Goodwill Industries of Denver

Financial Report

December 31, 2018

Contents

Plante & Moran, PLLC
Suite 600
8181 E. Tufts Avenue
Denver, CO 80237
Tel: 303.740.9400
Fax: 303.740.9009
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Goodwill Industries of Denver

We have audited the accompanying financial statements of Goodwill Industries of Denver (the "Organization"), which comprise the statement of financial position as of December 31, 2018 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.

Auditor's 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 auditor's 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 auditor considers 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, 2018 and the results of its changes in net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As described in Note 2 to the financial statements, Goodwill Industries of Denver adopted the provisions under Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

To the Board of Directors
Goodwill Industries of Denver

Report on Prior Year Financial Statements

The financial statements of Goodwill Industries of Denver as of December 31, 2017 were audited by EKS&H LLLP, whose report dated August 24, 2018 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Plante & Moran, PLLC

May 23, 2019

Statement of Financial Position

December 31, 2018
(with summarized comparative totals for 2017)

	2018	2017
Assets		
Cash and cash equivalents	$ 1,663,861	$ 1,250,440
Accounts receivable - Net	531,763	830,761
Inventories	2,944,422	2,691,361
Prepaid expenses and other assets	1,409,904	1,215,202
Investments	7,074,533	9,560,112
Beneficial interest in assets held by others	52,538	58,673
Property and equipment - Net	27,620,591	31,221,016
Total assets	**$ 41,297,612**	**$ 46,827,565**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 5,563,563	$ 4,559,768
Deferred lease incentives	1,348,281	1,195,215
Deferred revenue	378,813	467,976
Deferred compensation	80,953	51,632
Tenant deposits	32,521	3,487
Long-term debt - Net	5,764,400	6,000,562
Total liabilities	13,168,531	12,278,640
Net Assets		
Net assets without donor restrictions:		
Undesignated	21,002,010	24,930,140
Board designated	7,074,533	9,560,112
Total net assets without donor restrictions	28,076,543	34,490,252
Net assets with donor restrictions	52,538	58,673
Total net assets	28,129,081	34,548,925
Total liabilities and net assets	**$ 41,297,612**	**$ 46,827,565**

Statement of Activities

Year Ended December 31, 2018

(with summarized comparative totals for 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue				
Retail sales	$ 59,613,128	$ -	$ 59,613,128	$ 58,561,655
Public support	2,246,788	-	2,246,788	2,756,735
Workforce development	3,474,924	-	3,474,924	3,530,581
Rental income	509,538	-	509,538	420,912
Other revenue	114,023	-	114,023	122,438
Net assets released from restrictions	2,759	(2,759)	-	-
Total revenue	65,961,160	(2,759)	65,958,401	65,392,321
Expenses				
Program services:				
Retail	60,044,535	-	60,044,535	56,860,963
Workforce development	4,804,961	-	4,804,961	5,905,361
Total program services	64,849,496	-	64,849,496	62,766,324
Support services:				
General and administrative	7,814,977	-	7,814,977	6,223,403
Fund development	771,305	-	771,305	743,596
Total expenses	73,435,778	-	73,435,778	69,733,323
Decrease in Operating Net Assets - Before nonoperating income (loss)	(7,474,618)	(2,759)	(7,477,377)	(4,341,002)
Nonoperating Income (Loss)				
Insurance proceeds - Net	1,428,023	-	1,428,023	-
Gain (loss) on asset sales and disposals	10,364	-	10,364	(197,729)
Investment return	(377,478)	(3,376)	(380,854)	1,021,265
Change in Net Assets	(6,413,709)	(6,135)	(6,419,844)	(3,517,466)
Net Assets - Beginning of year	34,490,252	58,673	34,548,925	38,066,391
Net Assets - End of year	**$ 28,076,543**	**$ 52,538**	**$ 28,129,081**	**$ 34,548,925**

See notes to financial statements.

Statement of Functional Expenses

Year Ended December 31, 2018

(with summarized comparative totals for 2017)

	Program Services			Support Services				Total	
	Retail	Workforce Development	Total	General and Administrative	Fund Development	Facility	Maintenance	Total	2017
Salaries and wages	$ 25,239,580	$ 3,411,426	$ 28,651,006	$ 3,267,100	$ 241,726	$ -	$ 529,563	$ 32,689,395	$ 32,462,127
Employee benefits	4,467,586	726,581	5,194,167	571,166	36,123	-	125,223	5,926,679	6,300,209
Other employee costs	406,008	15,624	421,632	5,112	1,135	3,617	1,380	432,876	165,440
Legal and accounting fees	6,240	-	6,240	144,288	2,112	1,966	-	154,606	94,858
Consulting and contracted services	2,464,231	95,651	2,559,882	1,673,156	151,342	16,516	570	4,401,466	2,198,859
Training, travel, and entertainment	74,010	57,766	131,776	127,812	4,776	524	886	265,774	198,906
Supplies	1,931,510	42,885	1,974,395	10,858	2,878	15,883	18,531	2,022,545	1,707,504
Goods purchased for resale	4,788,519	-	4,788,519	-	-	-	-	4,788,519	4,649,560
Security	181,699	140	181,839	-	-	5,887	1,610	189,336	113,018
Noncapital equipment	8,828	-	8,828	8,362	-	-	-	17,190	27,011
Assistance to clients	18	67,949	67,967	46,333	-	-	-	114,300	191,630
Miscellaneous	101,762	7,685	109,447	61,759	265,284	179,905	671	617,066	288,906
Telephone	499,136	39,701	538,837	115,614	2,807	11,036	7,913	676,207	617,465
Postage and shipping	195,232	-	195,232	2,991	76	8,782	28	207,109	243,160
Building rent	7,396,910	3,000	7,399,910	-	-	-	-	7,399,910	6,981,596
Building common area maintenance	2,776,953	-	2,776,953	-	-	-	-	2,776,953	2,593,528
Insurance	72,277	-	72,277	-	-	618,616	-	690,893	564,687
Maintenance and utilities	1,843,702	6,414	1,850,116	124,024	7,177	102,858	41,995	2,126,170	1,933,670
Trash removal	1,033,183	-	1,033,183	-	-	2,440	1,800	1,037,423	1,096,745
Equipment rental and repair	1,360,017	1,294	1,361,311	1,879	-	29,615	1,681	1,394,486	1,217,568
Printing, advertising, and promotion	39,065	5,671	44,736	373,442	28,870	24,279	-	471,327	693,285
Leasing costs	175,965	-	175,965	-	-	-	-	175,965	197,949
Bank service charges	1,010,032	719	1,010,751	59,710	4,178	147	-	1,074,786	1,039,381
Interest	-	-	-	-	-	185,360	-	185,360	192,444
Rental	-	-	-	303,307	-	-	-	303,307	109,568
Depreciation expense	2,318,183	28,715	2,346,898	533,966	2,954	231,176	11,768	3,126,762	3,684,881
Facility allocation	994,050	241,146	1,235,196	130,502	8,538	(1,438,607)	64,371	-	-
Maintenance allocation	659,839	52,594	712,433	84,228	11,329	-	(807,990)	-	-
Goodwill Industries International dues	-	-	-	169,368	-	-	-	169,368	169,368
Total functional expenses	**$ 60,044,535**	**$ 4,804,961**	**$ 64,849,496**	**$ 7,814,977**	**$ 771,305**	**$ -**	**$ -**	**$ 73,435,778**	**$ 69,733,323**

Statement of Cash Flows

Years Ended December 31, 2018
(with summarized comparative totals for 2017)

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ (6,419,844)	$ (3,517,466)
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Depreciation	3,126,762	3,684,881
Net realized and unrealized loss (gain) on investments	558,712	(824,004)
(Gain) loss on disposal of property and equipment	(10,364)	208,153
Amortization of deferred loan costs	3,838	4,722
Change in value of beneficial interest	6,135	(4,880)
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Accounts receivable	298,998	(90,637)
Inventory	(253,061)	403,900
Prepaid expenses and other assets	(194,702)	(126,457)
Accounts payable and accrued liabilities	1,003,795	(85,085)
Deferred lease incentives	153,066	(297,894)
Deferred revenue	(89,163)	243,538
Deferred compensation	29,321	(1,676)
Tenant deposits	29,034	(6,583)
Net cash and cash equivalents used in operating activities	(1,757,473)	(409,488)
Cash Flows from Investing Activities		
Proceeds from investments	2,656,250	2,300,000
Purchases of investments	(729,383)	(160,668)
Purchase of property and equipment	(43,766)	(347,451)
Proceeds from sales of property and equipment	527,793	-
Net cash and cash equivalents provided by investing activities	2,410,894	1,791,881
Cash Flows Used in Financing Activities - Payments on long-term debt	(240,000)	(235,000)
Net Increase in Cash and Cash Equivalents	413,421	1,147,393
Cash and Cash Equivalents - Beginning of year	1,250,440	103,047
Cash and Cash Equivalents - End of year	**$ 1,663,861**	**$ 1,250,440**
Supplemental Cash Flow Information - Cash paid for interest	$ 185,360	$ 192,444

Note 1 - Nature of Business

Goodwill Industries of Denver (the "Organization" or 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 composed of a network of 30 retail stores, one Déjà Blue Boutique, three outlet worlds, and seven 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 23,000 people in the community each year:

Youth Career Development Program

Goodwill employs teachers in over 29 Denver metro and northern Colorado public schools who provide much-needed career development assistance and college exploration to nearly 13,000 at-risk youth annually. With the support of nearly 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 10,000 individuals find the employment they need to support themselves and their families, despite any disadvantaging conditions they may have. Goodwill's 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 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 prevocational 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.

AgrAbility: Support 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.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncement

As of December 31, 2018, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities.* This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Organization, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. Under the new standard, the Organization has elected to omit the presentation of the statement of functional expenses and disclosures about liquidity and availability of resources for period prior to the period of adoption.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Organization has determined this ASU will not have a significant impact.

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending December 31, 2020 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Organization is still evaluating which method it will apply. The new lease standard is expected to have a significant effect on the Organization’s financial statements as a result of the Organization's operating leases, as disclosed in Note 8, that will be reported on the statement of financial position at adoption. Upon adoption, the Organization will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Cash and Cash Equivalents

The Organization considers all investments with an original maturity of three months or less when purchased, 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, 2018, and periodically throughout the year, Goodwill has maintained balances in various operating accounts in excess of federally insured limits.

Note 2 - Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts was $229,362 as of December 31, 2018.

Inventory

Inventory is composed 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 net realizable value, which may approximate salvage value. New goods purchased are valued at the lower of cost or net realizable value.

Investments

Investments are recorded at fair value. Fair value is determined as more fully described in Note 5.

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.

Property and Equipment

Property and equipment are recorded at cost if purchased or 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. The straight-line method is used for computing depreciation and amortization. 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, 2018.

Deferred Lease Incentives

Lease incentives are amortized on a straight-line basis over the life of the lease. At December 31, 2018, the balance of unamortized rent incentives was $1,348,281.

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. Deferred revenue as of December 31, 2018 represents $355,601 of gift certificates and $23,212 of deferred contract revenue.

Note 2 - Significant Accounting Policies (Continued)

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as support without donor-imposed restrictions. Other donor-imposed restricted gifts are recorded as such until the time and/or purpose restriction is fulfilled.

As a result of its retail programs, Goodwill generated $58,561,655 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.

Advertising Expense

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. Advertising expense related to retail operations, goods donations, marketing, and the auto donation program for 2018 was $389,049.

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 a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that, as of December 31, 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the statement of activities. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Costs have been allocated between the various programs and support services on several bases and estimates. Certain wages and benefits have been allocated based on time and effort. Certain supplies, postage, shipping, and insurance expenses have been allocated based on usage. Maintenance and facility expenses have been allocated based on square footage. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Nonoperating Income (Loss)

Nonoperating income (loss) includes net insurance proceeds, gains (losses) realized on the sale of assets and disposals, and investment return.

Note 2 - Significant Accounting Policies (Continued)

Insurance Proceeds

During the year ended December 31, 2018, the Organization received insurance proceeds totaling approximately $729,000 related to hail damage on the roof of the headquarters building. Expenses related to the roof replacement will occur in 2019. The Organization also received insurance proceeds of approximately $1,416,000 related to a fire at one of its stores. Expenses of approximately $717,000 related to the fire have been netted against the proceeds for that loss.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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 the Organization's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including May 23, 2019, which is the date the financial statements were available to be issued. See the following disclosures below and those included in Notes 3 and 7:

In February 2019, the Organization entered into a contract for roof repairs to be completed at its headquarters building for approximately $1,100,000.

In December 2018, the Organization entered into a letter of intent to potentially merge with Discover Goodwill of Southern and Western Colorado (DGW). No consideration will be exchanged between the two organizations. The potential merger was subject to the satisfactory completion of due diligence and renegotiation of certain material contracts and obligations, of which all are substantially complete. The merger also requires the approval of the boards of directors of DGW and the Organization, and both boards approved in May 2019, with an effective merger date of May 31, 2019. The approval of Goodwill Industries International, Inc. has also been obtained subsequent to the merger date; DGW will gain control of the Organization, and the Organization will cease to exist as a separate legal or reporting entity.

The Organization is in discussions with JPMorgan Chase and BBVA Compass Bank to transfer the remaining principal of the $7,000,000 COHFA bond (see Note 7) from JPMorgan Chase to BBVA Compass Bank. On April 26, 2019, JPMorgan Chase authorized the proposed transfer of the remaining principal plus accrued interest of the bond to BBVA Compass Bank, removing the remaining obstacle to the proposed transfer.

Note 3 - Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include net assets with donor restrictions and the board-designated Goodwill endowment fund. The board-designated Goodwill endowment fund reserves could be drawn upon through board resolution.

Note 3 - Liquidity and Availability of Resources (Continued)

Cash and cash equivalents	$ 1,663,861
Accounts receivable	531,763
Investments	7,074,533
Beneficial interest in assets held by others	52,538
Financial assets - At year end	9,322,695
Less those unavailable for general expenditures within one year, due to:	
Donor-imposed restrictions	52,538
Board-designated amounts	6,659,533
Financial assets available to meet cash needs for general expenditures within one year	$ 2,610,624

Annual distributions from the board-designated endowment fund of 5 percent of the prior three years' average ending balance are distributed. Additional distributions can be made available with board approval to assist with operations as needed. Also, with the merger of the Organization and DGW effective May 31, 2019, DGW can also assist in availability of resources on a go-forward basis.

Note 4 - 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.

Investments, stated at their fair values, at December 31, 2018 are composed of the following:

U.S. Treasury cash funds	$ 2,037,089
Bond mutual funds	1,973,797
Equity mutual funds	2,807,637
Real estate mutual funds	256,010
Total	$ 7,074,533

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Goodwill categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

Note 5 - Fair Value Measurements (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Beneficial interest in assets held by others: the underlying investments held by others are readily marketable, based on quoted fair values. Since the Organization's interest cannot be priced on an active exchange, the interest in classified as Level 3.

The following table presents information about Goodwill's assets measured at fair value on a recurring basis at December 31, 2018 and the valuation techniques used by the Goodwill to determine those fair values.

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Cash equivalents	$ 2,037,089	$ -	$ -	$ 2,037,089
Bond mutual funds	1,973,797	-	-	1,973,797
Equity mutual funds	2,807,637	-	-	2,807,637
Real estate mutual funds	256,010	-	-	256,010
Investments held by Community First Foundation	-	-	52,538	52,538
Total assets	$ 7,074,533	$ -	$ 52,538	$ 7,127,071

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2018 are as follows:

Balance at January 1, 2018	$ 58,673
Investment income - Net	685
Net appreciation (realized and unrealized)	(4,061)
Distributions	(2,759)
Balance at December 31, 2018	$ 52,538

Note 6 - Property and Equipment

Property and equipment consist of the following at December 31, 2018:

Buildings and improvements	$ 27,106,189
Machinery and equipment	10,046,255
Leasehold improvements	9,731,694
Land	9,626,832
Automobiles and trucks	1,381,041
Land improvements	451,296
Total cost	58,343,307
Accumulated depreciation	30,722,716
Net property and equipment	$ 27,620,591

Note 6 - Property and Equipment (Continued)

During the year ended December 31, 2018, the Organization sold a property in Greeley, Colorado and received proceeds of approximately $527,000 and recorded a net gain of $10,364.

Note 7 - 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 percent for a seven-year period and are payable semiannually beginning in 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, 2018 was $5,850,000. 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, 2018, Goodwill was not in compliance with one of the covenants. On April 19, 2019, the Organization entered into a debt amendment, modification, and waiver agreement, which provided for a waiver on the out-of-compliance covenant at December 31, 2018 and modified the future covenants under the bond agreement.

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

Years Ending	Amount
2019	$ 245,000
2020	250,000
2021	255,000
2022	260,000
2023	265,000
Thereafter	4,575,000
Less debt issuance costs	(85,600)
Total	$ 5,764,400

Note 8 - Lease Commitments

Goodwill is obligated under operating leases primarily for facilities and equipment used in its operations, expiring at various dates through 2034. Total rent expense, including common area maintenance charges, under these leases was $10,796,840 for 2018.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2019	$ 6,984,683
2020	6,508,832
2021	6,358,373
2022	5,511,004
2023	1,410,763
Thereafter	15,508,105
Total	$ 42,281,760

Note 9 - 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. There were no employer contributions in December 31, 2018. 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 percent of the employee's gross wages and 25 percent of the first 4 percent 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 percent vested in the amounts they contribute to the Annuity Plan and are 100 percent vested in the employer contributions upon the completion of three years of service. Goodwill contributed approximately $678,000 to the Annuity Plan for the year ended December 31, 2018.

Note 10 - 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 revenue. The Endowment Fund has been designated by the board of directors to function as an endowment and is 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 revenue, 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 and operations.

Net Assets with Donor Restrictions

Net assets with donor restrictions consist of $52,538 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.

Interpretation of Relevant Law

The Organization 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.

The Organization 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, the Organization'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.

Note 10 - 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:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018		
	Board Designated	With Donor Restriction	Total
Endowment net assets - Beginning of year	$ 9,560,112	$ 58,673	$ 9,618,785
Investment return:			
Investment income	203,590	685	204,275
Net appreciation (realized and unrealized)	(558,712)	(4,060)	(562,772)
Total investment return	(355,122)	(3,375)	(358,497)
Contributions	525,793	-	525,793
Distributions of endowment assets for expenditure	(2,656,250)	(2,760)	(2,659,010)
Endowment net assets - End of year	$ 7,074,533	$ 52,538	$ 7,127,071

Funds with Deficiencies

As of December 31, 2018, there were no funds with deficiencies.

Return Objectives and Risk Parameters

The Organization 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 the Organization's preference for acceptable principal and interest risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization 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). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Note 10 - Net Assets (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

Goodwill has a policy of appropriating for distribution 5 percent 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 2018 totaled approximately $2,656,250, which included the 5 percent annual distribution of approximately $665,000 plus additional distributions of approximately $1,991,250. Community First Foundation may make distributions annually from the Tim Welker Self-Sufficiency Fund, provided that the aggregate amount of all such distributions during any calendar year does not exceed 5 percent of the average year-end balance of the Endowment Fund for the prior years. Distributions from this fund totaled $2,760 in 2018.

Note 11 - 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. The Organization 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 the Community First Foundation to the Fund; rather, it was for a reciprocal transfer between the Organization 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, 2018, the fair value of the Fund was $52,538.