



**Davis Memorial Goodwill Industries
(d/b/a Goodwill of Greater Washington)**

**Consolidated Financial Statements and Supplemental
Information**

*For the Year Ended December 31, 2012
(With Summarized Financial Information for the Year Ended December 31, 2011)*

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Report Thereon
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GOODWILL OF GREATER WASHINGTON

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Goodwill of Greater Washington and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Davis Memorial Goodwill Industries (d/b/a Goodwill of Greater Washington) (GGW) and its subsidiary, Best Kept Buildings (BKB) (collectively referred to as Goodwill), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

Other Matters

Report on Summarized Comparative Information

We have previously audited Goodwill's December 31, 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 22, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 22 and 23 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
May 17, 2013

GOODWILL OF GREATER WASHINGTON
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2012
(With Summarized Financial Information as of December 31, 2011)

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 2,129,766	\$ 4,979
Accounts receivable	1,451,384	3,617,934
Inventory	358,633	276,044
Prepaid expenses and other	784,641	593,944
Investments	4,636,298	3,929,336
Investments - deferred compensation plan	116,806	92,984
Property and equipment, net	4,285,231	4,143,541
Deposits and loan costs	267,837	271,414
TOTAL ASSETS	\$ 14,030,596	\$ 12,930,176
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 979,586	\$ 1,164,688
Accrued payroll and related liabilities	1,001,966	1,102,073
Deferred revenue and deposits	-	41,649
Charitable gift annuities	116,880	152,156
Capital lease obligations	25,319	47,281
Line of credit	-	586,000
Deferred rent	1,451,236	1,411,234
Deferred compensation liability	116,806	92,984
Notes payable	1,580,764	1,659,072
TOTAL LIABILITIES	5,272,557	6,257,137
Net Assets		
Unrestricted	8,005,473	6,038,487
Temporarily restricted	257,758	139,744
Permanently restricted	494,808	494,808
TOTAL NET ASSETS	8,758,039	6,673,039
TOTAL LIABILITIES AND NET ASSETS	\$ 14,030,596	\$ 12,930,176

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

GOODWILL OF GREATER WASHINGTON

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2012

(With Summarized Financial Information for the Year Ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
REVENUE AND SUPPORT					
Revenue:					
Donated goods sales	\$ 20,206,140	\$ -	\$ -	\$ 20,206,140	\$ 16,630,557
Service contracts	10,634,564	-	-	10,634,564	13,539,673
Net investment income (loss)	396,895	42,369	-	439,264	(12,402)
Other income	151,753	-	-	151,753	154,976
Total Revenue	31,389,352	42,369	-	31,431,721	30,312,804
Support:					
Contributions - donated goods	4,304,307	-	-	4,304,307	3,449,270
Workforce development grants	573,619	538,000	-	1,111,619	1,593,587
Contributions - other	913,239	-	-	913,239	466,718
Legacies and bequests	632,721	-	-	632,721	5,000
Net assets released from restrictions:					
Satisfaction of time restrictions	110,000	(110,000)	-	-	-
Satisfaction of purpose restrictions	352,355	(352,355)	-	-	-
TOTAL REVENUE AND SUPPORT	38,275,593	118,014	-	38,393,607	35,827,379
EXPENSES					
Program Services:					
Retail program	21,320,338	-	-	21,320,338	17,942,280
Service contracts	9,381,095	-	-	9,381,095	11,366,138
Workforce development	2,377,708	-	-	2,377,708	2,267,743
Total Program Services	33,079,141	-	-	33,079,141	31,576,161
Supporting Services:					
Management and general	2,232,503	-	-	2,232,503	1,756,156
Fundraising	996,963	-	-	996,963	772,146
Total Supporting Services	3,229,466	-	-	3,229,466	2,528,302
TOTAL EXPENSES	36,308,607	-	-	36,308,607	34,104,463
CHANGE IN NET ASSETS	1,966,986	118,014	-	2,085,000	1,722,916
NET ASSETS, BEGINNING OF YEAR	6,038,487	139,744	494,808	6,673,039	4,950,123
NET ASSETS, END OF YEAR	\$ 8,005,473	\$ 257,758	\$ 494,808	\$ 8,758,039	\$ 6,673,039

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

GOODWILL OF GREATER WASHINGTON

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012

(With Summarized Financial Information for the Year Ended December 31, 2011)

	Program Services			Supporting Services			2012 Total	2011 Total
	Retail Program	Service Contracts	Workforce Development	Total Program Services	Management and General	Fundraising		
Salaries	\$ 7,986,768	\$ 5,774,755	\$ 1,163,616	\$ 14,925,139	\$ 918,847	\$ 339,415	\$ 16,183,401	\$ 15,278,040
Employee benefits	864,632	1,497,986	142,142	2,504,760	88,403	44,274	2,637,437	2,493,660
Payroll taxes	670,495	487,886	95,013	1,253,394	66,768	25,826	1,345,988	1,297,473
Subtotal	9,521,895	7,760,627	1,400,771	18,683,293	1,074,018	409,515	20,166,826	19,069,173
Cost of sales - donated goods	4,250,867	-	-	4,250,867	-	-	4,250,867	3,426,481
Occupancy	2,955,054	71,576	318,988	3,345,618	214,729	71,576	3,631,923	3,225,532
Supplies	329,628	412,172	12,265	754,065	41,196	5,091	800,352	725,331
Utilities	701,672	9,595	46,300	757,567	28,785	9,595	795,947	774,144
Depreciation and amortization	340,320	92,865	128,583	561,768	93,731	92,865	748,364	649,348
Professional fees	243,762	85,713	95,014	424,489	205,398	109,054	738,941	780,605
Auctions	614,988	-	-	614,988	-	-	614,988	562,867
Taxes, licenses and permits	420,088	13,463	50,610	484,161	26,999	9,605	520,765	456,551
NISH commissions	-	397,239	-	397,239	-	-	397,239	482,856
Other expenses	150,905	76,063	48,718	275,686	52,531	18,986	347,203	282,556
Postage	297,457	2,451	990	300,898	8,076	31,890	340,864	281,733
Maintenance and repairs	141,413	121,379	13,566	276,358	8,896	2,087	287,341	349,218
Bank service charges	186,721	8,687	1,987	197,395	78,655	993	277,043	272,286
Telephone	168,502	54,473	11,990	234,965	29,766	10,667	275,398	231,266
Cost of sales - purchased goods	271,607	-	-	271,607	-	-	271,607	307,838
Insurance	144,389	53,013	12,130	209,532	44,796	6,226	260,554	209,731
Travel and vehicles	204,019	23,482	15,327	242,828	9,354	4,830	257,012	347,754
Subcontractors	61,895	89,018	86,952	237,865	980	327	239,172	760,216
Dues	57,973	46,455	35,196	139,624	57,433	34,398	231,455	193,394
Advertising	19,822	6,287	1,015	27,124	188,638	586	216,348	222,340
Equipment rental and maintenance	102,187	47,314	20,133	169,634	30,396	10,743	210,773	214,425
Special events	-	-	-	-	-	133,672	133,672	-
Interest	52,696	2,854	30,890	86,440	5,940	72	92,452	125,669
In-kind services	78,900	-	-	78,900	-	-	78,900	23,775
Printing and publications	3,578	1,013	2,766	7,357	32,186	34,185	73,728	77,578
Stipends	-	5,356	43,517	48,873	-	-	48,873	51,796
TOTAL EXPENSES	\$ 21,320,338	\$ 9,381,095	\$ 2,377,708	\$ 33,079,141	\$ 2,232,503	\$ 996,963	\$ 36,308,607	\$ 34,104,463

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

GOODWILL OF GREATER WASHINGTON

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2012

(With Summarized Financial Information for the Year Ended December 31, 2011)

Increase (Decrease) in Cash and Cash Equivalents

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,085,000	\$ 1,722,916
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	748,364	649,348
Donated securities	(9,037)	(9,567)
Unrealized losses (gains) on investments	(260,341)	301,829
Realized gains on investments	(58,389)	(159,579)
Loss on disposal of property and equipment	608	-
Changes in assets and liabilities:		
Accounts receivable	2,166,550	(1,595,518)
Inventory	(82,589)	(22,789)
Prepaid expenses and other	(190,697)	(85,249)
Deposits and loan costs	(29,573)	(25,486)
Accounts payable and accrued expenses	(185,102)	(94,042)
Accrued payroll and related liabilities	(100,107)	58,011
Deferred revenue and deposits	(41,649)	17,649
Charitable gift annuities	(35,276)	(8,592)
Deferred rent	40,002	139,317
Deferred compensation liability	23,822	30,964
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,071,586	919,212
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	2,456,787	1,337,224
Purchases of investments	(2,859,803)	(1,485,101)
Proceeds from sales of property and equipment	47,200	-
Purchases of property and equipment	(904,713)	(884,181)
NET CASH USED IN INVESTING ACTIVITIES	(1,260,529)	(1,032,058)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments on) line of credit	(586,000)	166,000
Principal payments on notes payable	(78,308)	(53,233)
Principal payments on capital lease obligations	(21,962)	(41,479)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(686,270)	71,288
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,124,787	(41,558)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,979	46,537
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,129,766	\$ 4,979
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 92,452	\$ 125,668
NONCASH TRANSACTIONS		
Donated securities	\$ 9,037	\$ 9,567
Property and equipment purchased under capital leases	\$ -	\$ 45,894

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

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

1. Organization and Summary of Significant Accounting Policies

Organization

Davis Memorial Goodwill Industries (d/b/a Goodwill of Greater Washington) (GGW) opened in Washington, DC, in 1935 as a provider of quality service programs to those in need with support and/or training necessary to assume a self-sufficient role in their community. Goodwill is a publicly supported organization exempt from federal income tax under Internal Revenue Code Section 501(c)(3), except for unrelated business income. GGW's operations are financed primarily through fees earned from custodial contracts; income earned from the operation of contributed goods thrift shops; and contributions from private foundations, corporations and individuals.

GGW's wholly owned for-profit subsidiary, Best Kept Buildings (BKB), provides building cleaning and other services under commercial contracts. BKB was initially incorporated in 1994 and commenced its current business operations in 2004.

Principles of Consolidation

The consolidated financial statements include the accounts of GGW and BKB (collectively referred to as Goodwill). All intercompany transactions and balances were eliminated.

Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements are prepared using the accrual basis of accounting and include receivables and payables.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with initial maturities of three months or less. Cash intended for investment purposes is included in investments.

Accounts Receivable

Goodwill uses the allowance method to record potentially uncollectible accounts receivable. As of December 31, 2012, all accounts receivable are deemed fully collectible.

Inventory

Inventory consists of donated goods, salvage and new items. Donated goods are recorded in the accompanying consolidated financial statements at their estimated fair value using an inventory calculation model developed by Goodwill Industries International, Inc. The donated items require processing in preparation for retail sale. The costs related to this processing, and the turnover of donated goods inventory, is included as retail program expense in the accompanying consolidated statement of activities.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

1. Organization and Summary of Significant Accounting Policies (continued)

Investments

Investments consist of equities, fixed-income securities, equity and fixed-income mutual funds, money market funds, certificates of deposit, and real estate investment trust (REIT) funds. These investments are recorded in the accompanying consolidated financial statements at fair value. 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.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized gains or losses are determined by comparison of fair value at the beginning and end of the reporting period.

Fair Value Measurements

In accordance with the accounting standards for fair value measurements for those assets and liabilities that are measured at fair value on a recurring basis, Goodwill has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that Goodwill has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of and for the year ended December 31, 2012, only Goodwill's investments, as described in Note 4 of these consolidated financial statements, were measured at fair value on a recurring basis.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment and Related Depreciation and Amortization

Property and equipment are carried at cost. Depreciation and amortization are recorded using the straight-line method in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives. Buildings and building improvements have estimated useful lives of 10 to 20 years, and furniture and equipment (including transportation equipment) have estimated lives of 3 to 10 years. Leasehold improvements are amortized over the remaining life of the lease. Maintenance and repairs are expensed as incurred. Significant renewals and betterments are capitalized. At the time assets are retired or otherwise disposed of, the property and related accumulated depreciation and amortization accounts are relieved of the applicable amounts and any gain or loss is credited or charged to income.

Net Assets

The net assets of Goodwill are classified as follows:

- Unrestricted net assets represent funds that are available for support of Goodwill's operations.
- Temporarily restricted net assets represent amounts that are subject to donor-imposed restrictions to be used for a particular purpose or within a specific time period.
- Permanently restricted net assets represent amounts that include donor-imposed restrictions that stipulate that the resources be maintained in perpetuity and that only the investment earnings on such amounts be used in the manner specified by the donor.

Revenue and Support Recognition

Grants and contributions are considered to be 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 revenue and support.

Conditional promises to give are not included as revenue and support until such time as the conditions are substantially met. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Grants and contracts treated as exchange transactions are recorded as deferred revenue upon receipt and recognized as costs are incurred on the basis of direct costs plus allowable indirect expenses.

GOODWILL OF GREATER WASHINGTON

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012**

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue and Support Recognition (continued)

Service contract income is primarily related to fixed-price contracts with the federal government. Revenue from contracts is recognized based on billings, which approximate the percentage-of-completion method, with costs and estimated profit recorded as work is performed. Contract losses, if any, are accrued when their occurrence becomes known and the amount of the loss is reasonably determinable.

Revenue from the sale of inventory is recognized as donated goods sales revenue during the period the items are sold.

Donated Services

In-kind contributions are recognized as revenue and support and expenses in the accompanying consolidated statement of activities at the estimated fair value as provided by the donor at the date of donation.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying consolidated financial statements. Accordingly, costs have been allocated based upon the functions they directly benefit or upon management's estimates of the proportion of these costs applicable to each function.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Accounts Receivable

Accounts receivable were composed of the following as of December 31, 2012:

U.S. government prime contracts	\$ 1,215,101
Donated goods sales	98,908
Contributions	80,080
Workforce development grants	28,229
Commercial contracts	24,357
Other	<u>4,709</u>
Total	<u>\$ 1,451,384</u>

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

3. Investments

Investments are stated at fair value and consisted of the following as of December 31, 2012:

Equities	\$ 1,679,495
Fixed-income mutual funds	804,926
Equity mutual funds	643,443
Certificates of deposit	593,477
Fixed-income securities	584,765
Money market funds	322,310
REIT funds	<u>7,882</u>
Total	<u>\$ 4,636,298</u>

A portion of the certificates of deposit collateralize Goodwill's letter of credit (see note 11).

Investments totaling \$116,806 are held in segregated accounts to fund Goodwill's deferred compensation obligation to certain key employees. These investments are recorded as investments deferred compensation plan on the consolidated statement of financial position.

A summary of investment income is as follows for the year ended December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 112,103	\$ 8,431	\$ 120,534
Realized and unrealized gains	<u>284,792</u>	<u>33,938</u>	<u>318,730</u>
Total Investment Income	<u>\$ 396,895</u>	<u>\$ 42,369</u>	<u>\$ 439,264</u>

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

4. Fair Value Measurements

The following table summarizes Goodwill's investments measured at fair value on a recurring basis as of December 31, 2012:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Equities:			
Consumer discretionary	\$ 312,366	\$ 312,366	\$ -
Financials	274,578	274,578	-
Healthcare	264,299	264,299	-
Information technology	258,536	258,536	-
Industrials	229,751	229,751	-
Consumer staples	158,523	158,523	-
Energy	116,272	116,272	-
Materials	39,485	39,485	-
Telecommunication services	25,685	25,685	-
Fixed-income mutual funds:			
Mortgage backed securities	238,147	238,147	-
Diversified bonds	234,826	234,826	-
Global high yield	232,302	232,302	-
Corporate bonds	99,651	99,651	-
Equity mutual funds:			
International	268,225	268,225	-
U.S. Mid cap	147,182	147,182	-
Emerging markets	115,778	115,778	-
U.S. Small cap	112,258	112,258	-
Certificates of deposit	593,477	-	593,477
Fixed-income securities:			
Government sponsored entity notes	305,027	-	305,027
U.S. Treasury notes	237,912	-	237,912
U.S. Treasury bonds	41,826	-	41,826
Money market funds	322,310	322,310	-
REIT funds	<u>7,882</u>	<u>7,882</u>	<u>-</u>
Total Investments	<u>\$ 4,636,298</u>	<u>\$ 3,458,056</u>	<u>\$ 1,178,242</u>
Investments – Deferred Compensation Plan:			
Annuity contracts	<u>\$ 116,806</u>	<u>\$ -</u>	<u>\$ 116,806</u>
Total Investments – Deferred Compensation Plan	<u>\$ 116,806</u>	<u>\$ -</u>	<u>\$ 116,806</u>

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

4. Fair Value Measurements (continued)

Goodwill used the following methods and significant assumptions to estimate fair value for assets and liabilities recorded at fair value:

Equities – Value based on quoted market prices in active markets.

Fixed-income securities – Value based on current yields, the securities' terms and conditions, and market activity. Information used includes market sources, credit information, observed market movement and sector news.

Equity and fixed-income mutual funds, money market funds, and REIT funds – Value derived from the net asset value (NAV) of shares held at year-end and based on quoted market prices in active markets.

Certificates of deposit – Valued using a survey from the dealer communities and obtaining dealer/broker quotes on a daily basis.

Annuity contracts – Value determined by discounting the related cash flows on current yields of similar investments with comparable duration, considering the creditworthiness of the issuer.

5. Property and Equipment and Accumulated Depreciation and Amortization

Goodwill held the following property and equipment as of December 31, 2012:

Buildings and improvements	\$ 3,950,882
Furniture, fixtures and equipment	3,565,657
Leasehold improvements	2,922,522
Land	1,218,700
Transportation equipment	<u>419,218</u>
Total Property and Equipment	12,076,979
Less: Accumulated Depreciation and Amortization	<u>(7,791,748)</u>
Property and Equipment, Net	<u>\$ 4,285,231</u>

Depreciation and amortization expense totaled \$748,364 for the year ended December 31, 2012.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

6. Charitable Gift Annuities

Goodwill was named as the trustee of a charitable gift annuity. Under the terms of the agreement, Goodwill is required to pay the donor annual fixed amounts through the life of the donor. The liability under the charitable gift annuity is calculated using the estimated average life expectancy of the donor. The liability under this annuity totaled \$116,880 at December 31, 2012.

7. Capital Lease Obligations

Goodwill leases two vehicles through capital leases. The leases expire at various dates through February 2014. The vehicles have a cost of \$ 45,894 and accumulated depreciation of \$17,593, as of December 31, 2012.

Future minimum lease payments are as follows:

<u>For the Year Ending</u> <u>December 31,</u>	
2013	\$ 14,413
2014	<u>12,802</u>
Subtotal	27,215
Less: Portion representing interest	<u>(1,896)</u>
Total	<u>\$ 25,319</u>

8. Line of Credit

Goodwill has a \$1,500,000 revolving line of credit with SunTrust Bank that matures on June 30, 2013 and bears interest at a rate equal to the three-month London Interbank Offered Rate (LIBOR), Index Rate, plus 1.85% (which was 2.06% as of December 31, 2012). Interest expense on the line of credit totaled \$1,879 for the year ended December 31, 2012. The line of credit is unsecured and requires Goodwill to comply with certain financial and nonfinancial covenants. As of December 31, 2012, Goodwill was in compliance with the loan covenants and there was no balance outstanding on the line of credit.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

9. Notes Payable

On July 16, 2012, Goodwill entered into a \$1,623,664 debt agreement with SunTrust Bank for the purpose of refinancing the balance outstanding on the existing \$1,735,000 debt agreement previously entered into with SunTrust Bank on January 12, 2010. Effective with the July 2012 refinancing, the interest rate was reduced from 5.75% to 4.1%. The note requires monthly interest and principal payments of \$16,516 through August 1, 2022, at which time the principal balance will be paid in full. The note is secured by a deed of trust on Goodwill's real property and requires Goodwill to comply with, among other provisions, certain financial and nonfinancial covenants and restrictions on future borrowings. As of December 31, 2012, Goodwill was in compliance with the loan covenants and the outstanding balance on the note was \$1,580,764.

Scheduled repayments of principal on the notes are as follows:

<u>For the Year Ending December 31</u>	
2013	\$ 135,040
2014	140,762
2015	146,726
2016	139,766
2017	158,865
Thereafter	<u>859,605</u>
Total	<u>\$ 1,580,764</u>

Interest expense related to these notes totaled \$83,487 for the year ended December 31, 2012.

10. Lease Commitments

Goodwill leases store space and its administrative offices under several noncancelable leases, the last of which expires in May 2023. Certain of these leases include annual escalation clauses. Under GAAP, all fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying consolidated statement of financial position. In addition to annual rentals, several of the leases require that Goodwill pay the cost of insurance, a pro rata portion of increases in real estate taxes and other operating expenses. Goodwill also leases several copy machines through operating leases.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

10. Lease Commitments (continued)

Future minimum lease payments under these leases are as follows:

<u>For the Year Ending December 31,</u>	
2013	\$ 3,670,733
2014	3,828,024
2015	3,430,971
2016	3,028,973
2017	2,657,427
Thereafter	<u>7,348,367</u>
Total	<u>\$ 23,964,495</u>

Store and office rental expense totaled \$3,631,923 for the year ended December 31, 2012, and is recorded as occupancy expense in the accompanying consolidated statement of functional expenses.

11. Letters of Credit

As of December 31, 2012, Goodwill has a \$262,400 letter of credit from SunTrust Bank that serves as security for its worker's compensation insurance. This letter of credit renews annually in August and requires Goodwill to pay an annual fee equal to 1.0% of the outstanding balance.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets that remained as of December 31, 2012 were available for the following programs or purposes:

Retail expansion	\$ 140,000
Workforce development	<u>12,758</u>
Total program restricted	152,758
Time restricted for general operations	<u>105,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 257,758</u>

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

13. Endowment Funds

Goodwill's endowment consists of four funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds, including funds restricted by the Board of Directors as a quasi-endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Goodwill has interpreted the District of Columbia's Uniform Prudent Management of Institutional Funds Act (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 classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the endowment fund's applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Goodwill in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Goodwill considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of Goodwill 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 Goodwill.
- The investment policies of Goodwill.

Endowment Investment Policies

Goodwill's investments are managed in accordance with the Board-adopted *Investment Policy Statement*. Goodwill's investment policy is to obtain the highest overall total return on investments consistent with an above-average level of risk appropriate for a nonprofit corporation. Average risk is defined to mean that some variability in returns is tolerated, but a high level of safety of principal must exist. Goodwill has invested the permanently restricted assets in investment vehicles with a preferred asset allocation of 5% cash and cash equivalents, 35% fixed-income securities and 60% equities.

GOODWILL OF GREATER WASHINGTON

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012**

13. Endowment Funds (continued)

Endowment Spending Policy

Investment earnings on the permanent endowment are available to fund the operations of Goodwill. The investment earnings on the fund are considered to be appropriated for expenditure upon the approval of expenditures made in accordance with the Board of Directors' approval of the annual budget.

Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires Goodwill to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2012.

Goodwill's endowment net asset composition by fund type was as follows as of December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 494,808	\$ 494,808

Changes in endowment net assets were as follows for the year ended December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2012	\$ (8,081)	\$ -	\$ 494,808	\$ 486,727
Investment return:				
Investment income	1,608	8,431	-	10,039
Net appreciation (realized and unrealized)	6,473	33,938	-	40,411
Total investment return	8,081	42,369	-	50,450
Appropriation for expenditure	-	(42,369)	-	(42,369)
Endowment net assets, December 31, 2012	\$ -	\$ -	\$ 494,808	\$ 494,808

GOODWILL OF GREATER WASHINGTON

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012**

13. Endowment Funds (continued)

Permanently Restricted Net Assets

Perpetual endowment funds that are required to be retained permanently, either by explicit donor stipulation or by UPMIFA, are as follows as of December 31, 2012:

National Library for the Blind (Etta J. Griffin Memorial Trust Fund)	\$ 218,484
Mabel J. Langhorne Fund	189,301
Hazel and Karl Fenning Fund	56,023
Fenning-Murray Social Service Endowment Fund	<u>31,000</u>
Total Endowment Funds Classified as Permanently Restricted Net Asset	<u>\$ 494,808</u>

14. Significant Customers

During the year ended December 31, 2012, approximately 98% of service contracts income was earned through contracts with agencies of the federal government. The service contracts income from federal agencies totaled approximately \$10,438,000 for the year ended December 31, 2012.

15. Donated Support

During the year ended December 31, 2012, Goodwill recognized support from contributed merchandise with an estimated fair value of \$4,304,307, of which \$269,019 is included in inventory at December 31, 2012.

16. Retirement Plan

Goodwill has a group tax-deferred annuity plan available for its employees. Participation is voluntary and contributions to the plan are funded by employee salary deductions and employer matching contributions. Employees may elect voluntary deferrals from salary by payroll deduction on a pre-tax basis up to the amount allowed by federal law. Plan contributions totaled \$125,175 for the year ended December 31, 2012, and are included in employee benefits in the accompanying consolidated statement of functional expenses.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2012

17. Employment Contract

Effective July 1, 2010, Goodwill entered into an employment contract with its President and Chief Executive Officer (CEO). The contract has an initial five-year term with an automatic renewal for successive three-year terms unless notice is given by either party 60 days prior to the expiration date. The contract provides the President and CEO with an initial base salary and an annual incentive bonus of up to 20% of base salary. Adjustments to the base salary and the awarding of the annual incentive bonus are subject to approval by the Board of Directors. In the event of termination without cause, the President and CEO will receive pay equal to nine months of her base salary.

18. Income Taxes

GGW is a publicly supported organization exempt from federal income tax under Internal Revenue Code Section 501(c)(3), except for unrelated business income. For the year ended December 31, 2012, there was no substantial unrelated business income and, consequently, no provision for income taxes has been made.

BKB is subject to federal and state income taxes. At December 31, 2012, BKB had net operating loss carryforwards aggregating to approximately \$2,519,000. The loss carryforwards are available to offset taxable income and expire in 2025 through 2033. No deferred tax asset has been recorded for these cumulative net operating loss carryforwards, as management believes that the future taxable income required to realize such a deferred tax asset is uncertain at this time.

Goodwill performed an evaluation of uncertain tax positions for the year ended December 31, 2012, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of December 31, 2012, the statute of limitations for tax years 2009 through 2011 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which Goodwill files tax returns. It is Goodwill's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2012, Goodwill had no accrual for interest and/or penalties.

19. Reclassification

Certain 2011 amounts have been reclassified to conform to the 2012 consolidated financial statement presentation.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

20. Subsequent Events

On March 15, 2013, Goodwill entered into a lease agreement for its new Ashdale store. The lease expires in 2023 and the future minimum lease payments under this lease are as follows:

<u>For the Year Ending</u> <u>December 31,</u>	
2013	\$ 171,788
2014	348,729
2015	359,190
2016	369,966
2017	381,065
Thereafter	<u>2,307,964</u>
Total	<u>\$ 3,938,702</u>

In preparing these consolidated financial statements, Goodwill has evaluated events and transactions for potential recognition or disclosure through May 17, 2013, the date the consolidated financial statements were available to be issued. There are no other subsequent events that require recognition of, or disclosure in, the consolidated financial statements.

SUPPLEMENTAL INFORMATION

GOODWILL OF GREATER WASHINGTON

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2012

	Goodwill of Greater Washington	Best Kept Buildings	Eliminations	Total
ASSETS				
Cash and cash equivalents	\$ 2,037,052	\$ 92,714	\$ -	\$ 2,129,766
Accounts receivable	1,427,027	24,357	-	1,451,384
Intercompany receivable	2,831,945	-	(2,831,945)	-
Inventory	358,633	-	-	358,633
Prepaid expenses and other	768,738	15,903	-	784,641
Investments	4,636,298	-	-	4,636,298
Investments - deferred compensation plan	116,806	-	-	116,806
Property and equipment, net	4,282,403	2,828	-	4,285,231
Deposits and loan costs	267,837	-	-	267,837
	\$ 16,726,739	\$ 135,802	\$ (2,831,945)	\$ 14,030,596
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 949,185	\$ 30,401	\$ -	\$ 979,586
Intercompany payable	-	2,831,945	(2,831,945)	-
Accrued payroll and related liabilities	928,650	73,316	-	1,001,966
Charitable gift annuities	116,880	-	-	116,880
Capital lease obligations	25,319	-	-	25,319
Deferred rent	1,451,236	-	-	1,451,236
Deferred compensation liability	116,806	-	-	116,806
Notes payable	1,580,764	-	-	1,580,764
	5,168,840	2,935,662	(2,831,945)	5,272,557
Net Assets				
Unrestricted	10,805,333	(2,799,860)	-	8,005,473
Temporarily restricted	257,758	-	-	257,758
Permanently restricted	494,808	-	-	494,808
	11,557,899	(2,799,860)	-	8,758,039
TOTAL LIABILITIES AND NET ASSETS	\$ 16,726,739	\$ 135,802	\$ (2,831,945)	\$ 14,030,596

GOODWILL OF GREATER WASHINGTON
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

	Goodwill of Greater Washington	Best Kept Buildings	Eliminations	Total
REVENUE AND SUPPORT				
Revenue:				
Donated goods sales	\$ 20,206,140	\$ -	\$ -	\$ 20,206,140
Service contracts	10,468,791	165,773	-	10,634,564
Net investment income	439,264	-	-	439,264
Other income	151,753	-	-	151,753
Contract service income	451,563	2,001,810	(2,453,373)	-
Total Revenue	31,717,511	2,167,583	(2,453,373)	31,431,721
Support:				
Contributions - donated goods	4,304,307	-	-	4,304,307
Workforce development grants	1,111,619	-	-	1,111,619
Contributions - other	913,239	-	-	913,239
Legacies and bequests	632,721	-	-	632,721
TOTAL REVENUE AND SUPPORT	38,679,397	2,167,583	(2,453,373)	38,393,607
EXPENSES				
Program Services:				
Retail program	21,415,572	1,906,576	(2,001,810)	21,320,338
Service contracts	9,059,257	321,838	-	9,381,095
Workforce development	2,377,708	-	-	2,377,708
Total Program Services	32,852,537	2,228,414	(2,001,810)	33,079,141
Supporting Services:				
Management and general	2,173,285	510,781	(451,563)	2,232,503
Fundraising	996,963	-	-	996,963
Total Supporting Services	3,170,248	510,781	(451,563)	3,229,466
TOTAL EXPENSES	36,022,785	2,739,195	(2,453,373)	36,308,607
CHANGE IN NET ASSETS	2,656,612	(571,612)	-	2,085,000
NET ASSETS, BEGINNING OF YEAR	8,901,287	(2,228,248)	-	6,673,039
NET ASSETS, END OF YEAR	\$ 11,557,899	\$ (2,799,860)	\$ -	\$ 8,758,039