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PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)

FINANCIAL STATEMENTS AND REGULATORY REPORTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Board of Directors
Goodwill Industries of Southern Nevada, Inc.
North Las Vegas, Nevada

We have audited the accompanying financial statements of the Goodwill Industries of Southern Nevada, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the notes to the financial statements.

An audit performed in accordance with applicable professional standards is a process designed to obtain reasonable assurance about whether the Organization's financial statements are free from material misstatement. This process 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 the Organization's preparation and fair presentation of the financial statements to enable the design of audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

Management's Responsibility for the Financial Statements. Management is responsible for the preparation and fair presentation of the 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.

Auditors' Responsibility. Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 the Organization as of December 31, 2017 and 2016, and its changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter regarding going concern. The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 11 to the financial statements, the Organization has experienced a decrease in net assets during the current year, has a net asset

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deficiency at year end, is not in compliance with its bond covenants, is delinquent on its bond payments, and has filed for relief under chapter 11 of the Bankruptcy Code. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 11. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*. In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Piercy Bowler Taylor & Kern

Las Vegas, Nevada
February 28, 2019

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

		2017		2016
ASSETS				
Current assets				
Cash	$	1,002,253	$	1,109,439
Accounts receivable		74,499		74,641
Contracts receivable		45,453		46,258
Pledges receivable				
Grants receivable		182,079		130,795
Inventory		2,945,823		7,583,770
Prepaid expenses and other		594,550		105,558
		4,844,657		9,050,461
Property and equipment, net of accumulated depreciation		19,476,698		20,826,695
Deposits		437,900		433,841
Restricted cash		1,048,645		1,447,306
	$	25,807,900	$	31,758,303
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$	261,860	$	1,545,824
Pre-filing liabilities subject to compromise		2,814,042		
Accrued expenses		3,472,645		3,678,484
Current portion of deferred gain on sale-leaseback		610,691		610,692
Current portion of long-term debt		806,779		806,514
		7,966,017		6,641,514
Long-term liabilities				
Deferred gain on sale-leaseback		2,086,532		2,697,224
Long-term debt		19,550,480		19,518,500
		29,603,029		28,857,238
Net assets				
Unrestricted		(3,892,765)		2,803,429
Temporarily restricted		97,636		97,636
		(3,795,129)		2,901,065
	$	25,807,900	$	31,758,303

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Changes in unrestricted net assets		
Revenues and gains		
Contributions	**$ 331,524**	$ 1,740,718
Grants	**1,029,503**	712,166
Goods contributed for sale	**28,754,581**	36,942,431
Sale of contributed goods	**33,342,597**	35,792,789
Less cost of goods sold	**(33,342,597)**	(35,792,789)
Sale of purchased goods	**67,089**	575,983
Less cost of goods sold	**(63,222)**	(356,535)
Vocational assistance programs	**530,577**	386,729
Amortization of deferred gain on sale-leaseback	**610,692**	610,692
Special events	**27,500**	108,513
Less direct benefit costs	**(1,233)**	(64,926)
Interest	**3,338**	9,278
Other	**70**	9,224
	31,290,419	40,674,273
Net assets released from restrictions	**483,562**	35,573
	31,773,981	40,709,846
Expenses		
Program services	**37,421,811**	37,282,736
Support services:		
Management and general	**920,238**	1,224,111
Fundraising	**542,612**	1,255,199
	38,884,661	39,762,046
Unallocated payments to affiliated organization	**165,137**	200,683
	39,049,798	39,962,729
Increase (decrease) in unrestricted net assets before reorganization items	**(7,275,817)**	747,117
Reorganization items:		
Gain from lease compromise activities	**1,130,954**	
Professional fees	**(551,331)**	
	579,623	
Increase (decrease) in unrestricted net assets	**(6,696,194)**	**747,117**
Changes in temporarily restricted net assets		
Contributions	**483,562**	
Net assets released from restrictions	**(483,562)**	(35,573)
Decrease in temporarily restricted net assets	**-**	(35,573)
Increase (decrease) in net assets	**(6,696,194)**	**711,544**
Net assets, beginning of year	**2,901,065**	2,189,521
Net assets (deficiency), end of year	**$ (3,795,129)**	$ 2,901,065

See notes to financial statements

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Program	Management and General	Fundraising	Total
2017				
Personnel:				
Salaries	**$ 19,236,528**	**$ 484,684**	**$ 285,791**	**$ 20,007,003**
Payroll taxes	**1,689,783**	**42,576**	**25,105**	**1,757,464**
Employee benefits	**528,966**	**13,328**	**7,857**	**550,151**
	21,455,277	**540,588**	**318,753**	**22,314,618**
Advertising	**377,966**	**9,523**	**5,615**	**393,104**
Equipment rental	**509,364**	**12,834**	**7,568**	**529,766**
Repairs and maintenance	**320,272**	**8,070**	**4,758**	**333,100**
Utilities	**917,601**	**23,120**	**13,633**	**954,354**
Insurance	**744,138**	**18,749**	**11,055**	**773,942**
Interest and debt related amortization	**1,168,762**	**29,448**	**17,364**	**1,215,574**
Meetings and conferences	**12,050**	**304**	**179**	**12,533**
Occupancy	**6,661,727**	**167,849**	**98,971**	**6,928,547**
Office	**648,968**	**16,351**	**9,642**	**674,961**
Client assistance	**181,645**	**-**	**-**	**181,645**
Postage and shipping	**525,106**	**13,231**	**7,801**	**546,138**
Printing and duplication	**71,732**	**1,807**	**1,066**	**74,605**
Professional fees	**125,528**	**3,163**	**1,865**	**130,556**
Property taxes	**172,538**	**4,347**	**2,563**	**179,448**
Security	**112,763**	**2,841**	**1,675**	**117,279**
Merchant fees	**717,021**	**-**	**-**	**717,021**
Supplies	**706,217**	**17,794**	**10,492**	**734,503**
Telecommunications	**240,805**	**6,067**	**3,578**	**250,450**
Travel	**24,895**	**627**	**370**	**25,892**
Mileage and other vehicle expense	**294,796**	**7,428**	**4,380**	**306,604**
Depreciation and equipment amortization	**1,432,640**	**36,097**	**21,284**	**1,490,021**
	$ 37,421,811	**$ 920,238**	**$ 542,612**	**$ 38,884,661**
2016				
Personnel:				
Salaries	$ 20,098,630	$ 676,252	$ 693,426	$ 21,468,308
Payroll taxes	1,620,255	54,516	55,901	1,730,672
Employee benefits	792,990	26,681	27,359	847,030
	22,511,875	757,449	776,686	24,046,010
Advertising	759,264	25,547	26,196	811,007
Equipment rental	368,675	12,405	12,720	393,800
Repairs and maintenance	347,475	11,691	11,988	371,154
Utilities	899,676	30,271	31,040	960,987
Insurance	753,269	25,345	25,989	804,603
Interest and debt related amortization	1,173,385	39,480	40,483	1,253,349
Meetings and conferences	49,892	1,679	1,721	53,292
Occupancy	5,519,331	185,707	190,423	5,895,461
Office	554,721	18,665	19,139	592,525
Client assistance	202,809			202,809
Postage and shipping	619,155	20,833	21,362	661,350
Printing and duplication	75,696	2,547	2,612	80,855
Professional fees	150,718	5,071	5,200	160,989
Property taxes	170,435	5,735	5,880	182,050
Security	138,236	4,651	4,769	147,656
Merchant fees	698,586			698,586
Supplies	734,762	24,722	25,350	784,834
Telecommunications	261,097	8,785	9,008	278,890
Travel	42,175	1,419	1,455	45,049
Mileage and other vehicle expense	296,607	9,980	10,233	316,820
Depreciation and equipment amortization	954,897	32,129	32,945	1,019,971
	$ 37,282,736	$ 1,224,111	$ 1,255,199	$ 39,762,046

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Increase (decrease) in net assets	$ (6,696,194)	$ 711,544
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization of property and equipment	1,490,021	1,019,972
Amortization of deferred gain on sale-leaseback	(610,692)	(610,692)
Reorganization items	551,331	
(Increase) decrease in operating assets:		
Accounts receivable	142	101,313
Contracts receivable	805	(12,542)
Pledges receivable	-	5,000
Grants receivable	(51,284)	42,569
Inventory	4,637,947	(1,151,158)
Prepaid expenses and other	(488,992)	24,484
Deposits	(4,059)	(14,808)
Increase (decrease) in operating liabilities		
Accounts payable	1,530,078	1,013,250
Accrued expenses	(205,839)	3,132
Net cash provided by (used in) operating activities before reorganization items	153,264	1,132,064
Operating cash flows from reorganization items:		
Professional fees	(551,331)	
Net cash provided by (used in) operating activities	(398,067)	1,132,064
Cash flows from investing activities		
Purchase of property and equipment	(140,024)	(14,062,959)
Cash flows from financing activities		
Proceeds from issuance of debt	-	11,975
Repayment of long-term debt	15,240	(779,583)
Bond issuance costs	17,005	17,005
Net cash provided by (used in) financing activities	32,245	(750,603)
Net decrease in cash	(505,846)	(13,681,498)
Cash, beginning of year	2,556,745	16,238,243
Cash, end of year	$ 2,050,899	$ 2,556,745
Unrestricted cash	$ 1,002,253	$ 1,109,439
Restricted cash	1,048,645	1,447,306
Total cash, end of year	$ 2,050,898	$ 2,556,745
Supplemental cash flow information		
Interest paid	$ 599,369	$ 7,984

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC. (Debtor in Possession)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. Nature of operations, concentrations, risks and uncertainties:

Activities. Goodwill Industries of Southern Nevada, Inc. (the Organization) is a not-for-profit corporation that solicits and collects donated materials, processes and resells them to the general public, and provides employment and training services to people with disabilities and other barriers to employment. 1.5% or less of the Organization's sales in both 2017 and 2016 came from what is termed "purchased" product, which totaled $67,089 and $575,983 during 2017 and 2016, respectively.

The Organization operates under, and has the use of, the Goodwill name as allowed under an in-substance franchise license agreement with Goodwill Industries International, Inc. (Note 12). The agreement requires payment of "dues" (which are in-substance royalties) based on sales and other specified factors. Such dues or royalty expense is designated as "unallocated payments to affiliated organization" in the statements of activities.

The Organization funds job training, employment placement services and other community programs by selling donated, "gently used" items through its retail, post-retail and e-commerce operations. Its nationally certified workforce development services target job seekers with disabilities and other barriers to employment. The Organization's largest workforce development program currently, Career Connections, specializes in increasing the employability of hard-to-place job seekers who face barriers to employment by giving them access to skills training opportunities, job search tools, career advice, one-on-one counseling, job leads and supportive services. The Organization's more traditional workforce development programs deliver vocational rehabilitation services, including assessment, training, job placement and job coaching, to clients with disabilities.

Concentrations, risks and uncertainties. The Organization operates exclusively in Southern Nevada and the near and long-term impact and duration of any significant negative changes in the Nevada economy on the Organization's future operating activities and cash flows cannot be predicted at this time, but might be substantial.

The Organization carries cash and cash equivalents on deposit with financial institutions in excess of federally-insured limits. The extent of a future loss, if any, as a result of uninsured deposits, is not subject to estimation at this time.

Tax-exempt status. The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). Therefore, contributions to the Organization qualify for the charitable contributions deduction to the extent provided by Section 170 of the IRC.

Because there are no known circumstances that would place the Organization's status as a tax-exempt organization in jeopardy, and because it does not engage in unrelated business income activities, no provision has been made for uncertain tax positions taken or to be taken. The Organization's tax returns for years prior to 2013 are generally considered to be no longer subject to examination by the Internal Revenue Service.

2. Petition for relief under Chapter 11:

On August 11, 2017, the Organization filed petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the District of Nevada. Under Chapter 11, certain claims against the Organization in existence before the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Organization continues operations as Debtor-in-Possession. These claims are reflected in the December 31, 2017, balance sheet as liabilities subject to compromise. Additional liabilities subject to compromise may have arisen after the filing date resulting from rejection of leases (Note 10) and other executory contracts and from the determination by the Court (or agreed to by parties in interest) of allowed claims for contingencies and other disputed amounts. Claims secured by the Organization's assets (secured claims) also are stayed, although the holders of such claims have the right to request the Court for relief from the stay. Secured claims are collateralized primarily by liens on the Organization's property and equipment.

The Organization received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including most employee wages. (See also Notes 11 and 12.)

3. Summary of significant accounting policies:

Basis of presentation. The accompanying financial statements have been presented on the going-concern basis (Note 11) in accordance with accounting principles generally accepted in the United States (GAAP) applicable to not-for-profit entities in Chapter 11 reorganization.

The Organization has elected not to adopt the option available under GAAP to measure any of its eligible financial instruments or other items at estimated fair value. Accordingly, the Organization continues to measure all of its assets and liabilities on the historical cost basis of accounting except as otherwise prescribed by GAAP and disclosed herein.

Accounts and contracts receivable. Receivables are carried at estimated net realizable value, are short-term, and non-interest bearing. In establishing an allowance for doubtful collection, if any, the Organization considers the customer's or contributor's apparent financial condition, payment history, the Organization's relationship with the customer or contributor, management's assessment of the relative strength of the Organization's legal position, the related cost of any proceedings, and general and local economic conditions. Receivables are deemed to be delinquent when payments are past due 30 days and written off when they are determined to be uncollectible based on an evaluation by management of facts and circumstances. The maximum losses that the Organization would incur if a customer or contributor failed to pay would be limited to the carrying value after any allowances provided.

Inventory. Inventory held for sale is comprised primarily of donated goods and some purchased products. Donated goods inventory is recorded at fair value as described below and new goods inventory is valued at the lower of cost or net realizable value using the first-in first-out (FIFO) method.

Purchased inventory is recorded at cost and is subject to adjustment to the estimated net realizable value, if lower, at year end. Donated goods inventory is valued at the expected sales price (fair value).

The Organization's method for valuing its donated goods inventory varies depending on the location and condition or quality of the donated items. Donated goods on the retail floor of its stores has been processed and pre-determined to be of retail quality. Goods in this category are aggregated by type and valued by multiplying item counts in each type by the average expected sales prices associated with the type. Item counts are determined by specific counts for higher priced items and by an estimation process for lower priced items. Estimated sales prices for each of the respective type of goods is based on the average price received for the specific type during the month of December of the then current year.

The Organization values donated goods in its e-commerce program at the expected sales price associated with each item. Donated goods in the Organization's clearance centers are valued by establishing product weights for the various types of goods multiplied by the average price per pound the Organization expects to receive for each type. The Organization values donated goods in its distribution centers and storage trailers at the prevailing salvage market value per pound for each type of goods.

The Organization's inventory valuation was $2,945,823 and $7,533,839 at December 31, 2017 and 2016, respectively. The $4,588,016 decline in valuation from December 31, 2016 to December 31, 2017 was attributable to two factors. Approximately $3,924,000 of the difference resulted from a more rigorous application of the Organization's item count method by new management during the inventory year-end count process employed at December 31, 2017. The second was the closure of four store locations during 2017, which reduced the quantity of goods available for retail sale by approximately $664,000.

Use of estimates. Timely preparation of financial statements in conformity with GAAP requires management to make estimates that affect reported amounts, some of which may require revision in future years.

Property and equipment. Property and equipment (Note 4) is stated at cost, or if donated, at the estimated fair value at the time it is received, based on level 2 or level 3 inputs, as defined by GAAP. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which for leasehold improvements is limited to the lease term, excluding contingent renewal option periods (Notes 4 and 9).

Revenue recognition. All contributions are recognized as support in the statement of activities in the period received, including bequests and unconditional pledges receivable, at their estimated net realizable value, discounted to present value if due in more than one year. Bequests are recognized at the time the Organization's right to them is established to the extent the value of the proceeds is subject to reasonable estimation.

Revenues from exchange transactions (Note 13), including substantially all current year grants (Note 7) and contracts, are recognized when earned. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the presence and nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction, except that donor restrictions met in the same period received are reported as unrestricted support. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions." Unless otherwise specified by the donors, contributions of long-lived assets are considered restricted only until the assets are placed into service at which time the assets are reclassified to unrestricted net assets.

Donated goods and services. Goods contributed for sale are recorded in revenue at expected selling prices. Accordingly, no acquisition costs are recognized for the sales of such goods.

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets, (b) require specialized skills, (c) are performed by people with those skills, and (d) would otherwise be purchased by the Organization. Contributions include donated services valued at $146,953 and $883,364 during 2017 and 2016, respectively.

Functional expenses. Certain costs and expenses have been allocated among the programs and support services benefited, based primarily upon estimates by management.

Advertising. The Organization uses advertising to promote its programs among the beneficiaries it serves. The costs of advertising are expensed as incurred.

Reclassification. Certain minor reclassifications to prior period amounts have been made to conform to the current period presentation.

Restricted cash. Restricted cash at December 31, 2017, consists of a bond reserve fund in the amount of $927,300 and donor restricted amounts of $121,345. Restricted cash at December 31, 2016, is the bond reserve fund of $1,447,306.

4. Property and equipment:

		2017	2016
Leasehold improvements	$	**1,051,812**	1,050,140
Office equipment, furniture and fixtures		**6,242,551**	6,384,458
Construction in progress			270,189
Land		**4,680,000**	4,680,000
Building		**12,796,456**	12,796,456
		24,770,819	25,181,243
Less accumulated depreciation and amortization		**(5,294,121)**	(4,354,548)
	$	**19,476,698**	20,826,695

5. Temporarily restricted net assets:

Net assets temporarily restricted for certain program activities were $97,636 at December 31, 2017 and 2016.

6. Related party transactions:

There were no board member contributions for 2017 or 2016. However, Board members occasionally provide legal and development services to the Organization. Fees charged for these services totaled $9,018 in 2016.

7. Federal grants:

The Organization receives substantially all of its federal grants as pass-throughs from *workforce* CONNECTIONS, which is Southern Nevada's Local Workforce Investment Board. Federal grant revenues for 2017 and 2016 were $1,009,113 and $680,435, respectively and nonfederal grant revenues were $20,389 and $31,732, respectively.

8. Deferred gain on sale-leaseback:

In 2007, the Organization entered into a sale-leaseback arrangement that was accounted for under the financing method as defined and required by GAAP since the Organization retained continuing involvement in the property in the form of an option to repurchase the property. In 2010, however, the repurchase option was removed from the lease agreement, by amendment, thereby resulting in a change to sale lease-back accounting. Accordingly, in 2010, the property and associated debt were removed and a net deferred gain of $7,582,760 was recorded, which is being amortized at the rate of $610,692 annually over the remaining life of the lease, scheduled to end in June 2022. At December 31, 2017 and 2016, the net deferred gain was $2,697,223 and $3,307,916, respectively.

9. Long-term debt:

Changes in long-term debt for the year ended December 31, 2017, were as follows:

	Beginning balance	Additions	Deductions	Ending balance	Current portion
Bonds	$ 21,365,000			$ 21,365,000	$ 795,000
Capital leases	31,294		$ (11,514)	19,780	11,779
Bond issuance costs	(749,719)	$ (9,398)	26,403	(732,714)	
Bond discount	(320,803)		11,084	(309,719)	
Total	$ 20,325,772	$ (9,398)	$ 25,973	$ 20,342,347	$ 806,779

Pursuant to a Limited Offering Memorandum (the LOM) dated November 13, 2015, and amended December 9, 2015, the Public Finance Authority of Madison, Wisconsin sold the Public Finance Authority Revenue Bonds (Goodwill Industries of Southern Nevada Project) Series 2015 (the Bonds) to an "accredited investor" or "Qualified Institutional Buyer." The proceeds from the Bonds were loaned to the Organization to finance the acquisition of retail and/or donation facilities located, or to be located, in Las Vegas, North Las Vegas or Henderson, Clark County, Nevada, to fund the bond reserve fund, to pay off the existing line of credit under customary terms and the term loan, and to pay certain issuance expenses of the Bonds.

The Bonds consist of Series A sold for $19,024,145 and Series B sold for $2,351,943, both net of original issue discount and issuance costs. Series A is tax-exempt with $8,975,000 at an interest rate 5.50%, and $10,760,000 at an interest rate of 5.75%. Series B is taxable with $2,410,000 at an interest rate 5.25%.

Financial covenants include "days cash on hand," "unrestricted financial reserve to debt ratio," "fixed charges coverage ratio," and limitations on borrowings, all of which were first effective as of and for the year ended December 31, 2016.

As of August 11, 2017 (the date of Chapter 11 filing), the Organization determined that it was not in compliance with the fixed charges coverage ratio and unrestricted financial resources to debt ratio. The Bonds are not considered in default as per the bond agreement as a result of the non-compliance and therefore, a reclassification of the debt balance to current liabilities is not required.

At December 31, 2017, future debt service requirements on the Bonds were as follows:

	Principal	Interest	Total
2018	$ 795,000	1,156,163	1,951,163
2019	1,165,000	1,112,325	2,277,325
2020	350,000	1,094,175	1,444,175
2021	370,000	1,074,925	1,444,925
2022	390,000	1,054,575	1,444,575
2023-2027	2,300,000	4,926,375	7,226,375
2028-2032	3,005,000	4,219,625	7,224,625
2032-2037	3,930,000	3,295,763	7,225,763
2038-2042	5,185,000	2,041,825	7,226,825
2043-2045	3,875,000	453,963	4,328,963
Totals	$21,365,000	$20,429,714	$41,794,714

The Organization is also obligated under capital equipment leases collateralized by equipment. These obligations are payable in monthly installments ending on January 1, 2020, including interest at 3.32 to 6.20%. Future debt service requirements at December 31, 2017, were as follows:

2018	$ 11,779
2019	7,162
2020	837
Total future minimum payments	19,778
Portion representing interest	(419)
Total future minimum payments	$ 19,359

10. Commitments:

Operating leases. The Organization has operating lease arrangements as lessee for several retail and donation locations, vehicles and office equipment expiring at various dates through 2035 (Note 13). The operating leases are collateralized by various non-leased assets, including inventory, certain chattels and personal property.

These leases contain provisions for annual adjustments to the base rent.

The effects of the Chapter 11 proceedings on the operating leases for non-residential real property, during 2017 and through the date of issuance of these financial statements, pursuant to orders by the Bankruptcy Court are summarized in the annotated table on the following two pages.

							Year-end Delinquent Rent*	
Lease Date	Landlord	Square Footage	Date Amended, Rejected or Assumed	Cure Amount	Terms	Year-end Deferred Rent	Subject to Compromise	Not Subject to Compromise
10/3/2011	Beltway Marketplace	20,280	1/5/2018	$ 72,785	A		$ 72,785	
11/22/2004	4820 West Craig LLC	9,000	11/3/2017	22,475	B	VACATED		$ 22,475
9/13/2006	SCP Tropicana, LLC	21,900	1/1/2018	120,405	C		120,405	
6/15/2007	Landmark Realty	74,380	10/27/2017	227,916	D		45,527	227,916
11/16/2011	Sahara Crossing	17,032	3/8/2018	21,619	E	$ 53,800	21,619	
2/8/2012	Longs Drug Stores	16,228	3/15/2018	17,159	F	140,002	17,159	
3/5/2012	Lucky Stores	500	2/8/2016			VACATED		
8/16/2012	MAPA Investments	16,000	1/5/2018	53,316	G	107,572	53,316	
9/24/2012	TBM Properties, LLC and Capital Commercial Holdings, LLC	24,000	1/19/2018	36,000	H		36,000	
3/20/2013	Brixton-Alto Rainbow, LLC	31,558	4/16/2018	13,649	I	114,525	13,649	
5/21/2013	Floyd's Construction	17,500	9/18/2017		J		32,000	
7/22/2013	Center Pointe	5,056	9/18/2017		K		16,668	
			2/28/2018	15,000	L		15,000	
2/19/2014	KTR LV Loan II	46,133	10/12/2018	43,081	M	121,531	39,052	
4/22/2014	GW HN, LLC	16,000	5/22/2018	39,200	N	344,552	39,200	
4/28/2014	BCP-Silverado Ranch & Bermuda, L.P.	17,160			O			
3/31/2015	Durango Arby Plaza	3,500			P		20,650	
4/3/2015	Boulevard Ventures, LLC	30,776	3/1/2018	61,770	Q	205,095	92,328	
9/30/2015	Beach City Nevada	3,528	7/18/2017		R		10,788	
2016	Active GW Holdings	17,200	8/28/2017		S			
7/10/2016	Derhake Capital, LLC	17,012	12/1/2017		T	1,000		
8/16/2016	Horizon Properties, LLC	4,802	8/30/2017	-	S	-	30,349	-
				$744,375		$1,088,077	$676,495	$250,391

*The status of year-end delinquent rent with regard to subject to compromise or not subject to compromise is as of December 31, 2017, and does not take into account events occurring after that date.

Explanation of terms is included on the next page.

A. Cure amount: Payable in 30 monthly installments of $2,426, beginning the earlier of 90 days after the effective date of the plan or August 1, 2018. Monthly minimum rent: 1/1/2018-12/31/2018, $33,304; less a $6,000 monthly tenant improvement credit ($27,304 net monthly); 1/1/2019-12/31/2020, $29,303; 1/1/2021-8/31/2024, $31,303; and 9/1/2024-8/1/2029, fair market rent not less than $33,303 nor greater than $38,298.

B. August 2017 partial monthly payment of $4,992 and payment from petition date (August 11, 2017) through vacation date of $17,485, payable in 8 monthly installments of $2,185, beginning on or before November 6, 2017.

C. Cure amount: Equal monthly installments of $6,689, beginning February 1, 2018, as a general unsecured claim. Monthly minimum rent: $23,000 for remaining term.

D. Monthly minimum rent: 8/1/2017–8/10/2017, $22,208 prepetition liability (general unsecured claim); 8/11/2017-8/31/2017, $23,319 (allowed administrative claim) payable in 8 equal monthly installments of $2,915, beginning November 6, 2017, and $23,319 prepetition liability (general unsecured claim); and November 2017 through June 2022, $71,800 per month revised rent (allowed administrative claim). The remainder of the post-September 2017 rent after the October installment ($204,597 allowed administrative claim) is payable in 18 equal monthly installments of $11,366, beginning November 6, 2017. Should the tenant exercise the early termination option, the entire remaining balance is due and payable.

E. Cure amount: Payable in 18 equal monthly installments of $1,201, beginning September 1, 2018.

F. Cure amount: Payable in 12 equal monthly installments of $1,430, beginning September 1, 2018.

G. Cure amount: Payable in 24 equal monthly installments of $2,221, beginning the earlier of 90 days after the effective date of the plan or August 1, 2018. Monthly minimum rent: 1/1/2018-12/31/2018, $23,252; 1/1/2019-12/31/2019, $24,752; and 1/1/2020 until end of the initial term of the lease, $26,252. In addition to monthly minimum rent, variable rent of 10% of the Organization’s gross sales at this location in excess of $160,000 per month.

H. Cure amount: Payable in equal monthly installments of $1,500, beginning March 1, 2018. Monthly minimum rent: November 2017 – July 2018, $22,800; August 2018 – January 2019, $25,200; February 2019 – August 2019, $28,800; and September 2019 – May 2023, $39,960.

I. Cure amount: Payable in 24 equal monthly installments, beginning the earlier of the effective date of the plan or June 1, 2018.

J. Minimum rent of $4,300 per month for 24 months (subject to mutual right to early termination with 90-day notice), beginning October 1, 2017, plus 15% of gross sales at the location in excess of $60,000 per month.

K. Converted to month-to-month at $7,484 per month, beginning October 1, 2017.

L. Cure amount: Payable $6,000 within 5 days of approval order, then $750 per month, beginning March 1, 2018. Monthly minimum rent: 2 years at $10,500 per month, beginning February 1, 2018. Variable rent of 15% of gross sales at the location in excess of $70,000 per month.

M. Expiration date, April 30, 2020. Cure Amount: Allowed general unsecured claim payable in 14 monthly installments of $3,077, beginning November 1, 2018.

N. Cure amount: Payable in 12 equal monthly installments of $3,267, beginning June 1, 2018. Monthly minimum rent: Months 1-60, $39,200; months 61-120, $41,160; months 121-180, $43,120; months 181-240, $45,276; first option term, $47,540; second option term, $49,917; third option term, $52,412.

O. These leases were cancelled and the property was purchased with bond proceeds.

P. This lease was rejected effective August 31, 2017, and the location was closed.

Q. Cure amount: Payment of $20,000 the earlier of June 15, 2018 or within 15 days of the effective date of the plan, with the balance due in 24 equal monthly installments of $1,740 on the first of the month following the month of initial payment.

R. Surrender notice to landlord.

S. Rejected as of August 31, 2017 and the location was closed.

T. Monthly minimum rent: Years 1-5, $16,000; years 6-10, $17,000; years 11-15, $18,000; plus 12% of gross sales in excess of $80,000 per month.

Subject to any additional effects of the final resolution of the Chapter 11 proceedings, aggregate minimal rental commitments on operating leases with remaining terms of one year or more at December 31, 2017, were as follows:

2018	$ 4,550,702
2019	4,820,577
2020	4,807,138
2021	4,634,588
2022	3,731,456
Thereafter	13,829,439

Total rent expense for all operating leases in 2017 and 2016, was $6,188,842 and $5,698,286, respectively.

11. Going concern

In addition to uncertainties inherent in the bankruptcy process, the principal conditions and events that might have raised substantial doubt about the Organizations ability to continue as a going concern are as follows:

- Failure to meet bond financial covenants
- Failure to pay bond principal and interest when due
- Recent significant deterioration of operating results and net assets

Bond financial covenants include “days cash on hand,” “unrestricted financial reserve to debt ratio,” “fixed charges coverage ratio,” and limitations on borrowings, all of which were effective as of and for the year ended December 31, 2016. As of December 31, 2016, the Organization determined that it was not in compliance with the “fixed charges coverage ratio,” a condition that had not been corrected as of the date of Chapter 11 filing.

Summarized historical operating results. During 2015, net assets increased by $2,112,257 leaving a net asset balance of $2,189,521 at December 31, 2015. For 2016, net assets increased by $711,544, $1,400,713 less than 2015, leaving a net asset balance of $2,901,065 at December 31, 2016. The year 2017, saw a $6,696,194 decrease in net assets, leaving a net asset balance of a negative $3,795,129 at December 31, 2017.

While revenue from goods contributed for sale increased by more than $4 million from 2015 to 2016, contributing to a total revenue increase of approximately $3.5 million, program services expenses increased $4.7 million, from $32.6 million to $37.3 million, primarily as a result of increases in payroll and related expenses ($2.8 million) and interest expense related to the bonds ($1.2 million).

For 2017, there was an $8.2 million decrease in revenue from goods contributed for sale.

Post balance sheet operations (not covered by auditors’ report). The Organization’s unaudited financial statements for the year ended December 31, 2018, indicate revenue from goods contributed for sale for 2018 of $32.6 million, an increase in net assets of $1.2 million (net of reorganization-related expenses of $1.7 million), and a year-end cash balance of $3.1 million, subject to any further significant effects of the ultimate settlement of the Chapter 11 proceedings, year-end adjustments, and future mandatory accounting changes, all subject to audit verification.

Management’s budget for 2019 reflects another estimated expected increase in net assets approximating $2.2 million, an estimated year-end cash balance of $4.1 million and revenue from goods contributed for sale for 2019 of $29 million. Management believes its 2019 budget, which has not been examined by the Organization’s independent auditors, to be reasonable and attainable.

The proposed plan of reorganization. A formal plan of reorganization was submitted to the Bankruptcy Court on January 11, 2019, which is summarized as follows:

- Substantially all unsecured pre-filing creditors would receive very minimal payment, if any, in the form of settlement for their claims,
- No payments, principal or interest, would be required on the Bonds until near the end of 2019,
- Unpaid interest on the Bonds for the period from the date of filing, August 11, 2017, through January 31, 2019, would be forgiven by the creditors.

If the plan of reorganization is confirmed in the form submitted and described above, which in the opinion of counsel is highly probable, and if management's expectation of substantial realization of the Organization's approved 2019 budget occurs, it is managements judgement that any substantial doubt that may have arisen about the Organization's ability to pay its obligations as they come due at least for one year following issuance of these financial statements has been effectively alleviated.

Among other effects, confirmation of the plan would effectively increase the net assets of the Organization at the end of 2017 by $3,454,279. $2,814,042 as a result of settlement of all unsecured pre-filing creditor claims, and $640,237 as a result of the reversal of accrued interest on the Bonds. This would reduce the net asset deficiency from $3,892,765 to $438,486.

12. Subsequent events:

Management has evaluated events subsequent to December 31, 2017, for possible recognition or disclosure in these financial statements through February 28, 2019, the date they were available to be issued. Except as discussed in Note 11 and as follows, no events were identified that require recognition or disclosure in the financial statements:

Pursuant to orders of the Court in connection with the Chapter 11 filing discussed in Notes 2 and 11, the Organization amended or rejected several operating leases of non-residential real estate, some of which actions occurred or were effective subsequent to December 31, 2017, the most significant of which are summarized below:

- The Organization rejected a vehicle lease with Penske Truck Leasing Co., L.P. Although the Court order authorizing the rejection of this lease was not signed until March 7, 2018, since the leased vehicles were surrendered to and accepted by the lessor on October 25, 2017, and because it was deemed highly likely at that time that the rejection petition would be approved, therefore, in accordance with GAAP, the transaction was accounted for as of the date of surrender of the vehicles. This action decreased rent expense by approximately $16,000 for the year ended December 31, 2017.

- Also by order of the Bankruptcy Court, on October 24, 2018, a contract with Core BTS, Inc. to provide monthly cloud storage, disaster recoveries and hybrid flash storage for the Organization's operating systems, and related services was rejected effective July 31, 2018. The contract with monthly charges of $2,807 was due to expire on January 5, 2019.

- On April 10, 2018, a capitalized equipment lease was rejected pursuant to Bankruptcy Court order. The unpaid principal balance due on this capital lease was $10,508 at December 31, 2017.

- Effective January 1, 2018, the Organization entered into an agreement with its international affiliate, Goodwill Industries International, Inc. (GII) for the settlement of delinquent membership dues for the period February 1, 2017, through December 31, 2017, totaling $152,185, which will be paid in 36 monthly installments of $4,227 beginning on April 1, 2018, and ending on March 31, 2021. As long as the payments are made as required by this agreement, no interest will be charged by GII on the delinquent amount. The Organization will reestablish monthly dues payments of $13,090 (subject to future adjustment) beginning January 1, 2018.

Other bankruptcy actions with immaterial financial impact occurred subsequent to year end.

13. Future accounting changes:

The FASB recently issued a new standard for not-for-profit organizations, which, when effective beginning in 2018 will require changes in presentation and disclosure that may be significant to the Organization's financial statements, including retroactive adjustments for earlier periods presented. Among the changes, additional information available about liquidity and the available resources will be required.

In addition, effective for its annual financial statements for 2020 and interim financial statements thereafter, management expects to adopt new accounting standards issued by the FASB that will require significant changes in accounting consisting primarily of recording most continuing operating leases as both assets and liabilities.

The effects on the Company's future financial statements of these changes and related retrospective adjustments have not yet been determined.

PIERCY BOWLER TAYLOR & KERN
Certified Public Accountants
Business Advisors

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Goodwill Industries of Southern Nevada, Inc.
North Las Vegas, Nevada

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Goodwill Industries of Southern Nevada, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the notes to the financial statements, and have issued our report thereon dated February 28, 2019.

Internal Control over Financial Reporting. In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017 - 001 through 2017 - 003 that we consider to be significant deficiencies.

Compliance and Other Matters. As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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The Organization's Responses to Findings. The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Piercy Bowler Taylor & Kern

Las Vegas, Nevada
February 28, 2019

SINGLE AUDIT
AND
ACCOMPANYING INFORMATION

PBTK
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Goodwill Industries of Southern Nevada, Inc.
North Las Vegas, Nevada

We have audited the compliance of the Goodwill Industries of Southern Nevada, Inc. (the Organization) with the types of compliance requirements described in the Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2017. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility. The Organization's management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility. Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Major Federal Program. In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2017.

Report on Internal Control Over Compliance. The Organization's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance. We have audited the financial statements of the Organization as of and for the year ended December 31, 2017, and have issued our report thereon dated February 28, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Piercy Bowler Taylor & Kern

Las Vegas, Nevada
February 28, 2019

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Federal Grantor/Pass-though Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
United States Department of Labor			
Passed through *workforce* CONNECTIONS			
WIOA Cluster *			
WIOA Adult with Disabilities - Adult	17.258	WC-16-GSN-AD-AW-00	$ 241,957
WIOA Adult with Disabilities - Dislocated Worker	17.260	WC-16-GSN-AD-AW-00	81,043
WIOA Youth with Disabilities - In School	17.259	WC-16-GSN-AS-YTH-00	93,356
WIOA Youth with Disabilities - Out of School	17.259	WC-16-GSN-AS-YTH-00	573,757
Total WIOA Cluster			990,113
Total Department of Labor			$ 990,113

* A "major" program

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 1. Reporting Entity

The accompanying schedule of expenditures of federal awards (the schedule) presents the activity of all federal financial assistance programs of Goodwill Industries of Southern Nevada, Inc. (the Organization). The schedule includes all expended federal financial assistance received directly from federal agencies and that passed through other entities.

Note 2. Summary of Significant Accounting Policies

The schedule includes the federal grant activity of the Organization presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The Organization uses the 10% de minimis indirect cost rate provided in §200.414 of the Uniform Guidance.

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2017

Section I - Summary of Auditors' Results

Financial Statements	
Type of auditors' report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	No
Significant deficiencies identified that are not considered to be material weaknesses	Yes
Noncompliance material to financial statements	No
Federal Awards	
Internal control over major programs	
Material weaknesses identified	No
Significant deficiencies identified that are not considered to be material weaknesses	None reported
Type of auditors' report issued on compliance for major programs	Unmodified
Audit findings required to be reported in accordance with 2 CFR 200.516(a)	No
Identification of major programs	
CFDA number	17.258, 17.259, 17.260
Name of federal program or cluster	WIOA Cluster
Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee	No

(Continued)

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*

2017 - 001

Criteria or specific requirement	The manager-prepared Daily Cash Tracking Report, which is used to record the physical cash counts for the registers, should trace to the register-generated Summary History Report. The same amount should be traced to the automatic generated point of sale (POS) report. The amount should then be traced to a QuickBooks journal entry. The bank deposit slip for that day should trace to the reviewed bank reconciliation.
Condition and context	Review and approval of daily store checkouts is not sufficiently documented. Among the items selected for testing, 1 packet was completely missing, 2 packets did not have deposit slips, 1 packet was missing the summary history report, 1 packet did not completely trace from the drawer summary history report to the daily tracking report, and 15 packets traced to bank statement reconciliations with no evidence of review. 6 of the 26 items tested were found without exception.
Effect	Improper recording and possible misappropriation of significant amounts of cash could occur without being discovered timely.
Cause	Policies and procedures for the proper handling of cash received are not consistently applied.
Recommendation	We recommend management more carefully monitor daily store checkouts for accurate completion and documentation.
Management's response	Management informed us that procedures have been improved to provide for the daily reconcilement of cash deposits as reported by the Organization's bank to the Organization's Point of Sale system reported cash receipts. Additionally, monitoring procedures have been put in place to ensure compliance with the Organization's policies and procedures regarding the accurate recording of cash receipts.

(Continued)

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards* (continued)

2017 - 002

Criteria or specific requirement	Production based pay, bonuses, salaries and hourly pay rates should be independently reviewed and and approved.
Condition and context	1 of the 8 payroll periods selected for testing did not include any indication of independent review and approval.
Effect	Significant errors in payroll amounts and classification may not be timely detected and corrected.
Cause	Policies and procedures requiring the independent review and approval of payrolls are not consistently applied.
Recommendation	We recommend providing for each payroll period a timely and properly documented independent review and approval of payroll to afford reasonable assurance of accuracy.
Management's response	Management informed us that the Organization requires that all payroll entries are reviewed as a key component of accurately recording the weekly payroll in the Organization's general ledger. Evidence of the review is indicated by the reviewer's initials appearing on the journal entry document.

(Continued)

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards* (continued)

2017 - 003

Criteria or specific requirement	Authority and responsibility for initiating and posting, reviewing and approving journal entries is clearly established, and restricted to prevent a concentration of incompatible functions.
Condition and context	We note that seven out of our twelve tested journal entires did not have signed evidence of a reviewer. The client's accounting software tracks which user created and posted each entry, therefore, signature of preparer is not necessary. In addition, we noted one instance where the support for an entry was not complete.
Effect	Journal entries may be posted to inappropriate accounts in incorrect amounts resulting in significant financial statement errors.
Cause	Policies and procedures requiring the independent review of all journal entries with appropriate documentation attached are not consitently applied.
Recommendation	We recommend that policies and procedures be adopted and implemented requiring each journal entry to be independently reviewed with such review documented by signature approval. In addition, we recommend that approved journal entries be retained in a binder with all supporting documentation attached.
Management's response	Management informed us that it requires that all journal entries are reviewed for accuracy and completeness. The Organization's Controller reviews all journal entries prepared by the accounting staff and the CFO reviews all journal entries prepared by the Controller. Evidence of review is indicated by signature or the initials of the reviewer. Management commits to carefully monitoring the month end close to ensure compliance with policy and procedure requirements.

(Continued)

Section III – Findings and questioned costs for federal awards, including audit findings required by 2 CFR 200.516(a)

None reported

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.

SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2016

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*

2016 - 001

Criteria or specific requirement	Journal entries are checked for accuracy and appropriate account classification by someone other than the initiator as evidenced by signature and date.
Condition and context	Journal entries were not reviewed and approved as evidenced by signature and date. Of the 12 journal entries tested, 5 did not bear evidence of review. Although certain monthly account reconciliations and financial statement monthly reviews are performed by management to reduce the risk of undetected material misstatement, the review procedures applied monthly to the financial statements do not appear to be sufficiently robust to identify misstatements that could be significant at year end. The risk of failing to identify misstatements was increased by the departure of the former controller and chief financial officer in December through February during the annual closing process.
Current status	This finding is repeated in the current year as 2017-003.
Reasons for this finding's recurrence	The recurrence resulted from a clerical oversight in which only one journal entry did not have complete supporting documentation.
Planned corrective action	See management's response at 2017-003.

(Continued)

Section III – Findings and questioned costs for federal awards, including audit findings required by 2 CFR 200.516(a)

None reported