# MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

## COMBINED FINANCIAL STATEMENTS

## DECEMBER 31, 2016 AND 2015

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# Independent Auditor's Report

To the Board of Directors
MERS/Missouri Goodwill Industries and Affiliates
St. Louis, Missouri

We have audited the accompanying combined financial statements of MERS/Missouri Goodwill Industries and Affiliates (collectively the "Agency") (a nonprofit organization), which comprise the combined statement of financial position as of December 31, 2016, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

**Management's Responsibility for the Combined Financial Statements**

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the combined 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 Agency'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of MERS/Missouri Goodwill Industries and affiliates as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated April 18, 2017, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control over financial reporting and compliance.

**Other Matters**

The combined financial statements of MERS/Missouri Goodwill Industries and Affiliates as of December 31, 2015 were audited by other auditors whose report dated March 17, 2016 expressed an unmodified opinion on those combined financial statements.

Brown Smith Wallace, LLP

St. Louis, Missouri
April 18, 2017

## MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

### COMBINED STATEMENTS OF FINANCIAL POSITION
### DECEMBER 31, 2016 AND 2015

| ASSETS | 2016 | 2015 |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents | $ 3,384,090 | $ 5,978,539 |
| Accounts receivable (net of allowance for potentially uncollectible accounts of $223,788 and $141,316 as of December 31, 2016 and 2015, respectively) | 3,891,184 | 4,426,591 |
| Promises to give | 691,996 | 702,472 |
| Inventories | 3,096,091 | 2,809,834 |
| Prepaid expenses | 748,197 | 544,148 |
| Investments, at fair value | 16,031,965 | 14,623,705 |
| Total Current Assets | 27,843,523 | 29,085,289 |
| Other assets | 64,378 | 59,664 |
| Beneficial interest in trusts, at fair value | 1,289,881 | 1,262,227 |
| Property and equipment, net | 47,598,466 | 38,083,632 |
| Construction in progress | 7,434,170 | 2,680,198 |
| Investments, at fair value | 62,000 | 80,498 |
| Total Assets | $ 84,292,418 | $ 71,251,508 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Current maturities of long-term debt | $ 9,000,000 | $ - |
| Accounts payable | 4,032,054 | 3,848,644 |
| Accrued expenses | 4,047,885 | 3,802,481 |
| Deferred revenue | 518,060 | 573,743 |
| Total Current Liabilities | 17,597,999 | 8,224,868 |
| Long-Term Debt, Less Current Maturities | - | - |
| Total Liabilities | 17,597,999 | 8,224,868 |
| Net Assets | | |
| Unrestricted | 64,667,944 | 60,991,178 |
| Temporarily restricted | 1,143,252 | 2,035,462 |
| Permanently restricted | 883,223 | - |
| Total Net Assets | 66,694,419 | 63,026,640 |
| Total Liabilities and Net Assets | $ 84,292,418 | $ 71,251,508 |

The Notes to Combined Financial Statements are an integral part of these statements.

## MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

### COMBINED STATEMENTS OF ACTIVITIES
### FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Public Support | | | | |
| Contributions of inventory | $ 58,831,329 | $ - | $ - | $ 58,831,329 |
| Associated organizations | - | 677,472 | - | 677,472 |
| Other contributions | 850,600 | 146,500 | - | 997,100 |
| Total Public Support | 59,681,929 | 823,972 | - | 60,505,901 |
| Revenue | | | | |
| Stores and salvage sales | 69,746,007 | - | - | 69,746,007 |
| Contract services | 5,528,302 | - | - | 5,528,302 |
| Employment and training | 21,430,618 | - | - | 21,430,618 |
| Sheltered workshop | 1,134,943 | - | - | 1,134,943 |
| Other program services | 1,710,135 | - | - | 1,710,135 |
| Investment income | 1,298,402 | 6,463 | 21,191 | 1,326,056 |
| Miscellaneous | 71,864 | - | - | 71,864 |
| Total Revenue | 100,920,271 | 6,463 | 21,191 | 100,947,925 |
| Net Assets Reclassified to Permanent | - | (862,032) | 862,032 | - |
| Net Assets Released from Restrictions | 860,613 | (860,613) | - | - |
| Total Public Support and Revenue | 161,462,813 | (892,210) | 883,223 | 161,453,826 |
| Expenses | | | | |
| Program Services | | | | |
| Stores and salvage | 120,770,392 | - | - | 120,770,392 |
| Contract services | 5,020,339 | - | - | 5,020,339 |
| Employment and training | 21,005,968 | - | - | 21,005,968 |
| Sheltered workshop | 1,192,935 | - | - | 1,192,935 |
| Other services | 1,847,621 | - | - | 1,847,621 |
| Total Program Services | 149,837,255 | - | - | 149,837,255 |
| Supporting Services | | | | |
| Management and general | 5,290,972 | - | - | 5,290,972 |
| Fundraising | 2,657,820 | - | - | 2,657,820 |
| Total Supporting Services | 7,948,792 | - | - | 7,948,792 |
| Total Expenses | 157,786,047 | - | - | 157,786,047 |
| Change in Net Assets | 3,676,766 | (892,210) | 883,223 | 3,667,779 |
| Net Assets, Beginning of Year | 60,991,178 | 2,035,462 | - | 63,026,640 |
| Net Assets, End of Year | $ 64,667,944 | $ 1,143,252 | $ 883,223 | $ 66,694,419 |

| | 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Public Support | | | | |
| Contributions of inventory | $ 57,035,281 | $ - | $ - | $ 57,035,281 |
| Associated organizations | - | 723,424 | - | 723,424 |
| Other contributions | 911,074 | 24,050 | - | 935,124 |
| Total Public Support | 57,946,355 | 747,474 | - | 58,693,829 |
| Revenue | | | | |
| Stores and salvage sales | 68,661,696 | - | - | 68,661,696 |
| Contract services | 5,277,826 | - | - | 5,277,826 |
| Employment and training | 21,014,446 | - | - | 21,014,446 |
| Sheltered workshop | 1,100,370 | - | - | 1,100,370 |
| Other program services | 1,826,858 | - | - | 1,826,858 |
| Investment income | (443,809) | (68,878) | - | (512,687) |
| Miscellaneous | 35,117 | - | - | 35,117 |
| Total Revenue | 97,472,504 | (68,878) | - | 97,403,626 |
| Net Assets Released from Restrictions | 848,399 | (848,399) | - | - |
| Total Public Support and Revenue | 156,267,258 | (169,803) | - | 156,097,455 |
| Expenses | | | | |
| Program Services | | | | |
| Stores and salvage | 116,709,200 | - | - | 116,709,200 |
| Contract services | 4,926,518 | - | - | 4,926,518 |
| Employment and training | 20,627,980 | - | - | 20,627,980 |
| Sheltered workshop | 1,113,761 | - | - | 1,113,761 |
| Other services | 1,844,393 | - | - | 1,844,393 |
| Total Program Services | 145,221,852 | - | - | 145,221,852 |
| Supporting Services | | | | |
| Management and general | 6,466,871 | - | - | 6,466,871 |
| Fundraising | 2,728,557 | - | - | 2,728,557 |
| Total Supporting Services | 9,195,428 | - | - | 9,195,428 |
| Total Expenses | 154,417,280 | - | - | 154,417,280 |
| Change in Net Assets | 1,849,978 | (169,803) | - | 1,680,175 |
| Net Assets, Beginning of Year | 59,141,200 | 2,205,265 | - | 61,346,465 |
| Net Assets, End of Year | $ 60,991,178 | $ 2,035,462 | $ - | $ 63,026,640 |

The Notes to Combined Financial Statements are an integral part of these statements.

## MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

### COMBINED STATEMENT OF FUNCTIONAL EXPENSES
### FOR THE YEAR ENDED DECEMBER 31, 2016

| | Program Services | | | |
|---|---|---|---|---|
| | Stores and Salvage | Contract Services | Employment and Training | Sheltered Workshop |
| Salaries and wages | $ 26,268,272 | $ 3,341,791 | $ 12,032,712 | $ 722,558 |
| Employee welfare | 7,189,830 | 222,359 | 2,962,814 | 119,978 |
| Payroll taxes and benefits | 3,221,363 | 302,076 | 1,049,127 | 63,592 |
| Total Salaries and Related Expenses | 36,679,465 | 3,866,226 | 16,044,653 | 906,128 |
| Cost of donated goods sold | 58,686,496 | - | - | - |
| Professional fees and contracts | 1,170,648 | 485,939 | 503,265 | 34,107 |
| Inventories and supplies | 7,119,848 | 381,882 | 269,289 | 20,537 |
| Telephone | 339,756 | 31,549 | 382,713 | 6,038 |
| Postage and shipping | 484,272 | 68 | 29,918 | 366 |
| Occupancy | 8,972,508 | 21,540 | 840,898 | 159,576 |
| Rental and maintenance of equipment | 2,466,810 | 17,135 | 89,973 | 17,093 |
| Local transportation | 609,735 | 61,988 | 541,311 | 7,834 |
| Printing and publications | 63,057 | - | 435 | 349 |
| Dues to Goodwill Industries International | - | - | - | - |
| Insurance | 546,709 | 59,176 | 268,042 | 12,941 |
| Interest and bank fees | 927,055 | 1,762 | 1,666 | 769 |
| Client services | 19,262 | - | 983,356 | 21 |
| Miscellaneous expense | 68,933 | 83,373 | 177,832 | 961 |
| Bad debt expense | 91,563 | (5,544) | 37,154 | - |
| Depreciation | 2,524,275 | 15,245 | 121,231 | 26,215 |
| Total Expenses | 120,770,392 | 5,020,339 | 20,291,736 | 1,192,935 |
| Indirect cost allocation | - | - | 714,232 | - |
| Total Expenses Including Indirect Cost Allocation | $ 120,770,392 | $ 5,020,339 | $ 21,005,968 | $ 1,192,935 |

| | | Supporting Services | | | |
|---|---|---|---|---|---|
| Other Services | Total | Management and General | Fundraising | Total | Total |
| $ 1,035,831 | $ 43,401,164 | $ 2,298,193 | $ 388,990 | $ 2,687,183 | $ 46,088,347 |
| 282,568 | 10,777,549 | 433,645 | 74,514 | 508,159 | 11,285,708 |
| 88,206 | 4,724,364 | 196,879 | (8,721) | 188,158 | 4,912,522 |
| 1,406,605 | 58,903,077 | 2,928,717 | 454,783 | 3,383,500 | 62,286,577 |
| - | 58,686,496 | - | - | - | 58,686,496 |
| 67,757 | 2,261,716 | 1,254,885 | 108,529 | 1,363,414 | 3,625,130 |
| 251,717 | 8,043,273 | 196,959 | 10,914 | 207,873 | 8,251,146 |
| 11,559 | 771,615 | 82,234 | 2,993 | 85,227 | 856,842 |
| 3 | 514,627 | 34,520 | 1,863 | 36,383 | 551,010 |
| - | 9,994,522 | 327,343 | 103 | 327,446 | 10,321,968 |
| 14,317 | 2,605,328 | 202,771 | 138 | 202,909 | 2,808,237 |
| 14,967 | 1,235,835 | 42,486 | 5,194 | 47,680 | 1,283,515 |
| 950 | 64,791 | 19,855 | 2,060,087 | 2,079,942 | 2,144,733 |
| - | - | 167,544 | - | 167,544 | 167,544 |
| - | 886,868 | 132,699 | 1,130 | 133,829 | 1,020,697 |
| 1,363 | 932,615 | 111,165 | - | 111,165 | 1,043,780 |
| 18,859 | 1,021,498 | - | - | - | 1,021,498 |
| 1,281 | 332,380 | 141,516 | 12,086 | 153,602 | 485,982 |
| - | 123,173 | - | - | - | 123,173 |
| 58,243 | 2,745,209 | 362,510 | - | 362,510 | 3,107,719 |
| 1,847,621 | 149,123,023 | 6,005,204 | 2,657,820 | 8,663,024 | 157,786,047 |
| - | 714,232 | (714,232) | - | (714,232) | - |
| $ 1,847,621 | $ 149,837,255 | $ 5,290,972 | $ 2,657,820 | $ 7,948,792 | $ 157,786,047 |

The Notes to Combined Financial Statements are an integral part of these statements.

## MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

### COMBINED STATEMENT OF FUNCTIONAL EXPENSES
### FOR THE YEAR ENDED DECEMBER 31, 2015

| | Program Services | | | |
|---|---|---|---|---|
| | Stores and Salvage | Contract Services | Employment and Training | Sheltered Workshop |
| Salaries and wages | $ 26,708,844 | $ 3,238,022 | $ 11,724,792 | $ 698,504 |
| Employee welfare | 6,117,660 | 214,182 | 2,639,769 | 87,098 |
| Payroll taxes and benefits | 3,187,151 | 267,122 | 1,059,477 | 57,408 |
| Total Salaries and Related Expenses | 36,013,655 | 3,719,326 | 15,424,038 | 843,010 |
| Cost of donated goods sold | 56,652,695 | - | - | - |
| Professional fees and contracts | 1,452,144 | 530,135 | 556,492 | 88,123 |
| Inventories and supplies | 7,528,059 | 393,469 | 339,629 | 19,833 |
| Telephone | 329,680 | 34,047 | 400,005 | 3,329 |
| Postage and shipping | 528,848 | 42 | 57,389 | 658 |
| Occupancy | 7,755,154 | 23,580 | 868,784 | 130,467 |
| Rental and maintenance of equipment | 2,161,208 | 11,246 | 59,906 | 6,310 |
| Local transportation | 601,050 | 57,285 | 511,449 | 9,578 |
| Printing and publications | 54,518 | - | 4,538 | 329 |
| Dues to Goodwill Industries International | - | - | - | - |
| Insurance | 551,094 | 75,756 | 300,598 | 13,525 |
| Interest and bank fees | 843,093 | 1,621 | 3,826 | 770 |
| Client services | 23,755 | - | 1,156,608 | 31 |
| Miscellaneous expense | 59,828 | 79,813 | 167,293 | (10,114) |
| Bad debt expense | 24,954 | (25,190) | (46,004) | - |
| Depreciation | 2,129,465 | 25,388 | 107,574 | 7,912 |
| Total Expenses | 116,709,200 | 4,926,518 | 19,912,125 | 1,113,761 |
| Indirect cost allocation | - | - | 715,855 | - |
| Total Expenses Including Indirect Cost Allocation | $ 116,709,200 | $ 4,926,518 | $ 20,627,980 | $ 1,113,761 |

| | | Supporting Services | | | |
|---|---|---|---|---|---|
| Other Services | Total | Management and General | Fundraising | Total | Total |
| $ 1,039,066 | $ 43,409,228 | $ 3,629,723 | $ 425,941 | $ 4,055,664 | $ 47,464,892 |
| 243,729 | 9,302,438 | 459,027 | 68,851 | 527,878 | 9,830,316 |
| 87,237 | 4,658,395 | 202,602 | 160,664 | 363,266 | 5,021,661 |
| 1,370,032 | 57,370,061 | 4,291,352 | 655,456 | 4,946,808 | 62,316,869 |
| - | 56,652,695 | - | - | - | 56,652,695 |
| 75,607 | 2,702,501 | 1,265,491 | 80,191 | 1,345,682 | 4,048,183 |
| 277,122 | 8,558,112 | 163,731 | 6,292 | 170,023 | 8,728,135 |
| 12,898 | 779,959 | 79,646 | 3,634 | 83,280 | 863,239 |
| 20 | 586,957 | 37,252 | 2,830 | 40,082 | 627,039 |
| - | 8,777,985 | 322,046 | - | 322,046 | 9,100,031 |
| 15,709 | 2,254,379 | 156,443 | 47 | 156,490 | 2,410,869 |
| 7,690 | 1,187,052 | 67,574 | 4,611 | 72,185 | 1,259,237 |
| - | 59,385 | 7,493 | 1,956,346 | 1,963,839 | 2,023,224 |
| - | - | 167,544 | - | 167,544 | 167,544 |
| - | 940,973 | 148,525 | 1,752 | 150,277 | 1,091,250 |
| 1,296 | 850,606 | 1,833 | - | 1,833 | 852,439 |
| 26,335 | 1,206,729 | - | - | - | 1,206,729 |
| (2,361) | 294,459 | 130,701 | 15,272 | 145,973 | 440,432 |
| 223 | (46,017) | - | - | - | (46,017) |
| 59,822 | 2,330,161 | 343,095 | 2,126 | 345,221 | 2,675,382 |
| 1,844,393 | 144,505,997 | 7,182,726 | 2,728,557 | 9,911,283 | 154,417,280 |
| - | 715,855 | (715,855) | - | (715,855) | - |
| $ 1,844,393 | $ 145,221,852 | $ 6,466,871 | $ 2,728,557 | $ 9,195,428 | $ 154,417,280 |

The Notes to Combined Financial Statements are an integral part of these statements.

## MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

### COMBINED STATEMENTS OF CASH FLOWS
### FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Change in net assets | $ 3,667,779 | $ 1,680,175 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 3,107,719 | 2,675,382 |
| Gain on disposal of equipment | (12,980) | - |
| (Gain) loss on investments | (943,899) | 889,147 |
| Change in value of split-interest agreements | (27,654) | 68,878 |
| Changes in assets - (increase) decrease | | |
| Accounts receivable | 535,407 | (191,526) |
| Promises to give | 10,476 | (25,000) |
| Inventories | (286,257) | (333,133) |
| Prepaid expenses | (204,049) | (289,385) |
| Other assets | (4,714) | 152,316 |
| Changes in liabilities - increase (decrease) | | |
| Accounts payable and accrued expenses | 428,814 | 1,822,160 |
| Deferred revenue | (55,683) | (761) |
| Net Cash Provided by Operating Activities | 6,214,959 | 6,448,253 |
| Cash Flows from Investing Activities | | |
| Net proceeds from sale of property and equipment | 12,980 | - |
| Purchases of investments | (445,863) | (357,948) |
| Payments for property and equipment and construction in progress | (17,376,525) | (13,283,208) |
| Net Cash Used in Investing Activities | (17,809,408) | (13,641,156) |
| Cash Flows from Financing Activities | | |
| Proceeds from line of credit | 9,000,000 | - |
| Net Cash Provided by Financing Activities | 9,000,000 | - |
| Net Decrease in Cash and Cash Equivalents | (2,594,449) | (7,192,903) |
| Cash and Cash Equivalents, Beginning of Year | 5,978,539 | 13,171,442 |
| Cash and Cash Equivalents, End of Year | $ 3,384,090 | $ 5,978,539 |
| Supplemental Disclosure of Cash Flow Information | | |
| Interest Paid | $ 92,504 | $ - |

The Notes to Combined Financial Statements are an integral part of these statements.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF ORGANIZATION

### Nature of Organization

MERS/Missouri Goodwill Industries and Affiliates (the “Agency”) is a not-for-profit corporation that provides for the vocational needs of people with disabilities and disadvantages. The Agency believes that work not only helps achieve financial stability but also helps with autonomy, self-reliance, and confidence of the clients served. The Agency has become a significant provider of vocational rehabilitation services in Missouri.

MGI Services Corporation (“MGIS”) is a not-for-profit corporation established for the purpose of accounting for the AbilityOne contract services. MERS/Missouri Goodwill Industries and MGIS have commonality through board members. Certain administrative expenses are allocated to MGIS.

Services for Extended Employment and Development, Inc. (“SEED”) is a not-for-profit corporation established for the purpose of accounting for the Agency’s vocational training for disabled individuals. MERS/Missouri Goodwill Industries and SEED have commonality through board members. Certain administrative expenses are allocated to SEED.

The Agency's primary sources of revenue are store and salvage sales, contract services, contributions and government grants for employment, training, and sheltered workshops.

### Principles of Combination

The accompanying combined financial statements include the following affiliated non-profit organizations: MERS/Missouri Goodwill Industries (“M/MGI”), MGI Services Corporation (“MGIS”), and Services for Extended Employment and Development, Inc. (“SEED”). All significant inter-entity transactions and account balances have been eliminated. The designation, "Agency", includes both affiliated organizations combined.

### Basis of Accounting

The financial statements of the Agency have been prepared on the accrual basis of accounting.

### Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board ASC 958-210, *Financial Statements of Not-For-Profit Organizations.* Under ASC 958-210, the Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF ORGANIZATION (CONTINUED)

### Cash and Cash Equivalents

The Agency considers all temporary investments having maturities of three months or less to be cash and cash equivalents.

### Accounts Receivable

Accounts receivable is stated at the amount management expects to collect from outstanding balances. These balances consist primarily of billings for grants, contract revenues and employment and training revenues.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts based on estimated losses that will be incurred in collection of all receivables. Management provides for probable uncollected amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management believes this method provides a proper recognition of bad debt expense in the period incurred. The allowance for doubtful accounts is $223,788 and $141,316 as of December 31, 2016 and 2015, respectively.

### Promises to Give

Contributions related to promises to give are recognized when the donor makes an unconditional promise to give, and for conditional promises to give, only when the conditions on which they depend are substantially met and the promise becomes unconditional. These contributions are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence or nature of any donor restrictions. Contributions and support that are restricted by the donor are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give that are expected to be collected in future years are measured at fair value using the present value of their estimated future cash flows.

### Inventories

The Agency obtains most of its inventory from public donations and sells the donated merchandise in its retail sales activities. Donated inventory is valued at an estimated market value at the retail store level less gross profit based on estimates of inventory turnover at the retail stores. The Agency also purchases certain new items from commercial retailers at discounted retail value and records the purchased merchandise in inventory at cost.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF ORGANIZATION (CONTINUED)

### Investments

The Agency's investments are stated at fair value except for the Agency's investment in a limited partnership, which is accounted for under the equity method. 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. See Note 5 for discussion of fair value measurements.

Interest, dividend, capital gain and royalty income is recorded on the accrual basis. Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses on disposals of investments are based on the historic cost of the securities sold using the specific identification method. Unrealized gains and losses on investment securities are based on the difference between the historic cost and the fair value on the measurement date of each investment. Net appreciation (depreciation) includes gains and losses on investments bought and sold as well as held by the Agency during the year.

### Beneficial Interest in Trusts

The Agency's beneficial interests in trusts consist of interests in charitable trusts, for which the Agency does not serve as trustee. The Agency records its interest at fair value based on its percentage interest in the trust for the "perpetuity trust". The Non-Perpetual trust is recorded at the net present value of the expected future cash flows. Distributions received from the trusts are recorded to unrestricted other contributions. Changes in the value of the trust carrying value are recorded to investment income in either temporarily restricted or permanently restricted based on the type of trust.

### Property and Equipment

Property and equipment is capitalized at cost if purchased and fair value if contributed, and depreciated over its useful lives using straight-line depreciation. Capital expenditures over $5,000 which extend the life of a useful asset will be capitalized. Major renewals and betterments, which extend the useful lives of assets, are capitalized. Maintenance and repairs are charged to operations as incurred.

### Restricted and Unrestricted Public Support and Revenues

The Agency reports gifts of cash and other assets as unrestricted, temporarily restricted or permanently restricted depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. When restricted revenue or support is received in the same reporting period in which it is spent, revenue is shown as unrestricted.

### Donated Inventory, Materials and Services

Donated inventory and materials are recorded as contributions at estimated fair value based on the estimated sale price of the items donated. Donated services are considered insignificant during the years ended December 31, 2016 and 2015.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF ORGANIZATION (CONTINUED)

Description of Program and Supporting Services

The following program and supporting services are included in the accompanying combined financial statements:

***Program Services***

*Stores and salvage sales*
Activity associated with the collecting, pricing and selling of merchandise through the retail stores.

*Contract services*
Mission related services contracted with other organizations, including janitorial services.

*Employment and training*
Identifies employment and training goals and the potential of clients as well as providing counseling, training and job placement services necessary to obtain employment.

*Sheltered workshop*
Provides paid work within a facility setting for clients who have been determined unable to work competitively in the community.

*Other services*
Includes residential services, transportation services for clients involved in programs, and training and support for clients living independently in the community.

***Supporting Services***

*Management and general*
Includes the functions necessary to maintain an equitable employment program, ensure an adequate working environment, provide coordination and articulation of the Agency's program strategy, secure proper administrative functioning of the Board of Directors, and manage the financial and budgetary responsibilities of the Agency.

*Fundraising*
Provides the structure necessary to encourage and secure financial support for the Agency through grants and contributions.

Expense Allocation

Expenses are charged to programs and supporting services on the basis of actual costs incurred by the specific program or supporting service, as well as on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

Printing and Publications

Printing and Publication costs are expensed as incurred. Printing and publication expense amounted to $2,144,733 and $2,023,224 for the years ended December 31, 2016 and 2015, respectively.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF ORGANIZATION (CONTINUED)

Tax Status

The Agency constitutes a qualified not-for-profit organization under Section 509(a) of the Internal Revenue Code and is, therefore, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Income Tax Uncertainties

The Agency follows "FASB Accounting Standards Codification 740-10, *Income Taxes – Overall"*. The Agency has assessed its federal and state tax positions and determined that there were no unrelated business income taxes and no uncertainties or possible related effects that need to be recorded as of or for the years ended December 31, 2016 and 2015. The returns of the Agency for 2016, 2015, 2014, and 2013 are subject to examination by the respective taxing authorities generally for three years after they were filed.

## NOTE 2 ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of December 31:

| | 2016 | 2015 |
|---|---|---|
| Grants | $ 1,507,365 | $ 1,996,424 |
| Contract revenues | 1,395,279 | 1,362,397 |
| Employment and training revenues | 774,984 | 672,586 |
| Other | 437,344 | 536,500 |
| Accounts receivable, gross | 4,114,972 | 4,567,907 |
| Less allowance for doubtful accounts | (223,788) | (141,316) |
| Accounts receivable, net | $ 3,891,184 | $ 4,426,591 |

At December 31, 2016 and 2015, respectively, 31% and 35% of accounts receivable were from two customers.

## NOTE 3 PROMISES TO GIVE

Promises to give include contributions from organizations of $691,996 and $702,472 at December 31, 2016 and 2015, respectively. Management expects to receive the cash for these promises within one year.

## NOTE 4 INVESTMENTS

Investments consist of the following as of December 31:

| | 2016 | 2015 |
|---|---|---|
| Common stocks | $ 5,319,896 | $ 4,293,797 |
| Mutual funds | 225,573 | 454,873 |
| Exchange traded funds | 2,397,829 | 1,155,061 |
| Corporate fixed income | 4,777,625 | 5,362,032 |
| Managed futures | 575,012 | 587,394 |
| Hedge funds | 2,258,655 | 2,368,944 |
| Private equity | 477,375 | 401,604 |
| Mineral leases | 62,000 | 67,750 |
| Limited partnership | - | 12,748 |
| Total | $ 16,093,965 | $ 14,704,203 |

Investments are as follows on the accompanying combined statements of financial position as of December 31:

| | 2016 | 2015 |
|---|---|---|
| Investments, current | $ 16,031,965 | $ 14,623,705 |
| Investment, long term | 62,000 | 80,498 |
| Total | $ 16,093,965 | $ 14,704,203 |

Investment earnings (loss) consist of the following for the years ended December 31:

| | 2016 | 2015 |
|---|---|---|
| Interest | $ 209,873 | $ 277,206 |
| Dividends | 159,538 | 138,177 |
| Capital gains | 725 | 4,416 |
| Other | 2,707 | 8,502 |
| Royalties | 10,039 | 11,641 |
| Net appreciation (depreciation) | 943,174 | (893,563) |
| Total | $ 1,326,056 | $ (453,621) |

Investment fees reported as a reduction of investment income were $79,588 and $49,113 for the years ended December 31, 2016 and 2015, respectively.

## NOTE 5 FAIR VALUE

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

| | |
|---|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Agency has the ability to access. |
| Level 2 | Inputs to the valuation methodology include:<br><br>Quoted prices for similar assets or liabilities in active markets;<br>Quoted prices for identical or similar assets or liabilities in inactive markets;<br>Inputs other than quoted prices that are observable for the asset or liability;<br>Inputs that are derived principally from or corroborated by observable market data by correlation or other means.<br><br>If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

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

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes in the methodologies used at December 31, 2016 as compared to December 31, 2015 except as noted below.

*Common Stocks, Mutual Funds and Exchange Traded Funds:* The fair value of marketable securities and exchange traded funds are valued using quoted market prices in active markets.

*Corporate fixed income*: Certain corporate fixed income securities (bonds) are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

*Managed Futures***:** Open positions are valued using various mark to market accounting principles.

*Hedge Funds***:** In the absence of quoted market prices, fair value of the hedge funds is determined by the General Partner based on valuations of the underlying actively traded investments.

*Private Equity***:** In the absence of quoted market prices, fair value is determined by the General Partner based on valuations of the underlying illiquid and privately held investments.

*Investment in Mineral Leases***:** For producing interests, fair value for December 31, 2016 was determined using 2016 production revenue times a factor of 4.25 and fair value for December 31, 2015, was determined using 2015 production revenue times a factor of 4.5. For nonproducing interests, the value was determined by determining net acreage owned in a particular tract, and multiplying net acreage by the most common bonus consideration that would be expected to be received. Properties that have been leased and are still in their primary terms are valued at 1.5 times leased bonus received.

## NOTE 5 FAIR VALUE (CONTINUED)

*Beneficial Interest in Trusts*: Perpetual trust valued based on the fair value of the trust assets multiplied by the Agency's proportionate share of the trust. Non-Perpetual trust valued at net present value of estimated cash flows.

The 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, while the Agency believes its valuation methods are appropriate and consistent with 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.

The following tables set forth by level, within the fair value hierarchy, the Agency's assets at fair value as of December 31, 2016 and 2015:

| 2016 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Common stocks | $ 5,319,896 | $ 5,319,896 | $ - | $ - |
| Mutual funds | 225,573 | 225,573 | - | - |
| Exchange traded funds | 2,397,829 | 1,187,901 | 1,209,928 | - |
| Corporate fixed income | 4,777,625 | - | 4,777,625 | - |
| Managed futures | 575,012 | - | 575,012 | - |
| Hedge funds | 2,258,655 | - | 2,258,655 | - |
| Private equity | 477,375 | - | - | 477,375 |
| Mineral leases | 62,000 | - | - | 62,000 |
| Beneficial interest in trusts | 1,289,881 | - | - | 1,289,881 |
| Total | $ 17,383,846 | $ 6,733,370 | $ 8,821,220 | $ 1,829,256 |

| 2015 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Common stocks | $ 4,293,797 | $ 4,293,797 | $ - | $ - |
| Mutual funds | 454,873 | 454,873 | - | - |
| Exchange traded funds | 1,155,061 | - | 1,155,061 | - |
| Corporate fixed income | 5,362,032 | - | 5,362,032 | - |
| Managed futures | 587,394 | - | 587,394 | - |
| Hedge funds | 2,368,944 | - | 2,368,944 | - |
| Private equity | 401,604 | - | - | 401,604 |
| Mineral leases | 67,750 | - | - | 67,750 |
| Beneficial interest in trusts | 1,262,227 | - | - | 1,262,227 |
| Total | $ 15,953,682 | $ 4,748,670 | $ 9,473,431 | $ 1,731,581 |

## NOTE 5 FAIR VALUE (CONTINUED)

For the years ended December 31, 2016 and 2015, the changes in assets measured using significant unobservable inputs (Level 3) were as follows:

| | Level 3 Assets Year Ended December 31, 2016 | | |
|---|---|---|---|
| | Private Equity | Mineral Leases | Beneficial Interest In Trusts |
| Balance, beginning of year | $ 401,604 | $ 67,750 | $ 1,262,227 |
| Purchases | 64,181 | - | - |
| Unrealized gains (losses) | - | - | - |
| relating to instruments still | - | - | - |
| held at the reporting date | 11,590 | (5,750) | 27,654 |
| Balance, end of year | $ 477,375 | $ 62,000 | $ 1,289,881 |

| | Level 3 Assets Year Ended December 31, 2015 | | |
|---|---|---|---|
| | Private Equity | Mineral Leases | Beneficial Interest In Trusts |
| Balance, beginning of year | $ 299,321 | $ 80,165 | $ 1,331,105 |
| Purchases | 88,756 | - | - |
| Unrealized gains (losses) | - | - | - |
| relating to instruments still | - | - | - |
| held at the reporting date | 13,527 | (12,415) | (68,878) |
| Balance, end of year | $ 401,604 | $ 67,750 | $ 1,262,227 |

## NOTE 6 BENEFICIAL INTEREST IN TRUSTS

The Agency is a beneficiary of a partial interest in two trusts. Periodic distributions received from the trust are recorded to other contributions. During 2016, a court ruling was issued declaring one of the trusts to be controlled in perpetuity by the trustee; therefore, the investment was reclassified to permanently restricted net assets in 2016.The unrealized gain (loss) of the beneficial interest in the charitable trust recorded was an unrealized gain of $21,191 for the year ended December 31, 2016 and an unrealized loss of $43,731 for the year ended December 31, 2015. At December 31, 2016 and 2015, the investment is valued at $883,223 and $862,032, respectively.

## NOTE 6 BENEFICIAL INTEREST IN TRUSTS (CONTINUED)

The second trust entitles the Agency to 27% of the net income of the trust investments during the trust existence. Twenty-one years after the death of all annuitants of the trust, the Agency will receive 28.5% of the trust property and related income. The value of the beneficiary interest in the charitable remainder trust increased $6,463 for the year ended December 31, 2016 and decreased $25,147 for the year ended December 31, 2015. At December 31, 2016 and 2015, the investment is valued at $406,658 and $400,195, respectively. Management expects to receive the final payment from this trust within 12 years.

## NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | 2016 | 2015 |
|---|---|---|
| Land and buildings | $ 61,493,064 | $ 51,978,443 |
| Equipment, furniture, and fixtures | 16,256,384 | 14,461,777 |
| | 77,749,448 | 66,440,220 |
| Less: Accumulated depreciation | (30,150,982) | (28,356,588) |
| | 47,598,466 | 38,083,632 |
| Plus: Construction in progress | 7,434,170 | 2,680,198 |
| | $ 55,032,636 | $ 40,763,830 |

## NOTE 8 NET ASSETS

*Temporarily Restricted*
Temporarily restricted net assets are subject to the following donor-imposed restrictions:

| | 2016 | 2015 |
|---|---|---|
| Time restriction: | | |
| Charitable Remainder Trust | $ 406,658 | $ 1,262,227 |
| United Way allocation for 2017 and 2016 | 681,520 | 681,520 |
| Simon Foundation | 23,191 | 52,452 |
| Jewish Federation | 10,476 | 20,952 |
| Illinois Lions Club | 419 | 489 |
| Private Individuals/Foundations/Trusts | 20,988 | 17,822 |
| | $ 1,143,252 | $ 2,035,462 |

Net assets were released from donor-imposed restrictions as follows:

| | 2016 | 2015 |
|---|---|---|
| United Way allocation | $ 681,520 | $ 656,520 |
| Simon Foundation | 137,761 | 126,129 |
| Jewish Federation | 31,428 | 41,904 |
| Illinois Lions Club | 70 | - |
| Private Individuals/Foundations/Trusts | 9,834 | 23,846 |
| | $ 860,613 | $ 848,399 |

## NOTE 8 NET ASSETS (CONTINUED)

*Permanently Restricted*
The Agency reclassified a beneficial interest in a trust to permanently restricted net assets during 2016 based on a court ruling related to the treatment of the trust. See Note 6 for a description of the investment.

*Unrestricted*
Unrestricted net assets represent resources available for the support of operations, which have no donor imposed restrictions.

## NOTE 9 DEFERRED COMPENSATION PLANS

The Agency adopted a defined contribution deferred compensation plan for certain key members of management who were actively employed with the Organization at January 1, 1996. Certain insurance policies were cancelled and the cash surrender values were transferred into the new plan. Vesting occurs on a graduated scale based on the years of service. The total asset value of $64,378 and $59,664 is presented on the combined statements of financial position as other assets while the vested amount of $64,378 and $59,664 is included in accrued expenses as of December 31, 2016 and 2015, respectively.

The Agency has also adopted a tax-deferred annuity plan under Section 403(b) which allows eligible employees to make tax-deferred contributions. Eligible employees may contribute a percentage of their salaries up to the extent permitted by law. There is no employer match under this plan. The assets of this qualified Plan are held in trust and are appropriately not included in the combined financial statements.

The Agency also sponsors a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code whereby the Agency makes contributions on behalf of eligible employees. Under this plan, employees are not allowed to make tax-deferred contributions. The Agency's associated expense amounted to $896,196 and $926,375 for the years ended December 31, 2016 and 2015, respectively. The assets of this qualified Plan are held in trust and are appropriately not included in the combined financial statements.

## NOTE 10 LEASE COMMITMENTS

The Agency leases most of the buildings used for its retail stores and certain operating facilities and equipment under various renewable and non-renewable operating lease agreements, whose terms range from one to twenty years.

At December 31, 2016, minimum annual rental commitments are as follows:

| | |
|---|---|
| 2017 | $ 4,562,880 |
| 2018 | 3,753,733 |
| 2019 | 3,258,782 |
| 2020 | 2,111,776 |
| 2021 | 1,589,528 |
| Thereafter | 5,849,637 |
| | $ 21,126,336 |

Facility rent expense amounted to $5,732,912 and $5,256,945 as of December 31, 2016 and 2015, respectively.

## NOTE 11 COMMITMENTS AND CONTINGENCIES

During the years ended December 31, 2016 and 2015, the Agency maintained a revolving loan agreement with its bank. The maximum credit limit through September 28, 2016 was $7,000,000 and was extended to January 31, 2017. On December 23, 2016 the maximum credit line became $10,000,000. Borrowings under the revolving loan are due on December 22, 2017 and 2016, respectively. Interest was payable monthly at the bank's LIBOR daily floating rate plus one and one-half percent (1.5%). At December 31, 2016, the Agency has an outstanding balance on this line-of-credit of $9,000,000. The Agency had no outstanding balance on this line of credit at December 31, 2015.

Grants, bequests and endowments require the fulfillment of certain conditions as set forth in each instrument. Failure to fulfill the conditions could result in the return of the funds, or a portion thereof, to the grantors. Although that is a possibility, the Board believes the contingency is remote, since by accepting the grants and their terms, the Board has accommodated the objectives of the Agency to the provisions of these grants.

The Agency maintains a self-insurance program for its employees' health care costs. The Agency is liable for losses on claims up to $75,000 per employee for the years ended December 31, 2016 and 2015, respectively. The aggregate potential liability for the Agency is $13,155,000 and $13,329,000 for the years ended December 31, 2016 and 2015. The Agency has insurance coverage for any losses in excess of such amount. Self-insurance costs are accrued based on claims reported as of December 31, 2016 and 2015, as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was $717,897 and $564,621 at December 31, 2016 and 2015, respectively.

The Agency is routinely involved in certain litigation and EEOC claims incidental to its business. The ultimate outcome of all claims pending at December 31, 2016 cannot presently be determined. However, management believes the ultimate outcome will not have a material, adverse effect on the Agency's financial position or results of operations.

The Agency maintains cash balances at various banks. These banks provide the maximum protection under regulations issued by the Federal Deposit Insurance Corporation ("FDIC"). The Agency periodically maintains funds in excess of FDIC insurance limits.

The Agency invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

The Agency has capital commitments for certain investments in the amount of $1,010,545 as of December 31, 2016.

The Agency has entered into various contracts for construction and remodeling projects at various locations, of which approximately $6,522,000 of work remains to be performed at December 31, 2016.

## NOTE 12 AFFILIATION WITH GOODWILL INDUSTRIES INTERNATIONAL

The Agency is affiliated with Goodwill Industries International. The Agency paid dues to Goodwill Industries International amounting to $167,544 for the years ended December 31, 2016 and 2015, respectively.

## NOTE 13 SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through April 18, 2017, the date the combined financial statements were available to be issued. In March 2017, the Agency entered into various debt agreements to convert approximately $13,000,000 of short term debt to long term debt. The notes will be paid in 83 monthly consecutive principal and interest payments of approximately $60,000 beginning April 1, 2017 with interest calculated on the unpaid principal balances using an interest rate of 3.89% and one final principal and interest payment of approximately $11,280,000 due on March 31, 2024.