



**MERS/MISSOURI GOODWILL INDUSTRIES AND
AFFILIATES**

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 20, 2019 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 20, 2019

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

**COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017**

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 1,494,599	\$ 5,067,712
Accounts receivable (net of allowance for potentially uncollectible accounts of \$82,873 and \$280,890 as of December 31, 2018 and 2017, respectively)	6,136,994	5,110,514
Promises to give	607,432	622,801
Inventories	2,991,345	3,089,984
Prepaid expenses	330,285	791,408
Investments, at fair value	16,463,819	18,138,517
Total Current Assets	<u>28,024,474</u>	<u>32,820,936</u>
Other assets	65,815	75,126
Beneficial interest in trusts, at fair value	1,238,026	1,415,011
Property and equipment, net	78,022,682	57,116,431
Construction in progress	233,067	5,774,614
Investments, at fair value	87,728	81,700
Total Assets	<u>\$ 107,671,792</u>	<u>\$ 97,283,818</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Bank Overdraft	\$ 796,475	\$ -
Current maturities of long-term debt	242,320	232,964
Line of credit	9,778,665	3,000,000
Accounts payable	4,042,176	2,542,617
Accrued expenses	4,697,850	4,738,822
Deferred revenue	305,819	350,914
Total Current Liabilities	<u>19,863,305</u>	<u>10,865,317</u>
Long-Term Debt, Less Current Maturities	<u>12,357,567</u>	<u>12,599,945</u>
Total Liabilities	<u>32,220,872</u>	<u>23,465,262</u>
Net Assets		
Without donor restriction		
Undesignated	17,727,171	24,640,338
Invested in property and equipment, net of related debt	55,877,197	47,058,136
	<u>73,604,368</u>	<u>71,698,474</u>
With donor restriction		
Time-restricted for future periods	608,526	1,126,543
Perpetual in nature	1,238,026	993,539
	<u>1,846,552</u>	<u>2,120,082</u>
Total Net Assets	<u>75,450,920</u>	<u>73,818,556</u>
Total Liabilities and Net Assets	<u>\$ 107,671,792</u>	<u>\$ 97,283,818</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, 2018 AND 2017**

	2018		
	Without Donor Restrictions	With Donor Restriction	Total
Public Support			
Contributions of inventory	\$ 66,094,011	\$ -	\$ 66,094,011
Associated organizations	-	703,429	703,429
Other contributions	1,278,614	1,201,354	2,479,968
Total Public Support	<u>67,372,625</u>	<u>1,904,783</u>	<u>69,277,408</u>
Revenue			
Stores and salvage sales	72,351,513	-	72,351,513
Contract services	6,822,012	-	6,822,012
Employment and training	23,380,667	-	23,380,667
Sheltered workshop	1,086,954	-	1,086,954
Other program services	1,137,667	-	1,137,667
Investment loss, net of fees	(693,354)	-	(693,354)
Change in value of beneficial interest in trust	-	(176,985)	(176,985)
Miscellaneous	91,266	-	91,266
Total Revenue	<u>104,176,725</u>	<u>(176,985)</u>	<u>103,999,740</u>
Net Assets Released from Restrictions	<u>2,001,328</u>	<u>(2,001,328)</u>	<u>-</u>
Total Public Support and Revenue	<u>173,550,678</u>	<u>(273,530)</u>	<u>173,277,148</u>
Expenses			
Program Services			
Stores and salvage	129,293,419	-	129,293,419
Contract services	6,229,567	-	6,229,567
Employment and training	25,064,749	-	25,064,749
Sheltered workshop	1,117,775	-	1,117,775
Other services	1,419,197	-	1,419,197
Total Program Services	<u>163,124,707</u>	<u>-</u>	<u>163,124,707</u>
Supporting Services			
Management and general	6,037,653	-	6,037,653
Fundraising	2,482,424	-	2,482,424
Total Supporting Services	<u>8,520,077</u>	<u>-</u>	<u>8,520,077</u>
Total Expenses	<u>171,644,784</u>	<u>-</u>	<u>171,644,784</u>
Change in Net Assets	1,905,894	(273,530)	1,632,364
Net Assets, Beginning of Year	<u>71,698,474</u>	<u>2,120,082</u>	<u>73,818,556</u>
Net Assets, End of Year	<u>\$ 73,604,368</u>	<u>\$ 1,846,552</u>	<u>\$ 75,450,920</u>

	2017		
	Without Donor Restrictions	With Donor Restriction	Total
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>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, net of fees	2,053,818	-	2,053,818
Change in value of beneficial interest in trust	-	125,130	125,130
Miscellaneous	85,627	-	85,627
Total Revenue	<u>107,576,597</u>	<u>125,130</u>	<u>107,701,727</u>
Net Assets Released from Restrictions	<u>946,895</u>	<u>(946,895)</u>	<u>-</u>
Total Public Support and Revenue	<u>172,390,514</u>	<u>93,607</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>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>8,165,492</u>
Total Expenses	<u>165,359,984</u>	<u>-</u>	<u>165,359,984</u>
Change in Net Assets	7,030,530	93,607	7,124,137
Net Assets, Beginning of Year	<u>64,667,944</u>	<u>2,026,475</u>	<u>66,694,419</u>
Net Assets, End of Year	<u>\$ 71,698,474</u>	<u>\$ 2,120,082</u>	<u>\$ 73,818,556</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, 2018**

	Program Services			
	Stores and Salvage	Contract Services	Employment and Training	Sheltered Workshop
Salaries and wages	\$ 31,642,162	\$ 4,193,065	\$ 14,604,996	\$ 631,570
Employee welfare	5,512,234	188,858	2,398,064	69,399
Payroll taxes and benefits	3,455,023	423,601	1,528,091	236,292
Total Salaries and Related Expenses	<u>40,609,419</u>	<u>4,805,524</u>	<u>18,531,151</u>	<u>937,261</u>
Cost of donated goods sold	65,976,366	-	-	-
Professional fees and contracts	1,572,603	558,524	745,829	32,630
Supplies	4,529,445	513,538	549,227	18,638
Telephone	566,088	49,016	411,290	2,926
Postage and shipping	639,729	2	27,863	125
Occupancy	7,634,964	22,190	1,021,832	96,884
Rental and maintenance of equipment	1,858,350	22,964	76,878	1,525
Local transportation	718,650	78,667	727,524	7,436
Printing and publications	34,857	-	56,763	186
Dues to Goodwill Industries International	-	-	-	-
Insurance	512,898	64,810	276,110	10,482
Interest and bank fees	1,576,702	1,621	1,692	817
Client services	13,649	-	953,690	33
Miscellaneous expense	95,623	83,817	675,990	3,568
Bad debt expense (recovery)	32,013	11,749	33,008	(22,010)
Depreciation	2,922,063	17,145	183,482	27,274
Total Expenses	<u>129,293,419</u>	<u>6,229,567</u>	<u>24,272,329</u>	<u>1,117,775</u>
Indirect cost allocation	-	-	792,420	-
Total Expenses Including Indirect Cost Allocation	<u>\$ 129,293,419</u>	<u>\$ 6,229,567</u>	<u>\$ 25,064,749</u>	<u>\$ 1,117,775</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>		
\$ 789,995	\$ 51,861,788	\$ 2,848,353	\$ 358,867	\$ 3,207,220	\$ 55,069,008		
113,523	8,282,078	316,654	45,722	362,376	8,644,454		
177,633	5,820,640	216,318	29,138	245,456	6,066,096		
<u>1,081,151</u>	<u>65,964,506</u>	<u>3,381,325</u>	<u>433,727</u>	<u>3,815,052</u>	<u>69,779,558</u>		
-	65,976,366	-	-	-	65,976,366		
73,943	2,983,529	1,488,934	74,113	1,563,047	4,546,576		
190,742	5,801,590	199,697	5,939	205,636	6,007,226		
11,599	1,040,919	103,911	2,018	105,929	1,146,848		
105	667,824	26,778	1,566	28,344	696,168		
-	8,775,870	405,468	-	405,468	9,181,338		
13,645	1,973,362	203,655	-	203,655	2,177,017		
7,237	1,539,514	89,850	1,852	91,702	1,631,216		
35	91,841	532	1,950,171	1,950,703	2,042,544		
-	-	169,368	-	169,368	169,368		
-	864,300	130,803	1,199	132,002	996,302		
1,796	1,582,628	175,536	-	175,536	1,758,164		
6,694	974,066	-	-	-	974,066		
(1,084)	857,914	160,240	11,839	172,079	1,029,993		
460	55,220	-	-	-	55,220		
32,874	3,182,838	293,976	-	293,976	3,476,814		
<u>1,419,197</u>	<u>162,332,287</u>	<u>6,830,073</u>	<u>2,482,424</u>	<u>9,312,497</u>	<u>171,644,784</u>		
<u>-</u>	<u>792,420</u>	<u>(792,420)</u>	<u>-</u>	<u>(792,420)</u>	<u>-</u>		
<u>\$ 1,419,197</u>	<u>\$ 163,124,707</u>	<u>\$ 6,037,653</u>	<u>\$ 2,482,424</u>	<u>\$ 8,520,077</u>	<u>\$ 171,644,784</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	39,118,417	4,300,614	17,167,827	820,019
Cost of donated goods sold	62,670,803	-	-	-
Professional fees and contracts	1,148,088	490,425	568,535	31,816
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 (recovery)	38,824	(1,359)	(13,605)	75,803
Depreciation	2,702,814	17,861	135,252	27,362
Total Expenses	126,370,227	5,507,023	21,595,463	1,114,777
Indirect cost allocation	-	-	812,444	-
Total Expenses Including Indirect Cost Allocation	\$ 126,370,227	\$ 5,507,023	\$ 22,407,907	\$ 1,114,777

		Supporting Services			
Other Services	Total	Management and General	Fundraising	Total	Total
\$ 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>
<u>-</u>	<u>812,444</u>	<u>(812,444)</u>	<u>-</u>	<u>(812,444)</u>	<u>-</u>
<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 STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,632,364	\$ 7,124,137
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	3,476,814	3,286,831
Bad debt (recoveries) provision	(198,017)	57,102
Gain on disposal of equipment	(33,362)	(3,100)
(Gain) Loss on investments	1,235,443	(1,673,985)
Change in value of beneficial interest in trusts	176,985	(125,130)
Changes in assets - (increase) decrease		
Accounts receivable	(828,463)	(1,276,432)
Promises to give	15,369	69,195
Inventories	98,639	6,107
Prepaid expenses	461,123	(43,211)
Other assets	9,311	(10,748)
Changes in liabilities - increase (decrease)		
Bank Overdraft	796,475	-
Accounts payable and accrued expenses	1,458,587	(798,500)
Deferred revenue	(45,095)	(167,146)
Net Cash Provided by Operating Activities	<u>8,256,173</u>	<u>6,445,120</u>
Cash Flows from Investing Activities		
Net proceeds from sale of property and equipment	33,362	3,100
Purchases of investments	(3,802,306)	(3,421,386)
Proceeds from sales of investments	4,235,533	2,969,119
Payments for property and equipment and construction in progress	(18,841,518)	(11,145,240)
Net Cash Used in Investing Activities	<u>(18,374,929)</u>	<u>(11,594,407)</u>
Cash Flows from Financing Activities		
Proceeds from long term debt	-	13,000,000
Proceeds from line of credit	6,778,665	900,000
Payments on long term debt	(233,022)	(167,091)
Payments on line of credit	-	(6,900,000)
Net Cash Provided by Financing Activities	<u>6,545,643</u>	<u>6,832,909</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3,573,113)</u>	1,683,622
Cash and Cash Equivalents, Beginning of Year	<u>5,067,712</u>	3,384,090
Cash and Cash Equivalents, End of Year	\$ <u>1,494,599</u>	\$ <u>5,067,712</u>
Supplemental Disclosure of Cash Flow Information		
Interest Paid	\$ <u>627,486</u>	\$ <u>509,037</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 combined financial statements of the Agency have been prepared on the accrual basis of accounting.

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.

Cash and Cash Equivalents

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

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

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

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 uncollectible 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 uncollectible accounts is \$82,873 and \$280,890 as of December 31, 2018 and 2017, 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 net assets with or without donor restriction depending on the existence or nature of any donor restrictions. 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 6 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. Net investment return/(loss) is reported on the combined statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment fees.

Beneficial Interest in Trusts

The Agency has been named as an irrevocable beneficiary of perpetual trusts held and administered by independent trustees. Perpetual trusts provide for the distribution of the net income of the trusts to the Agency; however, the Agency will never receive the assets of the trusts. At the date management received notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the combined statements of activities, and a beneficial interest in perpetual trust is recorded in the combined statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the combined statements of financial position, with trust distributions and changes in fair value recognized in the combined statements of activities.

Property and Equipment

The Agency capitalizes property and equipment additions over \$5,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the combined statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Management reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2018.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

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

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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, 2018 and 2017.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Directors has discretionary control over these resources. There is a designated amount that represents investment in property and equipment, net of related debt.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 \$2,042,544 and \$1,969,706 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017.

Accounting Standards Update

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Agency has implemented ASU 2016-14 for the year ended December 31, 2018 and retrospectively for the year ended December 31, 2017 and adjusted the presentation in these combined financial statements accordingly.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying combined financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

Subsequent events have been evaluated by management through March 20, 2019, the date the combined financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the combined statement of financial position date, comprise the following:

	<u>2018</u>
Cash and cash equivalents	\$ 1,494,599
Accounts receivable	6,136,994
Promises to give	607,432
Investments, at fair value	16,463,819
Distributions from beneficial interest in trusts held by others	<u>81,000</u>
	<u>\$ 24,783,844</u>

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Grants	\$ 2,955,189	\$ 2,491,142
Contract revenues	2,387,004	1,725,422
Employment and training revenues	441,072	572,027
Other	436,602	602,813
Accounts receivable, gross	6,219,867	5,391,404
Less allowance for uncollectible accounts	(82,873)	(280,890)
Accounts receivable, net	<u>\$ 6,136,994</u>	<u>\$ 5,110,514</u>

At December 31, 2018 and 2017, respectively, 59% and 28% of accounts receivable were from two customers.

NOTE 4 PROMISES TO GIVE

Promises to give include contributions from organizations of \$607,432 and \$622,801 at December 31, 2018 and 2017, 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 5 INVESTMENTS

Investments consist of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Common stocks	\$ 6,601,111	\$ 6,378,969
Mutual funds	217,300	626,613
Exchange traded funds	1,725,760	2,787,627
Corporate fixed income	3,896,827	4,696,526
Managed futures	-	553,900
Hedge funds	3,109,802	2,429,261
Private equity	913,019	665,621
Mineral leases	87,728	81,700
	<u><u>\$ 16,551,547</u></u>	<u><u>\$ 18,220,217</u></u>

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

	<u>2018</u>	<u>2017</u>
Investments, current	\$ 16,463,819	\$ 18,138,517
Investment, long term	87,728	81,700
	<u><u>\$ 16,551,547</u></u>	<u><u>\$ 18,220,217</u></u>

NOTE 6 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	<p>Inputs to the valuation methodology include:</p> <p>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.</p> <p>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.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 FAIR VALUE (CONTINUED)

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, 2018 as compared to December 31, 2017.

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, 2018 was determined using 2018 production revenue times a factor of 4 and fair value for December 31, 2017, was determined using 2017 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 time leased bonus received.

Beneficial Interest in Trusts: Perpetual trusts are valued based on the fair value of the trust assets multiplied by the Agency's proportionate share of the trust.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 FAIR VALUE (CONTINUED)

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, 2018 and 2017:

2018	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stocks	\$ 6,601,111	\$ 6,601,111	\$ -	\$ -
Mutual funds	217,300	217,300	-	-
Exchange traded funds	1,725,760	-	1,725,760	-
Corporate fixed income	3,896,827	-	3,896,827	-
Managed futures (a)	-	-	-	-
Hedge funds (a)	3,109,802	-	-	-
Private equity	913,019	-	-	913,019
Mineral leases	87,728	-	-	87,728
Beneficial interest in trusts	1,238,026	-	-	1,238,026
Total	<u>\$ 17,789,573</u>	<u>\$ 6,818,411</u>	<u>\$ 5,622,587</u>	<u>\$ 2,238,773</u>
2017	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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	<u>\$ 19,635,228</u>	<u>\$ 8,259,355</u>	<u>\$ 6,230,380</u>	<u>\$ 2,162,332</u>

(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 combined statement of financial position.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 FAIR VALUE (CONTINUED)

For the years ended December 31, 2018 and 2017, the changes in assets measured using significant unobservable inputs (Level 3) were as follows:

	Level 3 Assets		
	Year Ended		
	December 31, 2018		
	<u>Private Equity</u>	<u>Mineral Leases</u>	<u>Beneficial Interest In Trusts</u>
Balance, beginning of year	\$ 665,621	\$ 81,700	\$ 1,415,011
Purchases	210,000	-	-
Unrealized gains (losses) relating to instruments still held at the reporting date	37,398	6,028	(176,985)
Balance, end of year	<u>\$ 913,019</u>	<u>\$ 87,728</u>	<u>\$ 1,238,026</u>

	Level 3 Assets		
	Year Ended		
	December 31, 2017		
	<u>Private Equity</u>	<u>Mineral Leases</u>	<u>Beneficial Interest in Trusts</u>
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>

The following table summarized investments for which fair value is measured using the net asset value per share practical expedient as of December 31, 2018 and 2017, respectively.

Investment Name	Fair Value		Redemption Frequency	Redemption Notice Period	Unfunded Commitments
	2018	2017			
Managed futures	\$ -	\$ 553,900	Monthly	30 days	None
Hedge funds	3,109,802	2,429,261	Quarterly	45-60 days	None

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 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 7 BENEFICIAL INTEREST IN TRUSTS

The Agency is a beneficiary of interest in two irrevocable trusts. Periodic distributions received from the trusts are recorded to other contributions. During 2017, a court ruling was issued declaring one of the trusts to be controlled in perpetuity by the trustee; therefore, the interest in the beneficial trust was reclassified to net assets with donor restrictions perpetual in nature in 2017. 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 ended December 31, 2018.

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 17,315,728	\$ 13,338,686
Building and building improvements	69,577,779	53,361,221
Leasehold improvements	6,530,663	6,238,646
Equipment, furniture, and fixtures	16,757,721	13,136,796
Vehicles	4,286,764	4,076,504
	<u>114,468,655</u>	<u>90,151,853</u>
Less: Accumulated depreciation	<u>(36,445,973)</u>	<u>(33,035,422)</u>
	<u>78,022,682</u>	<u>57,116,431</u>
Plus: Construction in progress	<u>233,067</u>	<u>5,774,614</u>
	<u>\$ 78,255,749</u>	<u>\$ 62,891,045</u>

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 LONG-TERM DEBT

At December 31, 2018 and 2017, long-term debt was as follows:

	<u>2018</u>	<u>2017</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.	\$ 3,876,888	\$ 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.	3,101,511	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.	2,907,666	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>2,713,822</u>	<u>2,764,011</u>
	12,599,887	12,832,909
Less Current Maturities of Long-Term Debt	<u>(242,320)</u>	(232,964)
Long-Term Debt	<u>\$12,357,567</u>	<u>\$12,599,945</u>

Maturities of long-term debt are as follows:

2019	\$ 242,320
2020	250,673
2021	262,119
2022	272,646
2023	283,595
Thereafter	<u>11,288,534</u>
	<u>\$12,599,887</u>

NOTE 10 NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restrictions are restricted for the following purposes or periods.

	<u>2018</u>	<u>2017</u>
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	\$ 608,526	\$ 705,071
Beneficial interest in charitable trust held by others	-	421,472
	<u>608,526</u>	<u>1,126,543</u>
Beneficial interest in trust in perpetuity	<u>1,238,026</u>	993,539
	<u>\$ 1,846,552</u>	<u>\$ 2,120,082</u>

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 NET ASSETS WITH DONOR RESTRICTION (CONTINUED)

Net assets were released from donor restrictions by expiration of time restrictions were \$2,001,328 and \$946,895 for the years ended December 31, 2018 and 2017, respectively.

NOTE 11 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 \$65,815 and \$75,126 is presented on the combined statements of financial position as other assets while the vested amount of \$65,815 and \$75,126 is included in accrued expenses as of December 31, 2018 and 2017, 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. In October, 2018, the Agency amended the 403(b) plan to include an employer match. The Agency will match ½ up to a maximum employee contribution of 6%. The assets of this qualified Plan are held in trust and are appropriately not included in the combined financial statements. The Agency's associated expense amounted to \$50,073 for the year ended December 31, 2018.

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 \$606,276 and \$881,116 for the years ended December 31, 2018 and 2017, 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 12 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, 2018, minimum annual rental commitments are as follows:

2019	\$ 4,299,469
2020	3,095,942
2021	2,509,754
2022	2,185,944
2023	1,676,406
Thereafter	<u>4,164,116</u>
	<u>\$ 17,931,631</u>

Facility rent expense amounted to \$4,913,474 and \$4,832,967 as of December 31, 2018 and 2017, respectively.

NOTE 13 COMMITMENTS AND CONTINGENCIES

During the years ended December 31, 2018 and 2017, the Agency maintained a revolving loan agreement with its bank. The maximum credit limit through December 21, 2018 and December 22, 2017 was \$10,000,000 and \$7,000,000, respectively. Interest is payable monthly at the bank's LIBOR daily floating rate plus one percent (1%). On December 21, 2018, the Agency increased the maximum credit limit to \$15,000,000. The revolving loan was renewed with a December 21, 2019 maturity date. Interest is payable monthly at the bank's LIBOR daily floating rate plus (1%). At December 31, 2018 and 2017, the Agency has an outstanding balance on this line-of-credit of \$9,778,665 and \$3,000,000, 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 \$150,000 and \$75,000 per employee for the years ended December 31, 2018 and 2017, respectively. The aggregate potential liability for the Agency is \$12,886,000 and \$11,933,000 for the years ended December 31, 2018 and 2017. 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, 2018 and 2017, as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was \$1,023,037 and \$1,116,108 at December 31, 2018 and 2017, respectively.

MERS/MISSOURI GOODWILL INDUSTRIES AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 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, 2018 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.

NOTE 14 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 for the years ended December 31, 2018 and 2017, respectively.

NOTE 15 FUNCTIONAL EXPENSES

The combined financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis. Central administration costs are considered management and general and not allocated to different programs.