

Goodwill of Western Missouri and Eastern Kansas

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2016 and 2015

Goodwill of Western Missouri and Eastern Kansas

December 31, 2016 and 2015

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Independent Auditor's Report

Board of Directors
Goodwill of Western Missouri and Eastern Kansas
Kansas City, Missouri

We have audited the accompanying consolidated financial statements of Goodwill of Western Missouri and Eastern Kansas and The Helping Hand of Goodwill Industries Extended Employment Sheltered Workshop, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated 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. 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 the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Goodwill of Western Missouri and Eastern Kansas and The Helping Hand of Goodwill Industries Extended Employment Sheltered Workshop as of December 31, 2016 and 2015, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The other information listed in the table of contents including the financial statements of The Helping Hand of Goodwill Industries Extended Employment Sheltered Workshop, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Kansas City, Missouri
April 28, 2017

Goodwill of Western Missouri and Eastern Kansas
Consolidated Statements of Financial Position
December 31, 2016 and 2015

Assets

	2016	2015
Cash and cash equivalents	\$ 2,288,199	\$ 3,684,745
Accounts receivable, net of allowance; 2016 - \$650, 2015 - \$14,562	1,122,259	926,334
Investments	1,552,699	50,000
Inventories	1,591,915	1,611,978
Prepaid supplies and expenses	267,961	367,228
Deposits	192,278	196,486
Property and equipment, net of accumulated depreciation; 2016 - \$4,397,002, 2015 - \$4,078,896	2,245,503	2,396,890
Total assets	\$ 9,260,814	\$ 9,233,661

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 572,391	\$ 511,375
Accrued expenses	1,244,458	1,351,876
Deferred revenue	59,089	43,189
Accrued lease obligation	548,675	615,503
Long-term debt	332,598	565,495
Total liabilities	2,757,211	3,087,438

Net Assets

Unrestricted	6,489,050	6,141,801
Temporarily restricted	14,553	4,422
Total net assets	6,503,603	6,146,223
Total liabilities and net assets	\$ 9,260,814	\$ 9,233,661

Goodwill of Western Missouri and Eastern Kansas
Consolidated Statements of Activities
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets		
Revenues, gains and other support		
Sales to the public	\$ 19,605,068	\$ 20,150,600
Industrial and janitorial services	4,098,877	4,086,158
Contributions	353,124	1,021,946
Governmental agencies and programs	493,416	788,693
Other	80,107	82,774
Net assets released from restrictions	<u>4,005</u>	<u>5,931</u>
 Total revenues, gains and other support	 <u>24,634,597</u>	 <u>26,136,102</u>
 Expenses and losses		
Program services		
Retail operations	16,189,539	16,826,767
Workforce development	1,293,247	1,268,422
Sheltered workshop	<u>3,453,785</u>	<u>3,760,022</u>
 Total program services	 20,936,571	 21,855,211
 Management and general	 3,145,077	 2,868,992
Fundraising	<u>205,700</u>	<u>185,287</u>
 Total expenses and losses	 <u>24,287,348</u>	 <u>24,909,490</u>
 Change in unrestricted net assets	 <u>347,249</u>	 <u>1,226,612</u>
 Temporarily Restricted Net Assets		
Contributions	14,136	8,264
Net assets released from restrictions	<u>(4,005)</u>	<u>(5,931)</u>
 Change in temporarily restricted net assets	 <u>10,131</u>	 <u>2,333</u>
 Change in Net Assets	 357,380	 1,228,945
 Net Assets, Beginning of Year	 <u>6,146,223</u>	 <u>4,917,278</u>
 Net Assets, End of Year	 <u><u>\$ 6,503,603</u></u>	 <u><u>\$ 6,146,223</u></u>

Goodwill of Western Missouri and Eastern Kansas
Consolidated Statement of Functional Expenses
Year Ended December 31, 2016

	Retail Operations	Workforce Development	Sheltered Workshop	Total Program Services	Management and General	Fundraising	Total
Salaries	\$ 7,269,409	\$ 696,967	\$ 1,971,461	\$ 9,937,837	\$ 1,614,386	\$ 117,342	\$ 11,669,565
Employee benefits	525,896	125,983	578,692	1,230,571	222,824	6,980	1,460,375
Payroll taxes	503,289	51,799	170,593	725,681	172,259	8,844	906,784
Professional fees	394,847	10,745	8,892	414,484	157,323	467	572,274
Supplies	492,589	5,008	4,205	501,802	37,718	5,101	544,621
Cost of merchandise	593,819	16,629	320,515	930,963	4,688	-	935,651
Occupancy	4,430,296	72,682	16,902	4,519,880	133,066	1,032	4,653,978
Equipment rental	130,291	7,162	39,721	177,174	36,155	-	213,329
Repairs and maintenance	210,897	1,026	18,480	230,403	53,849	-	284,252
Software maintenance and support	72,988	7,590	2,420	82,998	84,607	3,588	171,193
General insurance	235,567	18,873	71,486	325,926	57,054	5,009	387,989
Interest	15,710	-	2,775	18,485	875	-	19,360
Employee recruitment	-	-	-	-	120,412	-	120,412
Marketing	244,990	199,518	115	444,623	51,326	21,898	517,847
Vehicle operations	628,816	16,508	24,464	669,788	15,816	1,371	686,975
Conferences, meetings and trainings	25,559	3,746	-	29,305	24,348	2,373	56,026
Fund development	-	-	-	-	-	30,801	30,801
Memberships, dues and subscriptions	-	7,335	164,784	172,119	160,560	194	332,873
Community support	1,140	10,168	-	11,308	135	50	11,493
Depreciation	359,652	45,427	55,786	460,865	43,336	-	504,201
Loss on lease disposal obligation	-	-	-	-	75,454	-	75,454
Miscellaneous	53,784	(3,919)	2,494	52,359	78,886	650	131,895
Total functional expenses	\$ 16,189,539	\$ 1,293,247	\$ 3,453,785	\$ 20,936,571	\$ 3,145,077	\$ 205,700	\$ 24,287,348

Goodwill of Western Missouri and Eastern Kansas
Consolidated Statement of Functional Expenses
Year Ended December 31, 2015

	Retail Operations	Workforce Development	Sheltered Workshop	Total Program Services	Management and General	Fundraising	Total
Salaries	\$ 7,469,009	\$ 727,813	\$ 2,190,540	\$10,387,362	\$ 1,437,081	\$ 127,873	\$ 11,952,316
Employee benefits	532,872	148,630	610,116	1,291,618	234,755	2,049	1,528,422
Payroll taxes	515,987	52,631	165,902	734,520	194,149	9,413	938,082
Professional fees	475,729	768	8,450	484,947	163,930	37	648,914
Supplies	348,161	6,153	5,639	359,953	34,724	2,733	397,410
Cost of merchandise	576,064	15,903	372,890	964,857	4,570	-	969,427
Occupancy	4,892,000	58,307	20,779	4,971,086	147,298	1,217	5,119,601
Equipment rental	123,928	6,972	38,137	169,037	26,410	-	195,447
Repairs and maintenance	229,640	1,191	20,211	251,042	56,515	-	307,557
Software maintenance and support	67,507	9,090	2,330	78,927	30,371	357	109,655
General insurance	251,346	19,650	82,032	353,028	53,475	4,717	411,220
Interest	27,105	-	2,076	29,181	3,111	-	32,292
Employee recruitment	1,321	-	-	1,321	140,904	-	142,225
Marketing	234,011	99,573	40	333,624	5,993	4,938	344,555
Vehicle operations	624,960	48,519	26,926	700,405	18,815	101	719,321
Conferences, meetings and trainings	18,508	4,898	479	23,885	30,808	180	54,873
Fund development	-	-	-	-	-	30,288	30,288
Memberships, dues and subscriptions	-	40	156,301	156,341	159,782	1,358	317,481
Community support	240	13,869	-	14,109	(5)	-	14,104
Depreciation	379,281	15,275	42,651	437,207	39,595	-	476,802
Loss on lease disposal obligation	-	-	-	-	62,319	-	62,319
Miscellaneous	59,098	39,140	14,523	112,761	24,392	26	137,179
Total functional expenses	\$ 16,826,767	\$ 1,268,422	\$ 3,760,022	\$21,855,211	\$ 2,868,992	\$ 185,287	\$ 24,909,490

Goodwill of Western Missouri and Eastern Kansas
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Change in net assets	\$ 357,380	\$ 1,228,945
Items not requiring (providing) operating activities cash flows		
Depreciation	504,201	476,802
Net realized and unrealized losses on investments	200	-
(Gain) loss on disposition of property and equipment	25,175	(8,676)
Loss on lease disposal obligation	75,454	62,319
Changes in		
Accounts receivable	(195,925)	127,902
Inventories	20,063	69,285
Prepaid supplies and expenses	99,267	(133,419)
Deposits	4,208	(10,703)
Accounts payable	(31,582)	4,061
Accrued expenses	(249,700)	38,663
Deferred revenue	15,900	6,656
	<u>624,641</u>	<u>1,861,835</u>
Net cash provided by operating activities	<u>624,641</u>	<u>1,861,835</u>
Investing Activities		
Purchase of property and equipment	(298,049)	(832,261)
Proceeds from disposition of property and equipment	12,658	16,570
Purchase of investments	(1,502,899)	-
	<u>(1,788,290)</u>	<u>(815,691)</u>
Net cash used in investing activities	<u>(1,788,290)</u>	<u>(815,691)</u>
Financing Activities		
Proceeds from issuance of long-term debt	82,265	88,081
Principal payments on long-term debt	(253,855)	(292,566)
Principal payments on capital lease obligations	(61,307)	(60,382)
	<u>(232,897)</u>	<u>(264,867)</u>
Net cash used in financing activities	<u>(232,897)</u>	<u>(264,867)</u>
Change in Cash and Cash Equivalents	(1,396,546)	781,277
Cash and Cash Equivalents, Beginning of Year	3,684,745	2,903,468
Cash and Cash Equivalents, End of Year	\$ 2,288,199	\$ 3,684,745
Supplemental Cash Flows Information		
Interest paid	\$ 19,360	\$ 32,292
Property and equipment additions in accounts payable	102,846	10,248

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Goodwill of Western Missouri and Eastern Kansas, (the “Organization”) is a not-for-profit organization whose mission is to help people with disabilities or disadvantages by maximizing their vocational potential. The Organization’s revenues and other support are derived primarily from the sale of donated clothing and merchandise, contracts, grants and contributions. The Organization operates in 18 counties in northwest Missouri and northeast Kansas.

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and its wholly-owned subsidiary, The Helping Hand of Goodwill Industries Extended Employment Sheltered Workshop (Sheltered Workshop). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2016, the Organization’s cash accounts exceeded federally insured limits by approximately \$1,752,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. The Organization provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventories

Inventories generally consist of donated goods that are to be sold in the Organization's retail stores. Inventory value is estimated based on average sales adjusted for inventory turnover, which approximates fair value.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	40 years
Leasehold improvements	3-20 years
Furniture, fixtures and equipment	3-10 years
Vehicles	3-7 years

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2016 and 2015.

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Sales to the Public

Sales to the public are recognized as revenue when the merchandise is sold, typically at the point of sale in thrift stores, salvage facilities or through e-commerce operations.

Government Contracts

Revenue received from government agencies and programs, including industrial and janitorial services, is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the contract agreements. Government programs are subject to audit and acceptance by the government agency and, as a result of such audit, adjustments could be required.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Deferred Revenue

Revenue from grants and contracts is deferred and recognized over the periods to which the revenues relate.

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Deferred Rent

As further discussed in *Note 8*, the Organization records deferred rent, including lease incentives, related to escalating lease payments where the lease expense is recognized on a straight-line basis. Deferred rent is included with accrued expenses on the consolidated statements of financial position.

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on estimated usage.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

Note 2: Beneficial Interest in Trust

The Organization was the beneficiary under a trust administered by a bank. The assets of the trust are not included in the consolidated statements of financial position of the Organization since the trust was revocable at the discretion of the donor. A one-time distribution of \$858,000 was made from the trust in 2015, which is included in contribution revenues in the consolidated statements of activities. No income was received from the trust in 2016.

Goodwill of Western Missouri and Eastern Kansas
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

Note 3: Investments and Investment Return

Investments at December 31 consisted of the following:

	<u>2016</u>	<u>2015</u>
Fixed income mutual funds	\$ 1,502,449	\$ -
Certificates of deposit	50,000	50,000
Money market funds	<u>250</u>	<u>-</u>
	<u>\$ 1,552,699</u>	<u>\$ 50,000</u>

Total investment return is comprised of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 2,900	\$ -
Net realized and unrealized losses	<u>(200)</u>	<u>-</u>
	<u>\$ 2,700</u>	<u>\$ -</u>

Total investment return is reflected in other income in the consolidated statements of activities.

Note 4: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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Notes to Consolidated Financial Statements
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Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
Fixed income mutual funds	\$ 1,502,449	\$ 1,502,449	\$ -	\$ -
Money market funds	250	250	-	-
	<u>\$ 1,502,699</u>	<u>\$ 1,502,699</u>	<u>\$ -</u>	<u>\$ -</u>

Investments included in the fair value hierarchy above reconcile to the consolidated statements of financial position as follows:

	2016	2015
Investments recorded at		
Fair value and included above	\$ 1,502,699	\$ -
Cost	50,000	50,000
Total investments	<u>\$ 1,552,699</u>	<u>\$ 50,000</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2016.

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 5: Property and Equipment

Property and equipment at December 31 consisted of:

	2016	2015
Land	\$ 350,817	\$ 350,817
Buildings and leasehold improvements	2,640,180	2,583,813
Furniture, fixtures and equipment	2,838,614	2,846,005
Vehicles	627,303	623,492
Construction in process	185,591	71,659
	6,642,505	6,475,786
Less accumulated depreciation	4,397,002	4,078,896
	\$ 2,245,503	\$ 2,396,890

Note 6: Line of Credit

The Organization has a revolving bank line of credit with a maximum loan amount of \$1,000,000 through April 2017 at which time the maximum loan amount decreases to \$500,000. The revolving bank line of credit expires on January 31, 2018. At December 31, 2016 and 2015, there were no borrowings against this line. The line is collateralized by substantially all of the Organization's assets. Interest accumulates on any outstanding balance at a rate equal to 2% plus one-month LIBOR, which was 2.56% and 2.25% on December 31, 2016 and 2015, respectively, and is payable monthly.

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Notes to Consolidated Financial Statements
December 31, 2016 and 2015

Note 7: Long-term Debt

Long-term debt at December 31 consists of:

	<u>2016</u>	<u>2015</u>
Notes payable (A)	\$ 288,110	\$ 459,700
Capital lease obligations (B)	<u>44,488</u>	<u>105,795</u>
	<u>\$ 332,598</u>	<u>\$ 565,495</u>

(A) Notes payable with due dates ranging from April 2016 to December 2021; payable monthly ranging from \$378 to \$7,325 with interest payable monthly ranging from 2.8% to 5.6%; collateralized by vehicles and equipment.

(B) Capital leases include leases covering tractors, forklifts, compactors and janitorial equipment expiring between December 2016 and October 2017; payable monthly ranging from \$574 to \$4,200, including interest ranging from 3.9% to 11%.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2016 are:

	Long-term Debt (Excluding Leases)	Capital Lease Obligations
2017	\$ 180,846	\$ 46,061
2018	38,005	-
2019	26,018	-
2020	26,515	-
2021	<u>16,726</u>	<u>-</u>
	<u>\$ 288,110</u>	46,061
Less amount representing interest		<u>1,573</u>
Present value of future minimum lease payments		<u>\$ 44,488</u>

Goodwill of Western Missouri and Eastern Kansas
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

Property and equipment include the following property under capital leases at December 31:

	2016	2015
Equipment	\$ 31,138	\$ 79,906
Vehicles	239,464	239,464
	270,602	319,370
Less accumulated depreciation	220,477	197,772
	\$ 50,125	\$ 121,598

Note 8: Operating Leases

Noncancellable operating leases, primarily for retail store locations, expire in various years through 2029. These leases generally contain renewal options for periods ranging from five to ten years and require the Organization to pay part or all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments under operating leases at December 31, 2016, are:

2017	\$ 2,522,692
2018	2,154,758
2019	1,671,349
2020	1,393,988
2021	1,262,328
Later years	5,280,112
	\$ 14,285,227

In accordance with ASC Topic 840, *Leases*, rental agreements with escalating lease payments are recognized in the consolidated statements of activities on a straight-line basis. The difference between the cash payments and amount recognized are recorded as a deferred liability. Deferred rent liability at December 31, 2016 and 2015 was \$591,181 and \$680,233, respectively, and is included in accrued expenses on the consolidated statements of financial position. Rental expense for all operating leases amounted to \$2,394,978 and \$2,622,081 for the years ended December 31, 2016 and 2015, respectively.

In accordance with ASC Topic 420, *Exit or Disposal Cost Obligations*, a lease liability for costs that will continue to be incurred under a lease contract for its remaining term without economic benefit to the entity is recognized at the cease-use date (date lessee discontinues use of the asset). During the year ended December 31, 2013, the Organization elected not to open a planned retail space for which an operating lease was in force. The leased space was and is currently vacant, and efforts to open a store location have been discontinued. As such, the Organization recognized a

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Notes to Consolidated Financial Statements
December 31, 2016 and 2015

liability for the net present value of payments due under the lease agreement less the net present value of estimated sub-lease income which may be received under the remaining life of the lease.

A summary of changes in the accrued lease obligation for the years ended December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 615,503	\$ 695,466
Obligation recognized	75,454	62,319
Payments	<u>(142,282)</u>	<u>(142,282)</u>
Balance, end of year	<u>\$ 548,675</u>	<u>\$ 615,503</u>

The associated loss recognized during the years ended December 31, 2016 and 2015 was \$75,454 and \$62,319 and is included in management and general expenses on the accompanying consolidated statements of functional expenses. The loss recognized during the years ended December 31, 2016 and 2015, related to the loss of not sub-leasing the space for which the original lease disposal obligation was reduced by the net present value of estimated sub-lease income.

Note 9: Retirement Plans

The Organization has a defined contribution plan covering substantially all employees. The Organization contributes a matching contribution up to 4% of gross salaries for eligible employees. The Organization's expense related to this plan was \$64,566 and \$69,256 in 2016 and 2015, respectively.

An employee 401(a) plan covers employees whose services are provided pursuant to a service contract entered into by the employer under the *Javits, Wagner, O'Day Act*. Benefit amounts are determined by the annual contract. The amounts paid for 2016 and 2015 were \$520,215 and \$562,066, respectively.

Note 10: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Accounts Receivable

Approximately 63% and 56% of the Organization's accounts receivable balance in 2016 and 2015 is due from three and two agencies, respectively.

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Allowance for Accounts Receivable

Estimates for allowance of uncollectible accounts receivable are described in *Note 1*.

Inventories

As discussed in *Note 1*, inventory value is estimated based on average sales adjusted for inventory turnover.

Accrued Lease Obligation

As discussed in *Note 8*, the accrued lease obligation is estimated utilizing the net present value of payments due under the lease agreement less the net present value of estimated sub-lease income which may be received under the remaining life of the lease.

Functional Allocation of Expenses

As discussed in *Note 1*, certain costs have been allocated among the program, management and general and fundraising categories based on the direct cost method and other methods.

Revenue

The Organization's industrial and janitorial service contracts and governmental programs are funded by various governmental agencies. These funds are 19% of the total revenue of the Organization for both years ended December 31, 2016 and 2015.

Litigation

The Organization is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Organization. Events could occur that would change this estimate materially in the near term.

Other Information

Goodwill of Western Missouri and Eastern Kansas

The Helping Hand of Goodwill Industries Extended Employment Sheltered Workshop

Statements of Financial Position

December 31, 2016 and 2015

Assets

	<u>2016</u>	<u>2015</u>
Cash	\$ 455,869	\$ 974,442
Accounts receivable	534,025	525,096
Due from parent organization	6,003,837	4,991,380
Prepaid supplies and expenses	33,570	44,588
Equipment, net of accumulated depreciation; 2016 - \$324,378, 2015 - \$380,170	<u>137,603</u>	<u>93,488</u>
Total assets	<u>\$ 7,164,904</u>	<u>\$ 6,628,994</u>

Liabilities and Net Assets

Accounts payable	\$ 56,122	\$ 66,736
Accrued expenses	135,303	191,345
Long-term debt	<u>67,961</u>	<u>62,578</u>
Total liabilities	<u>259,386</u>	<u>320,659</u>
Net Assets		
Unrestricted	<u>6,905,518</u>	<u>6,308,335</u>
Total net assets	<u>6,905,518</u>	<u>6,308,335</u>
Total liabilities and net assets	<u>\$ 7,164,904</u>	<u>\$ 6,628,994</u>

Goodwill of Western Missouri and Eastern Kansas
The Helping Hand of Goodwill Industries
Extended Employment Sheltered Workshop
Statements of Activities
Years Ended December 31, 2016 and 2015

	2016	2015
Revenues, Gains and Other Support		
Industrial and janitorial services	\$ 4,272,515	\$ 4,265,946
Government agencies and programs	74,416	81,339
Contributions	35,001	34,999
Other	3,964	3,014
	<u>4,385,896</u>	<u>4,385,298</u>
Expenses and Losses		
Program services		
Work activity center	345,953	318,556
Ability One	3,107,832	3,441,466
	<u>3,453,785</u>	<u>3,760,022</u>
Total program services	3,453,785	3,760,022
Management and general	334,928	292,778
	<u>3,788,713</u>	<u>4,052,800</u>
Total expenses and losses	3,788,713	4,052,800
Change in Net Assets	597,183	332,498
Net Assets, Beginning of Year	<u>6,308,335</u>	<u>5,975,837</u>
Net Assets, End of Year	<u>\$ 6,905,518</u>	<u>\$ 6,308,335</u>

Goodwill of Western Missouri and Eastern Kansas

The Helping Hand of Goodwill Industries Extended Employment Sheltered Workshop

Statement of Functional Expenses

Year Ended December 31, 2016

	<u>Program Services</u>		Management and General	Total
	Work Activity Center	Ability One		
Salaries	\$ 150,496	\$ 163,140	\$ -	\$ 313,636
Direct labor - non-disabled	-	551,883	-	551,883
Direct labor - disabled	100,125	1,005,817	-	1,105,942
Employee benefits	37,268	541,424	-	578,692
Payroll taxes	18,766	151,827	-	170,593
Professional fees	2,484	6,408	-	8,892
Supplies	325	3,880	-	4,205
Cost of merchandise	-	320,515	-	320,515
Management fee to parent organization	-	-	334,928	334,928
Occupancy	5,761	11,141	-	16,902
Equipment rental	-	39,721	-	39,721
Repairs and maintenance	-	18,480	-	18,480
Software maintenance and support	2,420	-	-	2,420
General insurance	11,561	59,925	-	71,486
Interest	-	2,775	-	2,775
Marketing	115	-	-	115
Vehicle operations	6,264	18,200	-	24,464
Memberships	8,695	156,089	-	164,784
Depreciation	1,620	54,166	-	55,786
Miscellaneous	53	2,441	-	2,494
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total functional expenses	<u>\$ 345,953</u>	<u>\$ 3,107,832</u>	<u>\$ 334,928</u>	<u>\$ 3,788,713</u>

Goodwill of Western Missouri and Eastern Kansas

The Helping Hand of Goodwill Industries Extended Employment Sheltered Workshop Statement of Functional Expenses Year Ended December 31, 2015

	<u>Program Services</u>		<u>Management and General</u>	<u>Total</u>
	<u>Work Activity Center</u>	<u>Ability One</u>		
Salaries	\$ 147,266	\$ 150,279	\$ -	\$ 297,545
Direct labor - non-disabled	-	627,630	-	627,630
Direct labor - disabled	103,397	1,161,968	-	1,265,365
Employee benefits	14,260	595,856	-	610,116
Payroll taxes	19,105	146,797	-	165,902
Professional fees	2,383	6,067	-	8,450
Supplies	654	4,985	-	5,639
Cost of merchandise	-	372,890	-	372,890
Management fee to parent organization	-	-	292,778	292,778
Occupancy	5,083	15,696	-	20,779
Equipment rental	-	38,137	-	38,137
Repairs and maintenance	-	20,211	-	20,211
Software maintenance and support	2,330	-	-	2,330
General insurance	12,839	69,193	-	82,032
Interest	-	2,076	-	2,076
Marketing	-	40	-	40
Vehicle operations	7,539	19,387	-	26,926
Conferences, meetings and trainings	30	449	-	479
Memberships, dues and subscriptions	430	155,871	-	156,301
Depreciation	3,240	39,411	-	42,651
Miscellaneous	-	14,523	-	14,523
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total functional expenses	<u>\$ 318,556</u>	<u>\$ 3,441,466</u>	<u>\$ 292,778</u>	<u>\$ 4,052,800</u>

Goodwill of Western Missouri and Eastern Kansas
The Helping Hand of Goodwill Industries
Extended Employment Sheltered Workshop
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Activities		
Change in net assets	\$ 597,183	\$ 332,498
Items not requiring (providing) operating activities cash flows		
Depreciation	55,786	42,651
Gain on disposal of equipment	(2,502)	(2,590)
Changes in		
Accounts receivable	(8,929)	755
Due from parent organization	(1,012,457)	54,726
Supplies and other	11,018	(18,206)
Accounts payable	(10,614)	10,474
Accrued expenses	(56,042)	33,661
	<u>(426,557)</u>	<u>453,969</u>
Investing Activities		
Purchase of equipment	(100,069)	(82,504)
Proceeds from disposition of property and equipment	2,670	2,950
	<u>(97,399)</u>	<u>(79,554)</u>
Financing Activities		
Proceeds from issuance of long-term debt	29,975	53,151
Principal payments on long-term debt	(24,592)	(22,120)
Principal payments on capital lease obligations	-	(2,307)
	<u>5,383</u>	<u>28,724</u>
Change in Cash	(518,573)	403,139
Cash, Beginning of Year	<u>974,442</u>	<u>571,303</u>
Cash, End of Year	<u>\$ 455,869</u>	<u>\$ 974,442</u>