused on active timber production and capital appreciation; and minerals and mining.

(b) The Foundation has invested in two separate private equity funds, one of which invests primarily in U.S. and foreign private equity and venture capital funds, in both developed and emerging markets. Developed market funds include investments in the United States and Europe, while emerging markets funds include investments primarily in Central and Eastern Europe and China. The second fund invests mainly in early-stage technology venture firms due to low valuations and the opportunity to build companies to large exit valuations.

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

15. FAIR VALUE MEASUREMENTS, CONTINUED

It also invests in healthcare companies both domestically and in India and China. The fund invests primarily in venture capital and other private equity sub-funds; however, it will also invest approximately 25% of its investable capital in direct investments.

(a)&(b) Natural resources and private equity investments do not typically have observable, readily available market prices. They are closed-end investments and require a specified commitment of capital upon inception of the funds which is drawn down over a specified period of the fund's life. The funds do not provide redemption options for investors and do not permit subscriptions by new or existing investors subsequent to closing. They generally hold interests for which there is no active market, although in some cases, limited transactions may occur in a secondary market where an investor purchases another investor's existing interest and commitment. Accordingly, estimated fair values may differ materially from the values that would have been used had a ready, active market for these investments existed. Management intends to and has the ability to hold these investments to maturity. In the event the Foundation would have to exit these investments in a forced sale, it is very likely that the ultimate sales values would be significantly less than the estimated fair values. Management is unable to determine the prices it could obtain for these investments in a forced sale.

Liquidation values could differ materially from reported fair values and fair values could be materially impacted if the sub-fund managers misstate their fund valuations.

Valuation of alternative investment assets relies on the managers of the underlying funds to provide accurate and timely information to assess their respective fund valuations. The Fund general partners evaluate all valuation policies used by managers of underlying funds and analyze the roles of all third parties involved in the valuation process prior to investing in an underlying fund. After an investment has been made, the Fund general partners assess the reasonableness of all valuations determined by underlying funds and determine fair values for all funds on a quarterly basis. On an annual basis, financial statements and capital account statements for each alternative investment fund are produced and reviewed for compliance with fair value accounting standards and adherence to U.S. GAAP.

The Foundation's investment committee engages a third-party investment advisor to provide advice and counsel for the Foundation's investment portfolio. The advisor meets quarterly with the investment committee and provides an investment performance report, an economic and market outlook and recommendations on existing and potential new investment strategies and managers.

The Foundation's investment objectives are to provide for long-term growth while maintaining a diversified portfolio that seeks to reduce significant risk of loss. The Foundation's management relies on its advisor to conduct reasonable due diligence on potential and existing investment managers.

The advisor conducts face-to-face meetings with prospective and current fund managers, evaluates investment strategy, process and principles, reviews relevant investment offering materials, ensures fund managers are in compliance with reporting requirements, reviews backroom activities, performs reference checks, reviews the qualifications and backgrounds of key fund management personnel and reviews fund performance regularly. Investment performance is measured against relevant benchmarks on a quarterly, year to date, 1-year, 3-year, 5-year, 10-year and since-inception basis.

**GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.**
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

16. FEDERAL, STATE AND LOCAL GRANT AWARDS

In accordance with guidelines established by the Indiana State Board of accounts, this federal, state, and local grant information was included to aid in the verification of Indiana financial assistance on the Entity Annual Report (E-1).

Program Name	Grantor Name	CFDA	Revenue	Expense	Funding Type
New Beginnings	Indiana Department of Correction	N/A	\$55,653	\$55,653	State and local
Skill Up	Indiana Department of Workforce Development	N/A	\$323,920	\$323,920	State and local
Safety Pin – Nurse Family Partnership Program	Indiana State Department of Health	N/A	\$403,375	\$403,375	State and local
Disability Services – Medicaid Waiver	Indiana Family and Social Services Administration	N/A	\$1,091	\$1,091	State and local
Disability Services – Ticket to Work	Indiana Family and Social Services Administration	N/A	\$24,140	\$24,140	State and local
Disability Services – Vocational Rehabilitation	Indiana Family and Social Services Administration	N/A	\$365,058	\$365,058	State and local
Jobs for America’s Graduates	Indianapolis Private Industry Council d/b/a EmployIndy	N/A	\$56,418	\$56,418	State and local
Workforce Investment Act/Workforce Innovation and Opportunity Act Youth Activities	Indianapolis Private Industry Council d/b/a EmployIndy	17.259	\$130,193	\$130,193	Federal grant passed through state or local government
Temporary Assistance for Needy Families	Indianapolis Private Industry Council d/b/a EmployIndy	93.558	\$274,134	\$274,134	Federal grant passed through state or local government
Temporary Assistance for Needy Families	Indiana State Department of Health	93.558	\$449,632	\$449,632	Federal grant passed through state or local government

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

16. FEDERAL, STATE AND LOCAL GRANT AWARDS, CONTINUED

Affordable Care Act – Maternal, Infant and Early Childhood Home Visiting Program - Nurse Family Partnership	Indiana State Department of Health	93.505	\$1,820,267	\$1,820,267	Federal grant passed through state or local government
Title V Maternal and Child Health Services Block Grant	Indiana State Department of Health	93.994	\$1,205,353	\$1,205,353	Federal grant passed through state or local government
Child and Adult Care Food Program	Indiana Department of Education	10.56	\$47,513	\$47,513	Federal grant passed through state or local government
Total funding			\$5,156,747	\$5,156,747	

17. MERGER

On January 01, 2017, Goodwill Industries of Central Indiana, Inc. and Goodwill of Southern Indiana, Inc. merged into one entity, of which GCSI is the surviving entity (the Merger). Effective January 01, 2017, GCSI changed its name to Goodwill of Central and Southern Indiana, Inc. ("GCSI"), and the Foundation changed its name to Goodwill Foundation of Central and Southern Indiana, Inc.

The merger expanded GCSI's operating territory to 39 counties in Indiana. It allowed continuity and expansion of mission and education services into 10 counties in Southern Indiana where the need for such services is acute. The merger created operational efficiencies in the GCSI retail system and enhanced customer and used-goods donor experiences

The merger had the following impact on GCSI on January 01, 2017:

Increase in assets:	
Cash and investments	\$ 4,788,999
Property and equipment	6,587,769
Other assets	261,024
Increase in liabilities:	
Debt	3,474,851
Accrued expenses and other liabilities	612,264
Net contribution of net assets	7,550,677

With the exception of \$267,689 of cash received in the merger, all merger-related transactions have been treated as non-cash for the purposes of the statement of cash flows.

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
DECEMBER 30, 2017 AND DECEMBER 31, 2016

18. LITIGATION

From time to time, Goodwill is involved with various legal actions arising in the ordinary course of its activities. At December 30, 2017 and December 31, 2016, management believes there are no such actions that would negatively affect the financial position of Goodwill.