

GOODWILL INDUSTRIES OF DENVER

**Financial Statements
and
Independent Auditors' Report
December 31, 2014
(With Summarized Comparative Totals for 2013)**



GOODWILL INDUSTRIES OF DENVER

Table of Contents

Page

Independent Auditors' Report.....1

Financial Statements

 Statement of Financial Position.....3

 Statement of Activities.....4

 Statement of Functional Expenses.....5

 Statement of Cash Flows.....6

 Notes to Financial Statements.....7

INDEPENDENT AUDITORS' REPORT

Board of Directors
Goodwill Industries of Denver
Denver, Colorado

We have audited the accompanying financial statements of Goodwill Industries of Denver ("Goodwill"), which are comprised of the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Denver as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

REPORT ON SUMMARIZED COMPARATIVE INFORMATION

The prior-year summarized comparative information has been derived from Goodwill's financial statements as of December 31, 2013, which were audited by us, and our report dated May 22, 2014, expressed an unmodified opinion on those audited financial statements.

EKS&H LLLP

EKS&H LLLP

April 22, 2015
Denver, Colorado

GOODWILL INDUSTRIES OF DENVER

Statement of Financial Position

	December 31, 2014	Summarized Comparative Total for December 31, 2013
Assets		
Assets		
Cash and cash equivalents	\$ 2,394,997	\$ 4,779,690
Restricted cash from bonds	-	2,320,299
Accounts receivable	798,228	609,824
Inventories	2,392,123	2,069,773
Prepaid expenses and other assets	920,907	1,151,680
Investments	15,099,846	16,527,798
Deposits and other assets	258,592	254,372
Property and equipment, net	37,366,056	34,141,889
Deferred loan costs, net of amortization	102,720	107,000
Beneficial interest in assets held by others	<u>57,711</u>	<u>58,176</u>
Total assets	<u>\$ 59,391,180</u>	<u>\$ 62,020,501</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 708,244	\$ 1,871,256
Accrued liabilities	4,058,794	3,853,170
Deferred lease incentives	2,034,908	2,317,527
Deferred revenue	131,575	643,032
Deferred compensation	198,953	187,233
Tenant deposits	11,320	11,320
Long-term debt	<u>6,780,000</u>	<u>7,000,000</u>
Total liabilities	<u>13,923,794</u>	<u>15,883,538</u>
Commitments		
Net assets		
Unrestricted		
Undesignated	30,832,944	29,414,563
Board-designated		
Endowment	14,576,731	15,988,541
Workforce development	<u>-</u>	<u>622,000</u>
Total unrestricted net assets	45,409,675	46,025,104
Temporarily restricted	-	53,683
Permanently restricted	<u>57,711</u>	<u>58,176</u>
Total net assets	<u>45,467,386</u>	<u>46,136,963</u>
Total liabilities and net assets	<u>\$ 59,391,180</u>	<u>\$ 62,020,501</u>

See notes to financial statements.

GOODWILL INDUSTRIES OF DENVER

Statement of Activities

	<u>Unrestricted</u>	Temporarily Restricted	Permanently Restricted	Total for December 31, 2014	Summarized Comparative Total for December 31, 2013
Revenue					
Sales	\$ 63,819,038	\$ -	\$ -	\$ 63,819,038	\$ 59,675,406
Public support	718,579	1,922,786	-	2,641,365	1,727,958
Workforce development	3,002,606	-	-	3,002,606	3,654,958
Investment income	432,200	-	477	432,677	441,555
Net realized and unrealized gains on investments	147,363	-	1,701	149,064	97,132
Change in interest rate swap	-	-	-	-	75,357
Rental income	453,793	-	-	453,793	443,475
Loss on disposal of property and equipment	-	-	-	-	(2,020)
Other revenue	105,264	-	-	105,264	105,771
Net assets released due to satisfaction of time and purpose restriction	1,979,112	(1,976,469)	(2,643)	-	-
Total revenue	<u>70,657,955</u>	<u>(53,683)</u>	<u>(465)</u>	<u>70,603,807</u>	<u>66,219,592</u>
Expenses					
Program services					
Retail	56,111,890	-	-	56,111,890	50,116,158
Workforce development	<u>7,677,654</u>	-	-	<u>7,677,654</u>	<u>7,142,180</u>
Total program services	63,789,544	-	-	63,789,544	57,258,338
General and administrative	6,889,876	-	-	6,889,876	8,201,718
Unallocated payments to Goodwill Industries					
International	164,916	-	-	164,916	161,824
Fund development	<u>429,048</u>	-	-	<u>429,048</u>	<u>561,367</u>
Total expenses	<u>71,273,384</u>	<u>-</u>	<u>-</u>	<u>71,273,384</u>	<u>66,183,247</u>
Change in net assets	(615,429)	(53,683)	(465)	(669,577)	36,345
Net assets at beginning of year	<u>46,025,104</u>	<u>53,683</u>	<u>58,176</u>	<u>46,136,963</u>	<u>46,100,618</u>
Net assets at end of year	<u>\$ 45,409,675</u>	<u>\$ -</u>	<u>\$ 57,711</u>	<u>\$ 45,467,386</u>	<u>\$ 46,136,963</u>

See notes to financial statements.

GOODWILL INDUSTRIES OF DENVER

Statement of Functional Expenses

	Retail	Workforce Development	Total Program Services	General and Administrative	Fundraising	Facility	Maintenance	For the Year Ended December 31, 2014	Summarized Comparative Total for December 31, 2013
Salaries and wages	\$ 23,415,671	\$ 5,302,141	\$ 28,717,812	\$ 3,847,630	\$ 261,304	\$ -	\$ 751,938	\$ 33,578,684	\$ 31,188,251
Employee benefits	5,903,275	1,157,241	7,060,516	736,768	49,433	23,440	203,596	8,073,753	7,057,119
Other employee costs	327,673	29,150	356,823	18,084	4,417	-	6,732	386,056	327,198
Legal and accounting fees	10,615	840	11,455	128,656	-	328	-	140,439	234,279
Commissions on Internet sales	845,016	-	845,016	-	-	-	-	845,016	791,077
Consulting and contracted services	513,292	232,458	745,750	1,022,195	12,285	32,266	1,979	1,814,475	1,796,328
Training, travel, and entertainment	105,182	163,811	268,993	147,840	10,282	1,659	2,636	431,410	492,872
Supplies	1,633,414	72,661	1,706,075	65,120	18,339	11,349	25,169	1,826,052	2,093,471
Goods purchased for resale	2,747,511	-	2,747,511	-	-	-	-	2,747,511	1,337,293
Security	75,223	9,415	84,638	10,341	-	-	-	94,979	117,438
Non-capital equipment	55,526	7,423	62,949	775	-	650	-	64,374	164,223
Assistance to clients	74	123,775	123,849	40,111	-	-	-	163,960	179,508
Scholarships	-	9,450	9,450	-	-	-	-	9,450	4,600
Miscellaneous	88,248	19,163	107,411	38,344	46,789	64,789	6,928	264,261	332,366
Telephone	371,293	59,973	431,266	57,854	2,659	12,017	8,327	512,123	452,812
Postage and shipping	1,413,556	160	1,413,716	12,102	1,151	10,287	-	1,437,256	1,289,789
Building rent	7,595,991	23,476	7,619,467	2,373	-	-	-	7,621,840	7,044,993
Insurance	48,494	7,885	56,379	2,024	1,087	398,348	12,319	470,157	439,308
Maintenance and utilities	1,673,713	24,051	1,697,764	984	-	112,532	43,190	1,854,470	2,032,061
Trash removal	617,862	1,069	618,931	740	-	3,005	2,131	624,807	536,813
Equipment rental and repair	1,125,022	10,208	1,135,230	4,775	-	11,338	79,507	1,230,850	1,252,546
Printing, advertising, and promotion	1,263,639	8,223	1,271,862	63,864	(95)	60,647	25	1,396,303	1,816,372
Leasing costs	318,469	-	318,469	-	-	-	-	318,469	370,556
Bank services charges	983,061	507	983,568	48,074	1,890	221	-	1,033,753	816,839
Interest	-	-	-	-	-	211,486	-	211,486	163,642
Rental	-	-	-	118,479	-	-	-	118,479	201,127
Depreciation expense	3,135,235	68,629	3,203,864	287,322	3,778	323,158	19,933	3,838,055	3,488,542
Facility allocation	882,743	214,144	1,096,887	115,889	7,581	(1,277,520)	57,163	-	-
Maintenance allocation	962,092	131,801	1,093,893	119,532	8,148	-	(1,221,573)	-	-
Total program expenses	<u>56,111,890</u>	<u>7,677,654</u>	<u>63,789,544</u>	<u>6,889,876</u>	<u>429,048</u>	<u>-</u>	<u>-</u>	<u>71,108,468</u>	<u>66,021,423</u>
Goodwill Industries International	-	-	-	164,916	-	-	-	164,916	161,824
Total expenses	<u>\$ 56,111,890</u>	<u>\$ 7,677,654</u>	<u>\$ 63,789,544</u>	<u>\$ 7,054,792</u>	<u>\$ 429,048</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,273,384</u>	<u>\$ 66,183,247</u>

See notes to financial statements.

GOODWILL INDUSTRIES OF DENVER

Statement of Cash Flows

	For the Year Ended December 31, 2014	Summarized Comparative Total for December 31, 2013
Cash flows from operating activities		
Change in net assets	\$ (669,577)	\$ 36,345
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	3,838,055	3,488,542
Net realized and unrealized gain on investments	(149,045)	(91,048)
Amortization of deferred loan costs	4,280	40,390
Loss on disposal of fixed assets	-	2,020
Change in interest rate swap	-	(168,530)
Change in value of beneficial interest	465	(5,119)
Changes in operating assets and liabilities		
Accounts receivable	(188,404)	25,081
Inventory	(322,350)	(168,233)
Prepaid expenses	230,773	(288,031)
Deposits and other assets	(4,220)	(34,697)
Accounts payable	(813,855)	(264,509)
Accrued liabilities	205,624	769,155
Deferred lease incentives	(282,619)	536,398
Deferred revenue	(511,457)	(38,028)
Deferred compensation	<u>11,720</u>	<u>34,547</u>
Net cash provided by operating activities	<u>1,349,390</u>	<u>3,874,283</u>
Cash flows from investing activities		
Investment distributions	2,009,693	3,495,606
Investment income reinvested	(432,696)	(441,555)
Purchase of property and equipment	<u>(5,091,080)</u>	<u>(5,017,214)</u>
Net cash used in investing activities	<u>(3,514,083)</u>	<u>(1,963,163)</u>
Cash flows from financing activities		
Payments on long-term debt	(220,000)	(3,565,000)
Proceeds from long-term debt	-	7,000,000
Payment of loan costs	-	(107,000)
Change in restricted cash	<u>-</u>	<u>(2,320,299)</u>
Net cash (used in) provided by financing activities	<u>(220,000)</u>	<u>1,007,701</u>
Net (decrease) increase in cash and cash equivalents	(2,384,693)	2,918,821
Cash and cash equivalents at beginning of year	<u>4,779,690</u>	<u>1,860,869</u>
Cash and cash equivalents at end of year	<u>\$ 2,394,997</u>	<u>\$ 4,779,690</u>

Supplemental disclosure of cash flow information:

Interest paid was \$211,487 for the year ended December 31, 2014.

Supplemental disclosure of non-cash activity:

During 2014, restricted cash from bonds of \$2,320,299 was used to purchase property and equipment.

At December 31, 2013, property and equipment purchases of \$349,157 were included in accounts payable.

See notes to financial statements.

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

General

Goodwill Industries of Denver ("Goodwill") is in the business of second chances – going to great measures to ensure that every donated item is sold or has many chances to be transformed into life-changing opportunities for the most vulnerable Coloradans. From processing donations, recycling, and transforming lives, Goodwill is the ultimate socially responsible retailer. Goodwill's mission is to provide education, career development, and employment opportunities to help Coloradans in need achieve self-sufficiency, dignity, and hope through the Power of Work.

Goodwill's retail division is comprised of a network of 27 retail stores, 18 donation centers, 3 outlet worlds, and 1 Déjà Blue Boutique throughout metropolitan Denver and northern Colorado. Profits from these retail stores, as well as donor contributions, fund Goodwill's highly successful workforce development programs in the community. Goodwill helps people find the tools to succeed in work and in life.

Goodwill's mission-based programs focus on the Power of Work, the idea that work – a job, a career, or the opportunity to plan for a future career – is the force that guides individuals in the right direction and ultimately creates lasting, positive change for society. The following programs serve more than 23,000 people in the community each year:

- **Youth Career Development Program** - Goodwill employs teachers in 37 metropolitan Denver and northern Colorado public schools who provide much-needed career development assistance and college exploration to more than 17,000 at-risk youth annually. With the support of more than 1,000 community members annually, this program helps students formulate career paths and prepare for life after graduation.
- **Adult Career Development Program** - Goodwill serves the community through its unique Career Connections Centers and a partnership with Colorado State University Extension. In addition, Goodwill partners with the USDA to serve ranchers and farmers throughout Colorado. Each year, Goodwill helps more than 4,000 individuals with disabilities or disadvantageous conditions get jobs, get better jobs, and eventually find meaningful careers by minimizing barriers. Goodwill does this through job skill development, career counseling, job search support, job placement, and even some assistive technology.
- **Community Employment and Pre-Vocational Training Programs** - Goodwill's Community Employment and Pre-vocational Training Programs provide pre-vocational and on-the-job training to more than 150 individuals with significant disabilities. The goal is to help people participate in the life of the community through employment and work experience and to increase their independence and self-esteem.
- **Employee Services Program** - This program helps more than 800 employees in need access support, life skills training, and financial assistance, enabling them to keep working to support themselves and their families. More than 50% of Goodwill's employees have disabilities or other disadvantageous conditions.

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation

Goodwill is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those currently available at the discretion of the Board of Directors for use in Goodwill's operations and for investments in property and equipment.

Temporarily restricted net assets are monies restricted by donors specifically for certain time periods, purposes, or programs.

Permanently restricted net assets are assets that must be maintained permanently by Goodwill as required by the donors, but Goodwill is permitted to use or expend part or all of any income derived from those assets.

Contributions

Goodwill accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends and/or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released.

As a result of its retail programs, Goodwill generated \$63,819,038 in proceeds from sales of purchased and donated goods by the community to fund its retail and other human services programs and general and administrative costs.

Cash and Cash Equivalents

Goodwill considers all unrestricted highly liquid investments with an original maturity of three months or less, and that are not held by investment managers as a part of an investment portfolio or restricted to long-term purposes, to be cash equivalents. As of December 31, 2014, and periodically throughout the year, Goodwill has maintained balances in various operating accounts in excess of federally insured limits.

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair value. Fair value is determined as more fully described in Note 3.

Investments in marketable equity and fixed income securities with readily determinable market values are reported at fair value based on quoted prices in active markets. The market value of Goodwill's beneficial interest in assets held by others is based on information reported by Community First Foundation, which holds the funds. Investment income consists of Goodwill's distributive share of any interest, dividends, and capital gains and losses generated from its investments. Realized gains and losses attributable to Goodwill's investments are reported upon a sale or disposition of the investment. Unrealized gains and losses are included in the statement of activities.

Contributions Receivable

Unconditional contributions receivable are recognized as revenues in the period the pledge is received. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. At December 31, 2014, there were no contributions receivable. Conditional contributions are recognized when the conditions on which they depend are substantially met. There were no conditional contributions receivable at December 31, 2014.

Accounts Receivable

Accounts receivable represent amounts due resulting from the performance of services provided during the normal course of operations.

Uncollectible accounts are charged to the allowance for doubtful accounts in the year they are deemed uncollectible. Accounts receivable are considered to be past due based on contractual terms. Based on management's analysis, an allowance was not considered necessary at December 31, 2014 because all amounts were believed to be collectible.

Concentrations of Credit Risk

Financial instruments, which potentially subject Goodwill to concentrations of credit risk, consist principally of cash in excess of Federal Deposit Insurance Corporation limits, temporary cash investments, and investment securities. Goodwill places its cash accounts with creditworthy, high-quality financial institutions. Investments are monitored by the Board of Directors and management of Goodwill. Though the market value of investments is subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of Goodwill.

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Property and Equipment

Other than the contributed merchandise described below, Goodwill records property and equipment at cost if purchased or at fair market value at the date of donation. Goodwill capitalizes all assets with an original cost of \$5,000 or more and a useful life in excess of three years. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 40 years.

Long-Lived Assets

Goodwill reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. Goodwill looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired. There were no impairments during the year ended December 31, 2014.

Inventory

Inventory is comprised primarily of contributed clothing and household goods held for sale. Inventory is valued based on collection and processing costs incurred that are necessary to prepare the goods for sale. Inventory includes items on the shelves at outlet and store locations. In addition, processed and unprocessed inventory held at warehouses, outlet locations, and donation centers is valued at the lower of cost to collect and process, or market value, which may approximate salvage value.

Deferred Lease Incentives

Lease incentives are amortized on a straight-line basis over the life of the lease. At December 31, 2014, the balance of unamortized rent incentives was \$2,034,908.

Deferred Revenue

Income from the sale of gift certificates is deferred and recognized when the certificates are redeemed. Contract revenue is recognized in the period the revenue is earned.

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Deferred Revenue (continued)

At December 31, 2014, deferred revenue consisted of the following:

Career development deferred revenue	\$	33,435
Gift certificates		81,866
AgrAbility program		<u>16,274</u>
	\$	<u>131,575</u>

Advertising

Goodwill uses advertising to expand public awareness and to promote its retail operations and its auto donation program. The production costs of advertising are expensed as incurred. During the year ended December 31, 2014, advertising expense related to retail operations, goods donations, marketing, and the auto donation program was \$1,263,639.

Donated Services

Many individuals volunteer their time and perform a variety of tasks that assist Goodwill in its programs and general operations. The value of these services has not been recorded in the financial statements as it does not meet the criteria for recognition under generally accepted accounting principles.

Income Taxes

Goodwill is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC") and qualifies for the charitable contribution deduction. However, income from activities not directly related to Goodwill's tax-exempt purpose is subject to taxation as unrelated business income. There was no significant unrelated business taxable income in 2014.

Goodwill follows the guidance of Accounting Standards Codification Topic 820, *Accounting for Uncertainty in Income Taxes*. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of December 31, 2014. If incurred, interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expense. No material interest or penalties have been assessed as of December 31, 2014.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the appropriate programs and supporting services benefited.

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the summarized December 31, 2013 financial statements have been reclassified to conform to the December 31, 2014 presentation.

Prior-Year Information

The financial statements include certain prior-year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Goodwill's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Subsequent Events

Goodwill has evaluated all subsequent events through the auditors' report date, which is the date the financial statements were available for issuance, and determined that there were no subsequent events requiring disclosure.

Note 2 - Investments

Goodwill's investment assets are dedicated to providing the financial resources needed to meet its charitable objectives. Goodwill's investments are managed by independent professional investment management firms with oversight provided by Goodwill's Board of Directors.

Investments are exposed to various risks that may cause the reported value of Goodwill's investment assets to fluctuate from period to period and result in material changes to the net assets of Goodwill. Investments in equity securities fluctuate in value in response to many factors, such as the activities and financial condition of individual companies, market conditions, and the general economic environment. The values of bond investments and other fixed income securities fluctuate in response to changing interest rates, creditworthiness of issuers, and overall economic policies that impact market conditions.

Investments, stated at their fair values, are comprised of the following at December 31, 2014:

Cash equivalents	\$ 513,161
Certificates of deposit	523,115
Bond mutual funds	6,770,446
Equity mutual funds	6,584,464
Real estate mutual funds	<u>708,660</u>
	<u>\$ 15,099,846</u>

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 3 - Fair Value Measurements

Goodwill reports its investments in accordance with fair value standards. 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. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require Goodwill to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock-up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1: Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are mutual funds, listed equities, listed derivatives, and cash.
- Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate and government bonds, less liquid and restricted equity securities, and certain over-the-counter derivatives.
- Level 3: Pricing inputs are unobservable for the investment and include situations in which there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds, and distressed debt. Goodwill's Level 3 investments consist of an endowment held in pooled funds at Community First Foundation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

All investments have been valued using a market approach. Fair values for assets in Level 3 are calculated using quoted market prices for similar assets in markets that are not active. However, the underlying assets may be actively traded.

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 3 - Fair Value Measurements (continued)

The following table summarizes the valuation of Goodwill's investments by the above fair value hierarchy levels as of December 31, 2014:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	\$ 513,161	\$ 513,161	\$ -	\$ -
Certificates of deposit	523,115	-	523,115	-
Bond mutual funds	6,770,446	6,770,446	-	-
Equity mutual funds	6,584,464	6,584,464	-	-
Real estate mutual funds	708,660	708,660	-	-
Investments held by Community First Foundation	<u>57,711</u>	<u>-</u>	<u>-</u>	<u>57,711</u>
Total	<u>\$ 15,157,557</u>	<u>\$ 14,576,731</u>	<u>\$ 523,115</u>	<u>\$ 57,711</u>

The changes in investments measured at fair value for which Goodwill has used Level 3 inputs to determine fair value are as follows:

Balance as of December 31, 2013	\$ 58,176
Investment income, net	477
Net appreciation (realized and unrealized)	1,701
Distributions	<u>(2,643)</u>
Balance as of December 31, 2014	<u>\$ 57,711</u>

Note 4 - Property and Equipment

Property and equipment consists of the following at December 31, 2014:

Land	\$ 9,271,832
Land improvements	1,007,494
Buildings and improvements	30,522,783
Leasehold improvements	8,955,186
Machinery and equipment	18,731,922
Automobiles and trucks	1,575,243
Construction in progress	<u>40,277</u>
	70,104,737
Less accumulated depreciation	<u>(32,738,681)</u>
	<u>\$ 37,366,056</u>

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 5 - Long-Term Debt

In December 2013, Goodwill entered into a bond agreement in the amount of \$7,000,000 ("Series 2013 Bonds") with COHFA. The Series 2013 Bonds accrue monthly interest at a fixed rate of 3.04% for a seven-year period and are payable semi-annually beginning June 2014. The bond amount is payable annually beginning in December 2014 over a 25-year amortization period. The amount outstanding as of December 31, 2014 is \$6,780,000. The bonds include an early redemption offer on December 1, 2020. In the event that the early redemption offer is not exercised by Goodwill, the interest rate on the bonds will be reset. The bonds are secured by deeds of trust on the Englewood, Littleton - Simms, Aurora - Belleview, and Arvada stores. The bonds also require certain restrictive covenants be met on a quarterly and annual basis.

Future annual maturities of long-term debt outstanding are as follows:

For the Year Ending December 31,

2015	\$	225,000
2016		230,000
2017		235,000
2018		240,000
2019		245,000
Thereafter		<u>5,605,000</u>
Total	\$	<u>6,780,000</u>

Note 6 - Lease Commitments

Goodwill has several operating leases for facilities and equipment used in its operations. These leases expire at various dates through 2029. Future minimum lease payments under non-cancelable operating leases that have remaining terms in excess of one year are as follows:

For the Year Ending December 31,

2015	\$	6,705,509
2016		6,713,779
2017		6,340,999
2018		4,368,135
2019		3,264,807
Thereafter		<u>14,805,758</u>
Total	\$	<u>42,198,987</u>

Goodwill incurred total rent expense of \$7,621,840 in 2014, which includes common area maintenance expenses.

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 7 - Employee Benefit Plans

Effective January 1, 2004, Goodwill adopted an executive deferred compensation plan (the "Executive Plan") under Section 457(b) of the IRC. The Executive Plan allows the participants to make an election each year to defer up to the maximum amount permitted by law. The Executive Plan allows for discretionary employer contributions, and there were no employer contributions for the year ended December 31, 2014. Contributions to the Executive Plan are not subject to vesting.

Goodwill sponsors a tax-deferred annuity plan (the "Annuity Plan") under Section 403(b) of the IRC covering substantially all employees. Under the Annuity Plan, Goodwill contributes an amount equal to 3% of the employee's gross wages and 25% of the first 4% in employee contributions. Employees can contribute to the Annuity Plan 30 days after hire and are eligible for employer contributions after one year and at least 1,000 hours of service. Participants are at all times 100% vested in the amounts they contribute to the Annuity Plan and are 100% vested in the employer contributions upon the completion of three years of service. Goodwill contributed \$737,309 to the Annuity Plan for the year ended December 31, 2014.

Note 8 - Net Assets

Board-Designated

Endowment

In 1991, the Board of Directors of Goodwill established the Goodwill Industries of Denver Endowment Fund (the "Endowment Fund") with net operating revenues. The Endowment Fund has been designated by the Board of Directors to function as an endowment and is operated solely for charitable purposes as set forth in Section 501(c)(3) of the IRC of 1954. In subsequent years, the Endowment Fund has been increased by further additions of unrestricted designated donations, net operating revenues, and unrestricted bequests. The corpus of the Endowment Fund as of December 31, 2003 was deemed by the Board of Directors to be \$10,000,000.

The Endowment Fund is governed by a written policy document, which provides that the primary purpose of the fund is to support new or expanding program development and that the corpus may not be invaded except in the case of a specific resolution of the Board of Directors.

Upon approval by the Board of Directors, these funds may be disbursed in the form of grants, scholarships, internships, and other means of disbursement in support of Goodwill programs.

Permanently Restricted

Permanently restricted net assets consist of \$57,711 held at Community First Foundation for the Tim Welker Self-Sufficiency Endowment Fund. The primary purpose of this fund is to provide funding for educational assistance for Goodwill program participants and Goodwill employees.

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 8 - Net Assets (continued)

Endowment Net Assets

Goodwill follows *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The state of Colorado adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") effective September 1, 2008.

Goodwill has interpreted UPMIFA 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's permanently restricted endowment funds consist of (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, Goodwill considers the following factors in making a determination to appropriate or accumulate Board-designated and 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 Goodwill resources
- 7) The investment policies of Goodwill

Endowment net assets consist of the following at December 31, 2014:

	<u>Board- Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 15,988,541	\$ 58,176	\$ 16,046,717
Investment income	430,768	477	431,245
Net appreciation (realized and unrealized)	147,344	1,701	149,045
Distributions of endowment assets for expenditure	<u>(1,989,922)</u>	<u>(2,643)</u>	<u>(1,992,565)</u>
Endowment net assets at end of year	<u>\$ 14,576,731</u>	<u>\$ 57,711</u>	<u>\$ 14,634,442</u>

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 8 - Net Assets (continued)

Endowment Net Assets (continued)

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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to maximize utilization of investments in income-producing instruments that preserve principal, maximize income commensurate with risk, provide liquidity to help ensure adequate reserves, and fit within Goodwill's preference for acceptable principal and interest risk.

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). Goodwill targets a diversified asset allocation that uses a balanced investment approach to achieve its longer-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

Goodwill has a policy of appropriating for distribution 5% of the prior three years' average ending balance of the Endowment Fund annually to expand mission services. In establishing the distribution policy, Goodwill considers the long-term expected return on its endowment. This is consistent with Goodwill's objective 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. In determining the annual distribution from the Endowment Fund for program expenses, the Board of Directors may make an exception to the distribution policy.

Distributions from the Endowment Fund in 2014 were approximately \$1,990,000. Community First Foundation may make distributions annually from the Tim Welker Self-Sufficiency Endowment Fund, provided that the aggregate amount of all such distributions during any calendar year does not exceed 5% of the average year-end balance of the Endowment Fund for the prior three years. Distributions from this fund totaled \$2,643 in 2014.

Note 9 - Beneficial Interest in Assets Held by Others

Goodwill has established a permanent endowment fund (the "Fund") with Community First Foundation and named itself as the beneficiary. Goodwill granted variance power to the Fund, which allows the Fund to modify any conditions or restrictions on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of the Fund's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of Goodwill.

GOODWILL INDUSTRIES OF DENVER

Notes to Financial Statements

Note 9 - Beneficial Interest in Assets Held by Others (continued)

In accordance with generally accepted accounting principles, the transfer was not considered to be a contribution from Community First Foundation to the Fund; rather, it was accounted for as a reciprocal transfer between Goodwill and the Fund. Therefore, the transfer is reflected collectively in the statement of financial position as beneficial interest in assets held by others. At December 31, 2014, the fair value of the Fund was \$57,711.