

Consolidated Financial Statements, Supplemental Schedule of  
Expenditures of Federal Awards and Reports of  
Independent Certified Public Accountants

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**

June 30, 2016 and 2015

# MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.

## TABLE OF CONTENTS

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	<b>Page</b>
Report of Independent Certified Public Accountants	1 - 2
Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4 - 5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 20
Supplementary Information	
Schedule of Expenditures of Federal Awards	22
Note to Schedule of Expenditures of Federal Awards	23
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By Government Auditing Standards	24 - 25
Report of Independent Certified Public Accountants on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	26 - 27
Schedule of Findings and Questioned Costs	28 - 29



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors

**Morgan Memorial Goodwill Industries, Inc.**

### Report on the financial statements

We have audited the accompanying consolidated financial statements of Morgan Memorial Goodwill, Inc. (a nonprofit organization) and subsidiary (“Goodwill”), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

### Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 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 auditor’s 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 Goodwill’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 Goodwill’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 financial position of Morgan Memorial Goodwill, Inc. and Subsidiary as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Other matters

##### *Supplementary information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary 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 audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the 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 supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

#### **Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 16, 2016, on our consideration of Goodwill'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 the effectiveness of 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 Goodwill's internal control over financial reporting and compliance.

*Grant Thornton LLP*

Boston, Massachusetts

September 16, 2016

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Consolidated Statements of Financial Position**  
**As of June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,055,787	\$ 3,134,042
Accounts receivable	1,428,332	1,259,435
Inventory	629,042	592,751
Prepaid expenses	404,801	405,701
Total current assets	<u>6,517,962</u>	<u>5,391,929</u>
Land, buildings and equipment, net	<u>6,905,703</u>	<u>7,580,270</u>
Other assets		
Note receivable - MHIC Investment Fund	5,965,750	5,965,750
Investments	14,792,383	14,535,939
Beneficial interests in trusts and split interest agreements	4,806,296	5,293,258
Other noncurrent assets	1,050,894	942,368
Total other assets	<u>26,615,323</u>	<u>26,737,315</u>
Total assets	<u>\$ 40,038,988</u>	<u>\$ 39,709,514</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,024,485	\$ 659,355
Accrued payroll and employee benefits	1,103,305	923,640
Other current liabilities	939,696	679,877
Total current liabilities	<u>3,067,486</u>	<u>2,262,872</u>
Long-term liabilities		
Long-term debt	13,237,827	13,171,378
Other long-term liabilities	736,574	723,317
Total long-term liabilities	<u>13,974,401</u>	<u>13,894,695</u>
Total liabilities	<u>17,041,887</u>	<u>16,157,567</u>
Net assets		
Unrestricted	7,440,809	7,086,798
Unrestricted - Board designated	650,508	650,508
Total unrestricted	8,091,317	7,737,306
Temporarily restricted	5,052,972	5,467,782
Permanently restricted	9,852,812	10,346,859
Total net assets	<u>22,997,101</u>	<u>23,551,947</u>
Total liabilities and net assets	<u>\$ 40,038,988</u>	<u>\$ 39,709,514</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

# MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.

## Consolidated Statement of Activities

For the year ended June 30, 2016 (with summarized information for the year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
<b>OPERATING REVENUES AND OTHER SUPPORT</b>					
Retail sales	\$ 16,686,086	\$ -	\$ -	\$ 16,686,086	\$ 16,355,389
Contributions of donated goods	6,989,360	-	-	6,989,360	6,586,126
Fees and grants	4,847,956	-	-	4,847,956	4,583,612
Worksite revenue	2,884,767	-	-	2,884,767	2,792,674
Contributions and bequests	1,500,379	141,244	-	1,641,623	1,891,802
Interest and dividend income	583,716	-	-	583,716	671,599
Income appropriated under total return spending policy	545,000	-	-	545,000	545,000
Net assets released from purpose restrictions	443,135	(443,135)	-	-	-
Other revenue	14,579	-	-	14,579	85,735
Total operating revenues and other support	<u>34,494,978</u>	<u>(301,891)</u>	<u>-</u>	<u>34,193,087</u>	<u>33,511,937</u>
<b>OPERATING EXPENSES</b>					
Program services					
Retail enterprise					
Cost of goods sold - retail	6,953,069	-	-	6,953,069	6,560,577
Other retail	15,195,338	-	-	15,195,338	14,668,407
Total retail enterprise	22,148,407	-	-	22,148,407	21,228,984
Job training, career and youth services	7,292,755	-	-	7,292,755	7,286,302
Total program services	<u>29,441,162</u>	<u>-</u>	<u>-</u>	<u>29,441,162</u>	<u>28,515,286</u>
Support services					
Management and general	3,083,515	-	-	3,083,515	2,851,606
Fundraising	1,190,732	-	-	1,190,732	1,052,100
Total support services	4,274,247	-	-	4,274,247	3,903,706
Total operating expenses	<u>33,715,409</u>	<u>-</u>	<u>-</u>	<u>33,715,409</u>	<u>32,418,992</u>
Change in net assets from operating activities	<u>779,569</u>	<u>(301,891)</u>	<u>-</u>	<u>477,678</u>	<u>1,092,945</u>
<b>NON-OPERATING ACTIVITIES</b>					
Investment return, net of amounts appropriated under total return spending policy	(425,558)	(112,919)	-	(538,477)	160,441
Change in fair value of beneficial interests in trusts and split interest agreements	-	-	(494,047)	(494,047)	(126,049)
Change in net assets from non-operating activities	<u>(425,558)</u>	<u>(112,919)</u>	<u>(494,047)</u>	<u>(1,032,524)</u>	<u>34,392</u>
CHANGE IN NET ASSETS	354,011	(414,810)	(494,047)	(554,846)	1,127,337
Net assets - beginning of year	<u>7,737,306</u>	<u>5,467,782</u>	<u>10,346,859</u>	<u>23,551,947</u>	<u>22,424,610</u>
Net assets - end of year	<u>\$ 8,091,317</u>	<u>\$ 5,052,972</u>	<u>\$ 9,852,812</u>	<u>\$ 22,997,101</u>	<u>\$ 23,551,947</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Consolidated Statement of Activities**  
**For the year ended June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>
<b>OPERATING REVENUES AND OTHER SUPPORT</b>				
Retail sales	\$ 16,355,389	\$ -	\$ -	\$ 16,355,389
Contributions of donated goods	6,586,126	-	-	6,586,126
Fees and grants	4,583,612	-	-	4,583,612
Worksite revenue	2,792,674	-	-	2,792,674
Contributions and bequests	1,474,845	416,957	-	1,891,802
Interest and dividend income	671,599	-	-	671,599
Income appropriated under total return spending policy	545,000	-	-	545,000
Net assets released from purpose restrictions	402,080	(402,080)	-	-
Other revenue	<u>85,735</u>	<u>-</u>	<u>-</u>	<u>85,735</u>
Total operating revenues and other support	<u>33,497,060</u>	<u>14,877</u>	<u>-</u>	<u>33,511,937</u>
<b>OPERATING EXPENSES</b>				
Program services				
Retail enterprise				
Cost of goods sold - retail	6,560,577	-	-	6,560,577
Other retail	<u>14,668,407</u>	<u>-</u>	<u>-</u>	<u>14,668,407</u>
Total retail enterprise	21,228,984	-	-	21,228,984
Job training, career and youth services	<u>7,286,302</u>	<u>-</u>	<u>-</u>	<u>7,286,302</u>
Total program services	<u>28,515,286</u>	<u>-</u>	<u>-</u>	<u>28,515,286</u>
Support services				
Management and general	2,851,606	-	-	2,851,606
Fundraising	<u>1,052,100</u>	<u>-</u>	<u>-</u>	<u>1,052,100</u>
Total support services	<u>3,903,706</u>	<u>-</u>	<u>-</u>	<u>3,903,706</u>
Total operating expenses	<u>32,418,992</u>	<u>-</u>	<u>-</u>	<u>32,418,992</u>
Change in net assets from operating activities	<u>1,078,068</u>	<u>14,877</u>	<u>-</u>	<u>1,092,945</u>
<b>NON-OPERATING ACTIVITIES</b>				
Investment return, net of amounts appropriated under total return spending policy	1,348	159,093	-	160,441
Change in fair value of beneficial interests in trusts and split interest agreements	<u>-</u>	<u>-</u>	<u>(126,049)</u>	<u>(126,049)</u>
Change in net assets from non-operating activities	<u>1,348</u>	<u>159,093</u>	<u>(126,049)</u>	<u>34,392</u>
Change in net assets	1,079,416	173,970	(126,049)	1,127,337
Net assets - beginning of year	<u>6,657,890</u>	<u>5,293,812</u>	<u>10,472,908</u>	<u>22,424,610</u>
Net assets - end of year	<u>\$ 7,737,306</u>	<u>\$ 5,467,782</u>	<u>\$ 10,346,859</u>	<u>\$ 23,551,947</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Consolidated Statements of Cash Flows**  
**For the years ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (554,846)	\$ 1,127,337
Adjustments to reconcile change in net assets to net cash provided by operations		
Net realized and unrealized losses (gains) on investments	41,985	(640,970)
Change in fair value of beneficial interests in trusts and split interest agreements	494,047	118,454
Depreciation	911,580	968,487
Amortization of financing costs	66,449	66,449
Change in certain assets and liabilities		
Accounts receivable	(168,897)	(163,658)
Contributions receivable	-	92,233
Inventory	(36,291)	(25,549)
Prepaid expenses	900	(199,474)
Other assets	(108,526)	(116,874)
Accounts payable and accrued expenses	365,130	(12,921)
Accrued payroll and employee benefits	179,665	(73,526)
Other current liabilities	259,819	450,137
Other long-term liabilities	13,257	40,598
Net cash provided by operating activities	<u>1,464,272</u>	<u>1,630,723</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of land, building and equipment	(237,085)	(365,484)
Purchases of investments	(5,194,825)	(4,547,068)
Proceeds from sales of investments	<u>4,889,383</u>	<u>4,281,142</u>
Net cash used in investing activities	<u>(542,527)</u>	<u>(631,410)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of capital leases	<u>-</u>	<u>(6,661)</u>
Net change in cash and cash equivalents	921,745	992,652
Cash and cash equivalents, beginning of year	<u>3,134,042</u>	<u>2,141,390</u>
Cash and cash equivalents, end of year	<u>\$ 4,055,787</u>	<u>\$ 3,134,042</u>
<b>Supplemental disclosures:</b>		
Contributions of donated goods and purchased goods	\$ 6,989,360	\$ 6,586,126
Cost of sales	6,953,069	6,560,577
Non-cash changes to inventory	36,291	25,549
Cash paid for interest	284,409	284,426

*The accompanying notes are an integral part of these consolidated financial statements.*

# **MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**

## **Notes to Consolidated Financial Statements**

**June 30, 2016 and 2015**

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### **1. ORGANIZATION**

Morgan Memorial Goodwill Industries, Inc. (“Goodwill”) is a not-for-profit organization whose mission is to help individuals with barriers to self-sufficiency to achieve independence and dignity through work. “Not charity but a chance.” Goodwill’s job training and related programs help those considered hardest to employ to enter the workforce. Goodwill is the operator of a one-stop career center that serves job seekers and employers seeking job candidates. Goodwill runs a retail enterprise that collects and sells donated clothing and household goods and other social enterprises. The social enterprises provide worksite training opportunities for individuals in its programs. Goodwill also offers programming for youth. Goodwill is headquartered in Boston and operates in multiple locations in eastern and central Massachusetts. Goodwill is supported from various sources, including contributions and bequests (5%), contributions of donated goods and retail sales (70%), fees and grants (including federal, state and local governments) (14%), worksite revenue (8%), and other sources (3%).

Goodwill is the sole member of Goodwill Headquarters, Inc. (“GHI”), a Massachusetts not-for-profit organization, established to support and operate for the benefit of Goodwill. GHI’s specific role is to hold the land and building at Goodwill’s headquarters located at 1010 Harrison Avenue in Boston. The financial statements of GHI have been consolidated with the financial statements of Goodwill and all intercompany transactions have been eliminated in the consolidation.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

A summary of Goodwill’s significant accounting policies are as follows:

#### **Basis of Presentation**

The accompanying consolidated financial statements and notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

#### **Classification and Reporting of Net Assets**

Net assets are classified into three categories. These classifications relate to the existence or absence of donor-imposed stipulations as follows:

- Unrestricted net assets are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Certain amounts have been identified as Board designated and will be used in accordance with the Board of Directors’ stipulations.
- Temporarily restricted net assets are limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled by actions of Goodwill. Temporarily restricted net assets also include cumulative appreciation and reinvested gains on permanently restricted endowment funds, which are subject to appropriation by the Board of Directors in accordance with provisions of Massachusetts law.
- Permanently restricted net assets are limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled by actions of Goodwill.

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

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**Cash and Cash Equivalents**

All highly liquid debt instruments purchased with an original maturity of three months or less are considered to be cash equivalents, excluding amounts held in investments. Cash in bank deposit accounts may exceed federally insured limits. Goodwill has not experienced any losses in such accounts, and management believes cash in excess of insured limits is not at any significant risk of loss.

**Accounts Receivable**

Accounts receivable represent amounts due from state agencies as well as other organizations related to contracts, fees, and grants. Credit is extended on a short-term basis and accounts receivable do not bear interest. Accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Provisions for uncollectible accounts are determined on the basis of loss experience, known or inherent risks and current economic conditions.

Goodwill had three grantors that accounted for 43%, 16%, and 12% of accounts receivable at June 30, 2016 and three grantors that accounted for 31%, 19%, and 10% of accounts receivable at June 30, 2015, respectively

**Inventory and Contributions of Donated Goods**

Inventory consists of donated goods ready for sale and is valued at estimated fair value using the methodology provided by Goodwill Industries International, Inc. The methodology follows the retail method of accounting for inventory whereby ending inventory represents the present value of future cash flows, or the future selling price, reduced to a cost basis using the average margin on sales of goods. Prior to reaching the point of sale, donated inventory is valued at zero. Contributions of donated merchandise were valued at \$6,989,360 and \$6,586,126 for the years ended June 30, 2016 and 2015, respectively.

Processing donated merchandise requires program-related expenses before it reaches the point of sale. Such expenses include the cost of activities accomplished by people with barriers to self-sufficiency.

**Land, Buildings and Equipment**

Land, buildings and equipment are recorded at cost, except for contributed items, which are recorded at estimated fair value at the date of the contribution. Depreciation and amortization are calculated over the estimated useful lives of the assets on a straight-line basis as follows:

<u>Description</u>	<u>Years</u>
Land improvements	10-25
Buildings	40
Building improvements	5-40
Equipment	3-10
Leasehold improvements	Lesser of the term of the lease or estimated useful life

Expenditures for major improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

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**Investments**

Investments are stated at fair value and realized and unrealized gains and losses on investments are included in the Statement of Activities. Interest and dividends are reported as unrestricted income.

**Deferred Finance Costs**

Administrative, legal, insurance and other direct expenses relating to the issuance of long-term debt are capitalized and are included as a direct deduction of the outstanding debt liability in the Statements of Financial Position. Amortization of these costs is recognized over the term of the debt on a straight-line basis. The balance of deferred financing costs was \$99,673 and \$166,122 at June 30, 2016 and 2015, respectively. Amortization expense for the years ended June 30, 2016 and 2015 was \$66,449.

**Revenue Recognition**

Retail sales are recognized at the time of sale.

Fees, grants and worksite revenue are recognized as services are rendered or contractual commitments are met based on the terms of contracts with various government agencies and other organizations.

**Contributions**

Unconditional promises to give are reported at fair value at the date the promise is received. Conditional promises to give, and indications of intentions to give, are not reported until the gift is received or the conditional promise becomes unconditional. Contributions of assets other than cash are reported at estimated fair value. Contributions received with donor-imposed stipulations that limit their use are reported as either temporarily or permanently restricted, depending on the stipulations. Contributions to be received after one year are discounted at a rate reflecting the risk involved and the discount is amortized based on the expected receipt date of the gift.

When a donor-imposed stipulation is met by the passage of time or when expenses have been incurred to satisfy their restricted purpose, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. This applies to restricted contributions for which donor-imposed stipulations are met in the same fiscal year as they are received.

**Contributed Goods and In-Kind Services**

Contributions of goods are reported as unrestricted contributions, at the fair value of the goods. Many individuals volunteer their time and perform a variety of tasks that assist Goodwill in carrying out its programs and services. Goodwill received a significant amount of volunteer hours during the years ended June 30, 2016 and 2015. No value for these volunteer hours was recorded as the nature of these services did not create or enhance nonfinancial assets or require specialized skills which would have otherwise been purchased.

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Certain costs have been allocated among the program and support services based on relative effort expended.

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

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**Income Taxes**

Goodwill and GHI are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the “Code”), and are generally exempt from income taxes pursuant to Section 501(a) of the Code. Goodwill and GHI are required to assess uncertain tax positions and have determined that there were no such positions that are material to the financial statements.

**Non-operating Activities**

Non-operating activities include investment income, net of amounts appropriated under the total return spending policy, changes in the value of interest agreements and perpetual trusts, and other non-operating gains (losses).

**Use of Estimates**

In preparing financial statements in accordance with US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

**Reclassifications**

Certain amounts in the 2015 financial statements have been reclassified to conform to 2016 presentation. This reclassification relates to management’s early adoption of *ASU 2015-03: Simplifying the Presentation of Debt Issuance Costs*, whereby debt issuance costs are presented as a direct deduction of the debt liability in the Statement of Financial Position. The total amount reclassified in the prior year presentation was \$166,122. This reclassification had no impact on the previously reported change in net assets as reflected in the 2015 financial statements.

**3. LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land and land improvements	\$ 1,159,637	\$ 1,159,637
Buildings and building improvements	16,613,710	16,490,477
Leasehold improvements	1,794,163	1,794,163
Construction in progress	68,102	21,689
Equipment	<u>8,623,142</u>	<u>8,555,775</u>
	28,258,754	28,021,741
Less: accumulated depreciation	<u>21,353,051</u>	<u>20,441,471</u>
	<u>\$ 6,905,703</u>	<u>\$ 7,580,270</u>

Depreciation expense was \$911,580 and \$968,487 for the years ended June 30, 2016 and 2015, respectively.

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

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**4. INVESTMENTS**

Investments are reported at fair value and consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Marketable equity securities	\$ 8,539,838	\$ 8,497,289
Government and corporate bonds	5,722,824	5,619,061
Money market mutual fund	<u>529,721</u>	<u>419,589</u>
	<u>\$ 14,792,383</u>	<u>\$ 14,535,939</u>

Investment return consists of the following for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Interest/dividends - investments	\$ 207,217	\$ 214,129
Interest income - note receivable	164,609	163,946
Trust income	<u>211,890</u>	<u>293,524</u>
Interest and dividends - operating	583,716	671,599
Appropriated for operations	<u>545,000</u>	<u>545,000</u>
Investment return - operating	1,128,716	1,216,599
Reinvested interest/dividends - investments	130,380	143,576
Investment management fees	(81,842)	(79,105)
Realized and unrealized (losses) gains	(41,985)	640,970
Appropriated for operations	<u>(545,000)</u>	<u>(545,000)</u>
Investment return - non-operating	<u>(538,447)</u>	<u>160,441</u>
Total investment return	<u>\$ 590,269</u>	<u>\$ 1,377,040</u>

**5. BENEFICIAL INTERESTS IN TRUSTS AND SPLIT-INTEREST AGREEMENTS**

Goodwill has beneficial interests in perpetual trusts valued at \$4,486,583 and \$4,980,630 at June 30, 2016 and 2015, respectively. The principal is restricted in perpetuity. The net income generated by the investments is distributed to the beneficiaries, and is unrestricted income. Distributions from these trusts were \$211,890 and \$293,524 for the years ended June 30, 2016 and 2015, respectively. Decreases in the value of the trust assets (including unrealized losses), amounted to \$(494,047) and \$(126,049) for the years ended June 30, 2016 and 2015, respectively.

Goodwill has beneficial interests in charitable trusts valued at \$182,173 and \$171,088 at June 30, 2016 and 2015, respectively. Increases in the value of these trusts were \$7,085 and \$7,595 for the years ended June 30, 2016 and 2015, respectively.

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

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Charitable remainder trusts have been discounted at 5%.

**6. BORROWINGS**

Goodwill has available a revolving line of credit of \$2,500,000 with a bank which expires December 31, 2016. Borrowings are due on demand and interests accrues at a fluctuating per annum rate equal to the 30-day LIBOR rate as provided by the British Bankers' Association plus 200 basis points (2.46% at June 30, 2016). There was no balance outstanding at both June 30, 2016 and 2015. All deposit accounts with the bank and certain marketable securities are pledged as collateral for the revolving line of credit. There was no interest expense related to the line of credit for the years ended June 30, 2016 and June 30, 2015.

Effective March 15, 2016, Goodwill entered into a non-revolving line of credit facility with the same bank which matures on March 15, 2028. The facility allows for borrowings of up to the lesser of \$5,000,000, or 70% of the marketable securities which secure the borrowing. Borrowings are to be use for build-out for new retails stores or renovating existing retail stores. Advances under this agreement must occur by March 15, 2018. Borrowings accrue interest at a fluctuating per annum rate equal to the 30-day LIBOR rate as provided by the British Bankers' Association plus 200 basis points (2.46% at June 30, 2016). Payments are due commencing on the 1<sup>st</sup> day of each calendar month through and including March 1, 2018, interest on the unpaid principal then outstanding shall be paid in areas through the end of the preceding thirty day period; commencing on April 1, 2018 and thereafter on the first day of each succeeding calendar month up to the maturity date, interest on the unpaid principal then outstanding and principal shall be paid based on a ten year amortization schedule. The entire balance and principal and all accrued interest thereon, and all other fees, costs, and charges, if any, shall be due and payable on or before March 15, 2028. Borrowing are cross-collateralized with all deposit accounts with the bank and certain marketable securities as defined in the agreement. There were no outstanding borrowings under this agreement during fiscal 2016 or as of June 30, 2016.

**7. NEW MARKETS TAX CREDITS TRANSACTION**

During fiscal year 2011, Goodwill financed the renovation of its headquarters (the "Project"). This was accomplished through GHI (see Note 1), in which it is the sole member, and which entered into several debt transactions in order to fund the Project, including accessing the New Markets Tax Credit ("NMTC") program.

The Project received an allocation of New Markets Tax Credits from the Massachusetts Housing Investment Corporation ("MHIC"). MHIC created an investment fund (the "Fund") which was funded by a loan of \$4,200,000 from a financial institution, a loan of \$5,965,750 from Goodwill and an investment of NMTC equity from an investor ("Fund Investor"). The Fund invested in a Community Development Entity (CDE) controlled by MHIC ("MHIC CDE") which made loans to GHI on September 29, 2010 as follows:

Note 1	\$ 4,200,000
Note 2	5,965,750
Note 3	<u>3,171,750</u>
Total	<u>\$ 13,337,500</u>

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

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The loan amount above is reported net of debt issuance costs on the Consolidated Statements of Financial Position.

GHI used the borrowed funds to purchase and renovate the headquarters (land and building) from Goodwill. GHI and Goodwill entered into a lease for Goodwill to use the building with monthly rent payments beginning July 1, 2011.

Interest on the three loans is paid by GHI to the MHIC CDE monthly, at 2.1324% on all three notes. Note 1 matures on April 1, 2018 with interest only payments until maturity. Notes 2 and 3 both mature on October 1, 2040 with interest only payments through April 1, 2018 and principal and interest payments from May 1, 2018 to maturity. All three loans are secured by a mortgage on the headquarters and are guaranteed by Goodwill.

The note receivable and related interest receivable from the Fund to Goodwill are recorded as other assets. GHI has recorded long-term debt for the loan obligation owed to the MHIC CDE. Also, the Fund will pay Goodwill at an interest rate of 0.50% through April 1, 2018 and, commencing May 1, 2018, will pay current interest and then accrued interest and principal, in whole or in part, in the amount of any surplus cash with the entire balance of principal and all accrued interest due and payable on October 1, 2040.

Between September 28, 2017 and March 28, 2018, the Fund Investor has a right and option, but not an obligation, to require Goodwill to purchase all of the Fund Investor's interest in the Fund for a put exercise price of \$1,000. If the put is not exercised, then Goodwill has the option, during the period March 29, 2018 to September 28, 2018, to purchase the Fund Investor's interest in the Fund at an amount equal to the fair market value of the Fund Investor's interest in the Fund. Goodwill would record any gain associated with either option at the date it is exercised. The options do not represent embedded derivatives and, accordingly, have not been accounted for as derivative instruments in the consolidated financial statements.

Interest expense related to Notes 1, 2 and 3 for the years ended June 30, 2016 and 2015 was \$284,409. Interest income related to the note receivable from the Fund for the years ended June 30, 2016 and 2015 was \$164,608 and \$163,946, respectively.

**8. EMPLOYEE BENEFIT PLANS**

Goodwill maintains an employee benefit plan ("403(b) Plan") that provides for tax-deferred employee benefits under Section 403(b) of the Internal Revenue Code. The 403(b) Plan allows employees to make contributions, a portion of which may be matched by Goodwill. Goodwill contributed \$119,476 and \$123,333 to the 403(b) Plan for the years ended June 30, 2016 and 2015, respectively.

In fiscal 2016, Goodwill began offering an employee benefit plan ("401(a) Plan") that provides for tax-deferred employee benefits under Section 401(a) of the Internal Revenue Code. The 401(a) Plan allows participants to make contributions. There were no company contributions to this plan during fiscal 2016.

Goodwill also maintains a deferred compensation plan ("457(b) Plan") for key members of management. As of June 30, 2016 and 2015, the fair value of the assets and the related obligation of the 457(b) Plan were \$194,532 and \$178,211, respectively.

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

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**9. RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Gifts restricted to		
Youth services	\$ 3,130,194	\$ 3,329,876
Other program related purposes	615,069	715,257
Beneficial interest in charitable unitrusts	182,173	171,088
Cumulative appreciation and reinvestment gains on permanently restricted net assets	<u>1,125,536</u>	<u>1,251,561</u>
	<u>\$ 5,052,972</u>	<u>\$ 5,467,782</u>

Permanently restricted net assets are composed of gifts to be held in perpetuity and consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Permanently restricted, income unrestricted	\$ 3,168,295	\$ 3,168,295
Permanently restricted, income restricted for various purposes	2,197,934	2,197,934
Beneficial interests in perpetual trusts	<u>4,486,583</u>	<u>4,980,630</u>
	<u>\$ 9,852,812</u>	<u>\$ 10,346,859</u>

**10. ENDOWMENTS AND ENDOWMENT ACTIVITY**

**Interpretation of Relevant Law**

Goodwill manages its endowment consistent with the Massachusetts Act, the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). Goodwill’s policy is to preserve the value of the original gifts as of the gift dates and classify the gifts as permanently restricted net assets (see Note 10). The remaining portion of the endowment is regarded as net appreciation and is classified as temporarily restricted net assets which may be appropriated for expenditure consistent with donor-restrictions and Goodwill’s Total Return Spending Policy.

**Endowment Income**

For some funds within Goodwill’s Endowment funds, there are donor imposed stipulations on income.

**Endowment Investment Policy**

Goodwill has pooled the endowment assets under its management with other funds in a single investment pool and has adopted a uniform investment approach.

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

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**Strategies Employed for Achieving Objectives**

Under Goodwill's Investment Policy and Total Return Spending Policy, both of which are approved by the Board of Directors, the investment pool is invested to preserve the long-term purchasing power of Goodwill's assets relative to inflation and to provide a reasonable, predictable and stable revenue stream to support Goodwill's mission. Actual returns in any given year may vary. Goodwill relies on a total return approach in which investment returns are achieved through both capital appreciation and interest and dividends. Goodwill has assigned the management and investment of the investment pool to an investment manager appointed by the Board of Directors based on the recommendation of the Board Investment Committee and subject to the Investment Policy. The Board of Directors provides periodic oversight of the actions of the investment manager through the Investment Committee.

**Spending Policy**

Goodwill has a total return spending policy designed to preserve the long-term purchasing power of assets relative to inflation, to provide a reasonable and predictable revenue stream to support Goodwill's mission, and to allow flexibility relative to extraordinary projects and one-time initiatives. The Board-approved spending formula provides for an annual spending rate of up to 5% of the average simple market value balance of the investment assets (including non-endowment unrestricted investments) for the 20 quarters up to the quarter ending March 31 of the preceding fiscal year, in addition to interest and dividends earned during the fiscal year. The total amount appropriated under the total return spending policy (including appropriations from unrestricted investments) was \$545,000 for the years ended June 30, 2016 and 2015, respectively, which was not withdrawn from the investment portfolio. During the year ended June 30, 2016, Goodwill applied \$221,488 and \$323,512 of the total return spending policy against temporarily restricted net assets and unrestricted net assets, respectively. Total interest and dividends earned and withdrawn was \$0 for the years ended June 30, 2016 and 2015.

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their "historic dollar value." Deficiencies of this nature are reported as a charge to unrestricted net assets and a corresponding increase to temporarily restricted net assets. As of June 30, 2016 and 2015, Goodwill had no funds with deficiencies.

**Endowment Fund Activity and Net Asset Balances**

As a component of its temporarily and permanently restricted net assets, Goodwill has an endowment comprised of donor-restricted funds that are limited by donor-imposed stipulations. Beneficial interests in perpetual trusts are not included in the endowment.

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

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Endowment fund activity for the fiscal year ended June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,251,561	\$ 5,366,229	\$ 6,617,790
Investment return				
Net appreciation	-	128,359	-	128,359
Interest and dividends	-	(32,896)	-	(32,896)
Total investment return	-	95,463	-	95,463
Appropriation of endowment assets for operations (pending policy)	-	(221,488)	-	(221,488)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,125,536</u>	<u>\$ 5,366,229</u>	<u>\$ 6,491,765</u>

Endowment fund activity for the fiscal year ended June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,106,549	\$ 5,366,229	\$ 6,472,778
Investment return				
Net appreciation	-	222,925	-	222,925
Interest and dividends	-	143,575	-	143,575
Total investment return	-	366,500	-	366,500
Appropriation of endowment assets for operations (pending policy)	-	(221,488)	-	(221,488)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,251,561</u>	<u>\$ 5,366,229</u>	<u>\$ 6,617,790</u>

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

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**11. LEASE COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

Goodwill has non-cancelable operating leases for retail and training facilities and equipment expiring at various dates through June 2021. Minimum annual rental commitments under these agreements are as follows as of June 30, 2016:

<b>Year Ending June 30,</b>	
2017	\$ 1,978,769
2018	1,771,611
2019	1,405,082
2020	626,922
2021	<u>460,978</u>
	<u>\$ 6,243,362</u>

Under the terms of certain leases, Goodwill pays for insurance, ordinary repairs and maintenance, heat and real estate taxes. Leases with fixed escalation clauses are accounted for on a straight line basis over the term of the lease. The difference between lease expense and cash payments is recorded as deferred rent in other long-term liabilities. Total deferred rent amounted to \$308,246 and \$348,003 at June 30, 2016 and 2015, respectively. Rent and lease expenses were \$2,072,604 and \$2,151,103 for the years ended June 30, 2016 and 2015, respectively.

**Contingencies**

In the normal course of business and from time to time, Goodwill is the subject of various claims. Management believes that the ultimate resolution of any such claims would not have a material adverse effect on the financial statements of Goodwill.

**12. RELATED PARTY TRANSACTIONS**

The Board of Directors has established a disclosure of interest policy, which applies to all members of the board and non-member directors of board committees. All related party transactions are subject to that policy.

One current director is an officer of one of Goodwill's benefit providers that received premiums totaling \$87,147 and \$90,726 for dental insurance for the years ended June 30, 2016 and 2015, respectively. Another current director is a member of the Board of Directors of two different non-profit associations that provided human resources consulting and workshop training services for dues and fees totaling \$24,499 and \$10,272 for the years ended June 30, 2016 and 2015, respectively.

Each of these transactions was undertaken in the ordinary course of business on the same terms as are generally offered to the public.

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

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**13. FAIR VALUE MEASUREMENTS**

ASC 820, Fair Value Measurements and Disclosures, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. Goodwill classifies its assets and liabilities into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy.

Level 1 - Quoted Prices in Active Markets: Investments such as actively traded equity securities, U.S. government obligations and money market funds with quoted market prices in active markets are classified as Level 1.

Level 2 - Significant Other Observable Inputs: Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flow models.

Level 3 - Significant Unobservable Inputs: Beneficial Interest in Perpetual Trusts is classified as Level 3 because Goodwill's share in the trusts does not have an active market. Goodwill estimates the recurring fair value of the trusts based on Goodwill's share of the underlying investment portfolios that consist primarily of actively traded equities, bonds and money market funds. The trusts are managed by financial institutions and investment managers who provide detailed statements on a regular basis presenting the market value of the portfolio on an individual investment security basis.

Beneficial Interest in charitable trusts is classified as Level 3 because Goodwill's share in these agreements does not have an active market. Goodwill estimates the recurring fair value based on Goodwill's share of the underlying investment portfolio that consists of actively traded equities, bonds and money market funds.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Goodwill believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date and that difference may be material to Goodwill's financial statements.

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

Goodwill's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2016 and June 30, 2015, by level within the fair value hierarchy, are presented in the table below. Financial assets measured at fair value on a non-recurring basis, such as contributions receivable and gift annuities, are excluded from the table.

<b>Description</b>	<b>As of June 30, 2016</b>		
	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Marketable equity securities	\$ 8,539,838	\$ -	\$ -
Fixed income-government bonds	418,163	-	-
Fixed income-corporate bonds	-	5,304,661	-
Money market mutual funds	529,721	-	-
Beneficial interest in perpetual trusts	-	-	4,486,583
Charitable trusts	-	-	319,712
<b>Total</b>	<b>\$ 9,487,722</b>	<b>\$ 5,304,661</b>	<b>\$ 4,806,295</b>

<b>Description</b>	<b>As of June 30, 2015</b>		
	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Marketable equity securities	\$ 8,497,289	\$ -	\$ -
Fixed income-government bonds	973,423	-	-
Fixed income-corporate bonds	-	4,645,638	-
Money market mutual funds	419,589	-	-
Beneficial interest in perpetual trusts	-	-	4,980,630
Charitable trusts	-	-	312,628
<b>Total</b>	<b>\$ 9,890,301</b>	<b>\$ 4,645,638</b>	<b>\$ 5,293,258</b>

The following is a summary of the change in the fair value of assets measured at fair value on a recurring basis using significant unobservable inputs for the year ended June 30, 2016:

	<b>Charitable Trusts</b>	<b>Perpetual Trusts</b>	<b>Total</b>
<b>Beginning balance</b>	\$ 312,628	\$ 4,980,630	\$ 5,293,258
Total gains included in changes in net assets	7,084	(494,047)	(486,963)
<b>Ending balance</b>	<b>\$ 319,712</b>	<b>\$ 4,486,583</b>	<b>\$ 4,806,295</b>

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

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The following is a summary of the change in the fair value of assets measured at fair value on a recurring basis using significant unobservable inputs for the year ended June 30, 2015:

	<u>Charitable Trusts</u>	<u>Perpetual Trusts</u>	<u>Total</u>
<b>Beginning balance</b>	\$ 305,033	\$ 5,106,679	\$ 5,411,712
Total gains included in changes in net assets	<u>7,595</u>	<u>(126,049)</u>	<u>(118,454)</u>
<b>Ending balance</b>	<u>\$ 312,628</u>	<u>\$ 4,980,630</u>	<u>\$ 5,293,258</u>

**14. SUBSEQUENT EVENTS**

Goodwill has evaluated all subsequent events through September 16, 2016, the date that the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2016**

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Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Labor:</b>			
Passed-through Boston Private Industry Council WIA/WIOA Dislocated Worker Formula Grants	17.278		\$ 25,500
Passed-through EDIC - WIA Adult Program			
WIA/WIOA Adult Program	17.258	121-470-116	219,151
WIA/WIOA Dislocated Worker Formula Grants	17.278	123-470-116	201,159
Unemployment Insurance	17.225	116-470-116	91,106
Employment Service/Wagner-Peyser Funded Activities	17.207	115-470-116	<u>257,167</u>
Total U.S. Department of Labor			794,083
<b>U.S. Department of Education:</b>			
Passed-through the Commonwealth of Massachusetts - Rehabilitation Commission			
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	MRC- CIES- NORTH	42,659
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	MRC- CIES- SOUTH	51,247
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	MRC - CIES-SES	<u>11,595</u>
Total U.S. Department of Education			<u>105,501</u>
<b>U.S. Department of Justice:</b>			
Passed-through EDIC - WIA Adult Program Juvenile Mentoring Program	16.726		<u>22,294</u>
Total U.S. Department of Justice			<u>22,294</u>
Total Schedule of Expenditures of Federal Awards			<u>\$ 921,878</u>

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Note to Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2016**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Morgan Memorial Goodwill Industries, Inc. (“Goodwill”) under programs of the federal government for the year ended June 30, 2016. 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 (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Goodwill, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Goodwill.

**2. SUMMARY OF ACCOUNTING PRINCIPLES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**3. INDIRECT COST RATE**

Goodwill has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Board of Directors

**Morgan Memorial Goodwill Industries, Inc.**

We have audited, 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, the consolidated financial statements of Morgan Memorial Goodwill Industries, Inc. and subsidiary (“Goodwill”), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 16, 2016.

Internal control over financial reporting

In planning and performing our audit of the consolidated financial statements, we considered Goodwill’s internal control over financial reporting (“internal control”) to design 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 internal control. Accordingly, we do not express an opinion on the effectiveness of Goodwill’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 Goodwill’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. Given these limitations, during our audit we did not identify any deficiencies in Goodwill’s internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and other matters

As part of obtaining reasonable assurance about whether Goodwill's consolidated 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*.

#### Intended purpose

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 Goodwill's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Goodwill's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Boston, Massachusetts

September 16, 2016

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors

**Morgan Memorial Goodwill Industries, Inc.**

**Report on compliance for each major federal program**

We have audited the compliance of Morgan Memorial Goodwill Industries, Inc. and subsidiary (“Goodwill”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. Goodwill’s major federal program are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

**Management’s responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Goodwill’s federal programs.

**Auditor’s responsibility**

Our responsibility is to express an opinion on compliance for each of Goodwill’s major federal programs 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. The above-mentioned 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 Goodwill’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 each major federal program. However, our audit does not provide a legal determination of Goodwill’s compliance.

Opinion on each major federal program

In our opinion, Goodwill complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

#### **Report on internal control over compliance**

Management of Goodwill is responsible for designing, implementing, 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 Goodwill's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Goodwill's internal control over compliance.

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 a 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. Given these limitations, during our audit we did not identify any deficiencies in the Goodwill's 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Grant Thornton LLP*

Boston, Massachusetts

November 1, 2016

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2016**

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements:**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None Reported
- Noncompliance material to the financial statements noted? 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 auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) No

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program</u>
17.258/17.278	WIA Cluster
17.207	Employment Service/Wagner-Peyser Funded Activities

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? Yes

**MORGAN MEMORIAL GOODWILL INDUSTRIES, INC.**  
**Schedule of Findings and Questioned Costs - Continued**  
**For the year ended June 30, 2016**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

None.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None.

**SECTION IV - SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

None.