Goodwill of Western Missouri and Eastern Kansas

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2017 and 2016

BKD LLP
CPAs & Advisors

Goodwill of Western Missouri and Eastern Kansas
December 31, 2017 and 2016

Contents

BKD
CPAs & Advisors

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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, 2017 and 2016, 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.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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, 2017 and 2016, 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, 2017 and 2016, 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 audits 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 30, 2018

Goodwill of Western Missouri and Eastern Kansas

Consolidated Statements of Financial Position

December 31, 2017 and 2016

Assets

	2017	2016
Cash and cash equivalents	$ 1,757,215	$ 2,288,199
Accounts receivable, net of allowance; 2017 - $3,673, 2016 - $650	963,346	1,122,259
Investments	1,581,436	1,552,699
Inventories	1,643,041	1,591,915
Prepaid supplies and expenses	196,447	267,961
Deposits	198,962	192,278
Property and equipment, net of accumulated depreciation; 2017 - $4,713,368, 2016 - $4,397,002	2,883,315	2,245,503
Total assets	$ 9,223,762	$ 9,260,814

Liabilities and Net Assets

	2017	2016
Liabilities		
Accounts payable	$ 648,334	$ 572,391
Accrued expenses	1,504,339	1,244,458
Deferred revenue	26,718	59,089
Accrued lease obligation	480,250	548,675
Long-term debt	70,845	332,598
Total liabilities	2,730,486	2,757,211
Net Assets		
Unrestricted	6,479,563	6,489,050
Temporarily restricted	13,713	14,553
Total net assets	6,493,276	6,503,603
Total liabilities and net assets	$ 9,223,762	$ 9,260,814

Goodwill of Western Missouri and Eastern Kansas

Consolidated Statements of Activities

Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Net Assets		
Revenues, gains and other support		
Sales to the public	$ 20,148,216	$ 19,605,068
Industrial and janitorial services	4,258,744	4,098,877
Contributions	454,972	353,124
Governmental agencies and programs	426,327	493,416
Other	130,345	80,107
Net assets released from restrictions	8,036	4,005
Total revenues, gains and other support	25,426,640	24,634,597
Expenses and losses		
Program services		
Retail operations	17,058,607	16,189,539
Workforce development	1,399,094	1,293,247
Sheltered workshop	3,411,486	3,453,785
Total program services	21,869,187	20,936,571
Management and general	3,298,914	3,145,077
Fundraising	268,026	205,700
Total expenses and losses	25,436,127	24,287,348
Change in unrestricted net assets	(9,487)	347,249
Temporarily Restricted Net Assets		
Contributions	7,196	14,136
Net assets released from restrictions	(8,036)	(4,005)
Change in temporarily restricted net assets	(840)	10,131
Change in Net Assets	(10,327)	357,380
Net Assets, Beginning of Year	6,503,603	6,146,223
Net Assets, End of Year	$ 6,493,276	$ 6,503,603

Goodwill of Western Missouri and Eastern Kansas

Consolidated Statement of Functional Expenses

Year Ended December 31, 2017

	Retail Operations	Workforce Development	Sheltered Workshop	Total Program Services	Management and General	Fundraising	Total
Salaries	$ 7,870,315	$ 798,668	$ 1,990,178	$ 10,659,161	$ 1,672,828	$ 96,615	$ 12,428,604
Employee benefits	505,098	137,921	544,369	1,187,388	229,588	8,932	1,425,908
Payroll taxes	536,940	58,010	158,166	753,116	182,360	8,741	944,217
Professional fees	415,224	13,917	8,769	437,910	252,945	2,016	692,871
Supplies	528,772	18,426	3,956	551,154	31,067	2,298	584,519
Cost of merchandise	523,590	15,129	304,899	843,618	6,367	-	849,985
Occupancy	4,516,198	80,919	18,352	4,615,469	155,510	803	4,771,782
Equipment rental	139,235	4,057	36,261	179,553	35,981	-	215,534
Repairs and maintenance	209,434	1,860	10,021	221,315	74,385	-	295,700
Software maintenance and support	61,268	1,226	-	62,494	82,626	3,723	148,843
General insurance	239,566	22,693	69,768	332,027	51,076	4,132	387,235
Interest	7,147	-	2,476	9,623	-	-	9,623
Employee recruitment	280	-	200	480	73,376	-	73,856
Marketing	319,646	130,537	36	450,219	82,599	16,520	549,338
Vehicle operations	747,761	21,308	34,066	803,135	22,550	1,709	827,394
Conferences, meetings and trainings	9,515	7,920	2,091	19,526	24,994	1,618	46,138
Fund development	114	-	-	114	-	117,523	117,637
Memberships, dues and subscriptions	635	15,910	162,601	179,146	152,426	1,344	332,916
Community support	655	15,011	-	15,666	75	-	15,741
Depreciation	394,359	48,213	65,138	507,710	40,863	-	548,573
Loss on lease disposal obligation	-	-	-	-	73,857	-	73,857
Miscellaneous	32,855	7,369	139	40,363	53,441	2,052	95,856
Total functional expenses	$ 17,058,607	$ 1,399,094	$ 3,411,486	$ 21,869,187	$ 3,298,914	$ 268,026	$ 25,436,127

See Notes to Consolidated Financial Statements

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

See Notes to Consolidated Financial Statements

Goodwill of Western Missouri and Eastern Kansas

Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	$ (10,327)	$ 357,380
Items not requiring (providing) operating activities cash flows		
Depreciation	548,573	504,201
Net realized and unrealized losses on investments	3,147	200
(Gain) loss on disposition of property and equipment	(822)	25,175
Loss on lease disposal obligation	73,857	75,454
Changes in		
Accounts receivable	158,913	(195,925)
Inventories	(51,126)	20,063
Prepaid supplies and expenses	71,514	99,267
Deposits	(6,684)	4,208
Accounts payable	101,510	(31,582)
Accrued expenses	117,599	(249,700)
Deferred revenue	(32,371)	15,900
Net cash provided by operating activities	973,783	624,641
Investing Activities		
Purchase of property and equipment	(1,229,134)	(298,049)
Proceeds from disposition of property and equipment	18,004	12,658
Purchase of investments	(40,811)	(1,502,899)
Proceeds from disposition of investments	8,927	-
Net cash used in investing activities	(1,243,014)	(1,788,290)
Financing Activities		
Proceeds from issuance of long-term debt	90,991	82,265
Principal payments on long-term debt	(308,255)	(253,855)
Principal payments on capital lease obligations	(44,489)	(61,307)
Net cash used in financing activities	(261,753)	(232,897)
Change in Cash and Cash Equivalents	(530,984)	(1,396,546)
Cash and Cash Equivalents, Beginning of Year	2,288,199	3,684,745
Cash and Cash Equivalents, End of Year	$ 1,757,215	$ 2,288,199
Supplemental Cash Flows Information		
Interest paid	$ 9,623	$ 19,360
Property and equipment additions in accounts payable	77,279	102,846

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 9 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 consolidated financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

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, 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2017, the Organization's cash accounts exceeded federally insured limits by approximately $1,295,000.

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.

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, 2017 and 2016.

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 consolidated statements 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.

Deferred Rent

As further discussed in *Note 7*, 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.

Note 2: Investments and Investment Return

Investments at December 31 consisted of the following:

	2017	2016
Fixed income mutual funds	$ 1,531,186	$ 1,502,449
Certificates of deposit	50,000	50,000
Money market funds	250	250
	$ 1,581,436	$ 1,552,699

Total investment return is comprised of the following:

	2017	2016
Interest and dividend income	$ 32,035	$ 2,900
Net realized and unrealized losses	(3,147)	(200)
	$ 28,888	$ 2,700

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

Note 3: 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

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 Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Fixed income mutual funds	$ 1,531,186	$ 1,531,186	$ -	$ -
Money market funds	250	250	-	-
	$ 1,531,436	$ 1,531,436	$ -	$ -
December 31, 2016				
Fixed income mutual funds	$ 1,502,449	$ 1,502,449	$ -	$ -
Money market funds	250	250	-	-
	$ 1,502,699	$ 1,502,699	$ -	$ -

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

	2017	2016
Investments recorded at		
Fair value and included above	$ 1,531,436	$ 1,502,699
Cost	50,000	50,000
Total investments	$ 1,581,436	$ 1,552,699

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, 2017.

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 4: Property and Equipment

Property and equipment at December 31 consisted of:

	2017	2016
Land	$ 350,817	$ 350,817
Buildings and leasehold improvements	3,124,605	2,640,180
Furniture, fixtures and equipment	3,324,408	2,838,614
Vehicles	661,031	627,303
Construction in process	132,842	185,591
	7,593,703	6,642,505
Less accumulated depreciation	4,710,388	4,397,002
	$ 2,883,315	$ 2,245,503

Note 5: Line of Credit

The Organization has a revolving bank line of credit with a maximum loan amount of $500,000 through April 2018. Effective from May 1, 2018 through November 29, 2018, the loan amount shall increase to a maximum amount of $1,000,000. Effective from November 30, 2018 through the end of the term, the loan amount shall revert to the decreased amount of $500,000. The revolving bank line of credit expires on January 31, 2019. At December 31, 2017 and 2016, 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 percent plus one-month LIBOR, which was 3.13 percent and 2.56 percent on December 31, 2017 and 2016, respectively, and is payable monthly.

Note 6: Long-term Debt

Long-term debt at December 31 consists of:

	2017	2016
Notes payable (A)	$ 70,845	$ 288,110
Capital lease obligations (B)	-	44,488
	$ 70,845	$ 332,598

(A) Notes payable with due dates ranging from September 2018 to December 2021; payable monthly ranging from $525 to $945 with interest payable monthly ranging from 3.4 percent to 4.0 percent; collateralized by vehicles and equipment.

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

Aggregate annual maturities of long-term debt at December 31, 2017 are:

2018	$ 20,977
2019	16,245
2020	16,829
2021	16,794
	$ 70,845

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

	2017	2016
Equipment	$ -	$ 31,138
Vehicles	-	239,464
	-	270,602
Less accumulated depreciation	-	220,477
	$ -	$ 50,125

Note 7: 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).

During the year ended December 31, 2017, the Organization executed three lease renewals with start dates effective in 2018. These three lease renewal's future minimum lease payments are included below. The three lease renewals also contain two tenant improvement allowances ranging from $115,780 to $520,000 to fund improvements to the leased property.

Future minimum lease payments under operating leases at December 31, 2017, are:

2018	$ 2,697,993
2019	2,272,392
2020	1,968,940
2021	1,813,998
2022	1,685,588
Later years	8,443,044
Total minimum lease payments	$ 18,881,955

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, 2017 and 2016 was $842,415 and $591,181, respectively, and is included in accrued expenses on the consolidated statements of financial position. Rental expense for all operating leases amounted to $2,397,819 and $2,394,978 for the years ended December 31, 2017 and 2016, 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 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, 2017 and 2016 is as follows:

	2017	2016
Balance, beginning of year	$ 548,675	$ 615,503
Obligation recognized	73,857	75,454
Payments	(142,282)	(142,282)
Balance, end of year	$ 480,250	$ 548,675

The associated loss recognized during the years ended December 31, 2017 and 2016 was $73,857 and $75,454, respectively, 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, 2017 and 2016, 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 8: Retirement Plans

The Organization has a defined contribution plan covering substantially all employees. The Organization contributes a matching contribution up to 4 percent of gross salaries for eligible employees. The Organization's expense related to this plan was $72,425 and $64,566 in 2017 and 2016, 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 2017 and 2016 were $478,376 and $520,215, respectively.

Note 9: 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 65 percent and 63 percent of the Organization's accounts receivable balance in 2017 and 2016 is due from three and two agencies, respectively.

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 7*, 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 were 18 percent and 19 percent of total revenue of the Organization for the years ended December 31, 2017 and 2016, respectively.

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.

Note 10: Future Change in Accounting Principle

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2019. The Organization is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 11: Subsequent Events

Subsequent events have been evaluated through April 30, 2018, which is the date the consolidated financial statements were available to be issued.

The Organization entered into two new capital leases in January 2018 covering two tractors and one truck both expiring January 2024; payable monthly ranging from $1,315 to $3,953, including interest of 5 percent.

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, 2017 and 2016

Assets

	2017	2016
Cash	$ 465,181	$ 455,869
Accounts receivable	613,537	534,025
Due from parent organization	6,698,630	6,003,837
Prepaid supplies and expenses	41,005	33,570
Equipment, net of accumulated depreciation; 2017 - $388,237, 2016 - $324,378	156,062	137,603
Total assets	$ 7,974,415	$ 7,164,904

Liabilities and Net Assets

	2017	2016
Liabilities		
Accounts payable	$ 74,268	$ 56,122
Accrued expenses	137,953	135,303
Long-term debt	23,021	67,961
Total liabilities	235,242	259,386
Net Assets		
Unrestricted	7,739,173	6,905,518
Total net assets	7,739,173	6,905,518
Total liabilities and net assets	$ 7,974,415	$ 7,164,904

Goodwill of Western Missouri and Eastern Kansas

The Helping Hand of Goodwill Industries

Extended Employment Sheltered Workshop

Statements of Activities

Years Ended December 31, 2017 and 2016

	2017	2016
Revenues, Gains and Other Support		
Industrial and janitorial services	$ 4,467,375	$ 4,272,515
Government agencies and programs	73,895	74,416
Contributions	11,666	35,001
Other	6,261	3,964
Total revenues, gains and other support	4,559,197	4,385,896
Expenses and Losses		
Program services		
Work activity center	409,057	345,953
Ability One	3,002,429	3,107,832
Total program services	3,411,486	3,453,785
Management and general	314,056	334,928
Total expenses and losses	3,725,542	3,788,713
Change in Net Assets	833,655	597,183
Net Assets, Beginning of Year	6,905,518	6,308,335
Net Assets, End of Year	$ 7,739,173	$ 6,905,518

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, 2017

	Program Services			
	Work Activity Center	Ability One	Management and General	Total
Salaries	$ 201,426	$ 107,767	$ -	$ 309,193
Direct labor - non-disabled	-	643,595	-	643,595
Direct labor - disabled	115,878	921,512	-	1,037,390
Employee benefits	35,943	508,426	-	544,369
Payroll taxes	23,676	134,490	-	158,166
Professional fees	2,529	6,240	-	8,769
Supplies	893	3,063	-	3,956
Cost of merchandise	-	304,899	-	304,899
Management fee to parent organization	-	-	314,056	314,056
Occupancy	6,005	12,347	-	18,352
Equipment rental	-	36,261	-	36,261
Repairs and maintenance	-	10,021	-	10,021
General insurance	11,295	58,473	-	69,768
Interest	-	2,476	-	2,476
Employee recruitment	-	200	-	200
Marketing	24	12	-	36
Vehicle operations	9,950	24,116	-	34,066
Conferences, meetings and trainings	840	1,251	-	2,091
Memberships	598	162,003	-	162,601
Depreciation	-	65,138	-	65,138
Miscellaneous	-	139	-	139
Total functional expenses	$ 409,057	$ 3,002,429	$ 314,056	$ 3,725,542

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

	Program Services			
	Work Activity Center	Ability One	Management and General	Total
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, dues and subscriptions	8,695	156,089	-	164,784
Depreciation	1,620	54,166	-	55,786
Miscellaneous	53	2,441	-	2,494
Total functional expenses	$ 345,953	$ 3,107,832	$ 334,928	$ 3,788,713

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, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	$ 833,655	$ 597,183
Items not requiring (providing) operating activities cash flows		
Depreciation	65,138	55,786
Gain on disposal of equipment	(300)	(2,502)
Changes in		
Accounts receivable	(79,512)	(8,929)
Due from parent organization	(694,793)	(1,012,457)
Supplies and other	(7,435)	11,018
Accounts payable	18,146	(10,614)
Accrued expenses	2,650	(56,042)
Net cash provided by (used in) operating activities	137,549	(426,557)
Investing Activities		
Purchase of equipment	(83,297)	(100,069)
Proceeds from disposition of property and equipment	-	2,670
Net cash used in investing activities	(83,297)	(97,399)
Financing Activities		
Proceeds from issuance of long-term debt	26,136	29,975
Principal payments on long-term debt	(71,076)	(24,592)
Net cash provided by (used in) financing activities	(44,940)	5,383
Change in Cash	9,312	(518,573)
Cash, Beginning of Year	455,869	974,442
Cash, End of Year	$ 465,181	$ 455,869