

Goodwill of Western Missouri and Eastern Kansas
Independent Auditor's Report and Consolidated Financial Statements
December 31, 2018 and 2017

Goodwill of Western Missouri and Eastern Kansas

December 31, 2018 and 2017

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Goodwill of Western Missouri and Eastern Kansas and The Helping Hand of Goodwill Industries Extended Employment Sheltered Workshop, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Goodwill of Western Missouri and Eastern Kansas and The Helping Hand of Goodwill Industries Extended Employment Sheltered Workshop as of December 31, 2018 and 2017, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, in 2018, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The other information listed in the table of contents including the financial statements of The Helping Hand of Goodwill Industries Extended Employment Sheltered Workshop, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Kansas City, Missouri
July 10, 2019

Goodwill of Western Missouri and Eastern Kansas
Consolidated Statements of Financial Position
December 31, 2018 and 2017

Assets

	2018	2017
Cash	\$ 2,527,426	\$ 1,757,215
Accounts receivable, net of allowance; 2018 - \$5,115, 2017 - \$3,673	1,481,523	963,346
Investments	1,022,963	1,581,436
Inventories	1,629,652	1,643,041
Prepaid supplies and expenses	179,888	196,447
Deposits	184,098	198,962
Property and equipment, net of accumulated depreciation; 2018 - \$5,038,810, 2017 - \$4,710,388	2,962,154	2,883,315
Total assets	\$ 9,987,704	\$ 9,223,762

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 717,750	\$ 648,334
Accrued expenses	1,448,740	1,504,339
Deferred revenue	44,186	26,718
Accrued lease obligation	-	480,250
Long-term debt	331,523	70,845
Total liabilities	2,542,199	2,730,486

Net Assets

Without donor restrictions	7,432,595	6,479,563
With donor restrictions	12,910	13,713
Total net assets	7,445,505	6,493,276
Total liabilities and net assets	\$ 9,987,704	\$ 9,223,762

Goodwill of Western Missouri and Eastern Kansas
Consolidated Statements of Activities
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net Assets Without Donor Restrictions		
Revenues, gains and other support		
Sales to the public	\$ 20,308,569	\$ 20,148,216
Industrial and janitorial services	4,448,336	4,258,744
Contributions	254,406	454,972
Governmental agencies and programs	485,127	426,327
Other	1,195,917	130,345
Net assets released from restrictions	<u>7,015</u>	<u>8,036</u>
 Total revenues, gains and other support	 <u>26,699,370</u>	 <u>25,426,640</u>
 Expenses and losses		
Program services		
Retail operations	17,279,127	17,058,607
Workforce development	1,768,081	1,399,094
Sheltered workshop	<u>3,539,301</u>	<u>3,411,486</u>
 Total program services	 22,586,509	 21,869,187
Management and general	2,988,183	3,298,914
Fundraising	<u>171,646</u>	<u>268,026</u>
 Total support services	 <u>3,159,829</u>	 <u>3,566,940</u>
 Total expenses and losses	 <u>25,746,338</u>	 <u>25,436,127</u>
 Change in net assets without donor restrictions	 <u>953,032</u>	 <u>(9,487)</u>
 Net Assets With Donor Restrictions		
Contributions	6,212	7,196
Net assets released from restrictions	<u>(7,015)</u>	<u>(8,036)</u>
 Change in net assets with donor restrictions	 <u>(803)</u>	 <u>(840)</u>
 Change in Net Assets	 952,229	 (10,327)
 Net Assets, Beginning of Year	 <u>6,493,276</u>	 <u>6,503,603</u>
 Net Assets, End of Year	 <u>\$ 7,445,505</u>	 <u>\$ 6,493,276</u>

Goodwill of Western Missouri and Eastern Kansas
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services				Support Services			Total
	Retail Operations	Workforce Development	Sheltered Workshop	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 7,595,134	\$ 1,087,564	\$ 2,079,909	\$ 10,762,607	\$ 1,682,168	\$ 99,929	\$ 1,782,097	\$ 12,544,704
Employee benefits	720,327	204,000	541,212	1,465,539	282,178	13,440	295,618	1,761,157
Payroll taxes	522,952	80,273	151,637	754,862	154,528	6,946	161,474	916,336
Professional fees	421,921	5,042	16,827	443,790	211,662	658	212,320	656,110
Supplies	664,977	19,502	4,672	689,151	36,850	1,212	38,062	727,213
Cost of merchandise	682,191	2,813	299,773	984,777	5,857	-	5,857	990,634
Occupancy	4,710,776	118,435	24,312	4,853,523	181,615	1,969	183,584	5,037,107
Equipment rental	150,354	7,160	43,633	201,147	31,379	-	31,379	232,526
Repairs and maintenance	187,467	1,471	14,551	203,489	39,907	-	39,907	243,396
Software maintenance and support	72,460	12,640	-	85,100	82,036	2,989	85,025	170,125
General insurance	200,495	21,158	69,754	291,407	49,568	3,886	53,454	344,861
Interest	15,534	-	697	16,231	-	-	-	16,231
Employee recruitment	286	-	-	286	65,177	-	65,177	65,463
Marketing	164,421	78,343	94	242,858	67,315	1,101	68,416	311,274
Vehicle operations	663,941	28,452	34,115	726,508	11,606	239	11,845	738,353
Conferences, meetings and trainings	6,365	19,623	3,291	29,279	33,799	973	34,772	64,051
Fund development	22	24	-	46	622	33,926	34,548	34,594
Memberships, dues and subscriptions	1,471	5,365	169,900	176,736	158,093	3,762	161,855	338,591
Community support	1,000	10,461	-	11,461	11,210	-	11,210	22,671
Depreciation	454,890	59,400	83,316	597,606	36,839	-	36,839	634,445
Reversal of loss on lease disposal obligation	-	-	-	-	(307,441)	-	(307,441)	(307,441)
Miscellaneous	42,143	6,355	1,608	50,106	153,215	616	153,831	203,937
Total expenses and losses	\$ 17,279,127	\$ 1,768,081	\$ 3,539,301	\$ 22,586,509	\$ 2,988,183	\$ 171,646	\$ 3,159,829	\$ 25,746,338

See Notes to Consolidated Financial Statements

Goodwill of Western Missouri and Eastern Kansas
Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services			Total Program Services	Support Services			Total
	Retail Operations	Workforce Development	Sheltered Workshop		Management and General	Fundraising	Total Support Services	
Salaries	\$ 7,870,315	\$ 798,668	\$ 1,990,178	\$ 10,659,161	\$ 1,672,828	\$ 96,615	\$ 1,769,443	\$ 12,428,604
Employee benefits	505,098	137,921	544,369	1,187,388	229,588	8,932	238,520	1,425,908
Payroll taxes	536,940	58,010	158,166	753,116	182,360	8,741	191,101	944,217
Professional fees	415,224	13,917	8,769	437,910	252,945	2,016	254,961	692,871
Supplies	528,772	18,426	3,956	551,154	31,067	2,298	33,365	584,519
Cost of merchandise	523,590	15,129	304,899	843,618	6,367	-	6,367	849,985
Occupancy	4,516,198	80,919	18,352	4,615,469	155,510	803	156,313	4,771,782
Equipment rental	139,235	4,057	36,261	179,553	35,981	-	35,981	215,534
Repairs and maintenance	209,434	1,860	10,021	221,315	74,385	-	74,385	295,700
Software maintenance and support	61,268	1,226	-	62,494	82,626	3,723	86,349	148,843
General insurance	239,566	22,693	69,768	332,027	51,076	4,132	55,208	387,235
Interest	7,147	-	2,476	9,623	-	-	-	9,623
Employee recruitment	280	-	200	480	73,376	-	73,376	73,856
Marketing	319,646	130,537	36	450,219	82,599	16,520	99,119	549,338
Vehicle operations	747,761	21,308	34,066	803,135	22,550	1,709	24,259	827,394
Conferences, meetings and trainings	9,515	7,920	2,091	19,526	24,994	1,618	26,612	46,138
Fund development	114	-	-	114	-	117,523	117,523	117,637
Memberships, dues and subscriptions	635	15,910	162,601	179,146	152,426	1,344	153,770	332,916
Community support	655	15,011	-	15,666	75	-	75	15,741
Depreciation	394,359	48,213	65,138	507,710	40,863	-	40,863	548,573
Loss on lease disposal obligation	-	-	-	-	73,857	-	73,857	73,857
Miscellaneous	32,855	7,369	139	40,363	53,441	2,052	55,493	95,856
Total expenses and losses	\$ 17,058,607	\$ 1,399,094	\$ 3,411,486	\$ 21,869,187	\$ 3,298,914	\$ 268,026	\$ 3,566,940	\$ 25,436,127

Goodwill of Western Missouri and Eastern Kansas
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ 952,229	\$ (10,327)
Items not requiring (providing) operating activities cash flows		
Depreciation	634,445	548,573
Net realized and unrealized losses on investments	36,270	3,147
(Gain) loss on disposition of property and equipment	23,897	(822)
(Reversal of) loss on lease disposal obligation	(307,441)	73,857
Changes in		
Accounts receivable	(518,177)	158,913
Inventories	13,389	(51,126)
Prepaid supplies and expenses	16,559	71,514
Deposits	14,864	(6,684)
Accounts payable	41,240	101,510
Accrued expenses	(228,408)	117,599
Deferred revenue	17,468	(32,371)
	<u>696,335</u>	<u>973,783</u>
Net cash provided by operating activities	<u>696,335</u>	<u>973,783</u>
Investing Activities		
Purchase of property and equipment	(375,072)	(1,229,134)
Proceeds from disposition of property and equipment	5,000	18,004
Purchase of investments	(158,028)	(40,811)
Proceeds from disposition of investments	680,231	8,927
	<u>152,131</u>	<u>(1,243,014)</u>
Net cash provided by (used in) investing activities	<u>152,131</u>	<u>(1,243,014)</u>
Financing Activities		
Proceeds from issuance of long-term debt	-	90,991
Principal payments on long-term debt	(20,973)	(308,255)
Principal payments on capital lease obligations	(57,282)	(44,489)
	<u>(78,255)</u>	<u>(261,753)</u>
Net cash used in financing activities	<u>(78,255)</u>	<u>(261,753)</u>
Change in Cash	<u>770,211</u>	<u>(530,984)</u>
Cash, Beginning of Year	<u>1,757,215</u>	<u>2,288,199</u>
Cash, End of Year	<u><u>\$ 2,527,426</u></u>	<u><u>\$ 1,757,215</u></u>
Supplemental Cash Flows Information		
Interest paid	\$ 16,231	\$ 9,623
Capital lease obligation incurred for equipment	338,933	-
Property and equipment additions in accounts payable	105,455	77,279

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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

Nature of Operations

Goodwill of Western Missouri and Eastern Kansas, (the “Organization”) is a not-for-profit organization whose mission is to help people with disabilities or disadvantages by maximizing their vocational potential. The Organization’s revenues and other support are derived primarily from the sale of donated clothing and merchandise, contracts, grants and contributions. The Organization operates in 9 counties in northwest Missouri and northeast Kansas.

Principles of Consolidation

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

Use of Estimates

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

Cash

At December 31, 2018, the Organization’s cash accounts exceeded federally insured limits by approximately \$1,916,000.

Investments and Net Investment Return

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

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Accounts Receivable

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

Inventories

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

Property and Equipment

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

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

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

Long-lived Asset Impairment

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

No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

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 restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. The governing board has designated, from net assets without donor or certain grantor restrictions, net assets for an operating reserve.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some 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 restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Sales to the Public

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

Government Contracts

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

Contributions

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

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Gifts of land, buildings, equipment and other long-lived assets are reported as without donor restrictions revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as with donor restrictions revenue and net assets. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Deferred Revenue

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

Deferred Rent

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

Income Taxes

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

Functional Allocation of Expenses

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

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 2: Change in Accounting Principle

In 2018, the Organization, adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Consolidated Statement of Financial Position

- The consolidated statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Consolidated Statement of Activities

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the Statement of Financial Position.
- Amounts and purposes of Governing Board designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

Note 3: Liquidity and Availability

The Organization regularly monitors liquidity required to meet its general expenditure needs and other obligations as they come due. The Organization has various sources of liquidity at its disposal, including cash and a committed line of credit with a bank that can be drawn upon as needed. *See Note 6* for information about the line of credit arrangement.

Goodwill of Western Missouri and Eastern Kansas
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

The following table reflects the Organization's financial assets as of December 31, 2018 and 2017, reduced by the amounts that are not available to meet general expenditures within one year because of internal board designation and with donor restrictions. In the event that the need arises to utilize the board-designated funds for liquidity purpose, the reserves could be drawn upon at the discretion of the Board.

	<u>2018</u>	<u>2017</u>
Cash	\$ 2,527,426	\$ 1,757,215
Accounts receivable, net	1,481,523	963,346
Investments	1,022,963	1,581,436
Total financial assets	<u>5,031,912</u>	<u>4,301,997</u>
Less:		
Donor restricted funds	(12,910)	(13,713)
Board designated operating reserve funds	<u>(1,022,963)</u>	<u>(1,581,436)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,996,039</u>	<u>\$ 2,706,848</u>

Note 4: Disclosures About Fair Value of Assets

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

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

Goodwill of Western Missouri and Eastern Kansas
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Recurring Measurements

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

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Fixed income mutual funds	\$ 1,022,310	\$ 1,022,310	\$ -	\$ -
Money market funds	653	653	-	-
	<u>\$ 1,022,963</u>	<u>\$ 1,022,963</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2017				
Fixed income mutual funds	\$ 1,531,186	\$ 1,531,186	\$ -	\$ -
Money market funds	250	250	-	-
	<u>\$ 1,531,436</u>	<u>\$ 1,531,436</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2018</u>	<u>2017</u>
Investments recorded at		
Fair value and included above	\$ 1,022,963	\$ 1,531,436
Certificates of deposit - cost	-	50,000
Total investments	<u>\$ 1,022,963</u>	<u>\$ 1,581,436</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2018.

Goodwill of Western Missouri and Eastern Kansas
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Investments

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

Note 5: Property and Equipment

Property and equipment at December 31 consisted of:

	2018	2017
Land and improvements	\$ 368,741	\$ 350,817
Buildings and leasehold improvements	3,127,206	3,124,605
Furniture, fixtures and equipment	3,549,043	3,324,408
Vehicles	748,638	661,031
Construction in process	207,336	132,842
	8,000,964	7,593,703
Less accumulated depreciation	5,038,810	4,710,388
	\$ 2,962,154	\$ 2,883,315

Note 6: Line of Credit

The Organization has a revolving bank line of credit with a maximum loan amount of \$500,000 through October 2019. Effective May 1, 2018 through November 29, 2018, the amount increased to \$1,000,000. Effective from November 30, 2018 through the end of the term, the loan amount reverted back to the amount of \$500,000. At December 31, 2018 and 2017, there were no borrowings against this line. The line is collateralized by substantially all of the Organization's assets. Interest accumulates on any outstanding balance at a rate equal to 2 percent plus one-month LIBOR, which was 4.13 percent and 3.13 percent on December 31, 2018 and 2017, respectively, and is payable monthly.

Goodwill of Western Missouri and Eastern Kansas
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Note 7: Long-term Debt

Long-term debt at December 31 consists of:

	<u>2018</u>	<u>2017</u>
Notes payable (A)	\$ 49,872	\$ 70,845
Capital lease obligations (B)	<u>281,651</u>	<u>-</u>
	<u>\$ 331,523</u>	<u>\$ 70,845</u>

- (A) Notes payable with due dates ranging from November 2021 to December 2021; payable monthly ranging from \$525 to \$945 with interest payable monthly ranging from 3.4 percent to 3.6 percent; collateralized by vehicles and equipment.
- (B) Capital leases include leases covering freightliners and tractors expiring in January 2024; payable monthly ranging from \$1,315 to \$3,952, including interest of 5 percent.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2018 are:

	<u>Long-term Debt (Excluding Leases)</u>	<u>Capital Lease Obligations</u>
2019	\$ 16,245	\$ 63,210
2020	16,829	63,210
2021	16,798	63,210
2022	-	63,210
2023	-	63,210
Thereafter	<u>-</u>	<u>3,702</u>
	<u>\$ 49,872</u>	319,752
Less amount representing interest		<u>38,101</u>
Present value of future minimum lease payments		<u>\$ 281,651</u>

Goodwill of Western Missouri and Eastern Kansas
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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

	2018	2017
Vehicles	\$ 327,071	\$ -
	327,071	-
Less accumulated depreciation	49,969	-
	\$ 277,102	\$ -

Note 8: Operating Leases

Noncancellable operating leases, primarily for retail store locations, expire in various years through 2033. These leases generally contain renewal options for periods ranging from five to ten years and require the Organization to pay part or all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments under operating leases at December 31, 2018, are:

2019	\$ 2,586,414
2020	2,286,758
2021	2,115,848
2022	1,993,471
2023	1,561,781
Later years	7,043,749
Total minimum lease payments	\$ 17,588,021

In accordance with ASC Topic 840, *Leases*, rental agreements with escalating lease payments are recognized in the consolidated statements of activities on a straight-line basis. The difference between the cash payments and amount recognized are recorded as a deferred liability. Additionally, incentives provided to the Organization under the lease agreements are deferred and amortized against rent expense over the term of the lease. The deferred rent liability at December 31, 2018 and 2017 was \$808,428 and \$842,415, respectively, and is included in accrued expenses on the consolidated statements of financial position. Rental expense for all operating leases amounted to \$2,551,230 and \$2,397,819 for the years ended December 31, 2018 and 2017, respectively.

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

In accordance with ASC Topic 420, *Exit or Disposal Cost Obligations*, a lease liability for costs that will continue to be incurred under a lease contract for its remaining term without economic benefit to the entity is recognized at the cease-use date (date lessee discontinues use of the asset). During the year ended December 31, 2013, the Organization elected not to open a planned retail space for which an operating lease was in force. The leased space was vacant and efforts to open a store location had been discontinued until 2018. As such at that time, the Organization recognized a liability for the net present value of payments due under the lease agreement less the net present value of estimated sub-lease income which would be received under the remaining life of the lease. In December 2018, the Organization committed to utilizing the leased space and opening a retail location at the beginning of 2019. Based on this decision, and in accordance with ASC Topic 420, *Exit or Disposal Cost Obligations*, the remaining accrued lease obligation was reversed.

A summary of changes in the accrued lease obligation for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Balance, beginning of year	\$ 480,250	\$ 548,675
Reversal of obligation	(414,625)	-
Obligation recognized	77,843	73,857
Payments	(143,468)	(142,282)
Balance, end of year	\$ -	\$ 480,250

The associated loss recognized during the years ended December 31, 2018 and 2017 was \$77,843 and \$73,857, respectively, and is included in management and general expenses on the accompanying consolidated statements of functional expenses. The loss recognized during the years ended December 31, 2018 and 2017, related to the loss of not sub-leasing the space for which the original lease disposal obligation was reduced by the net present value of estimated sub-lease income. For the year ended December 31, 2018, due to the decision to open the retail location and utilize the space, the loss on lease obligation was offset by the reversal of the remaining liability of \$414,625 and a cumulative catch up adjustment to reinstate deferred rent under the lease for the escalating rent payments resulting in a total cumulative reversal of loss on lease obligation of \$307,441 as presented in the consolidated statement of functional expenses.

Note 9: Retirement Plans

The Organization has a defined contribution plan covering substantially all employees. The Organization contributes a matching contribution up to 4 percent of gross salaries for eligible employees. The Organization's expense related to this plan was \$99,020 and \$72,425 in 2018 and 2017, respectively.

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

An employee 401(a) plan covers employees whose services are provided pursuant to a service contract entered into by the employer under the *Javits, Wagner, O'Day Act*. Benefit amounts are determined by the annual contract. The amounts paid for 2018 and 2017 were \$490,852 and \$478,376, respectively.

Note 10: Significant Estimates and Concentrations

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

Accounts Receivable

Approximately 71 percent and 65 percent of the Organization's accounts receivable balance in 2018 and 2017 is due from two and three agencies, respectively.

Allowance for Accounts Receivable

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

Inventories

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

Functional Allocation of Expenses

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

Revenue

The Organization's industrial and janitorial service contracts and governmental programs are funded by various governmental agencies. These funds were 18 percent of total revenue of the Organization for the years ended December 31, 2018 and 2017.

Other Income

Approximately 80 percent of the Organization's other income in 2018 is from one transaction. During the year ended December 31, 2018, the Organization sold a portion of their territorial rights to another unrelated Goodwill organization for \$960,000.

Goodwill of Western Missouri and Eastern Kansas

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Litigation

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

Note 11: Future Change in Accounting Principle

Accounting for Leases

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

Note 12: Subsequent Events

Subsequent events have been evaluated through July 10, 2019, which is the date the consolidated financial statements were available to be issued.

The Organization amended two lease agreements in June 2019 to extend lease terms for an additional five years through 2024. Lease payments due under the amendments range from \$141,720-\$153,000 per year.

In June, 2019, the Organization entered into a three year purchase commitment for advertising with payments for the years ending December 31, 2019, 2020 and 2021 of \$100,000, \$105,000 and \$110,000, respectively.

Other Information

Goodwill of Western Missouri and Eastern Kansas

The Helping Hand of Goodwill Industries Extended Employment Sheltered Workshop

Statements of Financial Position

December 31, 2018 and 2017

Assets

	<u>2018</u>	<u>2017</u>
Cash	\$ 497,613	\$ 465,181
Accounts receivable	1,063,081	613,537
Due from parent organization	7,189,119	6,698,630
Prepaid supplies and expenses	-	41,005
Equipment, net of accumulated depreciation; 2018 - \$471,552, 2017 - \$388,237	<u>107,636</u>	<u>156,062</u>
Total assets	<u>\$ 8,857,449</u>	<u>\$ 7,974,415</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 120,726	\$ 74,268
Accrued expenses	113,919	137,953
Long-term debt	<u>17,418</u>	<u>23,021</u>
Total liabilities	<u>252,063</u>	<u>235,242</u>

Net Assets

Without donor restrictions	<u>8,605,386</u>	<u>7,739,173</u>
Total net assets	<u>8,605,386</u>	<u>7,739,173</u>
Total liabilities and net assets	<u>\$ 8,857,449</u>	<u>\$ 7,974,415</u>

Goodwill of Western Missouri and Eastern Kansas

The Helping Hand of Goodwill Industries
Extended Employment Sheltered Workshop
Statements of Activities
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues, Gains and Other Support		
Industrial and janitorial services	\$ 4,613,804	\$ 4,467,375
Government agencies and programs	71,009	73,895
Contributions	-	11,666
Other	13,511	6,261
	<u>4,698,324</u>	<u>4,559,197</u>
Expenses and Losses		
Program services		
Work activity center	430,503	409,057
Ability One	3,108,798	3,002,429
	<u>3,539,301</u>	<u>3,411,486</u>
Management and general	292,810	314,056
	<u>292,810</u>	<u>314,056</u>
Total expenses and losses	<u>3,832,111</u>	<u>3,725,542</u>
Change in Net Assets Without Donor Restrictions	866,213	833,655
Net Assets Without Donor Restrictions, Beginning of Year	<u>7,739,173</u>	<u>6,905,518</u>
Net Assets Without Donor Restrictions, End of Year	<u>\$ 8,605,386</u>	<u>\$ 7,739,173</u>

Goodwill of Western Missouri and Eastern Kansas

The Helping Hand of Goodwill Industries
 Extended Employment Sheltered Workshop
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services			Support Services		
	Work Activity Center	Ability One	Total Program Services	Management and General	Total Support Services	Total
Salaries	\$ 195,502	\$ 223,729	\$ 419,231	\$ -	\$ -	\$ 419,231
Direct labor - non-disabled	-	513,972	513,972	-	-	513,972
Direct labor - disabled	153,535	993,171	1,146,706	-	-	1,146,706
Employee benefits	24,512	516,700	541,212	-	-	541,212
Payroll taxes	26,313	125,324	151,637	-	-	151,637
Professional fees	3,433	13,394	16,827	-	-	16,827
Supplies	706	3,966	4,672	-	-	4,672
Cost of merchandise	354	299,419	299,773	-	-	299,773
Management fee to parent organization	-	-	-	292,810	292,810	292,810
Occupancy	6,552	17,760	24,312	-	-	24,312
Equipment rental	-	43,633	43,633	-	-	43,633
Repairs and maintenance	99	14,452	14,551	-	-	14,551
General insurance	11,506	58,248	69,754	-	-	69,754
Interest	-	697	697	-	-	697
Marketing	39	55	94	-	-	94
Vehicle operations	7,851	26,264	34,115	-	-	34,115
Conferences, meetings and trainings	71	3,220	3,291	-	-	3,291
Memberships	-	169,900	169,900	-	-	169,900
Depreciation	-	83,316	83,316	-	-	83,316
Miscellaneous	30	1,578	1,608	-	-	1,608
Total functional expenses	\$ 430,503	\$ 3,108,798	\$ 3,539,301	\$ 292,810	\$ 292,810	\$ 3,832,111

Goodwill of Western Missouri and Eastern Kansas

The Helping Hand of Goodwill Industries Extended Employment Sheltered Workshop Statement of Functional Expenses Year Ended December 31, 2017

	Program Services			Support Services		
	Work Activity Center	Ability One	Total Program Services	Management and General	Total Support Services	Total
Salaries	\$ 201,426	\$ 107,767	\$ 309,193	\$ -	\$ -	\$ 309,193
Direct labor - non-disabled	-	643,595	643,595	-	-	643,595
Direct labor - disabled	115,878	921,512	1,037,390	-	-	1,037,390
Employee benefits	35,943	508,426	544,369	-	-	544,369
Payroll taxes	23,676	134,490	158,166	-	-	158,166
Professional fees	2,529	6,240	8,769	-	-	8,769
Supplies	893	3,063	3,956	-	-	3,956
Cost of merchandise	-	304,899	304,899	-	-	304,899
Management fee to parent organization	-	-	-	314,056	314,056	314,056
Occupancy	6,005	12,347	18,352	-	-	18,352
Equipment rental	-	36,261	36,261	-	-	36,261
Repairs and maintenance	-	10,021	10,021	-	-	10,021
General insurance	11,295	58,473	69,768	-	-	69,768
Interest	-	2,476	2,476	-	-	2,476
Employee recruitment	-	200	200	-	-	200
Marketing	24	12	36	-	-	36
Vehicle operations	9,950	24,116	34,066	-	-	34,066
Conferences, meetings and trainings	840	1,251	2,091	-	-	2,091
Memberships, dues and subscriptions	598	162,003	162,601	-	-	162,601
Depreciation	-	65,138	65,138	-	-	65,138
Miscellaneous	-	139	139	-	-	139
Total functional expenses	\$ 409,057	\$ 3,002,429	\$ 3,411,486	\$ 314,056	\$ 314,056	\$ 3,725,542

Goodwill of Western Missouri and Eastern Kansas
The Helping Hand of Goodwill Industries
Extended Employment Sheltered Workshop
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ 866,213	\$ 833,655
Items not requiring (providing) operating activities cash flows		
Depreciation	83,316	65,138
Gain on disposal of equipment	(500)	(300)
Changes in		
Accounts receivable	(449,544)	(79,512)
Due from parent organization	(490,489)	(694,793)
Supplies and other	41,005	(7,435)
Accounts payable	46,458	18,146
Accrued expenses	(24,034)	2,650
	<u>72,425</u>	<u>137,549</u>
Investing Activities		
Purchase of equipment	<u>(34,390)</u>	<u>(83,297)</u>
	<u>(34,390)</u>	<u>(83,297)</u>
Financing Activities		
Proceeds from issuance of long-term debt	-	26,136
Principal payments on long-term debt	<u>(5,603)</u>	<u>(71,076)</u>
	<u>(5,603)</u>	<u>(44,940)</u>
Change in Cash	32,432	9,312
Cash, Beginning of Year	<u>465,181</u>	<u>455,869</u>
Cash, End of Year	<u><u>\$ 497,613</u></u>	<u><u>\$ 465,181</u></u>