GOODWILL INDUSTRIES OF THE HEARTLAND
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2017

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Goodwill Industries of the Heartland and Subsidiary
Iowa City, Iowa

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Goodwill Industries of the Heartland and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Goodwill Industries of the Heartland and Subsidiary as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and activities and schedule of activities by functional area is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Goodwill Industries of the Heartland and Subsidiary's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated April 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
April 16, 2018

GOODWILL INDUSTRIES OF THE HEARTLAND AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 4,821,584	$ 4,261,935
Certificates of Deposit, Current Maturities	432,569	406,602
Accounts Receivable, Less Allowance for Doubtful Accounts of $557,346 in 2017 and $138,846 in 2016	1,443,944	1,821,992
Unconditional Promises to Give:		
Grants Receivable	255,845	293,456
Interest Receivable	1,205	1,636
Donated Goods Inventory	295,819	305,349
Prepaid Expenses	674,843	518,289
Total Current Assets	7,925,809	7,609,259
PROPERTY AND EQUIPMENT		
Land	3,623,997	3,623,997
Buildings	12,836,087	12,716,748
Improvements	2,143,787	2,091,378
Equipment	4,249,901	4,100,600
Total	22,853,772	22,532,723
Less: Accumulated Depreciation	(11,950,149)	(11,007,749)
Net Property and Equipment	10,903,623	11,524,974
OTHER ASSETS		
Investments	2,315,626	1,049,479
Beneficial Interest in Assets Held by Community Foundations	1,347,108	806,241
Certificates of Deposit, Long Term	98,622	221,342
Deferred Compensation Asset	107,096	84,331
Total Other Assets	3,868,452	2,161,393
Total Assets	$ 22,697,884	$ 21,295,626

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	2017	2016
CURRENT LIABILITIES		
Accounts Payable	$ 599,956	$ 817,885
Accrued Payroll	729,995	582,756
Payroll Taxes and Withholdings	300,760	310,986
Accrued Compensated Absences	869,361	888,046
Other Accrued Expenses	73,618	81,715
Deferred Revenue	-	30,000
Current Maturity of Obligation Under Capital Lease	25,855	25,130
Notes Payable, Current Maturities	386,184	376,736
Total Current Liabilities	2,985,729	3,113,254
LONG-TERM LIABILITIES		
Deferred Compensation Liability	107,096	84,331
Obligation Under Capital Lease, Less Current Maturity Above	56,299	86,263
Notes Payable, Net, Less Current Maturities Above	4,603,498	4,986,847
Total Long-Term Liabilities	4,766,893	5,157,441
Total Liabilities	7,752,622	8,270,695
NET ASSETS		
Unrestricted, Board Designated	10,811,076	8,849,060
Unrestricted, Undesignated	4,037,717	4,078,246
Total Unrestricted Net Assets	14,848,793	12,927,306
Temporarily Restricted	96,469	97,625
Total Net Assets	14,945,262	13,024,931
Total Liabilities and Net Assets	$ 22,697,884	$ 21,295,626

GOODWILL INDUSTRIES OF THE HEARTLAND AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	Unrestricted	Temporarily Restricted	Total 2017	Total 2016
SUPPORT AND REVENUE				
Public Support:				
Contributions	$ 97,292	$ 20,219	$ 117,511	$ 105,621
United Way	57,151	50,750	107,901	147,776
Change in Year-End Inventory Valuation	(16,044)	-	(16,044)	35,906
Total Public Support	138,399	70,969	209,368	289,303
Governmental Support:				
Grants	962,760	-	962,760	1,014,434
Supported Services Fees	7,434,375	-	7,434,375	7,313,592
Total Governmental Support	8,397,135	-	8,397,135	8,328,026
Sales of Donated Goods:				
Store Sales	22,167,198	-	22,167,198	21,414,403
Salvage Sales	1,998,842	-	1,998,842	1,865,861
Total Sales of Donated Goods	24,166,040	-	24,166,040	23,280,264
Other Revenue:				
Contracts with Businesses	2,422,047	-	2,422,047	2,219,119
Investment Income	99,428	-	99,428	41,061
Change in Beneficial Interest in Assets Held by Community Foundations	110,317	-	110,317	49,749
Easement Income	-	-	-	86,690
Miscellaneous	11,236	-	11,236	19,506
Gain on Disposal of Property and Equipment	8,694	-	8,694	-
Total Other Revenue	2,651,722	-	2,651,722	2,416,125
Net Assets Released from Restrictions:				
Satisfaction of Purpose and Time Restrictions	72,125	(72,125)	-	-
Total Support and Revenue	35,425,421	(1,156)	35,424,265	34,313,718
EXPENSES				
Program Services:				
Retail, Salvage, Solicitation, and Transportation	18,712,574	-	18,712,574	18,426,321
Contracts with Businesses	1,924,619	-	1,924,619	1,866,574
Client Training and Development	8,797,409	-	8,797,409	9,526,402
Heartland Enterprises	463,098	-	463,098	366,473
Total Program Services	29,897,700	-	29,897,700	30,185,770
Supporting Activities:				
Fundraising	59,322	-	59,322	64,971
Management and General	3,546,912	-	3,546,912	3,406,846
Total Supporting Activities	3,606,234	-	3,606,234	3,471,817
Total Expenses	33,503,934	-	33,503,934	33,657,587
CHANGE IN NET ASSETS	1,921,487	(1,156)	1,920,331	656,131
Net Assets - Beginning of Year	12,927,306	97,625	13,024,931	12,368,800
NET ASSETS - END OF YEAR	$ 14,848,793	$ 96,469	$ 14,945,262	$ 13,024,931

See accompanying Notes to Consolidated Financial Statements.

GOODWILL INDUSTRIES OF THE HEARTLAND AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

		Supporting Activities			Total Expenses	
	Program Services	Fundraising	Management and General	Total	2017	2016
EXPENSES						
Salaries	$ 17,963,361	$ -	$ 1,619,183	$ 1,619,183	$ 19,582,544	$ 19,500,072
Employee Benefits	2,818,110	-	18,159	18,159	2,836,269	2,937,649
Payroll Taxes	1,574,270	-	75,225	75,225	1,649,495	1,796,538
Total Salaries and Related Expenses	22,355,741	-	1,712,567	1,712,567	24,068,308	24,234,259
Professional Services	227,583	-	131,170	131,170	358,753	316,151
Supplies	766,999	1,407	74,394	75,801	842,800	1,033,527
Telephone	271,027	-	35,570	35,570	306,597	314,388
Postage and Shipping	200,322	-	9,687	9,687	210,009	203,216
Occupancy	3,710,247	-	556,540	556,540	4,266,787	4,250,701
Printing and Publications	310,699	57,915	17,338	75,253	385,952	374,995
Travel, Trucking, and Related Expenses	979,013	-	26,503	26,503	1,005,516	1,136,215
Membership Dues	12,150	-	171,378	171,378	183,528	181,017
Provision for Bad Debts	-	-	418,500	418,500	418,500	105,005
Miscellaneous	428,222	-	37,673	37,673	465,895	441,123
Total Other Expenses	6,906,262	59,322	1,478,753	1,538,075	8,444,337	8,356,338
Total Expenses Before Depreciation	29,262,003	59,322	3,191,320	3,250,642	32,512,645	32,590,597
Depreciation	635,697	-	355,592	355,592	991,289	1,066,990
Total Expenses	$ 29,897,700	$ 59,322	$ 3,546,912	$ 3,606,234	$ 33,503,934	$ 33,657,587

See accompanying Notes to Consolidated Financial Statements.

GOODWILL INDUSTRIES OF THE HEARTLAND AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 1,920,331	$ 656,131
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in Year-End Inventory Valuation	9,530	(33,395)
Gain on Disposal of Property and Equipment	(8,694)	-
Depreciation	991,289	1,066,990
Amortization of Bond Issuance Costs	3,242	3,242
Provision for Bad Debts	418,500	105,005
Reinvested Investment Earnings	(76,121)	(30,841)
Change in Beneficial Interest in Assets Held by Community Foundations	(110,317)	(49,749)
Effects of Changes in Operating Assets and Liabilities:		
Receivables	(2,410)	(968,954)
Prepaid Expenses	(156,554)	124,690
Accounts Payable	(244,412)	304,896
Accrued Expenses	110,231	(139,120)
Deferred Revenue	(30,000)	(56,690)
Net Cash Provided by Operating Activities	2,824,615	982,205
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(2,448,984)	(1,023,397)
Sales of Investments	1,260,711	-
Proceeds from Matured Certificates of Deposit	399,000	540,554
Purchases of Certificates of Deposit	(304,000)	(522,000)
Transfers to Community Foundations	(430,550)	-
Purchases of Property and Equipment	(343,455)	(482,986)
Proceeds from Sales of Property and Equipment	8,694	-
Net Cash Used by Investing Activities	(1,858,584)	(1,487,829)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Notes Payable	(377,143)	(365,970)
Principal Payments on Capital Lease	(29,239)	(18,296)
Net Cash Used by Financing Activities	(406,382)	(384,266)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	559,649	(889,890)
Cash and Cash Equivalents - Beginning of Year	4,261,935	5,151,825
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,821,584	$ 4,261,935
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 155,809	$ 170,173
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Noncash Purchases of Property and Equipment	$ 37,733	$ 140,939

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Background

Goodwill Industries of the Heartland (the Organization) was incorporated in November 1965 in the state of Iowa as a nonprofit entity. The mission of the Organization is to advance the social and economic well-being of people who experience barriers to independence. The Organization is committed to helping the people they serve improve their social and economic well-being and achieve independence. Those goals are achieved through programs and services tailored to the individual needs of each person. The Organization's fiscal year ends on December 31. Significant accounting policies followed by the Organization are presented below.

The Organization's revenue is generated from two primary sources with percentages of total annual revenue as follows: Store and Salvage Sales, 68%, and Supported Services Fees, 21%.

Heartland Enterprises (the Subsidiary) is a nonprofit corporation created to serve individuals with severe disabilities. The Subsidiary's service programs are designed to encourage and enhance the dignity, self-respect, and social and economic independence of persons served.

Principles of Consolidation

The accompanying consolidated financial statements include the amounts of the Organization and Subsidiary. Intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates in Preparing Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Net Assets

Net assets are based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Unrestricted Net Assets – Includes all net assets which are neither temporarily or permanently restricted. If the board of directors specifies a purpose where none has been stated by the original donor, such funds are classified as unrestricted board designated.

Temporarily Restricted Net Assets – Includes contributed net assets for which donor imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Permanently Restricted Net Assets – Includes contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Description of Programs

The Organization operates the following programs:

Retail, Salvage, Solicitation, and Transportation – Retail operations provide vocational training and employment to individuals facing barriers to independence and are a vital funding source that supports the mission through the processing and sale of materials donated by the public. The retail program operates 17 stores in southeast Iowa and Henry and Rock Island Counties, Illinois. Donated goods that do not meet quality standards for sale in a store contribute revenue for the mission as they are salvaged through a third-party vendor. Solicitation and transportation provides merchandise to the retail and contract programs.

Contracts with Businesses – This program supports the mission by providing a variety of vocational training opportunities both within the Organization and through businesses in the community. The programs offer vocational training, work skills development, and job placement for clients with disabilities and other barriers to employment.

Client Training and Development – This program advances the social and economic well-being of people who experience barriers to independence through a number of programs and services. The program offers a variety of vocational services; including work training, work experience, job placement, and postemployment support. Services also include life skills training, social and recreational opportunities, and assistance to individuals wishing to maintain their independence by offering support with everyday tasks.

Support and Revenue

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Amounts received which are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are recorded as receivables and as support when received. Conditional contributions are not recorded until all conditions have been satisfied, at which time they are recognized as support. Advances received on conditional contributions are recorded as refundable advances until all conditions have been satisfied.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue (Continued)

Fees received in advance of services performed are recorded as deferred revenue.

Bequests are recorded when the probate court declares the will valid and the amount is determinable.

The Organization receives contributions of donated services from unpaid volunteers. No amounts have been recognized in the consolidated statement of activities because the criteria for revenue recognition under financial accounting standards have not been satisfied.

Contributed property and equipment are recorded at estimated fair value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

The Organization accounts for grants as exchange transactions and recognizes grant revenue upon fulfillment of requirements detailed in the grant documents.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with an original maturity of three months or less as cash and cash equivalents.

Accounts Receivable

Accounts receivable are uncollateralized customer obligations which generally require payment within 30 days from the invoice date. Accounts receivable are stated at the invoice amount. Account balances with invoices over 90 days old are considered delinquent. Payments of accounts receivable are applied to the specific invoices identified on the customers remittance advice or, if unspecified, to the earliest unpaid invoices. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management reviews individual accounts receivable balances that exceed 90 days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts. In addition, a general valuation allowance is established based principally on historical experience.

Inventory

The Organization receives contributions of goods and materials (inventory) and processes these contributions as merchandise available for sale in its retail thrift stores. Financial accounting standards require that contributions received be recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received, and that they be measured at their fair value.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory (Continued)

The Organization believes that the inventory of contributed goods and materials does not possess an attribute that is easily measurable or verifiable with sufficient reliability to determine an inventory value at the time of donation. It is only through the value-added processes that prepare the donated inventory for sale that the donated inventory has value. Accordingly, contributed goods and materials inventory are valued at zero prior to being offered for sale.

The Organization considers the costs associated with bringing the donated inventory to sale (i.e., donation collection, transportation, sorting and pricing expenses) in its estimate of the fair value of inventory. The difference between year-end inventory valuations is shown on the statement of activities as a change in year-end inventory valuation.

Certificates of Deposit

Certificates of deposit consist of brokered and nonbrokered certificates of deposit. Brokered certificates are carried at fair value. Nonbrokered certificates are carried at cost plus accrued interest.

Property and Equipment

Property and equipment are stated at cost if purchased or at fair market value on the date received if donated. Major expenditures for improvements and those that substantially increase useful lives are capitalized. Maintenance, repairs, and minor renewals are expensed as paid. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income. The Organization follows the practice of capitalizing at cost, or at fair market value if donated, all expenditures for property and equipment in excess of $5,000 and a useful life greater than two years.

Depreciation is provided on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

Buildings	5 to 40 Years
Improvements	5 to 20 Years
Equipment	3 to 5 Years

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or change in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are carried at fair value with unrealized and realized gains and losses reported as an increase or decrease in unrestricted, temporarily restricted, or permanently restricted net assets based upon donor-imposed restrictions.

Investment income is reported in the consolidated statement of activities as unrestricted, temporarily restricted, or permanently restricted revenue based upon donor-imposed restrictions. Gains and investment income that are limited to specific uses by donor-imposed restrictions are reported in unrestricted net asset when the restrictions are met in the same reporting period as the gains and income are recognized.

Beneficial Interest in Assets Held by Community Foundations

Certain funds are held by community foundations in quasi-endowment funds for the benefit of the Organization. The transactions with the foundations are deemed to be reciprocal and, therefore, the value of the funds held by the foundations is recognized as an asset (beneficial interest in assets held by community foundations) by the Organization.

Deferred Compensation Asset

Deferred compensation asset are pooled separate accounts in a Section 457 Deferred Compensation Plan (Plan). All assets in the Plan, including investment earnings thereon, remain property of the Organization until paid in accordance with provisions of the Plan.

Advertising Costs

Advertising costs are expensed as incurred.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various program services and supporting activities. Expenses that can be identified with a specific program and supporting activity are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Sales Taxes

State sales tax is imposed on certain services billed to customers in Illinois. The Organization collects that sales tax from customers and remits the entire amount to the state. The Organization’s policy is to exclude the tax collected and remitted to the state from revenue and expenses.

Income Taxes

The Organization and Subsidiary are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and a similar section of Iowa income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes. The Internal Revenue Service has not determined that the Organization is a private foundation.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Organization and Subsidiary file information returns in the U.S. federal jurisdiction. They follow the accounting standard to evaluate uncertain tax positions and have determined that they were not required to record a liability related to uncertain tax positions.

NOTE 2 CONDITIONAL PROMISES TO GIVE

The following conditional promises to give have not been recognized as assets in the consolidated statement of financial position.

The Organization has been awarded various cost reimbursement grants totaling $864,300. The budget periods for the grants run throughout 2017. Grant funds are not recognized as revenue until the reimbursements become due. The remaining balance of available grant funds at December 31, 2017 is $462,054.

NOTE 3 INVESTMENTS

Investments consist of the following as of December 31, 2017:

Mutual Funds	$ 2,228,494
Money Market Funds	87,132
Total Investments	$ 2,315,626

NOTE 4 FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States of America establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Certificates of Deposit: Valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality, and type.

Mutual Funds: Securities listed on a national market or exchange and valued at the last sales price or if there is no sale and the market is still considered active, at the last transaction price before year-end.

Deferred Compensation Asset: Pooled separate accounts valued at the net asset value (NAV) of units as determined by the insurance company. NAV is a readily determined fair value and is the basis for current transactions.

Beneficial Interest in Assets Held by Community Foundations: Valued at the Organization's pro rata share of the community foundations' investment pools. The unobservable inputs are the underlying assets at the community foundations and follow their investment policies.

The following table presents assets measured at fair value by classification within the fair value hierarchy as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Certificates of Deposit	$ -	$ 523,685	$ -	$ 523,685
Mutual Funds:				
Equity	463,033	-	-	463,033
Fixed Income	1,765,461	-	-	1,765,461
Deferred Compensation Asset	-	107,096	-	107,096
Beneficial Interest in Assets Held by Community Foundations	-	-	1,347,108	1,347,108
Total	$ 2,228,494	$ 630,781	$ 1,347,108	$ 4,206,383

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs:

Balance - January 1, 2017	$	806,241
Additions		430,550
Change in Beneficial Interest in Assets held by Community Foundations		110,317
Balance - December 31, 2017	$	1,347,108

NOTE 5 BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATIONS

The Organization has contributed amounts to community foundations in order to establish quasi-endowment funds. These funds are administered by the foundations for the benefit of the Organization. Control over the investment or reinvestment of these funds is exercised exclusively by the foundations. A portion of the funds' earnings are made available for distribution to the Organization periodically. The balance of these funds at December 31, 2017 was $1,347,108. During the year ended December 31, 2017, the Organization received no distributions from these funds.

NOTE 6 ENDOWMENTS

The Organization's endowments consist of various funds established to support general operating needs of the Organization. Its endowments consist of board-designated quasi-endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide current income to fund the operations of the Organization as well as to enhance the future resources available to the Organization through long-term appreciation of assets. The endowment assets are invested in a manner that is intended to provide growth of principal and income. Currently, all of the endowment assets are being held and managed by various community foundations.

Spending Policy

Distributions, if any, are determined annually by the Organization's governing board.

NOTE 6 ENDOWMENTS (CONTINUED)

Strategies Employed for Achieving Objectives

The Organization primarily follows the investment strategy of the community foundations in which they are invested which rely on a total return strategy in which investment returns are achieved through capital appreciation and current yield (interest and dividends). This strategy targets a diversified asset allocation that emphasizes growth instruments and equity securities to achieve their long-term objectives within prudent risk constraints.

Changes in endowment net assets for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - Beginning of Year	$ 806,241	$ -	$ -	$ 806,241
Additions	410,550			410,550
Change in Beneficial Interest in Assets held by Community Foundations	110,098	-	-	110,098
Net Assets - End of Year	$ 1,326,889	$ -	$ -	$ 1,326,889

NOTE 7 DEBT

Lines of Credit

The Organization has a $1,000,000 revolving line of credit with Hills Bank and Trust. The line carries a fixed interest rate of 4.25% with a maturity date of August 2021. This line of credit is collateralized by a building. There were no amounts outstanding on the line at December 31, 2017. The Organization also has a revolving line of credit with Morgan Stanley. This line carries a variable interest rate. The maximum draw amount is set at 65% of the Organization's investment balance. There were no amounts outstanding on the line at December 31, 2017.

Notes Payable

Description	Amount
Revenue bond issued by Iowa Finance Authority, up to $10,000,000 payable to Hills Bank and Trust. Currently requiring monthly installments of $44,025, including fixed rate interest at 2.85% for 10 years at December 31, 2013, subsequently adjusted every six years up to a maximum rate of 3.90%. Final payment is due in December 2028. Note is secured by the Iowa City properties, Coralville building, and Bettendorf building.	$ 5,025,348
Less: Unamortized Debt Issuance Costs	(35,666)
Total, Net of Unamortized Debt Issuance Costs	4,989,682
Less: Current Portion	(386,184)
Long-Term Portion	$ 4,603,498

NOTE 7 DEBT (CONTINUED)

Future maturities of notes payable debt are as follows as of December 31, 2017:

Year Ending December 31,	Amount
2018	$ 386,184
2019	399,520
2020	410,881
2021	423,250
2022	435,643
Thereafter	2,969,870
Total	$ 5,025,348

NOTE 8 OBLIGATIONS UNDER CAPITAL LEASE

The Organization is leasing office equipment under a capitalized lease which expires in January, 2021. The lease requires a monthly payment of $2,322. The total cost of the lease equipment is $129,689 as of December 31, 2016. Accumulated depreciation at December 31, 2017 is $51,860. Amortization of the capital lease totaled $25,943 for the year ended December 31, 2017 and is included in depreciation expense.

Future minimum payments under this lease are as follows as of December 31, 2017:

Years Ending December 31,	Amount
2018	$ 27,861
2019	27,861
2020	27,861
2021	2,322
Total Minimum Lease Payments	85,905
Less: Amount Representing Interest	(3,751)
Present Value of Minimum Lease Payments	$ 82,154

NOTE 9 NATURE AND AMOUNTS OF NET ASSETS

Board-designated net assets are available for the following purposes as of December 31, 2017:

Capital Budget	$ 550,000
Endowment	1,326,889
Principal Needs	412,039
Property and Equipment	5,796,122
Strategic Initiatives	1,130,026
Strategic Reserve	1,185,600
Long-Term Reserve	410,400
Total	$ 10,811,076

NOTE 9 NATURE AND AMOUNTS OF NET ASSETS (CONTINUED)

Temporarily restricted net assets are available for the following periods and purposes as of December 31, 2017:

Future Periods	$	68,969
Employment Training		2,000
Property Enhanced by Iowa City Funding-for Subsequent Years Usage		25,500
Total	$	96,469

NOTE 10 ADVERTISING COSTS

Advertising costs for the year ended December 31, 2017 totaled $333,944.

NOTE 11 OBLIGATIONS UNDER OPERATING LEASES

At December 31, 2017, the Organization is leasing buildings from which operations are conducted in numerous locations in Iowa and Illinois. In addition, the Organization leases office equipment for administrative use.

The following is a summary of the minimum lease payments required under these agreements for:

Year Ending December 31,		Amount
2018	$	1,808,991
2019		1,447,548
2020		1,381,508
2021		1,173,733
2022		773,665
Thereafter		1,620,092
Total	$	8,205,537

Minimum lease payments exclude rentals under renewal options which, as of December 31, 2017, are not reasonably assured of being exercised. Also excluded are rentals under lease agreements with an original term of one year or less. Lease expense for the year ended December 31, 2017 totaled $2,611,759.

NOTE 12 RETIREMENT PLAN

The Organization has a defined contribution retirement plan as described in section 403(b) of the IRC. The Organization amended their plan in January 2017 reducing their contribution from 4% to 3% of eligible employee wages. In addition, the Organization will match employee contributions dollar for dollar up to 6% from 3% of an eligible employee's wages. Eligible employees have the potential to receive a maximum contribution from the Organization of 7% of eligible wages. To be eligible for employer contributions, employees must be 18 years old, have had one year of service, and worked at least 1,000 hours. Employer contributions are vested at 20% after two years of employment, with full vesting after six years of employment. The Organization's expense under this plan for the year ended December 31, 2017 was $575,408.

NOTE 13 COMMITMENTS AND CONTINGENCIES

The Organization has entered into an agreement to purchase case management software. Amounts outstanding under this agreement as of December 31, 2017 total $28,344.

The Organization is involved in various legal proceedings arising in the normal course of business. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Organization's consolidated financial statements.

NOTE 14 DISCLOSURES ABOUT CERTAIN CONCENTRATIONS

Cash Balances

The Organization participates in an Insured Cash Sweep (ICS) Deposit Placement Agreement with a local bank. The bank will transfer funds from the account at that bank to be placed in deposit accounts at other depository institutions that are insured by the Federal Deposit Insurance Corporation. As of December 31, 2017, the Organization has cash in the ICS account of $4,882,772.

Concentration of Credit

The Organization is subject to a certain degree of vulnerability due to concentrations of accounts receivable and revenue from major funding sources. Medicaid funding from the Iowa Department of Human Services and managed care organizations represented 18% of total revenue for the year ended December 31, 2017. Accounts receivable includes $1,295,338 of amounts owed from these funding sources as of December 31, 2017.

NOTE 15 PROPERTY LIEN

In consideration of grant funds and a 0% loan received from the city of Iowa City for property improvements at the Iowa City, Iowa training center, liens in the amount of $90,000 have been established in favor of the City as lien holder upon this property. Repayment of a pro-rated portion of the $90,000 is required if the Organization does not continue to provide employment assistance and services to low-income people at the property enhanced with the funding. The liens expire at various times through June 30, 2026.

NOTE 16 SELF INSURED HEALTH PLAN AND UNEMPLOYMENT PLAN

The Organization contracts with Wellmark Blue Cross Blue Shield (Wellmark) to provide health benefits to employees. In order to lower the participant's deductible and out-of-pocket maximum, the Organization implemented a split-funded medical expense reimbursement plan. The plan reimburses medical charges that are not reimbursed by Wellmark but are eligible and covered by the underlying Wellmark contract. The claims are processed by a third-party administrator.

In accordance with the IRC of Iowa, the Organization has elected to reimburse Iowa Workforce Development for benefits paid to former employees of the Organization. This election is in lieu of the Organization making deposits with State of Illinois and Iowa Workforce Development based on a predetermined contribution rate. Unemployment claims are processed for the Organization by a third-party administrator.

Claims incurred but not reported obligations for these plans at December 31, 2017, have been calculated based on claims submitted subsequent to year-end and an estimate based on plan history for unremitted claims. Accrued plan obligations at December 31, 2017 were $23,421 for the medical expense reimbursement plan, and $-0- for the unemployment plan. Management believes this accrual is adequate based on information currently known. However, claim payments based on actual claims ultimately filed could differ significantly from these estimates.

NOTE 17 RELATED PARTY TRANSACTIONS

The Organization remits payments to Goodwill Industries International, Inc. for services and expertise that support the Organization. For the year ended December 31, 2017, payments totaled $166,194.

NOTE 18 PRIOR YEAR SUMMARIZED INFORMATION

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a comparative presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2016, from which the summarized information is derived.

NOTE 19 SUBSEQUENT EVENTS

Subsequent to year-end, the Organization entered into a letter of intent to lease 63,000 square feet of commercial space in Coralville, Iowa, for a rental rate of $4.25 per square foot, per year, triple net.

NOTE 19 SUBSEQUENT EVENTS (CONTINUED)

Management evaluated subsequent events through April 16, 2018, the date the consolidated financial statements were available to be issued. Events or transactions occurring after December 31, 2017, but prior to April 16, 2018 that provided additional evidence about conditions that existed at December 31, 2017, have been recognized in the consolidated financial statements for the year ended December 31, 2017. Events or transactions that provided evidence about conditions that did not exist at December 31, 2017, but arose before the consolidated financial statements were available to be issued, have not been recognized in the consolidated financial statements for the year ended December 31, 2017.

GOODWILL INDUSTRIES OF THE HEARTLAND AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Goodwill Industries of the Heartland	Heartland Enterprises	Intercompany Eliminations	Consolidated Total
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$ 4,703,352	$ 118,232	$ -	$ 4,821,584
Certificates of Deposit, Current Maturities	432,569	-	-	432,569
Receivables:				
Accounts Receivable, Net	1,394,056	49,888	-	1,443,944
Due from Goodwill Industries of the Heartland	-	51,986	(51,986)	-
Unconditional Promises to Give:				
Grants Receivable	255,845	-	-	255,845
Interest Receivable	1,205	-	-	1,205
Donated Goods Inventory	295,819	-	-	295,819
Prepaid Expenses	674,843	-	-	674,843
Total Current Assets	7,757,689	220,106	(51,986)	7,925,809
PROPERTY AND EQUIPMENT				
Land	3,623,997	-	-	3,623,997
Buildings	12,836,087	-	-	12,836,087
Improvements	2,143,787	-	-	2,143,787
Equipment	4,249,901	-	-	4,249,901
Total	22,853,772	-	-	22,853,772
Less: Accumulated Depreciation	(11,950,149)			(11,950,149)
Net Property and Equipment	10,903,623	-	-	10,903,623
OTHER ASSETS				
Investments	2,315,626	-	-	2,315,626
Beneficial Interest in Assets Held by:				
Community Foundations	1,347,108	-	-	1,347,108
Certificates of Deposit, Long Term	98,622	-	-	98,622
Deferred Compensation Asset	107,096	-	-	107,096
Total Other Assets	3,868,452	-	-	3,868,452
Total Assets	$ 22,529,764	$ 220,106	$ (51,986)	$ 22,697,884

	Goodwill Industries of the Heartland	Heartland Enterprises	Intercompany Eliminations	Consolidated Total
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	$ 594,062	$ 5,894	$ -	$ 599,956
Due to Heartland Enterprises	51,986	-	(51,986)	-
Accrued Payroll	717,997	11,998	-	729,995
Payroll Taxes and Withholdings	295,724	5,036	-	300,760
Accrued Compensated Absences	863,285	6,076	-	869,361
Other Accrued Expenses	73,153	465	-	73,618
Current Maturity of Obligation Under Capital Lease	25,855	-	-	25,855
Notes Payable, Current Maturities	386,184	-	-	386,184
Total Current Liabilities	3,008,246	29,469	(51,986)	2,985,729
LONG-TERM LIABILITIES				
Deferred Compensation Liability	107,096	-	-	107,096
Obligation under Capital Lease, Less Current Maturity Above	56,299	-	-	56,299
Notes Payable, Net, Less Current Maturities Above	4,603,498	-	-	4,603,498
Total Long-Term Liabilities	4,766,893	-	-	4,766,893
Total Liabilities	7,775,139	29,469	(51,986)	7,752,622
NET ASSETS				
Unrestricted, Board Designated	10,811,076	-	-	10,811,076
Unrestricted, Undesignated	3,847,080	190,637	-	4,037,717
Total Unrestricted Net Assets	14,658,156	190,637	-	14,848,793
Temporarily Restricted	96,469	-	-	96,469
Total Net Assets	14,754,625	190,637	-	14,945,262
Total Liabilities and Net Assets	$ 22,529,764	$ 220,106	$ (51,986)	$ 22,697,884

GOODWILL INDUSTRIES OF THE HEARTLAND AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Goodwill Industries of the Heartland	Heartland Enterprises	Intercompany Eliminations	Consolidated Total
SUPPORT AND REVENUE				
Public Support:				
Contributions	$ 117,511	$ -	$ -	$ 117,511
United Way	107,901	-	-	107,901
Change in Year-End Inventory Valuation	(16,044)	-	-	(16,044)
Total Public Support	209,368	-	-	209,368
Governmental Support:				
Grants	962,760	-	-	962,760
Supported Services Fees	7,434,375	-	-	7,434,375
Total Governmental Support	8,397,135	-	-	8,397,135
Sales of Donated Goods:				
Store Sales	22,167,198	-	-	22,167,198
Salvage Sales	1,998,842	-	-	1,998,842
Total Sales of Donated Goods	24,166,040	-	-	24,166,040
Other Revenue:				
Contracts with Businesses	1,866,569	555,478	-	2,422,047
Investment Income	99,319	109	-	99,428
Change in Beneficial Interest in Assets Held by Community Foundations	110,317	-	-	110,317
Miscellaneous	64,036	-	(52,800)	11,236
Gain on Disposal of Property and Equipment	8,694	-	-	8,694
Total Other Revenue	2,148,935	555,587	(52,800)	2,651,722
Total Support and Revenue	34,921,478	555,587	(52,800)	35,424,265
EXPENSES				
Program Services:				
Retail, Salvage, Solicitation, and Transportation	18,712,574	-	-	18,712,574
Contracts with Businesses	1,924,619	-	-	1,924,619
Client Training and Development	8,797,409	-	-	8,797,409
Heartland Enterprises	-	515,898	(52,800)	463,098
Total Program Services	29,434,602	515,898	(52,800)	29,897,700
Supporting Activities:				
Fundraising	59,322	-	-	59,322
Management and General	3,546,912	-	-	3,546,912
Total Supporting Activities	3,606,234	-	-	3,606,234
Total Expenses	33,040,836	515,898	(52,800)	33,503,934
CHANGE IN NET ASSETS	1,880,642	39,689	-	1,920,331
Net Assets - Beginning of Year	12,873,983	150,948	-	13,024,931
NET ASSETS - END OF YEAR	$ 14,754,625	$ 190,637	$ -	$ 14,945,262

GOODWILL INDUSTRIES OF THE HEARTLAND AND SUBSIDIARY
SCHEDULE OF ACTIVITIES BY FUNCTIONAL AREA
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)
(SEE INDEPENDENT AUDITORS' REPORT)

	Program Services				
	Retail, Salvage, Solicitation, and Transportation	Contracts with Businesses	Client Training and Development	Heartland Enterprises	Total
SUPPORT AND REVENUE					
Public Support	$ (16,044)	$ -	$ 130,622	$ -	$ 114,578
Governmental Support	-	27,004	8,370,131	-	8,397,135
Sales of Donated Goods	24,166,040	-	-	-	24,166,040
Other Revenue	-	1,888,168	15,600	555,588	2,459,356
Total Support and Revenue	24,149,996	1,915,172	8,516,353	555,588	35,137,109
EXPENSES					
Salaries	9,891,556	1,503,727	6,237,341	330,737	17,963,361
Employee Benefits	1,652,075	132,480	1,017,826	15,729	2,818,110
Payroll Taxes	877,264	88,393	585,488	23,125	1,574,270
Total Salaries and Related Expenses	12,420,895	1,724,600	7,840,655	369,591	22,355,741
Professional Services	146,104	11,478	17,143	52,858	227,583
Supplies	617,175	83,316	49,983	16,525	766,999
Telephone	187,070	3,301	78,158	2,498	271,027
Postage and Shipping	199,867	-	455	-	200,322
Occupancy	3,413,996	39,088	244,925	12,238	3,710,247
Printing and Publications	306,353	250	4,096	-	310,699
Travel, Trucking, and Related Expenses	677,177	47,499	244,949	9,388	979,013
Membership Dues	-	225	11,925	-	12,150
Provision for (Recovery of) Bad Debts	-	-	-	-	-
Miscellaneous	307,814	-	120,408	-	428,222
Total Other Expenses	5,855,556	185,157	772,042	93,507	6,906,262
Total Expenses before Depreciation	18,276,451	1,909,757	8,612,697	463,098	29,262,003
Depreciation	436,123	14,862	184,712	-	635,697
Total Expenses	18,712,574	1,924,619	8,797,409	463,098	29,897,700
2017 CHANGE IN NET ASSETS	$ 5,437,422	$ (9,447)	$ (281,056)	$ 92,490	$ 5,239,409
2016 CHANGE IN NET ASSETS	$ 4,889,849	$ (109,242)	$ (1,050,600)	$ 95,358	$ 3,825,365

Supporting Activities				
			Consolidated Total	
Fundraising	Management and General	Total	2017	2016
$ 79,647	$ 15,143	$ 94,790	$ 209,368	$ 289,303
-	-	-	8,397,135	8,328,026
-	-	-	24,166,040	23,280,264
-	192,366	192,366	2,651,722	2,416,125
79,647	207,509	287,156	35,424,265	34,313,718
-	1,619,183	1,619,183	19,582,544	19,500,072
-	18,159	18,159	2,836,269	2,937,649
-	75,225	75,225	1,649,495	1,796,538
-	1,712,567	1,712,567	24,068,308	24,234,259
-	131,170	131,170	358,753	316,151
1,407	74,394	75,801	842,800	1,033,527
-	35,570	35,570	306,597	314,388
-	9,687	9,687	210,009	203,216
-	556,540	556,540	4,266,787	4,250,701
57,915	17,338	75,253	385,952	374,995
-	26,503	26,503	1,005,516	1,136,215
-	171,378	171,378	183,528	181,017
-	418,500	418,500	418,500	105,005
-	37,673	37,673	465,895	441,123
59,322	1,478,753	1,538,075	8,444,337	8,356,338
59,322	3,191,320	3,250,642	32,512,645	32,590,597
-	355,592	355,592	991,289	1,066,990
59,322	3,546,912	3,606,234	33,503,934	33,657,587
$ 20,325	$ (3,339,403)	$ (3,319,078)	$ 1,920,331	
$ 40,650	$ (3,209,884)	$ (3,169,234)		$ 656,131

CliftonLarsonAllen

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