GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

MORRISON BROWN ARGIZ & FARRA, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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MORRISON BROWN ARGIZ & FARRA, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Goodwill Industries of South Florida, Inc. and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Goodwill Industries of South Florida, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 Industries of South Florida, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Morrison, Brown, Argiz & Farra

Miami, Florida
May 15, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31,

ASSETS		**2017**		**2016**
Cash and cash equivalents	$	6,937,449	$	12,118,492
Restricted cash		-		740,104
Accounts and other receivables, net		7,101,656		4,597,999
Pledges receivable		190,000		-
Inventories		9,655,089		8,206,120
Prepaid expenses		150,468		371,015
Other assets		700,642		705,012
Goodwill		1,392,000		1,392,000
Property and equipment, net		40,031,894		41,556,273
TOTAL ASSETS	**$**	**66,159,198**	**$**	**69,687,015**
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	$	3,195,129	$	4,998,654
Accrued expenses and other liabilities		8,600,752		7,695,473
Mortgage notes, notes payable and lines of credit, net		15,246,357		16,693,079
Obligations under capital leases, net		3,325,511		4,374,342
TOTAL LIABILITIES		30,367,749		33,761,548
COMMITMENTS AND CONTINGENCIES (NOTE 21)				
NET ASSETS				
Unrestricted		34,812,917		35,438,046
Unrestricted - board designated		828,532		487,421
Temporarily restricted		150,000		-
TOTAL NET ASSETS		35,791,449		35,925,467
TOTAL LIABILITIES AND NET ASSETS	**$**	**66,159,198**	**$**	**69,687,015**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31,

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Contributions:		
Donated goods sales	$ 57,977,395	$ 53,835,449
Contributions	645,304	470,382
United Way allocation	369,369	375,071
TOTAL CONTRIBUTIONS	58,992,068	54,680,902
Apparel manufacturing	43,269,924	61,225,485
Custodial contracts	8,800,157	9,226,340
Business services	2,955,808	3,268,715
Laundry services	11,433,434	9,190,819
Mission services	2,727,408	2,825,956
Gain on sale of property and equipment	717,143	-
Miscellaneous income	79,900	60,466
TOTAL REVENUES AND SUPPORT	128,975,842	140,478,683
EXPENSES:		
Program services:		
Donated goods operations	49,733,691	45,924,883
Apparel manufacturing	43,811,921	56,298,002
Custodial contracts	8,271,456	8,575,363
Business services	3,550,280	4,036,405
Laundry services	13,303,939	9,932,171
Mission services	5,589,025	5,644,884
TOTAL PROGRAM SERVICES	124,260,312	130,411,708
Supporting services:		
Management and general	4,725,771	4,610,270
Fundraising	273,777	163,206
TOTAL EXPENSES	129,259,860	135,185,184
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(284,018)	5,293,499
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	150,000	-
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	150,000	-
(DECREASE) INCREASE IN NET ASSETS	(134,018)	5,293,499
NET ASSETS - BEGINNING OF YEAR	35,925,467	30,631,968
NET ASSETS - END OF YEAR	**$ 35,791,449**	**$ 35,925,467**

The accompanying notes are an integral part of these consolidated financial statements.

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services						Supporting Services		
	Donated Goods Operations	Apparel Manufacturing	Custodial Contracts	Business Services	Laundry Services	Mission Services	Management and General	Fundraising	Total Expenses
PAYROLL AND RELATED COSTS									
Disabled wages	$ 1,383,958	$ 10,868,956	$ 2,806,082	$ 916,812	$ 1,974,778	$ 372,582	$ 130,001	$ -	$ 18,453,169
Non-disabled wages	19,271,467	6,106,525	2,346,012	1,309,499	2,964,829	3,303,415	2,335,773	78,372	37,715,892
Employee health and welfare benefits	1,221,077	1,079,786	752,996	114,375	274,833	326,137	214,956	6,382	3,990,542
Other payroll-related expenses	1,991,718	1,833,420	656,388	272,509	530,690	267,732	162,561	6,137	5,721,155
Total payroll and related costs	23,868,220	19,888,687	6,561,478	2,613,195	5,745,130	4,269,866	2,843,291	90,891	65,880,758
EXPENSES									
Occupancy	15,164,356	788,452	263,550	469,816	964,653	285,854	198,389	3,229	18,138,299
Professional fees	427,565	1,516,792	466,786	28,530	2,083,064	275,255	850,737	162,764	5,811,493
Materials and supplies (office and commercial)	6,058,107	19,938,861	786,864	111,580	3,033,958	379,367	176,319	7,755	30,492,811
Telephone	457,726	100,865	49,355	61,249	21,417	79,595	151,228	177	921,612
Postage and freight	696,435	390,754	758	563	1,139	7,210	7,022	4,486	1,108,367
Equipment rental and maintenance	105,895	86,054	17,704	16,364	209,990	26,333	45,530	-	507,870
Printing and advertising	37,461	47,683	2,581	21,820	3,245	23,668	17,675	3,364	157,497
Travel	107,732	21,819	44,157	10,566	3,800	33,276	22,033	680	244,063
Fleet and transportation costs	943,426	18,903	29,644	3,449	383,606	3,005	2,803	-	1,384,836
Conferences and meetings	12,775	9,128	1,611	2,425	249	555	16,586	431	43,760
Special assistance to individuals	6,724	-	-	-	-	300	-	-	7,024
Membership dues	2,347	2,849	7,116	1,570	29	46,589	254,887	-	315,387
Interest (including amortization of debt issuance costs of $37,045)	43,676	95,181	2,922	52,458	378,744	39,519	33,925	-	646,425
Miscellaneous	767,274	2,756	102	257	2,854	781	4,175	-	778,199
Total expenses before depreciation and amortization	48,699,719	42,908,784	8,234,628	3,393,842	12,831,878	5,471,173	4,624,600	273,777	126,438,401
Depreciation and amortization	1,033,972	903,137	36,828	156,438	472,061	117,852	101,171	-	2,821,459
Total expenses	**$ 49,733,691**	**$ 43,811,921**	**$ 8,271,456**	**$ 3,550,280**	**$ 13,303,939**	**$ 5,589,025**	**$ 4,725,771**	**$ 273,777**	**$ 129,259,860**

The accompanying notes are an integral part of these consolidated financial statements.

GOODWILL INDUSTRIES OF SOUTH FLORIDA, INC. AND SUBSIDIARIES

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

	Program Services						Supporting Services		
	Donated Goods Operations	Apparel Manufacturing	Custodial Contracts	Business Services	Laundry Services	Mission Services	Management and General	Fundraising	Total Expenses
PAYROLL AND RELATED COSTS									
Disabled wages	$ 1,445,307	$ 11,796,613	$ 3,130,395	$ 1,163,710	$ 1,157,752	$ 390,036	$ 152,100	$ -	$ 19,235,913
Non-disabled wages	18,031,475	5,492,651	2,202,891	1,482,896	1,604,100	3,202,666	2,264,510	50,087	34,331,276
Employee health and welfare benefits	1,033,196	973,801	810,314	123,047	157,077	315,724	203,268	1,998	3,618,425
Other payroll-related expenses	1,762,040	1,632,867	572,851	292,011	259,222	252,910	151,319	3,757	4,926,977
Total payroll and related costs	22,272,018	19,895,932	6,716,451	3,061,664	3,178,151	4,161,336	2,771,197	55,842	62,112,591
EXPENSES									
Occupancy	14,581,722	624,900	284,989	461,247	698,432	239,315	162,328	2,058	17,054,991
Professional fees	441,091	2,497,279	453,466	33,655	1,394,846	394,710	875,672	88,418	6,179,137
Materials and supplies (office and commercial)	5,714,926	30,794,602	854,628	60,864	3,269,921	399,328	95,002	13,672	41,202,943
Telephone	373,129	85,811	45,665	67,771	18,517	75,004	136,539	-	802,436
Postage and freight	536,016	400,021	2,118	612	885	5,089	6,896	2,963	954,600
Equipment rental and maintenance	95,655	90,542	41,854	17,652	177,843	40,467	96,756	-	560,769
Printing and advertising	137,578	99,107	4,432	70,600	3,009	49,500	44,390	29	408,645
Travel	50,718	18,143	64,735	9,244	4,478	40,573	14,588	20	202,499
Fleet and transportation costs	791,641	15,092	62,470	1,814	287,236	7,148	1,343	-	1,166,744
Conferences and meetings	6,037	5,404	1,536	476	928	660	14,104	-	29,145
Special assistance to individuals	3,200	-	-	-	-	666	-	-	3,866
Membership dues	2,208	3,782	273	2,753	43	73,331	248,560	-	330,950
Interest (including amortization of debt issuance costs of $37,045)	83,863	42,869	2,868	61,048	425,395	38,789	33,298	-	688,130
Miscellaneous	2,791	715,705	192	201	405	278	7,706	204	727,482
Total expenses before depreciation and amortization	45,092,593	55,289,189	8,535,677	3,849,601	9,460,089	5,526,194	4,508,379	163,206	132,424,928
Depreciation and amortization	832,290	1,008,813	39,686	186,804	472,082	118,690	101,891	-	2,760,256
Total expenses	**$ 45,924,883**	**$ 56,298,002**	**$ 8,575,363**	**$ 4,036,405**	**$ 9,932,171**	**$ 5,644,884**	**$ 4,610,270**	**$ 163,206**	**$ 135,185,184**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (134,018)	$ 5,293,499
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,821,459	2,760,256
Amortization of debt issuance costs	37,045	37,045
Gain on sale of property and equipment	(717,143)	-
Inventory adjustment	-	100,000
Decrease (increase) in assets:		
Restricted cash	740,104	-
Accounts and other receivables, net	(2,503,657)	1,256,311
Pledges receivable	(190,000)	30,000
Inventories	(1,448,969)	4,820,531
Prepaid expenses	220,547	(50,630)
Other assets	4,370	(633)
(Decrease) increase in liabilities:		
Accounts payable	(1,803,525)	(672,379)
Accrued expenses and other liabilities	905,279	1,274,049
Deferred revenue	-	(2,378,496)
TOTAL ADJUSTMENTS	(1,934,490)	7,176,054
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(2,068,508)	12,469,553
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	512,805	-
Purchases of property and equipment	(2,014,088)	(1,606,154)
NET CASH USED IN INVESTING ACTIVITIES	(1,501,283)	(1,606,154)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from mortgage notes, notes payable and lines of credit, net	29,549,453	30,236,420
Payments on mortgage notes, notes payable and lines of credit, net	(30,033,220)	(32,315,955)
Payments on obligations under capital leases	(1,127,485)	(1,140,310)
NET CASH USED IN FINANCING ACTIVITIES	(1,611,252)	(3,219,845)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,181,043)	7,643,554
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	12,118,492	4,474,938
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 6,937,449**	**$ 12,118,492**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	**$ 603,927**	**$ 652,285**
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Settlement of note payable through sale of property and equipment	**$ 1,000,000**	**$ -**

The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION

Goodwill Industries of South Florida, Inc. is a not-for-profit organization established in 1959. Big Blue Box Productions, Inc. ("Big Blue Box"), a wholly owned subsidiary, is a corporation formed in April 2010 to create, produce, sell, donate or purchase articles, films or other materials that further the objective or purpose of Goodwill Industries of South Florida, Inc. Big Blue Box was dissolved as of December 31, 2016. Goodwill South Florida TEP, LLC ("Goodwill TEP"), a Florida limited liability company, was formed in December 2015 to operate for the benefit of its sole member, Goodwill Industries of South Florida, Inc. Goodwill TEP, Big Blue Box and Goodwill Industries of South Florida, Inc. are collectively referred to as "Goodwill" in the accompanying consolidated financial statements.

The purpose of Goodwill is to help people with disabilities and special needs make the transition to independence. Goodwill provides vocational rehabilitation, training, employment and placement to help people achieve employment and self-sufficiency. Goodwill operates numerous entrepreneurial activities such as collecting and selling donated materials, manufacturing and contracting services with the private and public sectors. These activities serve as tools for the training and employment of individuals with disabilities and special needs as well as providing revenues to support Goodwill's mission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Goodwill Industries of South Florida, Inc. and the accounts of Big Blue Box and Goodwill TEP. All intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The consolidated financial statements of Goodwill have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Net assets and revenues and support are classified into three categories based on the existence or absence of donor-imposed restrictions. The three net asset categories are as follows:

- Unrestricted - Net assets that are free of donor-imposed restrictions; all revenues, gains and losses that are not changes in permanently or temporarily restricted net assets. Goodwill has unrestricted, board designated net assets resulting from contributions whose use by Goodwill is not limited by donor-imposed stipulations. The Board of Directors has earmarked such funds not to be expended for an unspecified period of time.

- Temporarily Restricted - Net assets whose use by Goodwill is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of Goodwill pursuant to those stipulations.

- Permanently Restricted - Net assets whose use by Goodwill is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of Goodwill. As of December 31, 2017 and 2016, Goodwill did not have any permanently restricted net assets.

Significant Customers and Concentrations

Goodwill has several large contracts with Defense Supply Center Philadelphia ("DSCP") and US Army Natick Soldier System Center ("Natick") for the production of military apparel. Sales to DSCP and Natick accounted for approximately $37,998,000 or 88% and approximately $57,483,000 or 94% of total apparel manufacturing sales during the years ended December 31, 2017 and 2016, respectively. Additionally, the amounts due from DSCP and Natick for the production of military apparel accounted for approximately $3,511,000 or 95% and approximately $1,203,000 or 96% of the total manufacturing accounts receivable balance of approximately $3,710,000 and $1,248,000 at December 31, 2017 and 2016, respectively. During the years ended December 31, 2017 and 2016, three customers and two customer represented approximately 91% and 89%, respectively, of revenues generated from laundry services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

All highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents.

Restricted Cash

Restricted cash consists of funds held in a separate bank account for debt service of the New Market Tax Credit financing (Note 10). The restriction was released by the bank as of December 31, 2017.

Accounts and Other Receivables, Net

Accounts and other receivables are stated at the amount Goodwill expects to collect. Management monitors the collection status of its receivable balance on an ongoing basis. Based on management's analysis of possible bad debts, the allowance for doubtful accounts is $100,000 as of December 31, 2017 and 2016. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Inventories consist of merchandise purchased and used in Goodwill's store operations as well as its manufacturing process, including the production of aprons, flags, garrison caps, army combat uniforms, army combat pants, improved hot weather combat uniforms, and fleece jackets. Inventories also include purchase linens such as bed linens, patient gowns, lab coats and rags used in the laundry operation. Inventories are stated at the lower of cost (first-in, first-out basis) or net realizable value ("NRV"). Finished goods inventory includes the cost of applicable labor and materials. In addition, Goodwill records inventory for donated goods at estimated fair value, which is determined based on its future economic benefit. New goods inventory is recorded at the lower of cost or NRV.

Prepaid Expenses

Prepaid expenses consist primarily of prepaid insurance and other professional fees incurred in connection with Goodwill's stores and future projects. These costs are amortized over the period benefitted.

Goodwill

Goodwill evaluates its goodwill on an annual basis in the fourth quarter or more frequently if management believes indicators of impairment exist. Such indicators could include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. Goodwill first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including its goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts a two-step quantitative goodwill impairment test. The first step of the impairment test involves comparing the fair value of the applicable reporting unit with its carrying value. Goodwill estimates the fair values of its reporting units using discounted cash flows. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, management performs the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. The amount, by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. Goodwill's evaluation of its goodwill completed during the years ended December 31, 2017 and 2016 resulted in no impairment losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, Net

Property and equipment are stated at cost or, if donated to Goodwill, at fair value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as temporarily restricted support. Depreciation and amortization of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets.

Estimated useful lives of property and equipment are as follows:

Asset	Life
Buildings and improvements	39 - 50 years
Equipment	5 - 15 years
Leasehold improvements	Shorter of useful life or lease term
Other improvements	10 years
Equipment under capital leases	Shorter of useful life or lease term

Long-Lived Assets

Goodwill reviews its long-lived assets for possible impairment at least annually, and more frequently if circumstances warrant. Impairment is determined to exist when estimated amounts recoverable through future cash flows from operations on an undiscounted basis are less than the long-lived asset carrying values. If a long-lived asset is determined to be impaired, it is written down to its estimated fair value to the extent that the carrying amount exceeds the fair value of the long-lived asset. No write-downs for impairment of long-lived assets were recorded during the years ended December 31, 2017 or 2016.

Contributions

Contributions received or made, including unconditional promises to give, are recognized as revenues in the period received or made at their estimated fair value. Contributions are considered to be available for the general programs of Goodwill unless specifically restricted by the donor. Goodwill records gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, Goodwill reports the support as unrestricted.

Apparel Manufacturing Sales

Apparel manufacturing sales consist of products manufactured for a fixed or determinable fee based on contractual terms. Product revenue is recognized when delivery has occurred and collectability is probable. Goodwill does not offer price concessions or discounts. Goodwill is generally not contractually obligated to accept returns, except for defective products. Based on management’s analysis of historical returns, it has been determined that an allowance for estimated returns is not necessary.

Custodial Contracts, Business Services, Laundry Services and Mission Services Revenues

Program services are supported by grants and/or contracts. Revenues are recorded as related expenditures are incurred and services are performed under the provisions of the agreements. Revenue for training contracts that require certain performance standards to be met by the participants is recognized as performance standards are met, which approximately matches the expenses incurred in the program. The unexpended portion of such revenues may be available for application to approved expenditures in future years or repayable to granting agencies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing services have been allocated on a functional basis among apparel manufacturing, donated goods operations, custodial contracts, business services, laundry services, mission services, management and general and fundraising expenses. Allocations are generally made on a specific identification basis by program activity and supporting services benefited. Occupancy, depreciation and amortization expenses are allocated to cost centers based on square footage.

Taxes Collected from Customers and Remitted to Governmental Authorities

Goodwill records taxes collected from customers, which are directly imposed on a transaction with that customer, on a net basis. That is, in instances in which Goodwill acts as a collection agent for a taxing authority by collecting taxes that are the responsibility of the customer, Goodwill records the amount collected as a liability and relieves such liability upon remittance to the taxing authority without impacting revenues or expenses.

Shipping and Handling Costs

Shipping and handling costs of approximately $1,092,000 and $940,000 are included in program services within "Postage and freight" in the Consolidated Statements of Functional Expenses for the years ended December 31, 2017 and 2016, respectively.

Deferred Debt and Lease Costs

Goodwill capitalizes costs associated with the issuance of debt and lease agreements. These costs are amortized on a straight-line method, which approximates the effective interest rate method, over the term of the debt or lease. Amortization expense for each of the years ended December 31, 2017 and 2016, included in "Interest" and "Depreciation and amortization" in the Consolidated Statements of Functional Expenses was $115,699.

Income Taxes

Goodwill Industries of South Florida, Inc. is registered with the Internal Revenue Service ("IRS") as a non-profit organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from income taxes, except for any taxes which may arise from unrelated business income. Goodwill TEP is a Florida limited liability company and has as its sole member, Goodwill Industries of South Florida, Inc. Goodwill TEP is a disregarded entity for tax purposes. Management believes there is no unrelated business income.

Big Blue Box is a C Corporation. At December 31, 2016, Big Blue Box filed a final return for both Federal and the State Florida.

Collectively, Goodwill recognizes and measures tax positions based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively.

The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where Goodwill files income tax returns. Goodwill is generally no longer subject to U.S. Federal or state examinations by tax authorities for years before 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Financial instruments, which potentially subject Goodwill to concentrations of credit risk, consist primarily of cash and cash equivalents maintained in financial institutions in excess of the Federal Deposit Insurance Corporation insured limit of $250,000. By policy, Goodwill limits the amount of credit risk exposure from any one financial institution. Although cash balances may exceed federally insured limits at times during the year, Goodwill has not experienced and does not expect to incur any losses in such accounts.

Reclassifications

Certain items in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation.

Recent Accounting Pronouncements

Simplifying the Test for Goodwill Impairment

In January 2017, the Financial Accounting Standards Board ("FASB") issued an accounting standard update to simplify the accounting for goodwill impairment. The update removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. The update specifies that a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. The update is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for any impairment tests performed after January 1, 2017. Goodwill is currently evaluating the effect the update will have on its consolidated financial statements.

Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the FASB issued an accounting standard update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. Goodwill is currently evaluating the effect the update will have on its consolidated financial statements.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard update to reduce diversity in practice on eight specific statement of cash flows issues. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. Goodwill is currently evaluating the effect the update will have on its consolidated financial statements.

Lease Accounting

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Goodwill is currently evaluating the effect the update will have on its consolidated financial statements but expects upon adoption that the update will have a material effect on its financial condition due to the recognition of a right-of-use asset and related lease liability. Goodwill does not anticipate the update having a material effect on its results of operations or cash flows, though such an effect is possible. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

Revenue from Contracts with Customers

In May 2014, FASB issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016. Goodwill is currently evaluating the effect the update will have on its consolidated financial statements.

Recently Adopted Accounting Pronouncement

Lower of Cost or Net Realizable Value for Inventory

In July 2015, the FASB issued an accounting standard update which affects the measurement of inventory. The update requires inventory to be measured using the lower of cost and net realizable value. Net realizable value is defined in the update as the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. The update applies to all types of inventory except inventory measured using LIFO or the retail inventory method. The update is effective prospectively for fiscal years beginning after December 15, 2016. This update did not have a material impact on Goodwill's consolidated financial statements.

Subsequent Events

Goodwill has evaluated subsequent events through May 15, 2018, which is the date the consolidated financial statements were available to be issued. After 23 years, the advertising inserting operation contract with the Miami Herald ended in February 2018. The first floor area occupied by the Miami Herald has been converted to apparel manufacturing space to facilitate the expansion of additional sewing manufacturing contracts.

3. ACCOUNTS AND OTHER RECEIVABLES, NET

Accounts and other receivables consists of the following at December 31:

	2017	2016
Federal government	$ 1,544,886	$ 1,289,301
State government	1,236,140	1,199,289
Commercial	4,420,630	2,209,409
	7,201,656	4,697,999
Less allowance for doubtful accounts	(100,000)	(100,000)
	$ 7,101,656	**$ 4,597,999**

There was no bad debt expense for the years ended December 31, 2017 and 2016.

4. PLEDGES RECEIVABLE

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The present value discount is not material to the consolidated financial statements. At December 31, 2017, pledges receivable totaled $190,000 and are payable over the next 3 years. There were no pledges receivable at December 31, 2016. All pledges receivable are expected to be collected; therefore, no allowance for doubtful accounts is recorded in these financial statements.

5. INVENTORIES

Inventories consists of the following at December 31:

	2017	2016
Raw materials	$ 4,667,894	$ 3,197,979
Work in progress	180,342	376,251
Finished goods	721,487	636,047
Supplies	20,683	24,964
	5,590,406	4,235,241
Donated goods	3,130,961	3,025,237
New goods	115,082	-
Linen	818,640	945,642
	$ 9,655,089	**$ 8,206,120**

6. OTHER ASSETS

Other assets consists of the following at December 31:

	2017	2016
Security deposits	$ 150,642	$ 155,012
Split-dollar insurance plan	550,000	550,000
	$ 700,642	**$ 705,012**

Split-dollar Insurance Plan

In 2003, the Board of Directors of Goodwill approved a split-dollar life insurance plan to provide retirement income to the former President and CEO of Goodwill. The retirement income arrangement was provided for his services of over twenty years in the absence of an adequate retirement plan available through standard arrangements. The split-dollar arrangement provides for the periodic premiums required under the life insurance contract which are treated as a series of loans secured by the life insurance policy.

The former President and CEO of Goodwill (the “insured”) owns the insurance policy. Goodwill (the “employer”) reflects an asset for its secured interest equal to the total of all premiums paid on behalf of the insured which totaled $550,000 as of December 31, 2017 and 2016. The face value of the life insurance policy is $1,800,000. The repayment of the loans will be made from death benefits on the insured. The loans are collateralized by the life insurance policy for which the net cash surrender value of the policy at December 31, 2017 and 2016 was $900,981 and $763,100, respectively.

In the event that the insured voluntarily terminates his participation in the plan, the insured is to repay the employer the cumulative premiums plus accumulated interest at the applicable federal rate through the date the premiums were funded. The repayment will be accomplished first through the cash surrender value of the insurance policy and the remaining portion will be paid in cash from the insured. The plan meets IRS applicable requirements and is considered a common practice among non-profit organizations in order to retain valuable executives.

6. OTHER ASSETS (CONTINUED)

Split-dollar Insurance Plan (Continued)

Although the plan is expected to be for an indefinite period of time, the employer also retains the right to terminate the plan, provided that the policy continues in effect in accordance with its terms, and as such, termination by the employer will not accelerate the recovery of the cumulative premiums made. The planned periodic annual premium is $40,000. Failure to pay a planned periodic premium will not, in itself, cause the policy to terminate so long as the excess amounts funded over the periodic annual premium in previous years cover the annual premium required under the policy for any particular year not funded. The employer has no obligation to make any premium payments for the plan.

7. GOODWILL

Goodwill represents the excess of the purchase price over the fair values of the net assets of the businesses acquired. Goodwill acquired two companies on May 13, 2003 and May 15, 2003. The companies were purchased for a total of $2,500,000.

The transactions were accounted for as purchases and the cost of the transactions exceeded the fair value of assets acquired by $1,392,000. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually.

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following at December 31:

	2017	2016
Land	$ 4,582,013	$ 4,692,339
Buildings and improvements	27,905,495	28,333,953
Equipment	25,437,674	23,794,385
Leasehold improvements	6,804,717	6,771,566
Other improvements	245,145	358,984
Equipment under capital leases	8,131,457	8,131,457
	73,106,501	72,082,684
Less accumulated depreciation and amortization (including accumulated amortization for capital leases of $2,001,635 and $1,606,851 in 2017 and 2016, respectively)	(33,074,607)	(30,526,411)
	$ 40,031,894	**$ 41,556,273**

Total depreciation and amortization expense of property and equipment for the years ended December 31, 2017 and 2016 was approximately $2,743,000 and $2,682,000, respectively.

9. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consists of the following at December 31:

	2017	2016
Accrued payroll	$ 2,450,040	$ 2,232,148
Reserve for worker's compensation (NOTE 19)	1,131,753	708,107
Sales tax payable	288,320	272,258
Miami Herald advance	125,000	125,000
Retirement plan employer match (NOTE 18)	406,880	372,599
Deferred compensation (NOTE 20)	200,736	139,628
Deferred rent (NOTE 13)	3,473,050	3,159,213
Other liabilities	524,973	686,520
	$ 8,600,752	**$ 7,695,473**

10. MORTGAGE NOTES, NOTES PAYABLE AND LINES OF CREDIT, NET

Mortgage notes, notes payable and lines of credit, net consists of the following at December 31:

	2017	2016
Revolving line of credit with maximum borrowings of $6,000,000 with a balloon payment due September 22, 2019 with interest due monthly at LIBOR plus 2.65% (4.18% and 3.40% at December 31, 2017 and 2016), collateralized by accounts receivable.	$ 332,938	$ -
Promissory note (new market tax credit financing - A Loan), with interest due monthly at 4.75% maturing on January 11, 2021, collateralized by property.	2,998,060	2,998,060
Promissory note (new market tax credit financing - B Loan), with interest due monthly at 2.75% maturing on July 11, 2053, collateralized by property.	895,525	895,525
Industrial Development Revenue Bonds issued by the Miami-Dade County Industrial Development Authority on December 17, 2010 (Series 2010) with monthly principal and interest payments at variable rates determined on a monthly basis, maturing on December 1, 2030. Bonds are collateralized by properties and equipment (NOTE 12). The interest rate was 2.31% and 1.87% at December 31, 2017 and 2016, respectively.	11,112,448	12,929,153
Total	15,338,971	16,822,738
Less deferred loan costs	(92,614)	(129,659)
Total mortgage notes, notes payable and lines of credit, net of deferred loan costs	**$ 15,246,357**	**$ 16,693,079**

10. MORTGAGE NOTES, NOTES PAYABLE AND LINES OF CREDIT, NET (CONTINUED)

The aggregate amount of required payments on debt is as follows for the years ending December 31:

2018	$ 1,164,102
2019	845,826
2020	860,747
2021	3,873,992
2022	891,383
Thereafter	7,702,921
	$ 15,338,971

Interest expense on all obligations, including obligations under capital leases, for the years ended December 31, 2017 and 2016 was $609,380 and $651,085, respectively.

In 2013, Goodwill completed New Market Tax Credit ("NMTC") financings related to the purchase and construction of expanded facilities. The NMTC program is administered by the United States Treasury and is designed to encourage capital investment and business operations within distressed or highly distressed census tracts. The NMTC transactions provides for favorable financing typical of this type of tax credits-based deals.

The NMTCs are subject to 100% recapture for a period of seven years as described in the Internal Revenue Code. Goodwill must comply with various regulation and contractual provisions that apply to NMTC arrangements. Noncompliance could result in projected tax benefits not being realized, and therefore require Goodwill to indemnify the tax credit investors for any loss or recapture of NMTCs. Management does not anticipate that any credit recapture events will occur.

In conjunction with the NMTC transactions, Goodwill entered into put/call agreements with a lender. The put/call agreements will either obligate or entitle Goodwill to repurchase the B Loan at the end of the NMTC's mandatory seven year compliance period. When the put/call is exercised, Goodwill would acquire the B Loan. Goodwill would then become the holder of the note effectively eliminating the liability. The put option price was set at $8,955 and the call option price was set at the fair market value of the B Loan.

It is anticipated that the put option will be exercised but no assurance can be placed on this. If the put option is exercised, no principal amounts will be paid by Goodwill on the B Loan. The value attributed to the put/call is considered de minimis and has not been recorded in the accompanying consolidated financial statements.

11. OBLIGATIONS UNDER CAPITAL LEASES, NET

During October 2013, Goodwill leased certain machinery and equipment under agreements that are classified as capital leases at a fixed rate of 4.31% for 84 months. The cost of the equipment under capital leases was $8,131,457 at December 31, 2017 and 2016, and is included in the Consolidated Statements of Financial Position as property and equipment.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments at December 31, 2017, are as follows:

Years Ending December 31,	
2018	$ 1,268,627
2019	1,268,627
2020	1,057,190
Total minimum lease payments	3,594,444
Less: deferred lease costs	52,435
Less: amount representing interest	216,498
Present value of net minimum lease payments	**$ 3,325,511**

12. BOND TRANSACTIONS

On May 13, 2003, the Miami-Dade County Industrial Development Authority ("IDA") issued Industrial Development Revenue Bonds (Goodwill Industries of South Florida, Inc. Project) Series 2003 in the amount of $9,400,000. In December 17, 2010, Goodwill retired the 2003 Bond Series and a new 2010 Bond Series was issued with a par amount of $17,480,000 and a maturity date of December 1, 2030. The proceeds were used to refinance the Series 2003, refinance several existing loans that were used to purchase facilities, inventory and equipment, and pay swap termination fees. The collateral for the bond includes facilities located at 2121 NW 21st Street, 2111 NW 22nd Avenue, 461 Palm Avenue, 24311 South Dixie Highway, 2104 W. Commercial Blvd., 550 E. Oakland Park Blvd and equipment located in the main facility.

The financing consists of tax exempt bank qualified bonds and taxable bank loans. The tax exempt bank qualified loans are broken down into two series. Series 2010A has a principal amount of $7,000,000 and Series 2010B has a principal amount of $7,044,600. Both series have a variable interest rate equal to 69% of one-month LIBOR plus 2.10% which was 2.31% and 1.87% at December 31, 2017 and 2016, respectively. Principal payments for both series started on August 1, 2015 and have a maturity date of December 1, 2030. The principal balance fully amortizes to zero at final maturity and monthly principal and interest payments vary as the interest rate varies. There is a call option, at the option of the bank with a required one-year notice, which includes an interest rate reset at June 30, 2016 and on June 30 of each fifth year thereafter.

The bank loan agreements contain financial covenants that require Goodwill to maintain a minimum fixed charge coverage ratio. In September 2014, the bank amended the agreement to include a modified minimum ratio of 1.05. The amended agreement requires a ratio of 1.10 after March 2015. Management believes that Goodwill was in compliance with the financial covenants at December 31, 2017.

13. OPERATING LEASE OBLIGATIONS

Goodwill is obligated under various operating leases for store facilities. These store leases provide for the payment by Goodwill of the property taxes and are subject to yearly increases, not to exceed 5%, based on the consumer price index.

At December 31, 2017, the aggregate approximate rental commitments for non-cancelable operating leases are as follows:

Years Ending December 31,	
2018	$ 8,641,000
2019	7,798,000
2020	7,610,000
2021	7,262,000
2022	6,046,000
Thereafter	31,834,000
	$ 69,191,000

Rental expense for store facilities is calculated on a straight line basis and approximated $11,027,000 and $10,297,000 for the years ended December 31, 2017 and 2016, respectively, and is included within the caption of occupancy in the Consolidated Statements of Functional Expenses. Rent expense is deferred and amortized over the life of the leases. As of December 31, 2017 and 2016, deferred rent of $3,473,050 and $3,159,213, respectively, is included in accrued expenses and other liabilities in the accompanying Consolidated Statements of Financial Position.

14. BUSINESS LEASE

During October 2004, Goodwill ("Landlord") entered into a business lease agreement with the City of Miami (the "City", "Tenant") to use the land owned by Landlord, and the building built on it with monies from the City, for a municipal parking garage and incidental storage and office uses related to such garage operations. The parking garage is to be operated, managed and administered by the Tenant in substantially the same manner as all other off-street parking facilities belonging to the City of Miami Department of Off-Street Parking. The lease is for 20 years for $1 per year. Landlord has exclusive use of one hundred fifty (150) parking spaces, for parking only, at no rental charge. Upon the termination of the lease, the Tenant agrees that it will peacefully surrender and deliver the premises to Landlord. Accordingly, at December 31, 2017 and 2016, this building is not reflected as an asset in the consolidated financial statements.

15. ENDOWMENT

Goodwill's endowment consists of a special fund established to aid the mission of training, employment and job placement for people with disabilities. The endowment may include donor restricted and board designated endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA"). Goodwill has interpreted the FUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Goodwill classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Goodwill in a manner consistent with the standard of prudence prescribed by FUPMIFA.

In accordance with the FUPMIFA, Goodwill considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of Goodwill and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of Goodwill
(7) The investment policies of Goodwill.

For the year ended December 31, 2017 and 2016, Goodwill has elected not to add appreciation for cost of living or other spending policies to any permanently restricted endowment for inflation and other economic conditions. There were no such endowments for the year ended December 31, 2017 and 2016.

Summary of endowment net assets at December 31, 2017:

	Unrestricted
Board designated	$ 185,000
Total endowment net assets	**$ 185,000**

15. ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended December 31, 2017:

	Unrestricted
Endowment net assets, beginning	$ 135,000
Contributions	50,000
Endowment net assets, ending	**$ 185,000**

Summary of unrestricted endowment assets at December 31:

	2017	2016
Cash	$ 185,000	$ 135,000
Total endowment assets	**$ 185,000**	**$ 135,000**

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires Goodwill to retain as a fund of perpetual duration. There were no such deficiencies in the endowment funds as of December 31, 2017.

Return Objectives and Risk Parameters

Goodwill has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Goodwill expects its endowment funds, over time, to provide a rate of return in excess of the principal. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Goodwill relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy and How the Investment Objectives Relate to Spending Policy

Goodwill employs a total return endowment spending policy that establishes the amount of endowment investment return that is available to support current needs and restricted purposes. Goodwill has an endowment variable spending policy up to 5% of the 3-year average of fair market value at the board's discretion, which provides for steady growth in annual spending. In establishing this policy, Goodwill considered the long-term expected return on its endowment. Accordingly, over the long term, Goodwill expects to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

16. DONATED SERVICES

Goodwill recognizes donated services from Miami-Dade and Broward Public Schools. The revenues for such services classified under mission services in the Consolidated Statements of Activities totaled $104,160 and $102,160 for the years ended December 31, 2017 and 2016, respectively. Expenses for the same amount were also recognized as non-disabled wages in training programs. The value of the services donated was based on yearly teaching salaries provided by the Miami-Dade and Broward Public Schools.

17. MISSION SERVICES FEES

Mission services fees consisted of the following for the years ended December 31:

	2017	2016
Federal and State vendor contracts	$ 1,651,357	$ 1,770,829
Miami-Dade and Broward County Public Schools (NOTE 16)	104,160	102,160
The School Board of Miami-Dade County	-	11,507
The School Board of Broward County	36,326	54,688
Enterprise zone	132,229	311,527
Miami-Dade and Broward County general contracts	209,136	234,736
Other	594,200	340,509
	$ 2,727,408	**$ 2,825,956**

18. RETIREMENT PLAN

Effective August 1997, Goodwill elected to change its retirement plan from a 403(b) plan to a 401(k) plan. The plan is for eligible employees who have reached the age of 21 and completed one year of service. Goodwill contributes a matching amount determined on a yearly basis. Goodwill's contribution to the plan during the years ended December 31, 2017 and 2016 was $406,880 and $372,599, respectively.

19. WORKERS' COMPENSATION

On June 1, 2003, Goodwill became self-insured under the laws of the State of Florida for workers' compensation. Goodwill uses the services of a third party administrator to handle all claims. Goodwill maintains commercial excess coverage with independent insurance carriers for workers' compensation above the self-insurance retention of $500,000. Goodwill maintains a reserve for current and future claims based on historical experience and information provided by the third party administrator. At December 31, 2017 and 2016, the reserve for workers' compensation was $1,131,753 and $708,107, respectively, and is included in accrued expenses and other liabilities in the Consolidated Statements of Financial Position. For the years ended December 31, 2017 and 2016, worker's compensation expense was approximately $1,520,000 and $941,000, respectively.

20. DEFERRED COMPENSATION PLAN

In 2011, Goodwill's Board of Directors approved deferred compensation plans for a select group of management employees for services they have rendered and will render to Goodwill. The plans are intended to be eligible plans for purposes of Internal Revenue Code section 457(b) and 457(f) and the regulations issued thereunder. The plans were effective as of January 1, 2011. Participants are vested in the plans over a four year service period. Expenses accrued under the plans for the years ended December 31, 2017 and 2016 totaled $200,736 and $139,628, respectively.

21. COMMITMENTS AND CONTINGENCIES

Litigation

Goodwill is exposed to various asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on Goodwill's consolidated financial position or the consolidated results of its operations.

Purchase Commitments

As a result of manufacturing contracts entered into during the year ended December 31, 2017, Goodwill entered into various inventory purchase commitments with vendors totaling approximately $1,516,000 as of December 31, 2017. Subsequent to December 31, 2017, Goodwill entered into purchase commitments with vendors totaling approximately $6,294,000.