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 29, 2018 AND DECEMBER 30, 2017

GREENWALT CPAs

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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 29, 2018 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 29, 2018, 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 30, 2017 combining financial statements, and we expressed an unmodified audit opinion on those audited combining financial statements in our report dated March 01, 2018. In our opinion, the summarized comparative information presented herein, as of and for the year ended December 30, 2017, is consistent, in all material respects, with the audited combining financial statements from which it has been derived.

Greenwalt CPAs, Inc.

March 15, 2019

GOODWILL OF CENTRAL AND SOUTHERN INDIANA, INC. AND SUBSIDIARIES
AND GOODWILL FOUNDATION OF CENTRAL AND SOUTHERN INDIANA, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 29, 2018 WITH SUMMARIZED COMPARATIVE INFORMATION AS OF DECEMBER 30, 2017

	Without Donor Restriction		With Donor Restriction			Totals	
ASSETS	Goodwill	Goodwill Foundation	Goodwill	Goodwill Foundation	Eliminations	December 29, 2018	December 30, 2017
CURRENT ASSETS							
Cash and cash equivalents	$ 5,135,325	$ 2,446,744	$ 6,216,060	$ 207,623	$ -	$ 14,005,752	$ 14,242,757
Trade accounts receivable, net	4,994,920	-	-	-	(546,470)	4,448,450	5,070,771
Contributions and pledges receivable, net	-	63,982	-	543,596	-	607,578	422,907
Other receivables, net	595,853	30,972	-	-	(30,972)	595,853	367,676
Inventories	5,726,870	-	-	-	-	5,726,870	6,017,007
Prepayments	1,581,908	-	-	-	-	1,581,908	796,606
Due from other funds	-	-	-	-	-	-	-
Total current assets	18,034,876	2,541,698	6,216,060	751,219	(577,442)	26,966,411	27,367,724
LONG-TERM ASSETS							
Land and improvements	14,330,248	-	-	-	-	14,330,248	15,531,152
Buildings and improvements	57,295,424	-	-	-	-	57,295,424	54,218,517
Equipment	44,577,680	-	-	-	-	44,577,680	42,053,349
Projects in progress	3,592,612	-	-	-	-	3,592,612	867,860
	119,795,964	-	-	-	-	119,795,964	112,670,878
Accumulated depreciation	(55,792,812)	-	-	-	-	(55,792,812)	(50,867,490)
Net property and equipment	64,003,152	-	-	-	-	64,003,152	61,803,388
Contributions and pledges receivable, net		-	-	275,000	-	275,000	450,000
Note receivable	-	501,000	-	-	(501,000)	-	-
Investments	6,151,930	32,269,325	-	2,400,257	-	40,821,512	46,481,387
Investment in affiliate	1,732,138	-	-	-	-	1,732,138	-
Deposits and other assets	80,000	1,800	-	-	-	81,800	81,800
Total long-term assets	71,967,220	32,772,125	-	2,675,257	(501,000)	106,913,602	108,366,575
Total assets	$ 90,002,096	$ 35,313,823	$ 6,216,060	$ 3,426,476	$ (1,078,442)	$ 133,880,013	$ 135,734,299
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Bank line of credit	$ 2,575,000	$ -	$ -	$ -	$ -	$ 2,575,000	$ -
Current portion of bonds and notes payable	1,296,420	-	-	-	-	1,296,420	1,276,745
Accounts payable	7,152,516	546,470	-	-	(546,470)	7,152,516	4,228,241
Accrued liabilities	5,946,528	-	-	-	(30,972)	5,915,556	5,414,532
Due to other funds	-	-	-	-	-	-	-
Total current liabilities	16,970,464	546,470	-	-	(577,442)	16,939,492	10,919,518
LONG-TERM LIABILITIES							
Bonds and notes payable, net of deferred bond costs of $99,534 at December 29, 2018 and $109,408 at December 30, 2017	12,393,446	-	-	-	(501,000)	11,892,446	15,915,076
Other long-term liabilities	633,437	-	-	-	-	633,437	296,140
Total long-term liabilities	13,026,883	-	-	-	(501,000)	12,525,883	16,211,216
Total liabilities	29,997,347	546,470	-	-	(1,078,442)	29,465,375	27,130,734
COMMITMENTS AND CONTINGENCIES (NOTES 9, 11, 14, 15, 19 AND 20)							
NET ASSETS	60,004,749	34,767,353	6,216,060	3,426,476	-	104,414,638	108,603,565
Total liabilities and net assets	$ 90,002,096	$ 35,313,823	$ 6,216,060	$ 3,426,476	$ (1,078,442)	$ 133,880,013	$ 135,734,299

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 29, 2018
WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 30, 2017

	Without Donor Restriction		With Donor Restriction			Totals	
	Goodwill	Goodwill Foundation	Goodwill	Goodwill Foundation	Eliminations	December 29, 2018	December 30, 2017
REVENUE							
Sales - donated goods	$ 96,032,424	$ -	$ -	$ -	$ -	$ 96,032,424	$ 91,468,024
Sales - purchased goods	18,324	-	-	-	-	18,324	30,179
Commercial services	13,995,874	-	-	-	-	13,995,874	15,660,009
Mission advancement	9,497,870	-	-	-	-	9,497,870	7,333,310
Education services	30,461,106	-	648,000	-	-	31,109,106	28,510,330
Interest and dividend income, net	267,673	533,669	-	146,987	-	948,329	505,509
Realized gain on investments	(19,927)	2,193,118	-	197,804	-	2,370,995	2,347,308
Unrealized gain (loss) on investments	(60,625)	(5,953,070)	-	(432,821)	-	(6,446,516)	4,441,817
Net loss on disposition of property	(402,984)	-	-	-	-	(402,984)	(167,595)
Gain on interest rate swap hedge	42,542	-	-	-	-	42,542	124,644
Other, net	2,105,883	-	-	-	(752,869)	1,353,014	1,368,845
Total revenue	151,938,160	(3,226,283)	648,000	(88,030)	(752,869)	148,518,978	151,622,380
SUPPORT							
United Way allocation	501,297	-	-	-	-	501,297	590,936
Memorials	-	18,785	-	-	-	18,785	19,332
Bequests	-	2,377,515	-	-	-	2,377,515	313,371
Annual and capital campaign contributions	18,727	444,398	-	879,429	-	1,342,554	1,627,719
Other contributions	2,145,953	-	-	-	(1,605,162)	540,791	7,970,716
Total support	2,665,977	2,840,698	-	879,429	(1,605,162)	4,780,942	10,522,074
NET ASSETS RELEASED FROM RESTRICTIONS	1,431,730	1,016,621	(1,431,730)	(1,016,621)	-	-	-
Total revenue and support	156,035,867	631,036	(783,730)	(225,222)	(2,358,031)	153,299,920	162,144,454
EXPENSES							
Retail and commercial services	98,566,089	78,200	-	-	(78,200)	98,566,089	94,058,883
Mission advancement	12,317,340	1,063,164	-	-	(1,094,136)	12,286,368	9,522,270
Education services	31,116,654	301,021	-	-	(301,021)	31,116,654	26,303,614
General and administrative	14,612,002	275,631	-	-	(212,777)	14,674,856	15,656,098
Fundraising	844,880	671,897	-	-	(671,897)	844,880	771,171
Total expenses	157,456,965	2,389,913	-	-	(2,358,031)	157,488,847	146,312,036
CHANGE IN NET ASSETS	(1,421,098)	(1,758,877)	(783,730)	(225,222)	-	(4,188,927)	15,832,418
NET ASSETS, BEGINNING OF YEAR	61,425,847	36,526,230	6,999,790	3,651,698	-	108,603,565	92,771,147
NET ASSETS, END OF YEAR	$ 60,004,749	$ 34,767,353	$ 6,216,060	$ 3,426,476	$ -	$ 104,414,638	$ 108,603,565

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 29, 2018
WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 30, 2017

	Retail and Commercial Services	Mission Advancement	Education Services	General and Administrative	Fundraising	Eliminations	Totals December 29, 2018	Totals December 30, 2017
Salaries and wages	$ 41,915,320	$ 8,148,327	$ 15,221,359	$ 7,214,159	$ 875,564	$ (416,373)	$ 72,958,356	$ 66,848,826
Employee benefits	10,584,223	1,809,239	4,689,585	1,855,534	106,340	-	19,044,921	16,883,477
Professional services	5,522,777	468,849	1,397,530	1,708,659	66,726	(33,363)	9,131,178	8,709,318
Supplies	5,054,081	321,981	396,054	400,937	111,566	-	6,284,619	6,401,255
Cost of sales	5,616,725	-	-	-	-	-	5,616,725	6,057,894
Occupancy	22,177,276	459,422	3,508,576	1,787,909	82,829	(41,917)	27,974,095	26,574,074
Advertising and printing	772,372	7,402	224,782	427,335	2,995	-	1,434,886	1,537,639
Travel and transportation	2,157,188	646,663	570,186	356,165	50,233	(24,465)	3,755,970	2,968,047
Staff development	55,763	35,521	203,721	99,684	17,145	-	411,834	292,679
Memberships and dues	4,318	3,194	71,339	324,839	645	-	404,335	376,552
Management fees to affiliate	-	-	-	50,000	-	(50,000)	-	-
Client tuition, training and assistance	35,240	153,624	4,070	-	5,668	-	198,602	151,790
Student services	-	-	2,558,294	-	-	-	2,558,294	1,755,153
Depreciation and amortization	4,076,795	181,199	2,087,327	328,126	2,440	-	6,675,887	6,544,732
Bad debt (recoveries)	(35,006)	6,001	-	-	-	-	(29,005)	153,232
Interest	403,231	30,972	133,660	18,314	-	(30,972)	555,205	584,406
Foundation grants to Goodwill of Central and Southern Indiana, Inc. and subsidiaries	78,200	1,063,164	301,021	162,777	-	(1,605,162)	-	-
Other	225,786	44,946	50,171	153,195	194,626	(155,779)	512,945	472,962
	98,644,289	13,380,504	31,417,675	14,887,633	1,516,777	$ (2,358,031)	$ 157,488,847	$ 146,312,036
Eliminations	(78,200)	(1,094,136)	(301,021)	(212,777)	(671,897)			
	$ 98,566,089	$ 12,286,368	$ 31,116,654	$ 14,674,856	$ 844,880			

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 29, 2018
WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 30, 2017

NET CHANGE IN CASH AND CASH EQUIVALENTS

	Goodwill Industries	Goodwill Foundation	Eliminations	Totals December 29, 2018	Totals December 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	$ (2,204,828)	$ (1,984,099)	$ -	$ (4,188,927)	$ 15,832,418
Depreciation and amortization	6,675,887	-	-	6,675,887	6,544,732
Gain on interest rate swap hedge	(42,542)	-	-	(42,542)	(124,644)
Realized (gain) loss on investments	19,927	(2,390,922)	-	(2,370,995)	(2,347,308)
Unrealized (gain) loss on investments	60,625	6,385,891	-	6,446,516	(4,441,817)
Net loss on disposition of property	402,984	-	-	402,984	167,595
Contribution received in merger	-	-	-	-	(7,550,677)
(Increase) decrease in operating assets:					
Trade accounts receivable, net	267,971	-	354,350	622,321	1,028,355
Contributions and pledges receivable, net	-	(9,671)	-	(9,671)	9,441,726
Other receivables, net	(228,177)	(30,972)	30,972	(228,177)	155,339
Inventories	290,137	-	-	290,137	(708,415)
Prepayments	(785,302)	-	-	(785,302)	734,887
Increase (decrease) in operating liabilities:					
Accounts payable and accrued liabilities	2,608,602	354,350	(354,350)	2,608,602	(2,328,683)
Other long-term liabilities	379,839	-	(30,972)	348,867	163,695
Net cash provided by operating activities	7,445,123	2,324,577	-	9,769,700	16,567,203
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of investments	(334,714)	(1,786,056)	-	(2,120,770)	(3,293,286)
Proceeds from sales of investments	1,273,294	2,431,830	-	3,705,124	3,674,771
Proceeds from sales of fixed assets	2,368,278	-	-	2,368,278	9,846
Capital expenditures	(12,030,382)	-	-	(12,030,382)	(8,069,096)
Cash loaned for investment	-	(501,000)	-	(501,000)	-
Net cash provided by (used in) investing activities	(8,723,524)	144,774	-	(8,578,750)	(7,677,765)
CASH FLOWS FROM FINANCING ACTIVITIES					
Borrowing (repayment) on line of credit, net	2,575,000	-	-	2,575,000	(3,895,000)
Cash received in merger (Note 18)	-	-	-	-	267,689
Principal payments on bonds and notes payable	(4,002,955)	-	-	(4,002,955)	(2,388,747)
Net cash used in financing activities	(1,427,955)	-	-	(1,427,955)	(6,016,058)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,706,356)	2,469,351	-	(237,005)	2,873,380
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,057,741	185,016	-	14,242,757	11,369,377
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,351,385	$ 2,654,367	$ -	$ 14,005,752	$ 14,242,757
SUPPLEMENTAL CASH FLOWS INFORMATION					
Cash paid for interest	$ 534,641	$ -	$ -	$ 534,641	$ 508,821
NON-CASH INVESTING ACTIVITIES					
Property and equipment acquired in merger	$ -	$ -	$ -	$ -	$ 6,587,769
Property and equipment in accounts payable and accrued liabilities	847,669	-	-	847,669	-
Property and equipment transferred as investment in affiliate	(1,231,138)	-	-	(1,231,138)	-
Investments acquired in merger	-	-	-	-	4,521,309
Investment in affiliate financed with note payable	(501,000)	-	-	(501,000)	-
Total non-cash investing activities	$ (884,469)	$ -	$ -	$ (884,469)	$ 11,109,078
NON-CASH FINANCING ACTIVITIES					
Bonds acquired in merger	$ -	$ -	$ -	$ -	$ 3,474,851

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"), 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).

Goodwill created a wholly-owned, single-purpose limited liability company, Goodwill Riverview Partners, LLC (GRP), in 2018 to participate in a workforce housing joint venture project. (See Note 13).

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 unsellable 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 more than 2,800 individuals, 60% of whom have barriers to employment. These operations generate revenue and cash flow that fund a large portion of GSCI'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 220 people with disabilities and other barriers to employment.

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 115 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

DESCRIPTION OF ORGANIZATIONS, CONTINUED

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.

GEI provides educational opportunities designed to enable young people and adults to prepare for more productive lives. GEI operates 14 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 29, 2018
Indianapolis Metropolitan High School	Indianapolis, IN (at GCSI headquarters facility)	Mayor of Indianapolis	15	234
The Excel Center for Adult Learners	Four locations in Indianapolis, IN, including one at GCSI headquarters facility	Mayor of Indianapolis	8	1187
The Excel Center-Anderson	Anderson, IN	Indiana Charter School Board	7	289
The Excel Center – Kokomo	Kokomo, IN	Indiana Charter School Board	6	348
The Excel Center – Lafayette	Lafayette, IN	Indiana Charter School Board	6	315
The Excel Center – Richmond	Richmond, IN	Indiana Charter School Board	6	251
The Excel Center – West	Indianapolis, IN	Mayor of Indianapolis	6	333
The Excel Center - University Heights	Indianapolis, IN	Mayor of Indianapolis	4	382
The Excel Center - Noblesville	Noblesville, IN	Indiana Charter School Board	4	187

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

DESCRIPTION OF ORGANIZATIONS, CONTINUED

The Excel Center - Shelbyville	Shelbyville, IN	Indiana Charter School Board	3	154
The Excel Center - Clarksville	Clarksville, IN	Indiana Charter School Board	2	282
The Excel Center – Muncie	Muncie, IN	Indiana Charter School Board	1	245
Total				4,207

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 pays GII annual dues in exchange for the Goodwill brand name, national advocacy, and other organizational support. Goodwill paid GII $221,530 and $244,368 in 2018 and 2017, respectively. 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 2018 and 2017, Goodwill received United Way grants of $501,297 and $590,936, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 30, 2017, from which the summarized information was derived.

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 29, 2018 and December 30, 2017 the Organizations maintained cash and cash equivalents in excess of the FDIC coverage limits by approximately $12.6 million and $13.4 million, respectively.

Cash equivalents include $5,661,126 and $6,049,618 of certificates of deposit that are recorded at cost at December 29, 2018 and December 30, 2017, respectively.

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 sell 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

INVENTORIES, CONTINUED

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, or, if donated, at fair value. 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 technology assets, 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 over $3,000 and expenditures for normal maintenance and repairs are expensed as incurred.

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 relating to store relocations, software implementation, and building improvements totaling $3,592,612 and $867,860 at December 29, 2018 and December 30, 2017, respectively.

NET ASSETS

The Organizations maintain the following classifications of net assets:

WITHOUT DONOR RESTRICTIONS

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.

WITH DONOR RESTRICTIONS

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 net assets without donor restriction if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

	December 29, 2018	December 30, 2017
Contributions and pledges receivable	$ 899,138	$ 889,467
Allowance for uncollectible pledges	(16,560)	(16,560)
Net unconditional promises to give	$ 882,578	$ 872,907
Amounts due in:		
Less than one year	$ 624,138	$ 439,467
One to five years	275,000	450,000
Total	$ 899,138	$ 889,467

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 $1,434,886 and $1,537,639 in 2018 and 2017, 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 15, 2019, which was the date the financial statements were available to be issued. See Note 20.

NEW ACCOUNTING PRONOUNCEMENT

The Organizations have adopted ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 29, 2018. The update addressed the complexity and understandability of net asset classification by reducing the three categories of unrestricted, temporarily restricted and permanently restricted to two, net assets with and without functional donor restrictions. In addition, the update requires a new disclosure regarding liquidity and the availability of resources. Lastly, the pronouncement requires investment fees to be classified with investment income. The Organizations have adjusted the presentation of these combining financial statements accordingly. Investment fees of $147,292 have been reclassified to investment income for the year ended December 30, 2017. The update had no impact on net assets as of December 30, 2017.

2. AVAILABLE RESOURCES AND LIQUIDITY

The Organizations regularly monitor liquidity required to meet their operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organizations have various sources of liquidity at their disposal, including cash and cash equivalents, marketable securities, and an operating line of credit (see Note 7 for information regarding Goodwill's line of credit).

For purposes of analyzing resources available to meet general expenditures over the next 12 months, Goodwill considers all expenditures related to its ongoing activities, capital expenditures, and other commitments to be general expenditures. Goodwill operates with a balanced budget and anticipates generating sufficient revenue to cover general expenditures. Goodwill's retail operations provide daily cash flow, which partially offsets the variability of cash flows from other sources, such as accounts receivable, grants receivable, and fundraising efforts. Goodwill assesses the risk that certain events, like severe weather, could have a temporary adverse impact on cash flows. As a result, Goodwill maintains a fixed-income investment portfolio, and a bank line of credit, that together will generally provide 25-30 days of operating expenses.

GEI receives more than 90% of its revenue from state and Federal government sources. Cash distributions from government sources are generally received monthly throughout the year. GEI's cash receipts are highly predictable and its expenditures closely align with receipts. Additionally, GEI's charter authorizers require GEI to maintain a cash balance equal to at least 50 days of operating expenses.

The following presents financial assets available for general expenditures within one year at December 29, 2018:

Financial assets at year-end:

Cash and cash equivalents	$ 11,351,385
Investments	6,151,930
Trade accounts receivable, net	4,994,920
Other receivables, including grants	595,853
Total financial assets	23,094,088
Less amounts not available for use within one year:	
Cash and cash equivalents restricted by donors for specific purposes	(6,216,060)
Financial assets available to meet general expenditures within one year	$ 16,878,028

The Foundation solicits contributions from the general public and invests funds received from donors in accordance with its investment policy, as established, and amended from time to time, by its board of directors. The Foundation disburses such funds to support Goodwill 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 paid internships. The Foundation's support to Goodwill is generally in the form of grants.

2. Available Resources and Liquidity, Continued

The Foundation makes available for its annual operating expenditures and support an amount equal to five percent of the rolling three-year average of its total endowment (5% distribution limit).

The Foundation operates with a balanced budget, and anticipates that its annual expenditures for operating expenses and support to Goodwill and GEI will be covered by the 5% distribution limit described above. Operating expenses include administrative and general expenses and fundraising costs. The Foundation manages its cash available for its annual expenditures by operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets, and ensuring it can meet long-term grant commitments and obligations imposed by donor restrictions through its investment policies and practices.

The Foundation's board of directors meet four times each year to review and approve grant requests from Goodwill. Approved grants are paid to Goodwill on a cost-reimbursement basis, which helps to preserve the Foundation's liquidity over the grants' respective durations.

The following presents the Foundation's financial assets available for general expenditures within one year at December 29, 2018:

Financial assets at year-end:	
Cash and cash equivalents	$ 2,654,367
Investments	34,669,583
Other receivables, including grants	882,578
Total financial assets	38,206,527
Less amounts not available for use within one year:	
Cash and cash equivalents, grants receivable, and investments restricted by donors for specific purposes	(3,151,476)
Long-term contribution and pledges receivable	(275,000)
Financial assets available to meet general expenditures within one year	$ 34,780,051

3. 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.

GFP is a limited liability company for tax purposes under the Code. GRP is considered a disregarded entity for tax purposes.

4. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are summarized as follows:

	December 29, 2018	December 30, 2017
Trade accounts receivable	$ 4,681,888	$ 5,409,091
Less – allowance for uncollectible accounts	(233,438)	(338,320)
Trade accounts receivable, net	$ 4,448,450	$ 5,070,771

5. INVENTORIES

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

	December 29, 2018	December 30, 2017
Donated goods	$ 5,339,107	$ 5,545,046
Purchased goods	387,763	471,961
	$ 5,726,870	$ 6,017,007

6. 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 16). 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 16). Realized and unrealized investment gains and losses are reported in the statement of activities.

6. INVESTMENTS, CONTINUED

At December 29, 2018 and December 30, 2017, the Organizations held the following investment securities:

	Goodwill	Foundation	Total
December 29, 2018			
Mutual funds and exchange-traded investments	$ 6,151,930	$ 28,270,053	$ 34,421,983
Alternative investments	-	6,399,529	6,399,529
Total investments-market value	$ 6,151,930	$ 34,669,582	$ 40,821,512
Total investments-cost basis	$ 6,227,576	$ 28,640,463	$ 34,868,039

	Goodwill	Foundation	Total
December 30, 2017			
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	$ 7,171,062	$ 39,310,325	$ 46,481,387
Total investments – cost basis	$ 7,212,609	$ 27,540,463	$ 34,753,072

7. 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 4.21% at December 29, 2018). As of December 29, 2018 and December 30, 2017, Goodwill had $2,575,000 and $0, respectively, outstanding on the line of credit. The line of credit includes a non-use fee of 0.15% of the unused balance. In 2018 and 2017, Goodwill paid $6,960 and $7,459, 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%. The line of credit included a non-use fee of 0.15% of the unused balance. In 2017, GEI paid $556 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 bore interest at an adjustable interest rate and re-priced every seven days based on market conditions. The interest rate approximated the quoted weekly Securities Industry and Financial Markets Association (SIFMA) Index rate. In 2018, the interest rate on the bonds ranged from 1.03% to 1.68%. Goodwill was required to make annual principal payments of $600,000, through 2026. The outstanding balance of the bonds payable at December 30, 2017 was $6,000,000,

   Goodwill maintained a direct-pay letter of credit facility with a commercial bank that secured Goodwill's 2006 tax exempt bonds. Goodwill paid fees equal to 80 basis points in 2018 and 2017 to the bank to maintain the letter of credit. Goodwill paid letter of credit fees for the 2006 bonds of $0 and $56,869 in 2018 and 2017, respectively, which is included in interest expense on the statement of functional expenses. The bank letter of credit and remarketing fee agreement were terminated without penalty.

   Goodwill also paid remarketing fees to a remarketing agent for the 2006 bonds, equal to 0.10% of the amount of bonds outstanding. Goodwill paid $1,479 and $6,053 of remarketing fees in 2018 and 2017, 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. Goodwill did not renew the swap.

   In March 2018, Goodwill refinanced its 2006 tax-exempt bond debt.

7. Bonds and Notes Payable, Continued

c. As a result of the Merger (Note 19), Goodwill acquired approximately $3.5 million of tax-exempt bond debt originally issued in 2009. The bonds were held by a bank, and were secured by mortgages on two Goodwill properties. The bonds bore interest at an adjustable interest rate and re-priced every seven days based on market conditions. The interest rate approximated the quoted weekly Securities Industry and Financial Markets Association (SIFMA) Index rate. In 2018, the interest rate on the bonds ranged from 1.03% to 1.68%. Goodwill was 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 $2.2 and $1.3 million in 2018 and 2017, respectively. The 2009 bonds were subject to an interest rate swap. The swap agreement provided for Goodwill to pay a fixed interest rate of 4% for ten years, through March 2019, in exchange for the underlying floating interest rate. In October 2018, Goodwill retired the bonds and paid $12,476 to terminate the remainder of the swap contract.

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 29, 2018 and December 30, 2017 was $8,531,250 and $9,100,000, respectively.

e. In March 2018, Goodwill obtained a $5.4 million unsecured taxable loan with a twenty-year term and a seven-year fixed interest rate of 2.86%. The proceeds of the loan paid off the existing tax-exempt bonds (see paragraph b.), including all principal and accrued interest. Goodwill is required to make monthly principal payments of $64,285, plus interest through March 2025. The outstanding balance of the loan at December 29, 2018 was $4,757,150.

f. Total interest expense as shown on the statement of functional expenses consists of the following:

	2018	2017
Bond, notes payable and line of credit interest	$ 536,892	$ 503,595
Letter of credit fees	-	56,869
Remarketing fees	1,479	6,053
Bond amortization expenses	9,874	9,874
Line of credit non-use fees	6,960	8,015
Total interest expense	$ 555,205	$ 584,406

7. Bonds and Notes Payable, Continued

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

2019	$	1,296,420
2020		1,296,420
2021		1,296,420
2022		1,296,420
2023		1,296,420
Thereafter		6,806,300
		13,288,400
Less short term		(1,296,420)
Less deferred bond costs		(99,534)
Long-term	$	11,892,446

h. 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 $99,534 and $109,408 were netted with bonds payable at December 29, 2018 and December 30, 2017, respectively.

i. Goodwill is in compliance with all required loan covenants.

8. 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 29, 2018 and December 30, 2017, the liabilities for worker's compensation claims were $304,857 and $90,552, respectively, which are included in accrued liabilities on the statement of financial position.

Goodwill incurred $969,849 and $643,050 in 2018 and 2017, 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 2018 and 2017. Goodwill pays 1.55% annually for the letter of credit.

9. 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 $63,066 and $35,062 at December 29, 2018 and December 30, 2017, 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 $48,395 of expense in 2018 related to this matter, as well as $234,619 of expense in 2017, which is reflected as part of occupancy expenses in the statement of functional expenses.

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 29, 2018 and December 30, 2017, 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 its accruals are adequate.

10. Net Assets With Donor Restrictions

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 18). During 2018 and 2017, Goodwill incurred $1.2 and $2.2 million, respectively, of grant-eligible expenses. The grant activity is reflected as other contributions in the Statement of Activities.

Net assets with donor restrictions are generated primarily through private grants and are available for the following purposes as of December 29, 2018 and December 30, 2017:

	Goodwill	Foundation	Total
December 29, 2018			
Youth and adult education	$ 825,066	$ 1,914,455	$ 2,739,521
Employment opportunities	2,208,463	-	2,208,463
Nurse-Family Partnership	2,394,627	789,482	3,184,109
Philanthropy	375,996	-	375,996
Data capacity	411,908	-	411,908
Targeted adult skills training	-	97,810	97,810
Other workforce development initiatives	-	624,729	624,729
	$ 6,216,060	$ 3,426,476	$ 9,642,536

10. NET ASSETS WITH DONOR RESTRICTIONS, CONTINUED

	Goodwill	Foundation	Total
December 30, 2017			
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
	$ 6,999,790	$ 3,651,698	$ 10,651,488

11. 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 2018 and 2017, including common area maintenance charges, totaled $11,324,423 and $11,341,862, 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 $787,614 and $646,873 for 2018 and 2017, respectively.

Goodwill leases vehicles, equipment and drivers used in operations. The leases expire in March 2021. Fixed lease costs are $12,764 weekly and variable costs are $0.1659 per mile driven. Labor rates for drivers vary from $22.78 to $23.73 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 $3,147,692 and $2,833,717 for 2018 and 2017, respectively. The leases have annual price adjustment clauses to account for fuel and labor inflation.

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 2018 and 2017 was $1,577,724 and $1,485,552, 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.

11. Lease Obligations, Continued

GEI leases its Decatur Township Excel Center location for $1 per year plus a capital recovery fee not to exceed $20,000 annually. The lease expires June 2021. In-kind revenue and expense have been recorded on the statement of activities at the estimated in-kind contribution and corresponding expense of $121,000.

GEI leases equipment used in operations. Aggregate rental expenses for 2018 and 2017 was $132,365 and $122,804, respectively. The leases have varying expiration dates through October 2022.

Future minimum rental payments required under operating leases that have initial or remaining lease terms as of December 29, 2018 are as follows for the fiscal years ending:

2019	$ 13,042,813
2020	12,294,994
2021	9,706,321
2022	7,828,600
2023	6,567,620
Thereafter	27,788,357
	$ 77,228,705

12. Retirement Plan

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 2018 and 2017 was $1,338,616 and $1,254,314, respectively.

13. Related Party Transactions

In 2017, Goodwill entered into an arms-length joint venture agreement with a real estate development company (Developer) owned by a member of Goodwill's board of directors. Goodwill and the Developer own equal shares of the joint venture, which will construct and operate a 208-unit Workforce Housing apartment complex (the Project) on real estate adjacent to Goodwill's Indianapolis headquarters. Workforce Housing is specifically targeted to residents earning between 61-120% of Area Median Income (as defined by the U.S. Department of Housing and Urban Development).

Goodwill and the Developer previously acquired the real estate on which the Project sits. The Project broke ground in 2018. Anticipated completion is in late 2019, and full lease-up is expected in 2020. The board member recused himself from all board of directors' discussions and voting related to the joint venture.

13. Related Party Transactions, Continued

Goodwill and the Developer each contributed $1.75 million of real estate and cash as equity in the Project. The total estimated Project cost is $28.5 million. The Developer has secured the remainder of the financing required for the Project, including a bank loan of $21.3 million, and tax-increment financing (TIF) bonds of $4.2 million issued through the City of Indianapolis. The Developer will serve as the sole guarantor of the bank loan and TIF bonds, and will serve as the manager of the joint venture. The joint venture agreement has a term of 15 years, during which Goodwill and the Developer will retain equal ownership of the Project and share equally in the net cash flows. In addition, the Project will remain Workforce Housing for at least 15 years.

Goodwill created a wholly-owned, single-purpose limited liability company, Goodwill Riverview Partners, LLC (GRP), to participate in the joint venture. Goodwill transferred its real estate, with a fair value of $1.25 million, to GRP in 2018. Additionally, Goodwill Foundation of Central and Southern Indiana, Inc., (Foundation) loaned $501,000 to GRP. GRP transferred the real estate and cash as equity to the joint venture when the Project financing closed in 2018. The loan from the Foundation has a term of three years, and bears interest at 10% annually. Principal and interest accrue, and are due on the loan due date. The source of loan repayment is expected to be from recapitalization of the Project upon lease-up and stabilization, in 2020. Goodwill has guaranteed the balance of funds owed to the Foundation if the cash proceeds from recapitalization are not sufficient to repay the loan principal and accrued interest. Goodwill's management expects the cash flow from recapitalizing the Project will be sufficient to repay the loan.

Goodwill's investment in the joint venture is reflected in the Statement of Financial Position as a component of Investment in Affiliate. The loan from the Foundation is eliminated for consolidated and combining purposes.

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.

14. 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.

15. Self Insurance

Goodwill self-insures for employee and dependent medical benefits up to a per-individual annual maximum of $175,000 and an aggregate maximum of approximately $8.8 million. Goodwill purchases reinsurance which pays individual claims that exceed $175,000 per year, in accordance with the provisions of the Affordable Care Act.

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 $7,374,730 and $6,591,121 for 2018 and 2017, respectively.

15. SELF INSURANCE, CONTINUED

Goodwill maintains an estimated liability for incurred but not reported medical claims based on average claim costs and claims processing lag times. At December 29, 2018 and December 30, 2017, the estimated liability was $688,316 and $1,064,078, respectively, and is included in accrued liabilities in the statement of financial position.

16. 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 29, 2018 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Input (Level 3)
Fixed income mutual funds	$ 6,151,930	$ 6,151,930	$ -	$ -
Domestic equity mutual funds	16,601,900	16,601,900	-	-
International equity mutual funds	11,668,153	11,668,153	-	-
Natural resources limited partnership	4,068,397			
Private equity limited partnership	2,331,132			
Total investments	40,821,512	34,421,983	-	-
Contributions and pledges receivable	882,578	-	882,578	-
Total assets	$ 41,704,090	$ 34,421,983	$ 882,578	$ -

16. FAIR VALUE MEASUREMENTS, CONTINUED

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Input (Level 3)
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			
Equity hedge funds	20,243			
Total investments	46,481,387	40,689,225	-	-
Contributions and Pledges receivable	872,907	-	872,907	-
Total assets	$ 47,354,294	$ 40,689,225	$ 872,907	$ -
Interest rate swap	$ (55,018)	$ -	$ (55,018)	$ -

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.

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.

16. Fair Value Measurements, Continued

At December 29, 2018, the Foundation holds fund of fund alternative investments in the following sectors:

Fund Type	Total Amount Committed	Net Amount Funded at December 29, 2018	Fair Value at December 29, 2018
Natural resources (a)	$ 6,100,000	$ 3,447,948	$ 4,068,397
Private equity (b)	2,500,000	1,477,109	2,331,132
	$ 8,600,000	$ 4,925,057	$ 6,399,529

At December 30, 2017, the Foundation held Fund of Fund alternative investments in the following sectors:

Fund Type	Total Amount Committed	Net Amount Funded at December 30, 2017	Fair Value at December 30, 2017
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	-	20,243	20,243
	$ 7,500,000	$ 3,845,300	$ 5,792,162

(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.

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.

16. Fair Value Measurements, Continued

(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.

17. FEDERAL, LOCAL, AND STATE GRANTS

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).

Goodwill

Program Name	Grantor Name	CFDA	Revenue	Expense	Funding Type
New Beginnings	Indiana Department of Correction	N/A	$55,029	$55,029	State and local
Safety Pin – Nurse Family Partnership Program	Indiana State Department of Health	N/A	$352,864	$352,864	State and local
Disability Services – Vocational Rehabilitation	Indiana Family and Social Services Administration	N/A	$268,202	$268,202	State and local
Temporary Assistance for Needy Families	Indiana State Department of Health	93.558	$58,923	$58,923	Federal grant passed through state or local government
Affordable Care Act –Maternal, Infant and Early Childhood Home Visiting Program – Nurse Family Partnership	Indiana State Department of Health	93.505	$1,970,801	$1,970,801	Federal grant passed through state or local government
Title V Maternal and Child Health Services Block Grant	Indiana State Department of Health	93.994	$958,597	$958,597	Federal grant passed through state or local government
Child and Adult Care Food Program	Indiana Department of Education	10.558	$49,772	$49,772	Federal grant passed through state or local government
Total funding			$3,714,188	$3,714,188	

18. 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

18. Merger, Continued

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.

19. Litigation

From time to time, Goodwill is involved with various legal actions arising in the ordinary course of its activities. At December 29, 2018 and December 30, 2017, management believes there are no such actions that would negatively affect the financial position of Goodwill, and that its insurance policies provide adequate coverage against material losses.

20. Subsequent Events

In 2018, Goodwill entered into an agreement with a construction contractor to build a retail outlet and warehouse facility (project) on property Goodwill owns in Clarksville, Indiana. The project commenced in the first quarter of 2019 and is expected to be completed in late summer. Management anticipates the project will cost approximately $3.8 million, and plans to finance it internally generated funds.

Subsequent to December 29, 2018, Goodwill entered into a lease for a new Commercial Services facility. The fixed lease term is for five years, and the lease contains two five-year extension options. Management is uncertain if it will extend the lease beyond the initial five-year fixed term. The future minimum lease payments for this facility are included in Note 11.