

**GOODWILL INDUSTRIES OF DENVER**

**Financial Statements  
and  
Independent Auditors' Report  
December 31, 2016  
(With Summarized Comparative Totals for 2015)**

**EKS&H**

# GOODWILL INDUSTRIES OF DENVER

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## **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, 2016, 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, 2016, 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, 2015, which were audited by us, and our report dated April 20, 2016, expressed an unmodified opinion on those audited financial statements.

EKS;H LLLP  
EKS&H LLLP

August 28, 2017 (except for Note 5, for which the date is September 25, 2017)  
Denver, Colorado

# GOODWILL INDUSTRIES OF DENVER

## Statement of Financial Position

	December 31, 2016	Summarized Comparative Total for December 31, 2015
<b>Assets</b>		
Assets		
Cash and cash equivalents	\$ 103,047	\$ 1,601,906
Accounts receivable	740,124	691,447
Inventories	3,095,261	2,820,473
Prepaid expenses and other assets	975,798	1,025,590
Investments	10,875,440	13,954,605
Deposits and other assets	112,947	252,807
Property and equipment, net	34,766,599	36,496,666
Beneficial interest in assets held by others	53,793	53,105
Total assets	<u>\$ 50,723,009</u>	<u>\$ 56,896,599</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued liabilities	\$ 4,644,853	\$ 4,578,139
Deferred lease incentives	1,493,109	1,773,927
Deferred revenue	224,438	113,871
Deferred compensation	53,308	193,168
Tenant deposits	10,070	10,070
Long-term debt, net	6,230,840	6,456,560
Total liabilities	<u>12,656,618</u>	<u>13,125,735</u>
Commitments		
Net assets		
Unrestricted		
Undesignated	27,137,158	29,934,968
Board-designated		
Endowment	10,875,440	13,782,791
Total unrestricted net assets	38,012,598	43,717,759
Permanently restricted	53,793	53,105
Total net assets	<u>38,066,391</u>	<u>43,770,864</u>
Total liabilities and net assets	<u>\$ 50,723,009</u>	<u>\$ 56,896,599</u>

See notes to financial statements.

## GOODWILL INDUSTRIES OF DENVER

### Statement of Activities

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total for December 31, 2016</u>	<u>Summarized Comparative Total for December 31, 2015</u>
<b>Revenue</b>					
Retail sales	\$ 57,685,834	\$ -	\$ -	\$ 57,685,834	\$ 61,569,934
Public support	2,515,188	-	-	2,515,188	3,033,707
Workforce development	2,273,352	-	-	2,273,352	2,444,714
Investment income	153,565	-	1,218	154,783	336,130
Net realized and unrealized gains (losses) on investments	206,857	-	2,296	209,153	(390,732)
Rental income	462,790	-	-	462,790	460,575
Other revenue	132,402	-	-	132,402	26,943
Net assets released due to satisfaction of time and purpose restriction	2,826	-	(2,826)	-	-
Total revenue	<u>63,432,814</u>	<u>-</u>	<u>688</u>	<u>63,433,502</u>	<u>67,481,271</u>
<b>Expenses</b>					
Program services					
Retail	55,881,163	-	-	55,881,163	55,081,937
Workforce development	<u>6,487,712</u>	<u>-</u>	<u>-</u>	<u>6,487,712</u>	<u>7,018,113</u>
Total program services	62,368,875	-	-	62,368,875	62,100,050
General and administrative	6,109,217	-	-	6,109,217	6,410,729
Unallocated payments to Goodwill Industries					
International	167,544	-	-	167,544	167,544
Fund development	<u>492,339</u>	<u>-</u>	<u>-</u>	<u>492,339</u>	<u>499,470</u>
Total expenses	<u>69,137,975</u>	<u>-</u>	<u>-</u>	<u>69,137,975</u>	<u>69,177,793</u>
Change in net assets	(5,705,161)	-	688	(5,704,473)	(1,696,522)
Net assets at beginning of year	<u>43,717,759</u>	<u>-</u>	<u>53,105</u>	<u>43,770,864</u>	<u>45,467,386</u>
Net assets at end of year	<u>\$ 38,012,598</u>	<u>\$ -</u>	<u>\$ 53,793</u>	<u>\$ 38,066,391</u>	<u>\$ 43,770,864</u>

See notes to financial statements.

## GOODWILL INDUSTRIES OF DENVER

### Statement of Functional Expenses

	Retail	Workforce Development	Total Program Services	General and Administrative	Fund Development	Facility	Maintenance	For the Year Ended December 31, 2016	Summarized Comparative Total for December 31, 2015
Program expenses									
Salaries and wages	\$ 22,293,089	\$ 4,650,798	\$ 26,943,887	\$ 3,406,600	\$ 273,365	\$ -	\$ 609,936	\$ 31,233,788	\$ 31,693,292
Employee benefits	4,260,858	946,202	5,207,060	629,600	53,588	-	120,176	6,010,424	6,985,449
Other employee costs	231,433	26,543	257,976	1,593	-	-	16,122	275,691	478,228
Legal and accounting fees	1,756	-	1,756	101,021	-	5,321	-	108,098	126,240
Commissions on Internet sales	149,993	-	149,993	-	-	-	-	149,993	678,732
Consulting and contracted services	1,334,493	40,504	1,374,997	691,360	87,905	1,308	922	2,156,492	1,931,928
Training, travel, and entertainment	63,356	88,269	151,625	61,482	11,007	2,545	141	226,800	245,158
Supplies	1,832,199	45,459	1,877,658	152,518	2,551	7,810	26,165	2,066,702	2,013,773
Goods purchased for resale	4,808,057	-	4,808,057	-	-	-	-	4,808,057	3,584,322
Security	79,816	1,133	80,949	-	-	6,805	-	87,754	83,711
Non-capital equipment	35,745	6,315	42,060	-	-	-	-	42,060	22,582
Assistance to clients	200	58,185	58,385	45,239	55	-	-	103,679	115,215
Scholarships	-	2,700	2,700	-	-	-	-	2,700	3,000
Miscellaneous	14,976	15,565	30,541	152,619	34,690	(37,451)	11,678	192,077	172,857
Telephone	461,390	85,555	546,945	62,247	3,077	29,194	9,333	650,796	602,013
Postage and shipping	507,656	231	507,887	3,014	37	10,058	-	520,996	1,052,980
Building rent	9,249,708	70,672	9,320,380	2,502	-	-	-	9,322,882	8,555,465
Insurance	38,714	10,996	49,710	2,415	-	517,147	18,009	587,281	529,497
Maintenance and utilities	1,764,490	38,362	1,802,852	976	-	115,212	31,137	1,950,177	1,982,102
Trash removal	947,517	446	947,963	962	15	4,060	7,119	960,119	788,512
Equipment rental and repair	907,248	10,282	917,530	507	62	10,812	65,417	994,328	966,644
Printing, advertising, and promotion	927,973	7,362	935,335	43,199	5,515	58,318	115	1,042,482	932,022
Leasing costs	177,574	387	177,961	-	-	-	-	177,961	199,196
Bank services charges	966,838	612	967,450	27,934	1,941	135	-	997,460	1,013,525
Interest	-	-	-	-	-	203,552	-	203,552	206,112
Rental	-	-	-	124,810	-	-	-	124,810	121,400
Depreciation expense	3,188,391	80,570	3,268,961	392,710	3,160	294,424	14,017	3,973,272	3,926,294
Facility allocation	849,388	206,053	1,055,441	111,510	7,295	(1,229,250)	55,004	-	-
Maintenance allocation	788,305	94,511	882,816	94,399	8,076	-	(985,291)	-	-
Total program expenses	<u>55,881,163</u>	<u>6,487,712</u>	<u>62,368,875</u>	<u>6,109,217</u>	<u>492,339</u>	<u>-</u>	<u>-</u>	<u>68,970,431</u>	<u>69,010,249</u>
Goodwill Industries International	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,544</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,544</u>	<u>167,544</u>
Total expenses	<u>\$ 55,881,163</u>	<u>\$ 6,487,712</u>	<u>\$ 62,368,875</u>	<u>\$ 6,276,761</u>	<u>\$ 492,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,137,975</u>	<u>\$ 69,177,793</u>

See notes to financial statements.

## GOODWILL INDUSTRIES OF DENVER

### Statement of Cash Flows

	For the Year Ended December 31, 2016	Summarized Comparative Total for December 31, 2015
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (5,704,473)	\$ (1,696,522)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	3,973,272	3,926,294
Net realized and unrealized (gain) loss on investments	(206,857)	388,327
Loss on disposal of property and equipment	18,549	125,641
Contribution of fixed assets	-	(593,942)
Amortization of deferred loan costs	4,280	4,280
Change in value of beneficial interest	(688)	4,606
Changes in operating assets and liabilities		
Accounts receivable	(48,677)	106,781
Inventories	(274,788)	(428,350)
Prepaid expenses and other assets	49,792	(104,683)
Deposits and other assets	139,860	5,785
Accounts payable and accrued liabilities	66,714	(453,179)
Deferred lease incentives	(280,818)	(260,981)
Deferred revenue	110,567	(17,704)
Deferred compensation	(139,860)	(5,785)
Tenant deposits	-	(1,250)
Net cash (used in) provided by operating activities	<u>(2,293,127)</u>	<u>999,318</u>
Cash flows from investing activities		
Investment distributions	3,439,587	1,092,439
Investment income reinvested	(153,565)	(335,525)
Purchase of property and equipment	<u>(2,261,754)</u>	<u>(2,324,323)</u>
Net cash provided by (used in) investing activities	<u>1,024,268</u>	<u>(1,567,409)</u>
Cash flows from financing activities		
Payments on long-term debt	<u>(230,000)</u>	<u>(225,000)</u>
Net cash used in financing activities	<u>(230,000)</u>	<u>(225,000)</u>
Net decrease in cash and cash equivalents	(1,498,859)	(793,091)
Cash and cash equivalents at beginning of year	<u>1,601,906</u>	<u>2,394,997</u>
Cash and cash equivalents at end of year	<u>\$ 103,047</u>	<u>\$ 1,601,906</u>

#### Supplemental disclosure of cash flow information:

Interest paid was \$199,272 for the year ended December 31, 2016.

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 31 retail stores, 1 Déjà Blue Boutique, 3 outlet worlds, and 16 stand-alone donation centers throughout metro 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 27,000 people in the community each year:

#### **Youth Career Development Program**

Goodwill employs teachers in 36 Denver metro and northern Colorado public schools who provide much-needed career development assistance and college exploration to more than 18,000 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**

Each year, Goodwill helps more than 8,000 individuals find the employment they need to support themselves and their families, despite any disadvantaging conditions they may have. Goodwill's six Career Connection Centers in the community provide job search assistance, resume help, career counseling, a variety of job and life-skills classes, and even placement and assistive technology recommendations. Goodwill Denver has partnered with BankWork\$ to provide adults with barriers a pathway toward careers in the banking industry.

#### **Community Employment and Day Programs**

Goodwill's Community Employment and Day Programs provide pre-vocational and on-the-job training and facility-based work programs to hundreds of 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.

# GOODWILL INDUSTRIES OF DENVER

## Notes to Financial Statements

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

#### General (continued)

##### **AgrAbility: supportive programs for farmers and ranchers**

Goodwill partners with Colorado State University Extension Services and the USDA's AgrAbility grant to provide job assistance and assistive technology to allow Colorado farmers and ranchers who have been injured or experienced a change in condition to continue working and stay on their farms and ranches.

#### 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. Goodwill had no temporarily restricted net assets at December 31, 2016.

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.

#### Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment applies to not-for-profit entities. The amendment reduces the classes of net assets to *net assets with donor restrictions* and *net assets without donor restrictions*; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017. Entities should apply the amendment in this update retrospectively to all periods presented.

# GOODWILL INDUSTRIES OF DENVER

## Notes to Financial Statements

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

#### Recently Issued Accounting Pronouncements (continued)

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America when it becomes effective. The new standard is effective for all fiscal years beginning after December 15, 2018. Early application is allowed for annual fiscal year periods beginning after December 15, 2016.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early application of this amendment is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

Goodwill is currently evaluating the impact of the new standards on the financial statements.

#### Contributions

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

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

As a result of its retail programs, Goodwill generated \$57,685,834 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, 2016, 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, 2016, 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, 2016.

#### 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, 2016 as the uncollectible amount was not significant to the financial statements.

#### 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, 2016.

#### Inventory

Inventory is comprised primarily of contributed clothing and household goods held for sale and new goods purchased for resale. Inventory contributed 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. New goods purchased are valued at the lower of cost or market.

#### Deferred Lease Incentives

Lease incentives are amortized on a straight-line basis over the life of the lease. At December 31, 2016, the balance of unamortized rent incentives was \$1,493,109.

# GOODWILL INDUSTRIES OF DENVER

## Notes to Financial Statements

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

#### 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.

At December 31, 2016, deferred revenue consisted of the following:

Gift certificates	\$	182,244
AgrAbility program		28,460
Healthy relationships		13,166
Other		<u>568</u>
	\$	<u>224,438</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, 2016, advertising expense related to retail operations, goods donations, marketing, and the auto donation program was \$858,391.

#### 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 2016.

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, 2016. 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, 2016.

# GOODWILL INDUSTRIES OF DENVER

## Notes to Financial Statements

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

#### 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.

#### 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, 2015, 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 to be issued, and determined that there were no subsequent events requiring disclosure, other than those disclosed below.

In 2017, Goodwill listed its Greeley location for sale for approximately \$673,000.

From January 1, 2017 through the report date, Goodwill liquidated \$2,300,000 from its Endowment Fund (Note 8).

### **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 an independent professional investment management firm 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.

# GOODWILL INDUSTRIES OF DENVER

## Notes to Financial Statements

### **Note 2 - Investments (continued)**

Investments, stated at their fair values, are comprised of the following at December 31, 2016:

Cash equivalents	\$ 581,131
Bond mutual funds	3,414,537
Equity mutual funds	6,404,257
Real estate mutual funds	<u>475,515</u>
	<u>\$ 10,875,440</u>

### **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, certificates of deposits, 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.

# GOODWILL INDUSTRIES OF DENVER

## Notes to Financial Statements

### Note 3 - Fair Value Measurements (continued)

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.

The following table summarizes the valuation of Goodwill's investments by the above fair value hierarchy levels as of December 31, 2016:

	Fair Value	Level 1	Level 2	Level 3
Cash equivalents	\$ 581,131	\$ 581,131	\$ -	\$ -
Bond mutual funds	3,414,537	3,414,537	-	-
Equity mutual funds	6,404,257	6,404,257	-	-
Real estate mutual funds	475,515	475,515	-	-
Investments held by Community First Foundation	53,793	-	-	53,793
<b>Total</b>	<b>\$ 10,929,233</b>	<b>\$ 10,875,440</b>	<b>\$ -</b>	<b>\$ 53,793</b>

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, 2015	\$ 53,105
Investment income, net	1,218
Net appreciation (realized and unrealized)	2,296
Distributions	(2,826)
Balance as of December 31, 2016	<b>\$ 53,793</b>

# GOODWILL INDUSTRIES OF DENVER

## Notes to Financial Statements

### Note 4 - Property and Equipment

Property and equipment consists of the following at December 31, 2016:

Land	\$	9,676,832
Land improvements		437,361
Buildings and improvements		27,854,501
Leasehold improvements		10,681,549
Machinery and equipment		10,135,587
Automobiles and trucks		1,438,905
Construction in progress		<u>279,439</u>
		60,504,174
Less accumulated depreciation		<u>(25,737,575)</u>
	\$	<u>34,766,599</u>

### 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 Colorado Health Facilities Authority. 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, 2016 was \$6,325,000. 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. As of December 31, 2016 Goodwill was not in compliance with the covenants. Subsequent to year end, the bank provided a waiver for the existing covenants and instituted new covenant requirements effective beginning September 30, 2017.

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

#### For the Year Ending December 31,

2017	\$	235,000
2018		240,000
2019		245,000
2020		250,000
2021		255,000
Thereafter		<u>5,100,000</u>
		6,325,000
Less debt issuance costs		<u>(94,160)</u>
Total	\$	<u>6,230,840</u>

# GOODWILL INDUSTRIES OF DENVER

## Notes to Financial Statements

### **Note 6 - Lease Commitments**

Goodwill has several operating leases for facilities and equipment used in its operations. These leases expire at various dates through 2031. 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,**

2017	\$	7,215,897
2018		5,868,100
2019		4,761,911
2020		4,313,142
2021		4,045,765
Thereafter		<u>21,836,745</u>
Total	\$	<u>48,041,560</u>

Goodwill incurred total rent expense of \$9,267,990 in 2016, which includes common area maintenance expenses.

### **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, 2016. 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 approximately \$680,000, which included forfeitures of approximately \$254,000, to the Annuity Plan for the year ended December 31, 2016.

# GOODWILL INDUSTRIES OF DENVER

## Notes to Financial Statements

### 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, unrestricted bequests, and realized investment returns. 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 \$53,793 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.

#### 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.

# GOODWILL INDUSTRIES OF DENVER

## Notes to Financial Statements

### Note 8 - Net Assets (continued)

#### Endowment Net Assets (continued)

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, 2016:

	<u>Board- Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 13,782,791	\$ 53,105	\$ 13,835,896
Investment income	153,565	1,218	154,783
Net appreciation (realized and unrealized)	206,857	2,296	209,153
Distributions of endowment assets for expenditure	<u>(3,267,773)</u>	<u>(2,826)</u>	<u>(3,270,599)</u>
Endowment net assets at end of year	<u>\$ 10,875,440</u>	<u>\$ 53,793</u>	<u>\$ 10,929,233</u>

#### *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.

# GOODWILL INDUSTRIES OF DENVER

## Notes to Financial Statements

### **Note 8 - Net Assets (continued)**

#### **Endowment Net Assets (continued)**

##### *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 2016 totaled approximately \$3,268,000, which included the 5% annual distribution of approximately \$778,000 plus additional distributions of approximately \$2,490,000. 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 \$2,826 in 2016.

### **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.

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, 2016, the fair value of the Fund was \$53,793.