

**Financial Statements and Report of Independent
Certified Public Accountants**

Goodwill Industries of Metropolitan Chicago, Inc.

December 31, 2017 and 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**Board of Directors
Goodwill Industries of Metropolitan Chicago, Inc.**

We have audited the accompanying financial statements of Goodwill Industries of Metropolitan Chicago, Inc. (Goodwill - Chicago, a non-stock, not-for-profit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, operating expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Goodwill - Chicago's preparation and fair presentation of the 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 Goodwill - Chicago's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Metropolitan Chicago, Inc. as of December 31, 2017 and 2016, and the changes in its assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Appleton, Wisconsin
June 13, 2018

Goodwill Industries of Metropolitan Chicago, Inc.
STATEMENTS OF FINANCIAL POSITION
December 31,
(In thousands)

| ASSETS | 2017 | 2016 |
|---|---------------------|---------------------|
| Cash | \$106 | \$217 |
| Accounts receivable, net | 69 | 80 |
| Prepaid expenses and other assets | <u>62</u> | <u>43</u> |
| Total current assets | 237 | 340 |
| Property and equipment, net | <u>2</u> | <u>24</u> |
| TOTAL ASSETS | <u>\$239</u> | <u>\$364</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 9 | \$ 17 |
| Accrued liabilities | 56 | 56 |
| Due to Affiliate | <u>174</u> | <u>291</u> |
| Total current liabilities | 239 | 364 |
| Net assets | | |
| Unrestricted | - | (10) |
| Temporarily restricted | <u>-</u> | <u>10</u> |
| Total net assets | <u>-</u> | <u>-</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$239</u> | <u>\$364</u> |

The accompanying notes are an integral part of these statements.

Goodwill Industries of Metropolitan Chicago, Inc.
STATEMENT OF ACTIVITIES
Year ended December 31, 2017
(In thousands)

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|--------------|
| Operating revenue and support | | | |
| Participant programs and services | \$ 557 | \$ - | \$ 557 |
| Contributions | 411 | - | 411 |
| Contributions from Affiliate | 631 | - | 631 |
| Net assets released from restrictions | <u>10</u> | <u>(10)</u> | <u>-</u> |
| Total operating revenue and support and net assets released from restrictions | 1,609 | (10) | 1,599 |
| Operating expenses | | | |
| Program services | 1,375 | - | 1,375 |
| Management and general | 148 | - | 148 |
| Fundraising | <u>76</u> | <u>-</u> | <u>76</u> |
| Total operating expenses | <u>1,599</u> | <u>-</u> | <u>1,599</u> |
| Change in net assets | 10 | (10) | - |
| Net assets, beginning of year | <u>(10)</u> | <u>10</u> | <u>-</u> |
| Net assets, end of year | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |

The accompanying notes are an integral part of this statement.

Goodwill Industries of Metropolitan Chicago, Inc.
STATEMENT OF ACTIVITIES
Year ended December 31, 2016
(In thousands)

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|--------------|
| Operating revenue and support | | | |
| Participant programs and services | \$ 575 | \$ - | \$ 575 |
| Contributions | 307 | - | 307 |
| Contributions from Affiliate | <u>1,066</u> | <u>-</u> | <u>1,066</u> |
| Total operating revenue and support | 1,948 | - | 1,948 |
| Operating expenses | | | |
| Program services | 1,422 | - | 1,422 |
| Management and general | 445 | - | 445 |
| Fundraising | <u>81</u> | <u>-</u> | <u>81</u> |
| Total operating expenses | <u>1,948</u> | <u>-</u> | <u>1,948</u> |
| Change in net assets | - | - | - |
| Net assets, beginning of year | <u>(10)</u> | <u>10</u> | <u>-</u> |
| Net assets, end of year | <u>\$ (10)</u> | <u>\$10</u> | <u>\$ -</u> |

The accompanying notes are an integral part of this statement.

Goodwill Industries of Metropolitan Chicago, Inc.
STATEMENT OF OPERATING EXPENSES
Year ended December 31, 2017
(In thousands)

| | Program services | Management and general | Fundraising | Total |
|---|---------------------|---------------------------|-------------|----------------|
| Salaries and wages | \$ 705 | \$ - | \$41 | \$ 746 |
| Employee benefits | 128 | - | 5 | 133 |
| Payroll taxes | <u>57</u> | <u>-</u> | <u>3</u> | <u>60</u> |
| Total salaries and related expenses | 890 | - | 49 | 939 |
| Rent and occupancy | 264 | - | 10 | 274 |
| Management expense | - | 148 | - | 148 |
| Depreciation | 22 | - | - | 22 |
| Transportation | 31 | - | - | 31 |
| Professional fees and contracted services | 88 | - | 15 | 103 |
| Advertising | 2 | - | - | 2 |
| Supplies | 36 | - | 2 | 38 |
| Equipment purchases, rental and maintenance | 29 | - | - | 29 |
| Specific assistance to individuals | 10 | - | - | 10 |
| Conferences and training | <u>3</u> | <u>-</u> | <u>-</u> | <u>3</u> |
| Total expenses | <u>\$1,375</u> | <u>\$148</u> | <u>\$76</u> | <u>\$1,599</u> |

The accompanying notes are an integral part of this statement.

Goodwill Industries of Metropolitan Chicago, Inc.
STATEMENT OF OPERATING EXPENSES
Year ended December 31, 2016
(In thousands)

| | Program services | Management and general | Fundraising | Total |
|---|---------------------|---------------------------|-------------|----------------|
| Salaries and wages | \$ 728 | \$ - | \$35 | \$ 763 |
| Employee benefits | 152 | - | 4 | 156 |
| Payroll taxes | <u>77</u> | <u>-</u> | <u>3</u> | <u>80</u> |
| Total salaries and related expenses | 957 | - | 42 | 999 |
| Rent and occupancy | 256 | - | 8 | 264 |
| Management expense | - | 445 | - | 445 |
| Depreciation | 41 | - | - | 41 |
| Transportation | 42 | - | - | 42 |
| Professional fees and contracted services | 58 | - | 25 | 83 |
| Supplies | 32 | - | 6 | 38 |
| Equipment purchases, rental and maintenance | 13 | - | - | 13 |
| Specific assistance to individuals | 20 | - | - | 20 |
| Conferences and training | <u>3</u> | <u>-</u> | <u>-</u> | <u>3</u> |
| Total expenses | <u>\$1,422</u> | <u>\$445</u> | <u>\$81</u> | <u>\$1,948</u> |

The accompanying notes are an integral part of this statement.

Goodwill Industries of Metropolitan Chicago, Inc.
STATEMENTS OF CASH FLOWS
Years ended December 31,
(In thousands)

| | <u>2017</u> | <u>2016</u> |
|--|---------------|---------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ - | \$ - |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Depreciation | 22 | 41 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 11 | 112 |
| Prepaid expenses and other assets | (19) | (17) |
| Accounts payable and accrued liabilities | (8) | (10) |
| Deferred income | - | (30) |
| Due to Affiliate | <u>(117)</u> | <u>(137)</u> |
| Net cash used in operating activities | <u>(111)</u> | <u>(41)</u> |
| NET DECREASE IN CASH | (111) | (41) |
| Cash, beginning of year | <u>217</u> | <u>258</u> |
| Cash, end of year | <u>\$ 106</u> | <u>\$ 217</u> |

The accompanying notes are an integral part of these statements.

Goodwill Industries of Metropolitan Chicago, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016
(In thousands)

NOTE A - ORGANIZATION

Goodwill Industries of Metropolitan Chicago, Inc. (Goodwill - Chicago) is a non-stock, not-for-profit, diversified community service corporation which provides training, employment and supportive services for people with disabilities or disadvantages who seek greater independence. Disabilities or disadvantages include physical or intellectual disabilities, hearing impairment, skill limitations, criminal background, lack of education and job preparation, communication challenges, and other socio-economic disadvantages.

Goodwill - Chicago exists to provide social services, vocational training, employment opportunities, and supportive services for individuals who have disabilities or are disadvantaged, in order to enhance their employability, remove barriers, and facilitate their ability to live independently in the community.

In 2017, Goodwill Industries of Southeastern Wisconsin, Inc. (the Affiliate) provided support to Goodwill - Chicago by forgiving advances of \$631 related to 2017 operations. In 2016, the Affiliate provided support to Goodwill - Chicago by forgiving advances of \$1,066 related to 2016 operations. It is the intent of the Affiliate to, at a minimum, continue to provide the necessary financial support to Goodwill - Chicago through December 31, 2018.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies used by Goodwill - Chicago is as follows:

Financial Statement Presentation

The financial statements are prepared on the accrual basis of accounting.

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions as unrestricted or temporarily restricted, as follows:

Unrestricted net assets - Net assets and transactions which are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets and transactions which are subject to donor-imposed stipulations that will be met by the actions of Goodwill - Chicago and/or the passage of time. Goodwill - Chicago has \$- 0- and \$10 of net assets restricted by donors for specific programs at December 31, 2017 and 2016, respectively.

Contribution revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Restricted contributions whose purpose has been fulfilled and/or the stipulated time period has elapsed are reported as reclassifications between temporarily restricted and unrestricted net assets.

Contributions

All contributions are considered to be available for general operating purposes unless specifically restricted by the donor. Contributions, including unconditional promises to give, are recognized as revenue in the period

Goodwill Industries of Metropolitan Chicago, Inc.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016
(In thousands)

received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Government Contracts

Service contracts are received from various federal, state and local government agencies. These programs are considered exchange transactions and are therefore recorded as unrestricted revenue. Expenditures of government service contract funds are for the purposes specified by the funding source.

Revenue Recognition

Revenue from government contracts is recognized when allowable and reimbursable expenditures are incurred and upon meeting the legal or contractual requirements of the funding source.

Property and Equipment

Purchases of property and equipment are recorded at cost. Donated assets are capitalized at the estimated fair value when received. Goodwill - Chicago capitalizes all qualifying purchases over \$5. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years.

Advertising

Goodwill - Chicago expenses the cost of advertising as incurred. There was \$2 and \$-0- advertising expense for the years ended December 31, 2017 and 2016, respectively.

Cost Allocation

Expenses by function have been allocated between program services, management and general, and fundraising classifications on the basis of actual expenditures, time records and estimates made by management.

Income Taxes

Goodwill - Chicago has received a determination letter from the Internal Revenue Service (IRS) indicating that they are exempt from federal income taxes, except for taxes pertaining to unrelated business income, under Section 501(c)(3) of the Internal Revenue Code.

The Financial Accounting Standards Board (FASB) issued guidance related to the uncertainty of income tax positions, which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and requires additional disclosure. Goodwill - Chicago recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. Management determined that the guidance does not have a significant impact on the financial statements of Goodwill - Chicago for the years ended December 31, 2017 and 2016. Goodwill - Chicago has adopted a policy to record interest and penalties associated with uncertain tax positions as expenses. For the years ended December 31, 2017 and 2016, Goodwill - Chicago has recorded no expense related to interest and penalties. Tax years open under the federal

Goodwill Industries of Metropolitan Chicago, Inc.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016
(In thousands)

statute of limitations include 2014 through 2017. Tax years open under the state of Illinois statute include 2013 through 2017.

On December 22, 2017, tax reform legislation commonly known as the Tax Cuts and Jobs Act of 2017 (the Act) was passed; resulting in significant modifications to existing tax law. There were no material effects on the Organization's financial statements as a result of the Act. Management is evaluating the ongoing impact of the Act on the Goodwill - Chicago.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09) as a new Topic, Accounting Standards Codification (ASC) *Topic 606*. The amendments are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices and improve disclosure requirements. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU No. 2014-09 by one year. This ASU is effective for annual reporting periods beginning after December 15, 2017 and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The new guidance is effective for Goodwill - Chicago in 2018. Goodwill - Chicago is currently evaluating the impact the new guidance may have on the financial statements.

In March 2016, the FASB issued ASU No. 2016-02, *Leases*, as a new Topic, ASC 842. The objective of ASU No. 2016-02 is to increase transparency and comparability among organizations by reorganizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The new guidance is effective for Goodwill - Chicago in 2019. Goodwill - Chicago is currently evaluating the impact the new guidance may have on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, expenses and investment return, and cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2017, and shall be applied retrospectively. Early adoption is permitted. The new guidance is effective for Goodwill - Chicago in 2018. Goodwill - Chicago is currently evaluating the impact the new guidance may have on the financial statements.

Goodwill Industries of Metropolitan Chicago, Inc.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016
(In thousands)

NOTE C - ACCOUNTS RECEIVABLE

The majority of Goodwill - Chicago's accounts receivable are due from government agencies. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are due within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. Goodwill - Chicago determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, Goodwill - Chicago's previous loss history, the customer's current ability to pay its obligation to Goodwill - Chicago, and the condition of the general economy and the industry as a whole. Goodwill - Chicago writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. There was an allowance for uncollectible accounts of \$5 as of December 31, 2017 and 2016.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|--------------|--------------|
| Leasehold improvements | \$ 512 | \$ 512 |
| Equipment | <u>271</u> | <u>271</u> |
| | 783 | 783 |
| Less accumulated depreciation | <u>(781)</u> | <u>(759)</u> |
| Net property and equipment | \$ <u>2</u> | \$ <u>24</u> |

NOTE E - LEASES

Goodwill - Chicago leases office space under noncancelable operating leases which expire at various times through 2019. Lease expense was \$102 in both 2017 and 2016. Approximate future minimum payments under the noncancelable operating leases are as follows at December 31, 2017:

| | |
|------|--------------|
| 2018 | \$104 |
| 2019 | <u>107</u> |
| | <u>\$211</u> |

Goodwill Industries of Metropolitan Chicago, Inc.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016
(In thousands)

NOTE F - EMPLOYEE BENEFIT PLAN

Goodwill - Chicago participates in a defined contribution plan sponsored by the Affiliate, which covers substantially all of its full-time employees. The plan covers eligible employees who have completed one year of service, as defined in the plan, and have attained the age of 21. The IRS has determined that the plan is a qualified tax-exempt plan. Goodwill - Chicago contributes, on a monthly basis, 5% of the first \$25 of total eligible compensation and 8% of compensation thereafter to the plan. Participant contributions are not permitted under the plan agreement. Participants become 100% vested in Goodwill - Chicago's contributions after three years of vesting service, as defined in the plan. For the years ended December 31, 2017 and 2016, the Affiliate authorized contributions to the plan on behalf of Goodwill - Chicago of \$43 and \$44, respectively.

Goodwill - Chicago participates in a 403(b) plan sponsored by the Affiliate, which permits employees to defer a portion of their compensation, subject to annual IRS limitations. There were no employer contributions to the 403(b) plan for the years ended December 31, 2017 and 2016.

NOTE G - RELATED-PARTY TRANSACTIONS

Since its inception in 2002, the Affiliate has supported Goodwill - Chicago through non-interest-bearing advances. Beginning in 2010, Goodwill - Chicago guarantees the debt of the Affiliate, which totaled \$44,478 and \$47,031 at December 31, 2017 and 2016, respectively.

Goodwill - Chicago also has a management agreement with the Affiliate to provide various administrative services. Goodwill - Chicago paid \$148 and \$445 in management fees during the years ended December 31, 2017 and 2016, respectively.

Goodwill - Chicago had \$174 and \$291 due to the Affiliate related to these transactions and other various services as of December 31, 2017 and 2016, respectively.

Contributions include donations received from various Goodwill - Chicago directors and management staff members, which were approximately \$4 in both 2017 and 2016.

NOTE H - CONTINGENCIES

Government contracts are subject to audit and adjustment by funding agencies. If government revenue is recorded for expenditures which are subsequently disallowed, Goodwill - Chicago may be required to repay the questioned costs to the funding agency. Management of Goodwill - Chicago is not aware of any disallowed expenditures that would have a material adverse effect on its financial statements.

Goodwill - Chicago is involved in various legal proceedings, claims and administrative actions arising during the normal course of business. In the opinion of management, Goodwill - Chicago's liability, if any, under any pending litigation or administrative proceeding will not materially affect its financial condition.

Goodwill Industries of Metropolitan Chicago, Inc.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016
(In thousands)

NOTE I - CONCENTRATION OF FUNDING

For the years ended December 31, 2017 and 2016, approximately 58% and 65% of Goodwill - Chicago's revenue and support, exclusive of amounts from the Affiliate, was from government agencies, respectively. The obligation of the government agencies to purchase services from Goodwill - Chicago is contingent upon current state and federal grants and contracts continuing at their present levels. Should such funding sources be reduced, the government agencies reserve the right to terminate or reduce their purchase of services from Goodwill - Chicago.

NOTE J - SUBSEQUENT EVENTS

Goodwill - Chicago evaluated its December 31, 2017, financial statements for subsequent events through June 13, 2018, the date the financial statements were available to be issued. Goodwill - Chicago is not aware of any subsequent events which would require recognition or disclosure in the financial statements.