



**MERS/MISSOURI GOODWILL INDUSTRIES AND
AFFILIATES**

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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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 statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2018, 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.

Brown Smith Wallace, LLP

St. Louis, Missouri
March 19, 2018

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

**COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 5,067,712	\$ 3,384,090
Accounts receivable (net of allowance for potentially uncollectible accounts of \$280,890 and \$223,788 as of December 31, 2017 and 2016, respectively)	5,110,514	3,891,184
Promises to give	622,801	691,996
Inventories	3,089,984	3,096,091
Prepaid expenses	791,408	748,197
Investments, at fair value	18,138,517	16,031,965
Total Current Assets	<u>32,820,936</u>	<u>27,843,523</u>
Other assets	75,126	64,378
Beneficial interest in trusts, at fair value	1,415,011	1,289,881
Property and equipment, net	57,116,431	47,598,466
Construction in progress	5,774,614	7,434,170
Investments, at fair value	81,700	62,000
Total Assets	<u>\$ 97,283,818</u>	<u>\$ 84,292,418</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Current maturities of long-term debt	\$ 232,964	\$ -
Line of credit	3,000,000	9,000,000
Accounts payable	2,542,617	4,032,054
Accrued expenses	4,738,822	4,047,885
Deferred revenue	350,914	518,060
Total Current Liabilities	<u>10,865,317</u>	<u>17,597,999</u>
Long-Term Debt, Less Current Maturities	<u>12,599,945</u>	<u>-</u>
Total Liabilities	<u>23,465,262</u>	<u>17,597,999</u>
Net Assets		
Unrestricted	71,698,474	64,667,944
Temporarily restricted	1,126,543	1,143,252
Permanently restricted	993,539	883,223
Total Net Assets	<u>73,818,556</u>	<u>66,694,419</u>
Total Liabilities and Net Assets	<u>\$ 97,283,818</u>	<u>\$ 84,292,418</u>

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, 2017 AND 2016**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Public Support				
Contributions of inventory	\$ 62,721,597	\$ -	\$ -	\$ 62,721,597
Associated organizations	-	701,232	-	701,232
Other contributions	1,145,425	214,140	-	1,359,565
Total Public Support	<u>63,867,022</u>	<u>915,372</u>	<u>-</u>	<u>64,782,394</u>
Revenue				
Stores and salvage sales	74,307,937	-	-	74,307,937
Contract services	6,086,648	-	-	6,086,648
Employment and training	22,416,292	-	-	22,416,292
Sheltered workshop	989,351	-	-	989,351
Other program services	1,636,924	-	-	1,636,924
Investment income	2,053,818	14,814	110,316	2,178,948
Miscellaneous	85,627	-	-	85,627
Total Revenue	<u>107,576,597</u>	<u>14,814</u>	<u>110,316</u>	<u>107,701,727</u>
Net Assets Reclassified to Permanent	-	-	-	-
Net Assets Released from Restrictions	<u>946,895</u>	<u>(946,895)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>172,390,514</u>	<u>(16,709)</u>	<u>110,316</u>	<u>172,484,121</u>
Expenses				
Program Services				
Stores and salvage	126,370,227	-	-	126,370,227
Contract services	5,507,023	-	-	5,507,023
Employment and training	22,407,907	-	-	22,407,907
Sheltered workshop	1,114,777	-	-	1,114,777
Other services	1,794,558	-	-	1,794,558
Total Program Services	<u>157,194,492</u>	<u>-</u>	<u>-</u>	<u>157,194,492</u>
Supporting Services				
Management and general	5,709,780	-	-	5,709,780
Fundraising	2,455,712	-	-	2,455,712
Total Supporting Services	<u>8,165,492</u>	<u>-</u>	<u>-</u>	<u>8,165,492</u>
Total Expenses	<u>165,359,984</u>	<u>-</u>	<u>-</u>	<u>165,359,984</u>
Change in Net Assets	7,030,530	(16,709)	110,316	7,124,137
Net Assets, Beginning of Year	<u>64,667,944</u>	<u>1,143,252</u>	<u>883,223</u>	<u>66,694,419</u>
Net Assets, End of Year	<u>\$ 71,698,474</u>	<u>\$ 1,126,543</u>	<u>\$ 993,539</u>	<u>\$ 73,818,556</u>

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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	<u>59,681,929</u>	<u>823,972</u>	<u>-</u>	<u>60,505,901</u>
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	<u>100,920,271</u>	<u>6,463</u>	<u>21,191</u>	<u>100,947,925</u>
Net Assets Reclassified to Permanent	-	(862,032)	862,032	-
Net Assets Released from Restrictions	<u>860,613</u>	<u>(860,613)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>161,462,813</u>	<u>(892,210)</u>	<u>883,223</u>	<u>161,453,826</u>
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	<u>149,837,255</u>	<u>-</u>	<u>-</u>	<u>149,837,255</u>
Supporting Services				
Management and general	5,290,972	-	-	5,290,972
Fundraising	2,657,820	-	-	2,657,820
Total Supporting Services	<u>7,948,792</u>	<u>-</u>	<u>-</u>	<u>7,948,792</u>
Total Expenses	<u>157,786,047</u>	<u>-</u>	<u>-</u>	<u>157,786,047</u>
Change in Net Assets	3,676,766	(892,210)	883,223	3,667,779
Net Assets, Beginning of Year	<u>60,991,178</u>	<u>2,035,462</u>	<u>-</u>	<u>63,026,640</u>
Net Assets, End of Year	<u>\$ 64,667,944</u>	<u>\$ 1,143,252</u>	<u>\$ 883,223</u>	<u>\$ 66,694,419</u>

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, 2017**

	Program Services			
	Stores and Salvage	Contract Services	Employment and Training	Sheltered Workshop
Salaries and wages	\$ 29,923,171	\$ 3,736,165	\$ 13,375,692	\$ 663,272
Employee welfare	5,470,449	211,390	2,439,920	89,210
Payroll taxes and benefits	3,724,797	353,059	1,352,215	67,537
Total Salaries and Related Expenses	<u>39,118,417</u>	<u>4,300,614</u>	<u>17,167,827</u>	<u>820,019</u>
Cost of donated goods sold	62,670,803	-	-	-
Professional fees and contracts	1,148,088	490,425	568,535	31,816
Inventories and supplies	7,738,749	411,341	314,944	17,934
Telephone	344,854	35,748	352,941	3,401
Postage and shipping	487,710	23	25,924	339
Occupancy	7,614,091	21,370	790,064	111,499
Rental and maintenance of equipment	2,145,811	22,133	51,199	3,071
Local transportation	682,248	56,641	561,258	7,644
Printing and publications	122,596	-	1,910	-
Dues to Goodwill Industries				
International	-	-	-	-
Insurance	494,704	65,231	294,471	12,385
Interest and bank fees	974,384	1,528	1,550	749
Client services	21,498	-	952,893	44
Miscellaneous expense	64,636	85,467	390,300	2,711
Bad debt expense	38,824	(1,359)	(13,605)	75,803
Depreciation	2,702,814	17,861	135,252	27,362
Total Expenses	<u>126,370,227</u>	<u>5,507,023</u>	<u>21,595,463</u>	<u>1,114,777</u>
Indirect cost allocation	-	-	812,444	-
Total Expenses Including Indirect Cost Allocation	<u>\$ 126,370,227</u>	<u>\$ 5,507,023</u>	<u>\$ 22,407,907</u>	<u>\$ 1,114,777</u>

		<u>Supporting Services</u>					
<u>Other Services</u>	<u>Total</u>	<u>Management and General</u>		<u>Fundraising</u>	<u>Total</u>	<u>Total</u>	
\$ 1,037,711	\$ 48,736,011	\$ 2,456,779	\$ 396,036	\$ 2,852,815	\$ 51,588,826		
164,546	8,375,515	297,499	61,297	358,796	8,734,311		
111,307	5,608,915	190,394	38,715	229,109	5,838,024		
<u>1,313,564</u>	<u>62,720,441</u>	<u>2,944,672</u>	<u>496,048</u>	<u>3,440,720</u>	<u>66,161,161</u>		
-	62,670,803	-	-	-	62,670,803		
142,329	2,381,193	1,300,532	93,981	1,394,513	3,775,706		
230,728	8,713,696	154,564	9,291	163,855	8,877,551		
11,936	748,880	84,800	2,633	87,433	836,313		
-	513,996	36,851	1,137	37,988	551,984		
-	8,537,024	330,526	-	330,526	8,867,550		
13,260	2,235,474	195,810	104	195,914	2,431,388		
8,742	1,316,533	44,670	2,858	47,528	1,364,061		
-	124,506	11,750	1,833,450	1,845,200	1,969,706		
-	-	169,368	-	169,368	169,368		
-	866,791	129,817	1,145	130,962	997,753		
1,559	979,770	551,721	-	551,721	1,531,491		
20,700	995,135	-	-	-	995,135		
(2,923)	540,191	217,823	15,065	232,888	773,079		
441	100,104	-	-	-	100,104		
54,222	2,937,511	349,320	-	349,320	3,286,831		
<u>1,794,558</u>	<u>156,382,048</u>	<u>6,522,224</u>	<u>2,455,712</u>	<u>8,977,936</u>	<u>165,359,984</u>		
-	812,444	(812,444)	-	(812,444)	-		
<u>\$ 1,794,558</u>	<u>\$ 157,194,492</u>	<u>\$ 5,709,780</u>	<u>\$ 2,455,712</u>	<u>\$ 8,165,492</u>	<u>\$ 165,359,984</u>		

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	<u>36,679,465</u>	<u>3,866,226</u>	<u>16,044,653</u>	<u>906,128</u>
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	<u>2,524,275</u>	<u>15,245</u>	<u>121,231</u>	<u>26,215</u>
Total Expenses	<u>120,770,392</u>	<u>5,020,339</u>	<u>20,291,736</u>	<u>1,192,935</u>
Indirect cost allocation	-	-	714,232	-
Total Expenses Including Indirect Cost Allocation	<u>\$ 120,770,392</u>	<u>\$ 5,020,339</u>	<u>\$ 21,005,968</u>	<u>\$ 1,192,935</u>

Other Services	Total	Supporting Services		Total	Total
		Management and General	Fundraising		
\$ 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
<u>1,406,605</u>	<u>58,903,077</u>	<u>2,928,717</u>	<u>454,783</u>	<u>3,383,500</u>	<u>62,286,577</u>
-	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
<u>1,847,621</u>	<u>149,123,023</u>	<u>6,005,204</u>	<u>2,657,820</u>	<u>8,663,024</u>	<u>157,786,047</u>
-	714,232	(714,232)	-	(714,232)	-
<u>\$ 1,847,621</u>	<u>\$ 149,837,255</u>	<u>\$ 5,290,972</u>	<u>\$ 2,657,820</u>	<u>\$ 7,948,792</u>	<u>\$ 157,786,047</u>

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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 7,124,137	\$ 3,667,779
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	3,286,831	3,107,719
Bad debt provision	57,102	82,472
Gain on disposal of equipment	(3,100)	(12,980)
Gain on investments	(1,673,985)	(943,899)
Change in value of split-interest agreements	(125,130)	(27,654)
Changes in assets - (increase) decrease		
Accounts receivable	(1,276,432)	452,935
Promises to give	69,195	10,476
Inventories	6,107	(286,257)
Prepaid expenses	(43,211)	(204,049)
Other assets	(10,748)	(4,714)
Changes in liabilities - increase (decrease)		
Accounts payable and accrued expenses	(798,500)	428,814
Deferred revenue	(167,146)	(55,683)
Net Cash Provided by Operating Activities	<u>6,445,120</u>	<u>6,214,959</u>
Cash Flows from Investing Activities		
Net proceeds from sale of property and equipment	3,100	12,980
Purchases of investments	(3,421,386)	(4,647,261)
Proceeds from sales of investments	2,969,119	4,201,398
Payments for property and equipment and construction in progress	(11,145,240)	(17,376,525)
Net Cash Used in Investing Activities	<u>(11,594,407)</u>	<u>(17,809,408)</u>
Cash Flows from Financing Activities		
Proceeds from long term debt	13,000,000	-
Proceeds from line of credit	900,000	-
Payments on long term debt	(167,091)	-
Payments on line of credit	(6,900,000)	9,000,000
Net Cash Provided by Financing Activities	<u>6,832,909</u>	<u>9,000,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,683,622	(2,594,449)
Cash and Cash Equivalents, Beginning of Year	<u>3,384,090</u>	<u>5,978,539</u>
Cash and Cash Equivalents, End of Year	\$ <u>5,067,712</u>	\$ <u>3,384,090</u>
Supplemental Disclosure of Cash Flow Information		
Interest Paid	\$ <u>509,037</u>	\$ <u>92,504</u>

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

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL 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.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

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 \$280,890 and \$223,788 as of December 31, 2017 and 2016, 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.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

**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, 2017 and 2016.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

**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

Mission related activities 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 \$1,969,706 and \$2,144,733 for the years ended December 31, 2017 and 2016, respectively.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

**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, 2017 and 2016. The returns of the Agency for 2017, 2016, 2015, and 2014 are subject to examination by the respective taxing authorities generally for three years after they were filed.

Accounting Standards Update

The FASB issued ASU 2015-07 "Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)". This standard removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, Fair Value Measurement. The Agency has adopted this standard for the year ended December 31, 2017 and retrospectively for the year ended December 31, 2016.

NOTE 2 ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Grants	\$ 2,491,142	\$ 1,507,365
Contract revenues	1,725,422	1,395,279
Employment and training revenues	572,027	774,984
Other	602,813	437,344
Accounts receivable, gross	5,391,404	4,114,972
Less allowance for doubtful accounts	(280,890)	(223,788)
Accounts receivable, net	<u>\$ 5,110,514</u>	<u>\$ 3,891,184</u>

At December 31, 2017 and 2016, respectively, 28% and 31% of accounts receivable were from two customers.

NOTE 3 PROMISES TO GIVE

Promises to give include contributions from organizations of \$622,801 and \$691,996 at December 31, 2017 and 2016, respectively. Management expects to receive the cash for these promises within one year.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 INVESTMENTS

Investments consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Common stocks	\$ 6,378,969	\$ 5,319,896
Mutual funds	626,613	225,573
Exchange traded funds	2,787,627	2,397,829
Corporate fixed income	4,696,526	4,777,625
Managed futures	553,900	575,012
Hedge funds	2,429,261	2,258,655
Private equity	665,621	477,375
Mineral leases	81,700	62,000
	<hr/>	<hr/>
Total	<u>\$ 18,220,217</u>	<u>\$ 16,093,965</u>

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

	<u>2017</u>	<u>2016</u>
Investments, current	\$ 18,138,517	\$ 16,031,965
Investment, long term	81,700	62,000
	<hr/>	<hr/>
Total	<u>\$ 18,220,217</u>	<u>\$ 16,093,965</u>

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

	<u>2017</u>	<u>2016</u>
Interest	\$ 184,956	\$ 209,873
Dividends	198,469	159,538
Capital gains	3,500	725
Other	1,315	2,707
Royalties	14,793	11,039
Net appreciation (depreciation)	1,775,915	942,174
	<hr/>	<hr/>
Total	<u>\$ 2,178,948</u>	<u>\$ 1,326,056</u>

Investment fees reported as a reduction of investment income were \$77,171 and \$79,588 for the years ended December 31, 2017 and 2016, respectively.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

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: Quoted prices for similar assets or liabilities in active markets; Quoted prices for identical or similar assets or liabilities in inactive markets; Inputs other than quoted prices that are observable for the asset or liability; Inputs that are derived principally from or corroborated by observable market data by correlation or other means. 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, 2017 as compared to December 31, 2016 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 and Hedge Funds: Valued at the NAV of the units held by the Agency at year end. The NAV is used as a practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the fund will sell the investment for an amount different from the reported NAV.

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, 2017 was determined using 2017 production revenue times a factor of 4.5 and fair value for December 31, 2016, was determined using 2016 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.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

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, 2017 and 2016:

2017	Total	Level 1	Level 2	Level 3
Common stocks	\$ 6,378,969	\$ 6,378,969	\$ -	\$ -
Mutual funds	626,613	626,613	-	-
Exchange traded funds	2,787,627	1,253,773	1,533,854	-
Corporate fixed income	4,696,526	-	4,696,526	-
Managed futures (a)	553,900	-	-	-
Hedge funds (a)	2,429,261	-	-	-
Private equity	665,621	-	-	665,621
Mineral leases	81,700	-	-	81,700
Beneficial interest in trusts	1,415,011	-	-	1,415,011
Total	\$ 19,635,228	\$ 8,259,355	\$ 6,230,380	\$ 2,162,332
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 (a)	575,012	-	-	-
Hedge funds (a)	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	\$ 5,987,553	\$ 1,829,256

(a) In accordance with ASC 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items as presented in the Statement of Financial Position.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 FAIR VALUE (CONTINUED)

For the years ended December 31, 2017 and 2016, the changes in assets measured using significant unobservable inputs (Level 3) were as follows:

	Level 3 Assets Year Ended December 31, 2017		
	Private Equity	Mineral Leases	Beneficial Interest In Trusts
Balance, beginning of year	\$ 477,375	\$ 62,000	\$ 1,289,881
Purchases	173,543	-	-
Unrealized gains (losses) relating to instruments still held at the reporting date	14,703	19,700	125,130
Balance, end of year	<u>\$ 665,621</u>	<u>\$ 81,700</u>	<u>\$ 1,415,011</u>

	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	<u>\$ 477,375</u>	<u>\$ 62,000</u>	<u>\$ 1,289,881</u>

The following table summarized investments for which fair value is measured using the net asset value per share practical expedient as of December 31, 2017 and 2016, respectively.

Investment Name	Fair Value		Redemption Frequency	Redemption Notice Period	Unfunded Commitments
	2017	2016			
Managed futures	\$ 553,900	\$ 575,012	Monthly	30 days	None
Hedge funds	2,429,261	2,258,655	Quarterly	45-60 days	None

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 FAIR VALUE (CONTINUED)

Managed Futures

The Agency invests in managed futures that seek to achieve capital appreciation through speculative investing in US and foreign markets including currencies, interest rates, stock indices, agricultural and energy, and precious base metals.

Hedge Funds

The Agency invests in hedge funds that serve as core hedge fund holdings with the goal of providing additional diversification to an overall investment portfolio. The investment objective is to seek capital appreciation. In doing so, the fund seeks to realize attractive risk-adjusted returns, net of fees and expenses, over a three to five-year investment horizon.

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 \$110,316 and \$21,191 the year ended December 31, 2017 and December 31, 2016, respectively. At December 31, 2017 and 2016, the investment is valued at \$993,539 and \$883,223, respectively.

The second trust entitled the Agency to receive at least, semi-annually, 20% of the net income from the trust investments during the trust existence. Twenty-one years after the death of all annuitants of the trust, the Agency was to receive 28.5% of the trust property and related income. In February 2018, the trustee of the non-perpetual trust converted the trust into a private foundation permitted by the Internal Revenue Service. The Agency will have a beneficial interest in the trust in perpetuity effective for the year ending December 31, 2018, which will require a reclassification of the trust from temporarily restricted net assets to permanently restricted net assets. The value of the beneficiary interest in the charitable remainder trust increased \$14,814 and \$6,463 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the asset is valued at \$421,472 and \$406,658, respectively.

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Land and buildings	\$ 72,938,554	\$ 61,493,064
Equipment, furniture, and fixtures	17,213,299	16,256,384
	90,151,853	77,749,448
Less: Accumulated depreciation	(33,035,422)	(30,150,982)
	57,116,431	47,598,466
Plus: Construction in progress	5,774,614	7,434,170
	<u>\$ 62,891,045</u>	<u>\$ 55,032,636</u>

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 LONG-TERM DEBT

At December 31, 2017 and 2016, long-term debt was as follows:

	<u>2017</u>	<u>2016</u>
3.89% note payable to bank, due in monthly installments of \$18,844, including interest, with a balloon payment due 3/31/24 secured by real property.	\$ 3,948,588	\$ -
3.89% note payable to bank, due in monthly installments of \$15,075, including interest, with a balloon payment due 3/31/24 secured by real property.	3,158,870	-
3.89% note payable to bank, due in monthly installments of \$14,133, including interest, with a balloon payment due 3/31/24 secured by real property.	2,961,440	-
3.89% note payable to bank, due in monthly installments of \$13,191, including interest, with a balloon payment due 3/31/24 secured by real property.	<u>2,764,011</u>	<u>-</u>
	12,832,909	-
Less Current Maturities of Long-Term Debt	<u>(232,964)</u>	<u>(-)</u>
Long-Term Debt	<u>\$ 12,599,945</u>	<u>\$ -</u>

Maturities of long-term debt are as follows:

2018	\$ 232,964
2019	242,320
2020	250,673
2021	262,119
2022	272,646
Thereafter	<u>11,572,187</u>
	<u>\$12,832,909</u>

NOTE 9 NET ASSETS

Temporarily Restricted

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

	<u>2017</u>	<u>2016</u>
Time restriction:		
Charitable Remainder Trust	\$ 421,472	\$ 406,658
United Way allocation for 2018 and 2017	612,325	681,520
Simon Foundation	65,143	23,191
Jewish Federation	10,476	10,476
Illinois Lions Club	419	419
Private Individuals/Foundations/Trusts	<u>16,708</u>	<u>20,988</u>
	<u>\$ 1,126,543</u>	<u>\$ 1,143,252</u>

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 NET ASSETS (CONTINUED)

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

	<u>2017</u>	<u>2016</u>
United Way allocation	\$ 681,520	\$ 681,520
Simon Foundation	140,638	137,761
Jewish Federation	88,907	31,428
Illinois Lions Club	-	70
Private Individuals/Foundations/Trusts	<u>35,830</u>	<u>9,834</u>
	<u>\$ 946,895</u>	<u>\$ 860,613</u>

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 10 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 \$75,126 and \$64,378 is presented on the combined statements of financial position as other assets while the vested amount of \$75,126 and \$64,378 is included in accrued expenses as of December 31, 2017 and 2016, 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 \$881,116 and \$896,196 for the years ended December 31, 2017 and 2016, respectively. The assets of this qualified Plan are held in trust and are appropriately not included in the combined financial statements.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 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, 2017, minimum annual rental commitments are as follows:

2018	\$ 3,979,393
2019	3,495,041
2020	2,348,035
2021	1,741,330
2022	1,395,340
Thereafter	<u>5,402,111</u>
	<u>\$ 18,361,250</u>

Facility rent expense amounted to \$4,832,967 and \$5,732,912 as of December 31, 2017 and 2016, respectively.

NOTE 12 COMMITMENTS AND CONTINGENCIES

During the years ended December 31, 2017 and 2016, the Agency maintained a revolving loan agreement with its bank. The maximum credit limit through December 2016 was \$7,000,000. 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 is payable monthly at the bank's LIBOR daily floating rate plus one and one-half percent (1.5%). On December 22, 2017, the revolving loan was renewed with a December 21, 2018 maturity date. Interest is payable monthly at the bank's LIBOR daily floating rate plus (1%). At December 31, 2017 and 2016, the Agency has an outstanding balance on this line-of-credit of \$3,000,000 and \$9,000,000, respectively.

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, 2017 and 2016, respectively. The aggregate potential liability for the Agency is \$11,933,000 and \$13,155,000 for the years ended December 31, 2017 and 2016. 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, 2017 and 2016, as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was \$1,116,108 and \$717,897 at December 31, 2017 and 2016, respectively.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2017 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 \$875,902 and \$1,010,545 as of December 31, 2017 and 2016, respectively.

The Agency has entered into various contracts for construction and remodeling projects, of which approximately \$1,500,000 and \$6,522,000 of work remained to be performed at December 31, 2017 and 2016, respectively.

NOTE 13 AFFILIATION WITH GOODWILL INDUSTRIES INTERNATIONAL

The Agency is affiliated with Goodwill Industries International. The Agency paid dues to Goodwill Industries International amounting to \$169,368 and \$167,544 for the years ended December 31, 2017 and 2016, respectively.

NOTE 14 SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through March 19, 2018, the date the combined financial statements were available to be issued.

In March 2018, the Agency entered into a purchase agreement to acquire real property in the amount of \$3,000,000. In addition, this purchase will require approximately \$2,665,000 for building repairs and improvements.