



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

**Consolidated Financial Statements and Supplemental  
Information**

*For the Year Ended December 31, 2013*

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



**and  
Report Thereon**



**GOODWILL OF GREATER WASHINGTON**

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**For the Year Ended December 31, 2013**

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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 Consolidated 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, 2013, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our 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, 2013, 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 2012 consolidated financial statements, and our report dated May 17, 2013, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, 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 21 and 22 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  
April 30, 2014

**GOODWILL OF GREATER WASHINGTON**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**December 31, 2013**  
**(With Summarized Financial Information as of December 31, 2012)**

	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,141,866	\$ 2,129,766
Accounts receivable	2,107,448	1,451,384
Inventory	479,276	358,633
Prepaid expenses and other	896,055	784,641
Investments	5,193,678	4,636,298
Investments - deferred compensation plan	169,445	116,806
Property and equipment, net	4,850,884	4,285,231
Deposits	281,335	267,837
<b>TOTAL ASSETS</b>	<b>\$ 16,119,987</b>	<b>\$ 14,030,596</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,077,859	\$ 979,586
Accrued payroll and related liabilities	1,023,125	1,001,966
Deferred revenue and deposits	9,077	-
Charitable gift annuities	-	116,880
Capital lease obligations	356,990	25,319
Deferred rent	1,491,768	1,451,236
Deferred compensation liability	169,445	116,806
Notes payable	1,445,724	1,580,764
<b>TOTAL LIABILITIES</b>	<b>5,573,988</b>	<b>5,272,557</b>
<b>Net Assets</b>		
Unrestricted	9,941,191	8,005,473
Temporarily restricted	110,000	257,758
Permanently restricted	494,808	494,808
<b>TOTAL NET ASSETS</b>	<b>10,545,999</b>	<b>8,758,039</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 16,119,987</b>	<b>\$ 14,030,596</b>

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, 2013**

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
<b>REVENUE AND SUPPORT</b>					
Revenue:					
Donated goods sales	\$ 23,530,617	\$ -	\$ -	\$ 23,530,617	\$ 20,206,140
Service contracts	10,159,439	-	-	10,159,439	10,634,564
Net investment income	557,418	65,132	-	622,550	439,264
Other income	5,936	-	-	5,936	151,753
	<b>34,253,410</b>	<b>65,132</b>	<b>-</b>	<b>34,318,542</b>	<b>31,431,721</b>
Support:					
Contributions - donated goods	5,472,056	-	-	5,472,056	4,304,307
Workforce development grants and contracts	1,967,969	390,540	-	2,358,509	1,111,619
Contributions - other	931,675	-	-	931,675	913,239
Legacies and bequests	162,193	-	-	162,193	632,721
Net assets released from restrictions:					
Satisfaction of time restrictions	105,000	(105,000)	-	-	-
Satisfaction of purpose restrictions	498,430	(498,430)	-	-	-
	<b>43,390,733</b>	<b>(147,758)</b>	<b>-</b>	<b>43,242,975</b>	<b>38,393,607</b>
<b>EXPENSES</b>					
Program Services:					
Retail program	25,308,972	-	-	25,308,972	21,320,338
Service contracts	8,747,092	-	-	8,747,092	9,381,095
Workforce development	3,980,228	-	-	3,980,228	2,377,708
	<b>38,036,292</b>	<b>-</b>	<b>-</b>	<b>38,036,292</b>	<b>33,079,141</b>
Supporting Services:					
Management and general	2,440,733	-	-	2,440,733	2,232,503
Fundraising	977,990	-	-	977,990	996,963
	<b>3,418,723</b>	<b>-</b>	<b>-</b>	<b>3,418,723</b>	<b>3,229,466</b>
	<b>41,455,015</b>	<b>-</b>	<b>-</b>	<b>41,455,015</b>	<b>36,308,607</b>
<b>CHANGE IN NET ASSETS</b>	1,935,718	(147,758)	-	1,787,960	2,085,000
<b>NET ASSETS, BEGINNING OF YEAR</b>	8,005,473	257,758	494,808	8,758,039	6,673,039
<b>NET ASSETS, END OF YEAR</b>	\$ 9,941,191	\$ 110,000	\$ 494,808	\$ 10,545,999	\$ 8,758,039

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, 2013

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

	Program Services			Supporting Services			2013 Total	2012 Total
	Retail Program	Service Contracts	Workforce Development	Total Program Services	Management and General	Fundraising		
Salaries	\$ 9,679,651	\$ 5,414,837	\$ 1,679,165	\$ 16,773,653	\$ 1,032,315	\$ 330,683	\$ 18,136,651	\$ 16,183,401
Employee benefits	959,827	1,436,766	167,449	2,564,042	106,612	33,547	2,704,201	2,637,437
Payroll taxes	703,315	388,496	115,344	1,207,155	59,683	20,650	1,287,488	1,345,988
Subtotal	11,342,793	7,240,099	1,961,958	20,544,850	1,198,610	384,880	22,128,340	20,166,826
Cost of sales - donated goods	5,399,066	-	-	5,399,066	-	-	5,399,066	4,250,867
Occupancy	3,484,876	66,060	396,733	3,947,669	198,100	66,060	4,211,829	3,631,923
Subcontractors	91,222	116,810	862,549	1,070,581	787	263	1,071,631	239,172
Utilities	927,067	9,894	47,392	984,353	29,670	9,894	1,023,917	795,947
Depreciation and amortization	429,935	118,360	163,883	712,178	119,226	118,360	949,764	748,364
Supplies	417,043	427,611	38,451	883,105	40,341	4,397	927,843	800,352
Professional fees	271,198	72,285	38,036	381,519	226,374	70,512	678,405	738,941
Taxes, licenses and permits	452,292	14,105	41,702	508,099	26,317	8,639	543,055	520,765
Auctions	499,091	-	-	499,091	-	-	499,091	614,988
Other expenses	173,545	81,307	165,989	420,841	58,375	18,597	497,813	346,595
SourceAmerica commissions	-	374,559	-	374,559	-	-	374,559	397,239
Postage	292,940	3,495	1,498	297,933	9,565	27,926	335,424	340,864
Bank service charges	231,131	8,066	3,632	242,829	80,407	1,107	324,343	277,043
Telephone	194,498	45,934	18,710	259,142	24,015	8,577	291,734	275,398
Equipment rental and maintenance	148,830	54,464	29,015	232,309	30,419	13,599	276,327	210,773
Cost of sales - purchased goods	273,369	-	-	273,369	-	-	273,369	271,607
Travel and vehicles	181,556	26,398	29,183	237,137	13,112	4,311	254,560	257,012
Insurance	139,841	40,920	18,857	199,618	31,586	2,975	234,179	260,554
Advertising	28,169	8,264	10,643	47,076	181,955	549	229,580	216,348
Dues	55,173	21,981	54,483	131,637	54,041	32,425	218,103	231,455
Maintenance and repairs	159,700	12,970	28,372	201,042	5,894	1,899	208,835	287,341
Printing and publications	12,969	1,645	3,086	17,700	67,986	69,661	155,347	73,728
Special events	-	-	-	-	10,738	133,359	144,097	133,672
Interest	59,405	1,865	23,413	84,683	-	-	84,683	92,452
Sale, retirement, write off of assets	43,263	-	-	43,263	19,345	-	62,608	608
Stipends	-	-	42,643	42,643	-	-	42,643	48,873
In-kind services	-	-	-	-	13,870	-	13,870	78,900
<b>TOTAL EXPENSES</b>	<b><u>\$ 25,308,972</u></b>	<b><u>\$ 8,747,092</u></b>	<b><u>\$ 3,980,228</u></b>	<b><u>\$ 38,036,292</u></b>	<b><u>\$ 2,440,733</u></b>	<b><u>\$ 977,990</u></b>	<b><u>\$ 41,455,015</u></b>	<b><u>\$ 36,308,607</u></b>

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, 2013

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

Increase (Decrease) in Cash and Cash Equivalents

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,787,960	\$ 2,085,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	949,764	748,364
Unrealized gains on investments	(274,999)	(260,341)
Realized gains on investments	(244,213)	(58,389)
Loss on disposal of property and equipment	62,608	608
Changes in assets and liabilities:		
Accounts receivable	(656,064)	2,166,550
Inventory	(120,643)	(82,589)
Prepaid expenses and other	(111,414)	(190,697)
Deposits	(13,498)	(29,573)
Accounts payable and accrued expenses	98,273	(185,102)
Accrued payroll and related liabilities	21,159	(100,107)
Deferred revenue and deposits	9,077	(41,649)
Charitable gift annuities	(116,880)	(35,276)
Deferred rent	40,532	40,002
Deferred compensation liability	52,639	23,822
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,484,301</b>	<b>4,080,623</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	3,538,701	2,456,787
Purchases of investments	(3,629,508)	(2,868,840)
Proceeds from sales of property and equipment	1,085	47,200
Purchases of property and equipment	(1,180,764)	(904,713)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,270,486)</b>	<b>(1,269,566)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on line of credit	-	(586,000)
Principal payments on notes payable	(135,040)	(78,308)
Principal payments on capital lease obligations	(66,675)	(21,962)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(201,715)</b>	<b>(686,270)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>12,100</b>	<b>2,124,787</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>2,129,766</b>	<b>4,979</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 2,141,866</b>	<b>\$ 2,129,766</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	<b>\$ 84,502</b>	<b>\$ 92,452</b>
<b>NONCASH TRANSACTIONS</b>		
Property and equipment purchased under capital leases	<b>\$ 398,346</b>	<b>\$ -</b>

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, 2013

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#### 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, 2013, 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, 2013

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

##### **Investments**

Investments consist of money market funds, certificates of deposit, mutual funds, exchange traded funds, and equities. 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, 2013, 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, 2013

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#### 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, 2013

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

##### **Revenue and Support Recognition (continued)**

Revenue from service contracts and workforce development grants and contracts are primarily related to fixed-price contracts with the federal government and other local agencies. 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.

##### **Change in Accounting Principle**

Goodwill early adopted the FASB Accounting Standards Update (ASU) 2012-05, *Statement of Cash Flows: Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires the recognition of donated securities that have no donor-imposed limitation for sale or donor restriction on the use for long-term purposes and that are nearly immediately converted into cash, as cash from operating activities. During the year ended December 31, 2013, Goodwill received \$9,214 of such donated securities and recognized the amount as cash from operating activities in the accompanying consolidated statement of cash flows. The statement of cash flows for the year ended December 31, 2012, which previously reported \$9,037 of donated securities as investing activities, has been adjusted to report this amount in operating activities.

**GOODWILL OF GREATER WASHINGTON**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2013**

2. Accounts Receivable

Accounts receivable were composed of the following as of December 31, 2013:

U.S. government prime contracts	\$ 1,242,710
Workforce development grants and contracts	553,681
Donated goods sales	228,969
Contributions	53,200
Commercial contracts	24,044
Other	<u>4,844</u>
Total	<u>\$ 2,107,448</u>
Billed receivables	\$ 1,515,852
Unbilled receivables	<u>591,596</u>
Total	<u>\$ 2,107,448</u>

3. Investments

Investments are stated at fair value and consisted of the following as of December 31, 2013:

Equity mutual funds	\$ 1,677,792
Fixed-income mutual funds	1,368,430
Equities	1,326,759
Certificates of deposit	362,276
Money market funds	321,866
Exchange traded funds	<u>136,555</u>
Total	<u>\$ 5,193,678</u>

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

Investments totaling \$169,445 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, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Realized and unrealized gains	\$ 460,782	\$ 58,430	\$ 519,212
Interest and dividends	<u>96,636</u>	<u>6,702</u>	<u>103,338</u>
Total Investment Income	<u>\$ 557,418</u>	<u>\$ 65,132</u>	<u>\$ 622,550</u>

Continued

**GOODWILL OF GREATER WASHINGTON**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2013**

4. Fair Value Measurements

The following table summarizes Goodwill's investments measured at fair value on a recurring basis as of December 31, 2013:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Equity mutual funds:			
International	\$ 543,589	\$ 543,589	\$ -
U.S. Mid cap	446,187	446,187	-
Emerging markets	374,786	374,786	-
U.S. Small cap	313,230	313,230	-
Fixed-income mutual funds:			
Corporate bonds	1,137,015	1,137,015	-
Global high yield	231,415	231,415	-
Equities:			
Healthcare	240,692	240,692	-
Information technology	233,180	233,180	-
Financials	209,519	209,519	-
Consumer discretionary	174,509	174,509	-
Consumer staples	174,505	174,505	-
Industrials	162,596	162,596	-
Energy	82,533	82,533	-
Materials	27,032	27,032	-
Telecommunication services	22,193	22,193	-
Certificates of deposit	362,276	-	362,276
Money market funds	321,866	321,866	-
Exchange traded funds:			
Tangible assets-commodities	<u>136,555</u>	<u>136,555</u>	<u>-</u>
Total Investments	<u>\$ 5,193,678</u>	<u>\$ 4,831,402</u>	<u>\$ 362,276</u>
Investments – Deferred Compensation Plan:			
Annuity contracts	<u>\$ 169,445</u>	<u>\$ -</u>	<u>\$ 169,455</u>

Continued

## GOODWILL OF GREATER WASHINGTON

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2013

#### 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:

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

*Equities* – Value 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, 2013:

Buildings and improvements	\$ 4,029,987
Furniture, fixtures and equipment	3,508,650
Leasehold improvements	3,346,768
Land	1,218,700
Transportation equipment	<u>645,022</u>
Total Property and Equipment	12,749,127
Less: Accumulated Depreciation and Amortization	<u>(7,898,243)</u>
Property and Equipment, Net	<u>\$ 4,850,884</u>

Depreciation and amortization expense totaled \$949,764 for the year ended December 31, 2013.

#### 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 donor passed away in March 2013 and the remaining amount of liability, in the amount of \$112,192, was recognized as legacies and bequests revenue in the accompanying consolidated financial statements.

## GOODWILL OF GREATER WASHINGTON

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2013

#### 7. Capital Lease Obligations

Goodwill leases vehicles through capital leases. The leases expire at various dates through July 2020. The vehicles have a cost of \$437,249 and accumulated depreciation of \$75,388, as of December 31, 2013.

Future minimum lease payments are as follows:

For the Year Ending December 31,	
2014	\$ 76,392
2015	76,392
2016	76,392
2017	76,392
2018	76,392
Thereafter	<u>46,116</u>
Subtotal	428,076
Less: Portion representing interest	<u>(71,086)</u>
Total	<u>\$ 356,990</u>

#### 8. Line of Credit

Goodwill has a \$1,500,000 revolving line of credit with SunTrust Bank that matures on June 30, 2014 and bears interest at a rate equal to the three-month London Interbank Offered Rate (LIBOR), Index Rate, plus 1.85% (which was 2.01% as of December 31, 2013). There was no interest expense on the line of credit for the year ended December 31, 2013. The line of credit is unsecured and requires Goodwill to comply with certain financial and nonfinancial covenants. As of December 31, 2013, Goodwill was in compliance with the loan covenants and there was no balance outstanding on the line of credit.

On March 19, 2014, Goodwill amended its existing agreement with SunTrust Bank increasing its revolving line of credit by \$1,000,000 to a new available amount of \$2,500,000. The new maturity date is March 1, 2015 and all other requirements remained the same.

#### 9. Notes Payable

On July 16, 2012, Goodwill entered into a \$1,623,664 debt agreement with SunTrust Bank to refinance its existing debt agreement and reduce its interest rate 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, 2013, Goodwill was in compliance with the loan covenants and the outstanding balance on the note was \$1,445,724.

Continued



## GOODWILL OF GREATER WASHINGTON

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2013

#### 9. Notes Payable (continued)

Scheduled repayments of principal on the notes are as follows:

<u>For the Year Ending December 31</u>	
2014	\$ 140,762
2015	146,726
2016	152,370
2017	158,865
2018	165,596
Thereafter	<u>681,405</u>
Total	<u>\$ 1,445,724</u>

Interest expense related to these notes totaled \$63,153 for the year ended December 31, 2013.

#### 10. Lease Commitments

Goodwill leases store space and its administrative offices under several noncancellable leases, the last of which expires in September 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.

Future minimum lease payments under these leases are as follows:

<u>For the Year Ending December 31,</u>	
2014	\$ 4,165,568
2015	3,761,246
2016	3,327,565
2017	3,089,745
2018	3,186,765
Thereafter	<u>6,612,207</u>
Total	<u>\$24,143,097</u>

Store and office rental expense totaled \$4,211,829 for the year ended December 31, 2013, and is recorded as occupancy expense in the accompanying consolidated statement of functional expenses.

Continued

## GOODWILL OF GREATER WASHINGTON

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2013

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11. Letters of Credit

As of December 31, 2013, 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

As of December 31, 2013, \$110,000 of temporarily restricted net assets were available for workforce development programs.

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.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2013

13. Endowment Funds (continued)

**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.

**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, 2013.

Goodwill's endowment net asset composition by fund type was as follows as of December 31, 2013:

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

**GOODWILL OF GREATER WASHINGTON**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2013**

13. Endowment Funds (continued)

Changes in endowment net assets were as follows for the year ended December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2013	\$ -	\$ -	\$ 494,808	\$ 494,808
Investment return:				
Investment income	-	6,702	-	6,702
Net appreciation (realized and unrealized)	-	58,430	-	58,430
Total investment return	-	65,132	-	65,132
Appropriation for expenditure	-	(65,132)	-	(65,132)
Endowment net assets, December 31, 2013	\$ -	\$ -	\$ 494,808	\$ 494,808

**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, 2013:

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	31,000
Total Endowment Funds Classified as Permanently Restricted Net Asset	\$ 494,808

14. Significant Customers

During the year ended December 31, 2013, approximately 98% of service contracts income was earned through contracts with agencies of the federal government. Revenue from service contracts with federal agencies totaled approximately \$9,906,000 for the year ended December 31, 2013.

15. Donated Support

During the year ended December 31, 2013, Goodwill recognized support from contributed merchandise with an estimated fair value of \$5,472,056, of which \$342,004 is included in inventory at December 31, 2013.

## GOODWILL OF GREATER WASHINGTON

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2013

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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 \$126,668 for the year ended December 31, 2013, and are included in employee benefits in the accompanying consolidated statement of functional expenses.

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, 2013, 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, 2013, BKB had net operating loss carryforwards aggregating to approximately \$3,249,000. 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, 2013, 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, 2013, the statute of limitations for tax years 2010 through 2012 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, 2013, Goodwill had no accrual for interest and/or penalties.

**GOODWILL OF GREATER WASHINGTON**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2013**

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19. Reclassification

Certain 2012 amounts have been reclassified to conform to the 2013 consolidated financial statement presentation.

20. Subsequent Events

In preparing these consolidated financial statements, Goodwill has evaluated events and transactions for potential recognition or disclosure through April 30, 2014, the date the consolidated financial statements were available to be issued. Other than the matters disclosed in Note 8 related to Goodwill's line of credit, 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, 2013**

	Goodwill of Greater Washington	Best Kept Buildings	Eliminations	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,098,757	\$ 43,109	\$ -	\$ 2,141,866
Accounts receivable	2,082,576	24,872	-	2,107,448
Intercompany receivable	3,401,086	-	(3,401,086)	-
Inventory	479,276	-	-	479,276
Prepaid expenses and other	863,393	32,662	-	896,055
Investments	5,193,678	-	-	5,193,678
Investments - deferred compensation plan	169,445	-	-	169,445
Property and equipment, net	4,848,922	1,962	-	4,850,884
Deposits	275,524	5,811	-	281,335
<b>TOTAL ASSETS</b>	<b><u>\$ 19,412,657</u></b>	<b><u>\$ 108,416</u></b>	<b><u>\$ (3,401,086)</u></b>	<b><u>\$ 16,119,987</u></b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 1,049,920	\$ 27,939	\$ -	\$ 1,077,859
Intercompany payable	-	3,401,086	(3,401,086)	-
Accrued payroll and related liabilities	948,213	74,912	-	1,023,125
Deferred revenue and deposits	9,077	-	-	9,077
Capital lease obligations	356,990	-	-	356,990
Deferred rent	1,491,768	-	-	1,491,768
Deferred compensation liability	169,445	-	-	169,445
Notes payable	1,445,724	-	-	1,445,724
<b>TOTAL LIABILITIES</b>	<b><u>5,471,137</u></b>	<b><u>3,503,937</u></b>	<b><u>(3,401,086)</u></b>	<b><u>5,573,988</u></b>
<b>Net Assets</b>				
Unrestricted	13,336,712	(3,395,521)	-	9,941,191
Temporarily restricted	110,000	-	-	110,000
Permanently restricted	494,808	-	-	494,808
<b>TOTAL NET ASSETS</b>	<b><u>13,941,520</u></b>	<b><u>(3,395,521)</u></b>	<b><u>-</u></b>	<b><u>10,545,999</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 19,412,657</u></b>	<b><u>\$ 108,416</u></b>	<b><u>\$ (3,401,086)</u></b>	<b><u>\$ 16,119,987</u></b>



**GOODWILL OF GREATER WASHINGTON**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2013**

	Goodwill of Greater Washington	Best Kept Buildings	Eliminations	Total
<b>REVENUE AND SUPPORT</b>				
Revenue:				
Donated goods sales	\$ 23,530,617	\$ -	\$ -	\$ 23,530,617
Service contracts	9,924,954	234,485	-	10,159,439
Net investment income	622,550	-	-	622,550
Other income	5,936	-	-	5,936
Contract service income	539,741	2,730,365	(3,270,106)	-
<b>Total Revenue</b>	<b>34,623,798</b>	<b>2,964,850</b>	<b>(3,270,106)</b>	<b>34,318,542</b>
Support:				
Contributions - donated goods	5,472,056	-	-	5,472,056
Workforce development grants	2,358,509	-	-	2,358,509
Contributions - other	931,675	-	-	931,675
Legacies and bequests	162,193	-	-	162,193
<b>TOTAL REVENUE AND SUPPORT</b>	<b>43,548,231</b>	<b>2,964,850</b>	<b>(3,270,106)</b>	<b>43,242,975</b>
<b>EXPENSES</b>				
Program Services:				
Retail program	25,438,990	2,600,347	(2,730,365)	25,308,972
Service contracts	8,379,668	367,424	-	8,747,092
Workforce development	3,980,228	-	-	3,980,228
<b>Total Program Services</b>	<b>37,798,886</b>	<b>2,967,771</b>	<b>(2,730,365)</b>	<b>38,036,292</b>
Supporting Services:				
Management and general	2,387,734	592,740	(539,741)	2,440,733
Fundraising	977,990	-	-	977,990
<b>Total Supporting Services</b>	<b>3,365,724</b>	<b>592,740</b>	<b>(539,741)</b>	<b>3,418,723</b>
<b>TOTAL EXPENSES</b>	<b>41,164,610</b>	<b>3,560,511</b>	<b>(3,270,106)</b>	<b>41,455,015</b>
<b>CHANGE IN NET ASSETS</b>	<b>2,383,621</b>	<b>(595,661)</b>	<b>-</b>	<b>1,787,960</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>11,557,899</b>	<b>(2,799,860)</b>	<b>-</b>	<b>8,758,039</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 13,941,520</b>	<b>\$ (3,395,521)</b>	<b>\$ -</b>	<b>\$ 10,545,999</b>