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

Consolidated Financial Statements and Supplementary Information

For the Year Ended December 31, 2019
(With Summarized Financial Information for the Year Ended December 31, 2018)

and Report Thereon

GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES

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MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

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

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 subsidiaries Best Kept Buildings (BKB) and The Goodwill Excel Center, Public Charter School (GEC) (collectively referred to as Goodwill), which comprise the consolidated statement of financial position as of December 31, 2019, 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.

Auditors' 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 from 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 auditors' 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.

Continued

Opinion

In our opinion, the 2019 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill as of December 31, 2019, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited Goodwill's 2018 consolidated financial statements and we expressed an unmodified audit opinion on those financial statements in our report dated May 6, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedules are presented for purposes of additional analysis and are 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.

Marcum LLP

Washington, DC
May 28, 2020

GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2019
(With Summarized Financial Information as of December 31, 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	$ 10,223,667	$ 6,630,820
Accounts receivable, net	3,279,881	2,658,054
Inventory	1,226,272	1,048,464
Prepaid expenses and other	1,858,591	1,777,324
Investments	7,637,631	6,380,683
Investments – deferred compensation plan	718,943	511,643
Property and equipment, net	10,437,122	7,104,293
Deposits	430,969	439,285
TOTAL ASSETS	$ 35,813,076	$ 26,550,566
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 1,720,251	$ 1,298,440
Accrued payroll and related liabilities	2,480,729	2,288,323
Contract liabilities and deposits	1,608,631	1,326,036
Deferred rent and lease incentive	7,007,391	3,688,503
Deferred compensation obligations	718,943	511,643
Capital lease obligations	603,278	94,152
Note payable	506,624	679,837
TOTAL LIABILITIES	14,645,847	9,886,934
Net Assets		
Without donor restrictions	21,112,229	16,308,632
With donor restrictions	55,000	355,000
TOTAL NET ASSETS	21,167,229	16,663,632
TOTAL LIABILITIES AND NET ASSETS	$ 35,813,076	$ 26,550,566

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

GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019
(With Summarized Financial Information for the Year Ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
OPERATING REVENUE AND SUPPORT				
Revenue:				
Donated goods sales	$ 43,850,737	$ -	$ 43,850,737	$ 38,805,882
Service contracts	11,332,317	-	11,332,317	10,633,977
Per pupil funding	7,369,072	-	7,369,072	6,856,702
Other income	161,407	-	161,407	48,819
Total Revenue	62,713,533	-	62,713,533	56,345,380
Support:				
Contributions – donated goods	12,232,592	-	12,232,592	10,655,683
Contributions – other	1,133,796	643,250	1,777,046	1,816,647
Grants	268,832	-	268,832	147,711
Legacies and bequests	164,676	-	164,676	-
Net assets released from restrictions:				
Satisfaction of purpose restrictions	943,250	(943,250)	-	-
TOTAL OPERATING REVENUE AND SUPPORT	77,456,679	(300,000)	77,156,679	68,965,421
OPERATING EXPENSES				
Program Services:				
Retail program	50,953,075	-	50,953,075	45,705,911
Service contracts	9,196,073	-	9,196,073	8,938,580
Education program	6,169,650	-	6,169,650	5,468,490
Workforce development	2,672,222	-	2,672,222	2,522,590
Total Program Services	68,991,020	-	68,991,020	62,635,571
Supporting Services:				
Management and general	3,792,166	-	3,792,166	3,227,992
Fundraising	1,054,275	-	1,054,275	747,297
Total Supporting Services	4,846,441	-	4,846,441	3,975,289
TOTAL OPERATING EXPENSES	73,837,461	-	73,837,461	66,610,860
Change in net assets from operations	3,619,218	(300,000)	3,319,218	2,354,561
NONOPERATING ACTIVITIES				
Investment income (loss)	1,184,379	-	1,184,379	(347,957)
CHANGE IN NET ASSETS	4,803,597	(300,000)	4,503,597	2,006,604
NET ASSETS, BEGINNING OF YEAR	16,308,632	355,000	16,663,632	14,657,028
NET ASSETS, END OF YEAR	$ 21,112,229	$ 55,000	$ 21,167,229	$ 16,663,632

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

GOODWILL OF GREATER WASHINGTON
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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019
(With Summarized Financial Information for the Year Ended December 31, 2018)

	Program Services					Supporting Services				
	Retail Program	Service Contracts	Education Program	Workforce Development	Total Program Services	Management and General	Fundraising	Total Supporting Services	2019 Total	2018 Total
Personnel Expenses:										
Salaries	$ 18,791,624	$ 5,594,813	$ 3,575,474	$ 1,549,156	$ 29,511,067	$ 1,675,090	$ 456,367	$ 2,131,457	$ 31,642,524	$ 29,335,206
Employee benefits	3,266,413	1,938,886	48,880	343,552	5,597,731	269,649	94,745	364,394	5,962,125	5,798,167
Total Personnel Expenses	22,058,037	7,533,699	3,624,354	1,892,708	35,108,798	1,944,739	551,112	2,495,851	37,604,649	35,133,373
Cost of sales – donated goods	12,048,441	-	-	-	12,048,441	-	-	-	12,048,441	10,645,330
Occupancy	7,782,340	225,190	490,989	259,602	8,758,121	675,434	225,055	900,489	9,658,610	8,481,074
Other expenses	947,363	96,225	661,042	80,291	1,784,921	101,029	31,790	132,819	1,917,740	1,013,623
Supplies	916,795	519,786	95,841	17,656	1,550,078	29,323	6,655	35,978	1,586,056	1,404,585
Depreciation and amortization	898,375	52,802	370,302	38,329	1,359,808	107,155	22,370	129,525	1,489,333	1,521,568
Auctions	1,318,112	-	-	-	1,318,112	-	-	-	1,318,112	1,203,776
Utilities	1,025,317	12,701	59,534	40,079	1,137,631	38,096	12,694	50,790	1,188,421	1,148,787
Professional fees	394,821	49,668	142,224	14,657	601,370	351,501	63,290	414,791	1,016,161	824,343
Postage and shipping	829,807	1,566	2,143	554	834,070	13,810	3,318	17,128	851,198	699,171
Bank service charges	761,102	131	1,565	-	762,798	39,076	14,924	54,000	816,798	668,363
Equipment rental and maintenance	550,876	56,091	26	482	607,475	5,265	1,551	6,816	614,291	307,910
SourceAmerica commissions	-	413,204	-	-	413,204	-	-	-	413,204	395,638
Maintenance and repairs	253,332	8,466	65,348	23,601	350,747	11,795	3,925	15,720	366,467	300,453
Telephone	205,154	49,233	54,036	27,968	336,391	16,250	6,005	22,255	358,646	353,080
Advertising	8,531	2,048	109,322	1,638	121,539	233,638	1,523	235,161	356,700	390,402
Subcontractors	172,829	42,925	-	93,853	309,607	14,274	-	14,274	323,881	261,187
Software maintenance	135,197	29,672	55,959	62,540	283,368	15,193	19,726	34,919	318,287	209,450
Insurance	199,014	31,454	40,344	10,913	281,725	32,286	3,054	35,340	317,065	307,925
Dues	46,063	11,383	53,683	21,506	132,635	54,097	33,004	87,101	219,736	220,513
Taxes, licenses and permits	44,308	755	113,511	167	158,741	26,943	1,882	28,825	187,566	190,167
Student transportation stipends	-	-	156,883	30,192	187,075	-	-	-	187,075	181,180
Vehicles – rentals and maintenance	140,086	39,732	-	-	179,818	728	-	728	180,546	161,125
Printing and publications	56,961	5,459	40,296	13,557	116,273	29,373	17,244	46,617	162,890	155,818
Travel	83,502	8,643	22,085	26,761	140,991	10,258	4,926	15,184	156,175	163,475
Cost of sales – purchased goods	54,440	-	-	-	54,440	-	-	-	54,440	85,837
In-kind services	2,977	2,973	4,561	9,643	20,154	1,137	25,964	27,101	47,255	76,229
Special events	1,720	430	5,602	1,278	9,030	34,896	2,427	37,323	46,353	64,894
Interest and other fees	17,575	1,837	-	4,247	23,659	5,870	1,836	7,706	31,365	41,584
TOTAL EXPENSES	$ 50,953,075	$ 9,196,073	$ 6,169,650	$ 2,672,222	$ 68,991,020	$ 3,792,166	$ 1,054,275	$ 4,846,441	$ 73,837,461	$ 66,610,860

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

GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019
(With Summarized Financial Information for the Year Ended December 31, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 4,503,597	$ 2,006,604
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,489,333	1,521,568
Unrealized losses (gains) on investments	(1,103,303)	406,142
Realized losses (gains) on sales of investments	-	57,380
Losses on disposal of property and equipment	14,395	10,603
Changes in assets and liabilities:		
Accounts receivable	(621,827)	(335,379)
Inventory	(177,808)	21,661
Prepaid expenses and other	(81,267)	(146,065)
Deposits	8,316	4,793
Accounts payable and accrued expenses	421,811	185,226
Accrued payroll and related liabilities	192,406	650,248
Contract liabilities and deposits	282,595	41,706
Deferred rent and lease incentive	781,176	(177,558)
Deferred compensation obligations	207,300	27,828
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,916,724	4,274,757
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	967,050	2,116,913
Purchases of investments	(1,327,995)	(1,853,310)
Purchases of property and equipment	(1,729,336)	(1,431,106)
NET CASH USED IN INVESTING ACTIVITIES	(2,090,281)	(1,167,503)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(173,213)	(166,172)
Principal payments on capital lease obligations	(60,383)	(115,823)
NET CASH USED IN FINANCING ACTIVITIES	(233,596)	(281,995)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,592,847	2,825,259
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,630,820	3,805,561
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 10,223,667	$ 6,630,820
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid and other fees	$ 31,365	$ 41,584
NONCASH TRANSACTIONS		
Noncash investing activities:		
Property and equipment acquired in capital lease	$ 569,509	$ 138,863
Capital lease obligation	(569,509)	(138,863)
Retirement of property and equipment acquired in capital lease	-	(43,939)
Termination of capital lease obligations	-	43,939
Leasehold improvements acquired in operating lease	2,537,712	-
Deferred lease incentive included in operating lease	(2,537,712)	-
	$ -	$ -

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

1. Organization and Summary of Significant Accounting Policies

Organization

Davis Memorial Goodwill Industries (d/b/a Goodwill of Greater Washington) (GGW) opened in Washington, D.C., 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 (IRC) 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 custodial and other services under commercial contracts. BKB was initially incorporated in 1994 and commenced its current business operations in 2004.

The Goodwill Excel Center, Public Charter School (GEC) was formed on February 23, 2015. The goal of the school is to provide Washington, D.C., adult residents the opportunity and support to earn a high school diploma and post-secondary education while developing career paths that present greater employment and career growth opportunities.

Principles on Consolidation

The consolidated financial statements include the accounts of GGW, BKB and GEC (collectively referred to as Goodwill). The organizations are consolidated due to the existence of common control and an economic interest, per accounting principles generally accepted in the United States of America (GAAP). All intercompany transactions and balances are eliminated in consolidation.

Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with GAAP using the accrual basis of accounting.

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.

Inventory

Inventory consists of donated and purchased goods. Donated goods are originally recorded in the accompanying consolidated financial statements at their estimated fair value, using an inventory calculation model developed by Goodwill Industries International, Inc. Slow-moving

Continued

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

Inventory (continued)

inventory is periodically assessed for impairment, if any, and adjusted to net realizable value. 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.

Investments

Investments consist of exchange-traded fixed-income and equity funds, mutual funds, money market funds, and a certificate of deposit. 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 and losses are determined by comparison of fair value at the beginning and end of the reporting period and are included in investment income in the accompanying consolidated statement of activities.

Fair Value Measurement

In accordance with the accounting standards for fair value measurement 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 attributes 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 assumptions that a market participant would use in pricing the asset or liability.

Continued

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

Fair Value Measurement (continued)

As of and for the year ended December 31, 2019, only Goodwill's investments, as described in Notes 3 and 5 of these consolidated financial statements, were measured at fair value on a recurring basis.

Property and Equipment and Related Depreciation and Amortization

All acquisitions of property and equipment in excess of $1,000 with an economic life of more than 12 months are capitalized and recorded 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.

Furniture and equipment	3 to 10 years
Buildings and improvements	5 to 20 years
Software	3 to 10 years
Vehicles and transportation equipment	3 to 7 years

Leasehold improvements are amortized over the remaining life of the lease. Assets in process are stated at cost and are not depreciated until the assets are complete and placed in service. 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 revenue or expense.

Impairment of Long-Lived Assets

Goodwill reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There were no impairment losses recognized for the year ended December 31, 2019.

Net Assets

The net assets of Goodwill are classified as follows:

- *Without donor restrictions* – Net assets that are not subject to any donor-imposed stipulations or other legal limitations and are available for support of Goodwill's operations.
- *With donor restrictions* – Net assets subject to donor-imposed stipulations that may be used for a particular purpose or within a specific time period.

Revenue and Support Recognition

Revenue from the sale of inventory is recognized as donated goods sales at the point in time of the sale. Any store credits or gift cards which have been issued, but not redeemed, are included in contract liabilities and deposits in the accompanying consolidated statement of financial position.

Continued

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

Revenue and Support Recognition (continued)

Revenue from service contracts is primarily related to fixed-price contracts with the federal government and other local agencies. These contracts contain a single performance obligation, and revenue under these contracts is recognized over time as the customer receives the benefit from the services at the time services are provided, and there is an enforceable right to payment. Revenue recognized on firm fixed-price contracts for which payments have not been received is reflected as accounts receivable in the accompanying consolidated statements of financial position. Any contract payments received in advance of satisfying the performance obligations are included in contract liabilities and deposits in the accompanying consolidated statement of financial position.

Per pupil funding represents the per pupil student allocation and facility allowance from the District of Columbia, as well as federal entitlement funding, to pay for the academic services of the students attending GEC. Revenue is recognized over the course of the school year as academic services are provided to students. Per pupil funding received in advance of when revenue is earned is included in contract liabilities and deposits in the accompanying consolidated statement of financial position.

Unconditional grants and contributions are recognized as revenue and support in the accounting period in which they are received or when an unconditional promise to give is made. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Unconditional contributions are considered available for general expenditure unless specifically restricted by a donor. Amounts that are designated for future periods or restricted by the donor for a specific purpose are reported as grants and contributions with donor restrictions in the accompanying statement of activities. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and released from restriction. Grants or contributions that have been committed to Goodwill, but have not been received as of year-end, are reflected as accounts receivable in the accompanying statement of financial position. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected after one year are recorded at their present value using appropriate discount rates. Amortization of the discount is recorded as additional contribution or grant support and is used in accordance with donor-imposed restrictions, if any, on the contributions or grants.

Support from government grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses and are recognized as contributions when the conditions are met. Support from government grants, is recognized as costs are incurred on the basis of direct costs plus allowable indirect expenses. Revenue recognized on government grants for which billings have not been presented to or collected from the awarding agency is included in accounts receivable in the accompanying consolidated statement of financial position. The expenditures under these grants are subject to review by the granting authority.

Continued

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

Donated Support

Contributed merchandise that is resold is recorded based on its estimated fair value, which includes all the costs required to prepare the merchandise for resale, and is included in contributions - donated goods in the accompanying consolidated statement of activities.

Functional Allocation of Expenses

The cost of providing the various programs and supporting services have been summarized on a functional basis in the accompanying consolidated financial statements. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. Salaries and benefits are allocated based on estimates of time and effort. Overhead costs such as occupancy costs are allocated based on square footage. Selected other expenses are allocated based on the program's proportionate share of expenses, while expenses for other supporting services are allocated based on headcount.

Definition of Operations

Operating revenue and expenses generally reflect those revenues and expenses that are an integral part of the programs and supporting activities of Goodwill and exclude investment income (loss).

Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Goodwill adopted ASU 2014-09 and related amendments on January 1, 2019, using the modified retrospective method and elected to apply the standard only to contracts that were not completed as of that date. The adoption of the standard did not impact the results of operations or change in net assets.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* This ASU provides additional guidance to be used to determine whether a contribution is conditional and when a transaction should be accounted for as a contribution versus an exchange. Goodwill adopted ASU 2018-08 as of January 1, 2019, and has applied the amendments of this standard on a modified prospective basis and elected to apply the standard only to agreements that were entered into after the effective date. This standard did not result in a material change to the financial statements or the timing of revenue recognition for the Goodwill's grants and contributions.

Continued

2. Accounts Receivable

Accounts receivable consisted of the following as of December 31, 2019:

U.S. government prime contracts	$ 1,885,116
Donated goods sales	525,001
Tenant allowance reimbursement	389,825
D.C. real estate tax rebate	227,806
Contributions	112,342
Government grants	61,344
Other	47,700
Commercial contracts	30,747
Total Accounts Receivable	$ 3,279,881

All receivables are deemed fully collectible and are anticipated to be received within one year.

As of December 31, 2019, Goodwill had conditional contributions related to cost reimbursable grants in the amount of $84,361 that have not been recognized. The conditions upon which they depend had not been met and qualifying expenditures had not been incurred.

3. Investments

Investments are stated at fair value and consisted of the following as of December 31, 2019:

Exchange-traded equity funds	$ 4,945,969
Mutual funds – fixed-income funds	1,682,745
Exchange-traded fixed-income funds	685,457
Money market funds	61,060
Certificate of deposit	262,400
Total Investments	$ 7,637,631

The certificate of deposit serves as collateral for Goodwill's letter of credit (see Note 10).

At December 31, 2019, investments totaling $718,943 were held in segregated accounts to fund Goodwill's deferred compensation obligation to certain key employees. These investments are recorded as investments – deferred compensation plan in the consolidated statement of financial position.

A summary of investment income is as follows for the year ended December 31, 2019:

Interest and dividends, net	$ 81,076
Unrealized gain	1,103,303
Investment Income, Net	$ 1,184,379

4. Fair Value Measurement

The following table summarizes Goodwill's assets and liabilities measured at fair value on a recurring basis as of December 31, 2019:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Exchange-traded equity funds	$ 4,945,969	$ 4,945,969	$ -	$ -
Mutual funds – fixed-income funds	1,682,745	1,682,745	-	-
Exchange-traded fixed-income funds	685,457	685,457	-	-
Money market funds	61,060	61,060	-	-
Certificate of deposit	262,400	-	262,400	-
Total Investments	$ 7,637,631	$ 7,375,231	$ 262,400	$ -
Investments – deferred compensation plan:				
Mutual funds	$ 495,931	$ 495,931	$ -	$ -
Annuity contracts	29,248	-	29,248	-
Subtotal Investments – Deferred Compensation Plan	525,179	$ 495,931	$ 29,248	$ -
Pooled separate accounts	193,764			
Total Investments – Deferred Compensation Plan	$ 718,943			
Liabilities:				
Deferred compensation obligation	$ (718,943)	$ -	$ (718,943)	$ -

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

Certificate of deposit – Value determined using a survey from the dealer communities and obtaining dealer/broker quotes on a daily basis.

Continued

4. Fair Value Measurement (continued)

Pooled Separate Accounts – Valued based on NAV, as reported by the manager of the pooled separate accounts, and as supported by the unit prices of actual purchase and sale transactions occurring as of or close to the financial statement date. The NAV is used as a practical expedient to estimate fair value. In terms of ability to redeem funds, the redemption frequency, if currently eligible, is daily and there are no redemption notice period.

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.

Deferred compensation obligation – Valued based on fair value of the underlying deferred compensation plan assets.

5. Property and Equipment

The following property and equipment was held as of December 31, 2019:

Furniture and equipment	$ 6,883,091
Leasehold improvements	7,924,415
Buildings and improvements	4,818,679
Land	1,218,700
Software	956,406
Vehicles and transportation equipment	894,668
Assets in process	156,757
Total Property and Equipment	22,852,716
Less: Accumulated Depreciation and Amortization	(12,415,594)
Property and Equipment, Net	$ 10,437,122

As of December 31, 2019, assets in process included costs related to improvements on leased space that had not yet been completed or placed into service. Accordingly, no depreciation or amortization expense is reported for these costs for the year ended December 31, 2019.

Depreciation and amortization expense totaled $1,489,333 for the year ended December 31, 2019.

6. Capital Lease Obligations

Goodwill leases vehicles and copiers through capital leases. The lease terms range from three to seven years with expiration dates through November 30, 2026, and have a cost of $704,938 and accumulated depreciation of $106,085 as of December 31, 2019.

Continued

6. Capital Lease Obligations (continued)

Future minimum lease payments are as follows:

For the Year Ending December 31,	
2020	$ 136,681
2021	90,834
2022	92,220
2023	92,220
2024	92,220
Thereafter	168,089
Subtotal	672,264
Less: Portion Representing Interest	(68,986)
Total	$ 603,278

Interest expense related to capital leases totaled $6,027 and is included in interest expense in the accompanying consolidated statement of functional expenses for the year ended December 31, 2019.

7. Line of Credit

Goodwill has a $2,500,000 revolving line of credit with Truist Bank formerly SunTrust Bank that matures on July 31, 2020, with interest at a rate equal to the one-month London Interbank Offered Rate Index Rate, plus 1.85% (which was 3.61% as of December 31, 2019). The line of credit is automatically drawn upon as funds are needed and automatically repaid as funds are available in the operating cash accounts held at Truist Bank. There was no interest expense, borrowings or repayments during the year ended December 31, 2019. The line of credit is unsecured and requires Goodwill to comply with certain financial and nonfinancial covenants. As of December 31, 2019, Goodwill had exceeded the financial covenant limiting capital lease obligations to $500,000 by approximately $103,000. The bank issued a waiver for exceeding this limit and also increased the limit on the capital lease obligations to $1,000,000 in order to accommodate Goodwill's future growth. Goodwill was in compliance with all other financial loan covenants. There was no loan balance outstanding on the line of credit.

On April 2, 2020, Goodwill increased the amount of the line of credit with the bank to $5,000,000 with a new maturity date of July 31, 2021. All other provisions remained unchanged.

8. Note 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

8. Note Payable (continued)

property and requires Goodwill to comply with, among other provisions, certain financial and nonfinancial covenants and restrictions on future borrowings. As of December 31, 2019, Goodwill was in compliance with the financial loan covenants and the outstanding balance on the note was $506,624.

Scheduled payments of principal on the note are as follows:

For the Year Ending December 31,	
2020	$ 180,552
2021	188,202
2022	137,870
Total	$ 506,624

Interest expense related to this note totaled $24,980 and is included in interest expense in the accompanying consolidated statement of functional expenses for the year ended December 31, 2019.

9. Risks, Commitments and Contingencies

Operating Leases

Goodwill leases store, warehouse space and its administrative offices under several noncancelable leases, the last of which expires in July 2035. Certain of these leases include annual escalation clauses and improvement allowances. Under GAAP, all fixed rent increases and improvement allowances 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 and lease incentive 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 real estate taxes and other operating expenses.

Future minimum lease payments under these leases are as follows:

For the Year Ending December 31,	
2020	$ 6,946,516
2021	6,655,563
2022	5,864,721
2023	5,071,200
2024	3,911,550
Thereafter	22,226,111
Total	$ 50,675,661

Continued

9. Risks, Commitments and Contingencies (continued)

Operating Leases (continued)

Store, warehouse and office rental expense totaled $8,358,676 for the year ended December 31, 2019, and is included in occupancy expense in the accompanying consolidated statement of functional expenses.

Child Development Center

GEC has entered into an agreement with the Young Men's Christian Association of Metropolitan Washington (YMCA) to operate an on-site child development center at GEC's school building located in Washington, D.C. The initial agreement was for two years beginning on July 1, 2016, and was set to expire on June 30, 2018, with the option to extend the contract for up to three one-year extensions. The contract was extended for an additional year, which represents the second one-year extension, from July 1, 2019, through June 30, 2020, at an annual fee of $509,659.

Employment Contracts

Effective January 1, 2014, Goodwill entered into an employment contract with its President and Chief Executive Officer (CEO). The contract was amended and restated effective January 1, 2019, to continue for a period of five years through December 31, 2023. Thereafter, the parties will mutually agree whether to extend or renew the agreement. In the event of termination without cause, the President and CEO will receive pay equal to 12 months' base salary.

10. Letter of Credit

As of December 31, 2019, Goodwill has a $262,400 letter of credit from Truist Bank that is provided pursuant to a Guarantee and Suretyship Agreement for a workers' compensation captive that Goodwill left in 2008 but that contains post-termination obligations that expire no later than September 30, 2017, or upon the payment in full by the captive of all deficit amounts for the years Goodwill was a member of the captive. This letter of credit renews annually in August and requires Goodwill to pay an annual fee equal to 1% of the outstanding balance.

As of December 31, 2019, Goodwill has a $207,723 Irrevocable Standby Letter of Credit from Truist Bank pursuant to a real estate lease agreement security deposit requirement. This letter of credit automatically renews for 12 months from August 1, 2020, the date of expiration, and requires Goodwill to pay an annual fee of 1% of the outstanding balance.

Continued

11. Net Assets

Net assets consisted of the following as of December 31, 2019:

Net Assets Without Donor Restrictions	
Without restrictions	$ 21,112,229
Net Assets With Donor Restrictions	
Workforce development programs	$ 55,000

12. Availability and Liquidity

Goodwill regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. Goodwill's financial assets available within one year of the consolidated statement of financial position date for general expenditures at December 31, 2019, were as follows:

Cash and cash equivalents	$ 10,233,667
Accounts receivable, net	3,279,881
Investments	7,637,631
Total Financial Assets	21,151,179
Less:	
Amounts with donor purpose restrictions	(55,000)
Amounts restricted as collateral for letter of credit (see Note 10)	(262,400)
Financial Assets Available to Meet General Expenditures Within One Year	$ 20,833,779

Goodwill has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of Goodwill throughout the year through monitoring and reviewing Goodwill's cash flow needs on an ongoing basis. As a result, management is aware of the cyclical nature of the cash flow related to Goodwill's various funding sources and is, therefore, able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in publicly traded investment vehicles, including mutual funds and exchange traded funds. Goodwill's investments can be readily liquidated and are therefore available to meet current cash flow needs. To help manage unanticipated liquidity needs, Goodwill has a $2,500,000 unsecured revolving line of credit with Truist Bank that matures on July 31, 2020.

Continued

13. Operating Lease Agreement and Membership Interests

On July 31, 2014, Goodwill entered into a 10-year operating lease agreement for building space located in Forestville, Maryland. In connection with the agreement, Goodwill was granted up to a 17.55% nonvoting subordinated ownership interest in Cryden Partners, LLC and Cryden Center, LLC (collectively the Cryden Center), subject to a vesting schedule. The Cryden Center is the owner of the property (the building space). The ownership interest was issued and granted in accordance with the following schedule:

Required Event	Ownership Interest
December 31, 2014	8.77%
Upon exercise of first renewal option	4.34%
Upon exercise of second renewal option	4.34%

Goodwill was not required to make a capital contribution to the Cryden Center nor will it be required to do so in the future, based on the operating agreements. Goodwill also will not be allocated any losses for any tax year. Goodwill's interest in the Cryden Center may be forfeited, if there is a termination of the operating space lease agreement, as a result of default by Goodwill or if the Cryden Center takes possession of the property by recapture as a result of Goodwill's default. For the year ended December 31, 2019, $15,509 of allocated income, deductions, credits and other items, as it relates to Goodwill's interest in the Cryden Center, and is recorded in other income in the accompanying financial statements.

14. Significant Customers

During the year ended December 31, 2019, approximately 99% of service contracts income was earned through contracts with agencies of the federal government. Revenue from service contracts with federal agencies totaled $11,203,688 for the year ended December 31, 2019.

15. Support

Donated Support

During the year ended December 31, 2019, Goodwill recognized support from contributed merchandise with an estimated fair value of $12,232,592, of which $1,217,335 is included in inventory at December 31, 2019, in the accompanying consolidated statement of financial position.

16. Retirement Plans

Defined Contribution 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

Continued

16. Retirement Plans (continued)

Defined Contribution Plan (continued)

payroll deduction on a pre-tax basis up to the amount allowed by federal law. Plan contributions totaled $300,459 for the year ended December 31, 2019, and are included in employee benefits in the accompanying consolidated statement of functional expenses.

Deferred Compensation Plan

Goodwill has a 457(b) deferred compensation plan (the Plan) covering highly compensated employees. The Plan is funded by employer matching contributions in accordance with regulations established under Section 457(b) of the IRC. The funds for the Plan are held in segregated accounts for each participant and are invested by the trustees, as directed by the plan participants and as permitted by the 457(b) eligible deferred compensation trust documents. As of December 31, 2019, deferred compensation assets and the related liability totaled $718,943 and are included in the accompanying statement of financial position.

17. Income Taxes

GGW and GEC are publicly supported organizations exempt from federal income tax under IRC Section 501(c)(3), except for unrelated business income. For the year ended December 31, 2019, 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, 2019, BKB had net operating loss carryforwards aggregating to approximately $7,366,000. Of this amount, approximately $6,000,000 relates to 2017 and earlier, are fully available to offset future income, and expire in 2024 through 2037. The remaining net operating loss carryforwards of approximately $1,366,000 relate to 2018 and later, are available to offset 80% of future taxable income and do not expire. 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 uncertainty in income taxes for the year ended December 31, 2019, 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, 2019, the statute of limitations remained open with the U.S. federal jurisdiction and the various states and local jurisdictions in which Goodwill files tax returns, there are currently no examinations in progress. It is Goodwill’s policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. As of December 31, 2019, Goodwill had no accrual for interest and/or penalties.

Continued

18. Prior Year Summarized Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with Goodwill's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

19. Reclassifications

Certain 2018 amounts have been reclassified to conform with the 2019 financial statement presentation.

20. Subsequent Events

In preparing these consolidated financial statements, Goodwill has evaluated events and transactions, for potential recognition or disclosure, through May 28, 2020, the date the consolidated financial statements were available to be issued. Except for the amendment of the line of credit described in Note 7 and the COVID-19 outbreak described below, there were no subsequent events identified through May 28, 2020, that require recognition or disclosure in these consolidated financial statements.

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. As a result, various aspects of Goodwill of Greater Washington's operations have been adjusted, including but not limited to, the temporary closure of 20 retail stores and furloughing of both retail and professional staff.

The extent to which the coronavirus impacts Goodwill's operations will depend on future developments, which are uncertain and cannot be predicted with confidence, including the duration and severity of the outbreak, and the actions that may be required to contain the coronavirus or treat its impact. While the financial impact cannot be reasonably estimated at this time, the disruption is currently expected to be temporary. As a result, Goodwill of Greater Washington has taken several steps to further strengthen its financial position, and maintain financial liquidity and flexibility, including reducing operating expenses, minimizing capital expenditures, and increasing its available revolving credit facility to $5 million.

SUPPLEMENTARY INFORMATION

GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
December 31, 2019

	Goodwill of Greater Washington	Best Kept Buildings	The Goodwill Excel Center, Public Charter School	Eliminations	Total
ASSETS					
Cash and cash equivalents	$ 3,140,089	$ 17,669	$ 7,065,909	$ -	$ 10,223,667
Accounts receivable, net	3,018,505	35,320	234,990	(8,934)	3,279,881
Intercompany receivable	7,347,808	-	-	(7,347,808)	-
Inventory	1,226,272	-	-	-	1,226,272
Prepaid expenses and other	1,694,190	1,173	163,228	-	1,858,591
Investments	7,637,631	-	-	-	7,637,631
Investments – deferred compensation plan	718,943	-	-	-	718,943
Property and equipment, net	8,539,956	-	1,901,854	(4,688)	10,437,122
Deposits	237,294	3,900	189,775	-	430,969
TOTAL ASSETS	$ 33,560,688	$ 58,062	$ 9,555,756	$ (7,361,430)	$ 35,813,076
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	1,372,401	$ 22,803	$ 333,981	$ (8,934)	$ 1,720,251
Intercompany payables	-	7,347,808	-	(7,347,808)	-
Accrued payroll and related liabilities	1,976,762	436,467	67,500	-	2,480,729
Contract liabilities and deposits	158,474	-	1,450,157	-	1,608,631
Deferred rent and lease incentive	5,220,473	-	1,786,918	-	7,007,391
Deferred compensation obligations	718,943	-	-	-	718,943
Capital lease obligations	603,278	-	-	-	603,278
Note payable	506,624	-	-	-	506,624
TOTAL LIABILITIES	10,556,955	7,807,078	3,638,556	(7,356,742)	14,645,847
Net Assets					
Without donor restrictions	22,948,733	(7,749,016)	5,917,200	(4,688)	21,112,229
With donor restrictions	55,000	-	-	-	55,000
TOTAL NET ASSETS	23,003,733	(7,749,016)	5,917,200	(4,688)	21,167,229
TOTAL LIABILITIES AND NET ASSETS	$ 33,560,688	$ 58,062	$ 9,555,756	$ (7,361,430)	$ 35,813,076

See independent auditors' report on supplementary information.

GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Year Ended December 31, 2019

	Goodwill of Greater Washington	Best Kept Buildings	The Goodwill Excel Center, Public Charter School	Eliminations	Total
OPERATING REVENUE AND SUPPORT					
Revenue:					
Donated goods sales	$ 43,850,737	$ -	$ -	$ -	$ 43,850,737
Service contracts	11,233,577	98,740	-	-	11,332,317
Contract service income	1,592,216	8,182,172	-	(9,774,388)	-
Other income	99,132	-	62,275	-	161,407
Total Revenue	56,775,662	8,280,912	62,275	(9,774,388)	55,344,461
Support:					
Contributions – donated goods	12,232,592	-	-	-	12,232,592
Per pupil funding	-	-	7,369,072	-	7,369,072
Contributions – other	1,700,781	-	76,265	-	1,777,046
Grants	268,756	-	76	-	268,832
Legacies and bequests	164,676	-	-	-	164,676
TOTAL OPERATING REVENUE AND SUPPORT	71,142,467	8,280,912	7,507,688	(9,774,388)	77,156,679
OPERATING EXPENSES					
Program Services:					
Retail program	51,335,007	7,638,600	-	(8,020,532)	50,953,075
Service contracts	9,060,683	242,249	-	(106,859)	9,196,073
Education program	459,467	-	5,710,751	(568)	6,169,650
Workforce development	2,672,222	-	-	-	2,672,222
Total Program Services	63,527,379	7,880,849	5,710,751	(8,127,959)	68,991,020
Supporting Services:					
Management and general	3,692,751	1,153,225	593,187	(1,646,997)	3,792,166
Fundraising	1,054,275	-	-	-	1,054,275
Total Supporting Services	4,747,026	1,153,225	593,187	(1,646,997)	4,846,441
TOTAL OPERATING EXPENSES	68,274,405	9,034,074	6,303,938	(9,774,956)	73,837,461
Change in net assets from operations	2,868,062	(753,162)	1,203,750	568	3,319,218
NONOPERATING ACTIVITES					
Investment income	1,184,379	-	-	-	1,184,379
CHANGE IN NET ASSETS	4,052,441	(753,162)	1,203,750	568	4,503,597
NET ASSETS, BEGINNING OF YEAR	18,951,292	(6,995,854)	4,713,450	(5,256)	16,663,632
NET ASSETS, END OF YEAR	$ 23,003,733	$ (7,749,016)	$ 5,917,200	$ (4,688)	$ 21,167,229

See independent auditors' report on supplementary information.