



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

**Consolidated Financial Statements and Supplemental
Information**

For the Year Ended December 31, 2011

(With Summarized Financial Information for the Year Ended December 31, 2010)



**and
Report Thereon**



GOODWILL OF GREATER WASHINGTON

TABLE OF CONTENTS For the Year Ended December 31, 2011

	<i>Page</i>
Independent Auditor's Report	1-2
Consolidated Financial Statements	
Consolidated Statement of Financial Position.....	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses.....	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7-21
Supplemental Information	
Consolidating Statement of Financial Position	22
Consolidating Statement of Activities	23



INDEPENDENT AUDITOR'S REPORT

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

CONSULTING
ACCOUNTING
TECHNOLOGY

*Certified Public
Accountants*

We have audited the accompanying consolidated statement of financial position 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), as of December 31, 2011, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of Goodwill's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized information has been derived from Goodwill's December 31, 2010 consolidated financial statements and, in our report dated May 19, 2011, we expressed an unqualified opinion on those consolidated financial statements.

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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Goodwill's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the consolidating statements of financial position and activities is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations, 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 basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting

Continued

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 basic financial statements as a whole.

Raffa, P.C.

RAFFA, P.C.

Washington, DC

May 22, 2012

GOODWILL OF GREATER WASHINGTON
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2011
(With Summarized Financial Information as of December 31, 2010)

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 4,979	\$ 46,537
Accounts receivable	3,617,934	2,022,416
Inventory	276,044	253,255
Prepaid expenses and other	593,944	508,695
Investments	3,929,336	3,945,107
Investments - deferred compensation plan	92,984	62,020
Property and equipment, net	4,143,541	3,852,613
Deposits and loan costs	271,414	256,128
	\$ 12,930,176	\$ 10,946,771
TOTAL ASSETS		
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,164,688	\$ 1,258,730
Accrued payroll and related liabilities	1,102,073	1,044,062
Deferred revenue and deposits	41,649	24,000
Charitable gift annuities	152,156	160,748
Capital lease obligations	47,281	42,866
Line of credit	586,000	420,000
Deferred rent	1,411,234	1,271,917
Deferred compensation liability	92,984	62,020
Notes payable	1,659,072	1,712,305
	6,257,137	5,996,648
Total Liabilities		
 Net Assets		
Unrestricted	6,038,487	4,344,509
Temporarily restricted	139,744	110,806
Permanently restricted	494,808	494,808
	6,673,039	4,950,123
Total Net Assets		
	\$ 12,930,176	\$ 10,946,771
TOTAL LIABILITIES AND NET ASSETS		

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, 2011

(With Summarized Financial Information for the Year Ended December 31, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
REVENUE AND SUPPORT					
Revenue:					
Donated goods sales	\$ 16,630,557	\$ -	\$ -	\$ 16,630,557	\$ 12,839,266
Service contracts	13,539,673	-	-	13,539,673	10,632,991
Other income	154,976	-	-	154,976	39,539
Net investment income (loss)	(12,402)	-	-	(12,402)	425,925
Total Revenue	30,312,804	-	-	30,312,804	23,937,721
Support:					
Contributions - donated goods	3,449,270	-	-	3,449,270	3,084,632
Workforce development grants	1,222,930	370,657	-	1,593,587	1,366,353
Contributions - other	466,718	-	-	466,718	512,266
Legacies and bequests	5,000	-	-	5,000	21,779
Net assets released from restrictions:					
Satisfaction of purpose restrictions	341,719	(341,719)	-	-	-
TOTAL REVENUE AND SUPPORT	35,798,441	28,938	-	35,827,379	28,922,751
EXPENSES					
Program Services:					
Retail program	17,942,280	-	-	17,942,280	14,197,115
Service contracts	11,366,138	-	-	11,366,138	9,625,376
Workforce development	2,267,743	-	-	2,267,743	1,903,106
Total Program Services	31,576,161	-	-	31,576,161	25,725,597
Supporting Services:					
Management and general	1,756,156	-	-	1,756,156	1,691,607
Fundraising	772,146	-	-	772,146	676,585
Total Supporting Services	2,528,302	-	-	2,528,302	2,368,192
TOTAL EXPENSES	34,104,463	-	-	34,104,463	28,093,789
CHANGE IN NET ASSETS	1,693,978	28,938	-	1,722,916	828,962
NET ASSETS, BEGINNING OF YEAR	4,344,509	110,806	494,808	4,950,123	4,121,161
NET ASSETS, END OF YEAR	\$ 6,038,487	\$ 139,744	\$ 494,808	\$ 6,673,039	\$ 4,950,123

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, 2011

(With Summarized Financial Information for the Year Ended December 31, 2010)

	Program Services			Total Program Services	Supporting Services		2011 Total	2010 Total
	Retail Program	Service Contracts	Workforce Development		Management and General	Fundraising		
Salaries	\$ 6,616,721	\$ 6,780,974	\$ 1,077,894	\$ 14,475,589	\$ 546,048	\$ 256,403	\$ 15,278,040	\$ 12,477,750
Employee benefits	636,904	1,673,279	101,081	2,411,264	53,467	28,929	2,493,660	2,161,505
Payroll taxes	577,383	576,705	88,157	1,242,245	36,540	18,688	1,297,473	1,084,144
Subtotal	7,831,008	9,030,958	1,267,132	18,129,098	636,055	304,020	19,069,173	15,723,399
Cost of sales - donated goods	3,426,481	-	-	3,426,481	-	-	3,426,481	3,053,856
Occupancy	2,647,770	71,799	218,766	2,938,335	215,398	71,799	3,225,532	2,690,512
Professional fees	183,797	150,117	92,128	426,042	202,460	152,103	780,605	792,913
Utilities	678,459	10,221	44,580	733,260	30,663	10,221	774,144	637,180
Subcontractors	22,572	502,890	234,427	759,889	245	82	760,216	370,524
Supplies	219,337	439,257	17,412	676,006	45,019	4,306	725,331	638,474
Depreciation and amortization	276,859	98,993	111,625	487,477	81,253	80,618	649,348	520,893
Auctions	562,733	-	-	562,733	-	134.00	562,867	455,708
NISH commissions	-	482,856	-	482,856	-	-	482,856	390,895
Taxes, licenses and permits	363,581	15,263	45,495	424,339	23,782	8,430	456,551	296,855
Maintenance and repairs	120,960	206,169	13,574	340,703	6,624	1,891	349,218	142,288
Travel and vehicles	276,486	46,325	12,819	335,630	9,753	2,371	347,754	259,314
Cost of sales - purchased goods	307,838	-	-	307,838	-	-	307,838	212,974
Other expenses	109,494	74,005	41,488	224,987	48,032	9,537	282,556	85,290
Postage	236,864	2,659	292	239,815	5,688	36,230	281,733	256,652
Bank service charges	171,783	11,400	1,962	185,145	86,405	736	272,286	238,944
Telephone	135,836	58,200	7,217	201,253	22,825	7,188	231,266	177,106
Advertising	24,270	10,763	1,814	36,847	185,344	149	222,340	223,668
Equipment rental and maintenance	91,595	55,102	27,359	174,056	29,081	11,288	214,425	204,975
Insurance	112,702	54,453	10,086	177,241	29,248	3,242	209,731	181,066
Dues	47,816	38,164	30,688	116,668	47,956	28,770	193,394	192,896
Interest	66,972	1,429	38,931	107,332	17,652	685	125,669	156,264
Printing and publications	3,292	2,332	935	6,559	32,673	38,346	77,578	37,226
Stipends	-	2,783	49,013	51,796	-	-	51,796	87,786
In-kind legal services	23,775	-	-	23,775	-	-	23,775	66,131
TOTAL EXPENSES	\$ 17,942,280	\$ 11,366,138	\$ 2,267,743	\$ 31,576,161	\$ 1,756,156	\$ 772,146	\$ 34,104,463	\$ 28,093,789

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, 2011

(With Summarized Financial Information for the Year Ended December 31, 2010)

Increase (Decrease) in Cash and Cash Equivalents

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,722,916	\$ 828,962
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	649,348	520,893
Donated securities	(9,567)	(12,914)
Unrealized losses (gains) on investments	301,829	(214,505)
Realized gains on investments	(159,579)	(81,830)
Changes in assets and liabilities:		
Accounts receivable	(1,595,518)	(420,936)
Inventory	(22,789)	(32,037)
Prepaid expenses and other	(85,249)	(74,353)
Deposits and loan costs	(25,486)	(49,989)
Accounts payable and accrued expenses	(94,042)	(13,586)
Accrued payroll and related liabilities	58,011	261,123
Deferred revenue and deposits	17,649	24,000
Charitable gift annuities	(8,592)	(32,244)
Deferred rent	139,317	190,144
Deferred compensation liability	30,964	23,806
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>919,212</u>	<u>916,534</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	1,337,224	2,742,891
Purchases of investments	(1,485,101)	(2,855,535)
Purchases of property and equipment	<u>(884,181)</u>	<u>(513,419)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,032,058)</u>	<u>(626,063)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments on) line of credit	166,000	(299,848)
Principal payments on bonds payable	-	(70,000)
Principal payments on notes payable	(53,233)	(41,572)
Principal payments on capital lease obligations	(41,479)	(25,607)
Payment of bond refinancing costs	<u>-</u>	<u>(51,000)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>71,288</u>	<u>(488,027)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(41,558)	(197,556)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>46,537</u>	<u>244,093</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,979</u>	<u>\$ 46,537</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 125,668</u>	<u>\$ 156,264</u>
NONCASH TRANSACTIONS		
Refinancing of bond payable with note payable	<u>\$ -</u>	<u>\$ 1,735,000</u>
Donated securities	<u>\$ 9,567</u>	<u>\$ 12,914</u>
Property and equipment purchased under capital leases	<u>\$ 45,894</u>	<u>\$ -</u>

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, 2011

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, 2011, 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

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

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

Inventory (continued)

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 equities, fixed-income securities, equity and fixed-income mutual funds, money market funds, certificates of deposit, and real estate investment trust (REIT) funds. These investments are recorded in the accompanying consolidated financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Fair Value Measurements

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

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

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

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

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

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

Fair Value Measurements (continued)

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, 2011, only Goodwill’s investments, as described in Note 4 of these consolidated financial statements, were measured at fair value on a recurring basis.

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.

Support and Revenue 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.

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

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

Support and Revenue Recognition (continued)

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.

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

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

Donated Services

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

Functional Allocation of Expenses

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

Estimates

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

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

2. Accounts Receivable

Accounts receivable were composed of the following as of December 31, 2011:

U.S. government prime contracts	\$ 3,328,478
Workforce development grants	114,499
Commercial contracts	64,931
Sublease rental income	39,480
Contributions	31,738
Other	<u>38,810</u>
Total	<u>\$ 3,617,934</u>

3. Investments

Investments are stated at fair value and consisted of the following as of December 31, 2011:

Equities	\$ 1,363,336
Fixed-income securities	755,580
Equity mutual funds	536,064
Money market funds	520,671
Fixed-income mutual funds	455,129
Certificates of deposit	293,509
REIT funds	<u>5,047</u>
Total	<u>\$ 3,929,336</u>

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

Investments totaling \$92,984 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, 2011:

Interest and dividends	\$ 129,848
Unrealized losses	(301,829)
Realized gains	<u>159,579</u>
Total	<u>\$ (12,402)</u>

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

4. Fair Value Measurements

The following table summarizes Goodwill's investments measured at fair value on a recurring basis as of December 31, 2011:

	Fair Value	Level 1	Level 2
Investments:			
Equities:			
Consumer discretionary	\$ 258,010	\$ 258,010	\$ -
Information technology	230,102	230,102	-
Healthcare	180,184	180,184	-
Financials	174,538	174,538	-
Industrials	153,783	153,783	-
Consumer staples	131,997	131,997	-
Energy	131,802	131,802	-
Materials	55,216	55,216	-
Telecommunication services	35,051	35,051	-
Utilities	12,653	12,653	-
Fixed-income securities:			
Corporate bonds	285,851	-	285,851
Government sponsored entity notes	271,775	-	271,775
U.S. Treasury notes	197,954	-	197,954
Equity mutual funds:			
International	226,472	226,472	-
Emerging markets	115,842	115,842	-
U.S. Mid cap	109,907	109,907	-
U.S. Small cap	80,221	80,221	-
U.S. Large cap	3,622	3,622	-
Money market funds	520,671	520,671	-
Fixed-income mutual funds:			
International	365,286	365,286	-
Global high yield	89,843	89,843	-
Certificates of deposit	293,509	-	293,509
REIT funds	5,047	5,047	-
Total Investments	\$ 3,929,336	\$ 2,880,247	\$ 1,049,089
Investments – Deferred Compensation Plan:			
Annuity contracts	\$ 92,984	\$ -	\$ 92,984
Total Investments – Deferred Compensation Plan	\$ 92,984	\$ -	\$ 92,984

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

4. Fair Value Measurements (continued)

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

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

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

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

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

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

5. Property and Equipment and Accumulated Depreciation and Amortization

Goodwill held the following property and equipment as of December 31, 2011:

Buildings and improvements	\$ 3,808,777
Furniture, fixtures and equipment	3,162,684
Leasehold improvements	2,567,116
Land	1,218,700
Transportation equipment	<u>555,038</u>
Total Property and Equipment	11,312,315
Less: Accumulated Depreciation and Amortization	<u>(7,168,774)</u>
Property and Equipment, Net	<u>\$ 4,143,541</u>

Depreciation and amortization expense totaled \$649,348 for the year ended December 31, 2011.

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

6. Charitable Gift Annuities

Goodwill was named as the trustee of certain charitable gift annuities. Under the terms of the agreements, Goodwill is required to pay the donors annual fixed amounts through the lives of the donors. The liability under the charitable gift annuities is calculated using the estimated average life expectancies of the donors. The liabilities under these annuities totaled \$152,156 at December 31, 2011.

7. Capital Lease Obligations

Goodwill leases a phone system and two vehicles through capital leases. The leases expire at various dates through February 2014. The phone system and vehicles have a cost of \$81,863 and \$45,894, and accumulated depreciation of \$68,219 and \$8,414, respectively, as of December 31, 2011.

Future minimum lease payments are as follows:

For the Year Ending December 31,	
2012	\$ 28,366
2013	14,413
2014	<u>9,650</u>
Subtotal	52,429
Less: Portion representing interest	<u>(5,148)</u>
Total	<u>\$ 47,281</u>

8. Line of Credit

Goodwill has a \$1,500,000 revolving line of credit with SunTrust Bank that matures on June 30, 2012 and bears interest at a rate equal to the three-month London Interbank Offered Rate (LIBOR), Index Rate, plus 2.5% (which was 2.91% as of December 31, 2011). Interest expense on the line of credit totaled \$10,831 for the year ended December 31, 2011. The line of credit is secured by a deed of trust on Goodwill's real property and requires Goodwill to comply with certain financial and nonfinancial covenants. As of December 31, 2011, Goodwill was in compliance with the loan covenants and the outstanding balance on the line of credit totaled \$586,000.

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

9. Notes Payable

On January 12, 2010, Goodwill entered into a \$1,735,000 debt agreement with SunTrust Bank for the purpose of refinancing the balance outstanding on previously issued bonds. Effective July 2011, this note was refinanced, reducing the interest rate from 6.5% to 5.75% per annum. The note requires monthly interest and principal payments of \$12,935 through February 28, 2015, when the outstanding principal must 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, 2011, Goodwill was in compliance with the loan covenants and the outstanding balance on the note was \$1,659,072.

Goodwill had also entered into note payable agreements to purchase vehicles. These notes bore interest at rates ranging from 0.2% to 0.25% per annum through October 2011 and required monthly principal and interest payments of \$923. The purchased vehicles secured the notes and the notes were paid in their entirety during the year ended December 31, 2011.

Scheduled repayments of principal on the notes are as follows:

For the Year Ending December 31,	
2012	\$ 61,434
2013	65,061
2014	68,902
2015	<u>1,463,675</u>
Total	<u>\$ 1,659,072</u>

Interest expense related to these notes totaled \$105,218 for the year ended December 31, 2011.

10. Lease Commitments

Goodwill leases store space and its administrative offices under several noncancelable leases, the last of which expires in January 2022. Certain of these leases include annual escalation clauses. Under GAAP, all fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying consolidated statement of financial position. In addition to annual rentals, several of the leases require that Goodwill pay the cost of insurance, a pro rata portion of increases in real estate taxes and other operating expenses. Goodwill also leases several copy machines through operating leases.

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

10. Lease Commitments (continued)

Future minimum lease payments under these leases are as follows:

For the Year Ending December 31,	
2012	\$ 3,208,861
2013	3,242,424
2014	2,888,213
2015	2,515,893
2016	2,103,065
Thereafter	<u>6,854,751</u>
Total	<u>\$ 20,813,207</u>

Store and office rental expense totaled \$3,225,532 for the year ended December 31, 2011, and is recorded as occupancy expense in the accompanying consolidated statement of functional expenses.

11. Letters of Credit

As of December 31, 2011, 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. 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

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

12. Endowment Funds (continued)

Interpretation of Relevant Law (continued)

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.

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. As of December 31, 2011, the endowment funds had a cumulative deficiency of \$8,081, which is recorded as a component of unrestricted net assets.

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.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

12. 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.

Goodwill's endowment net asset composition by fund type was as follows as of December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (8,081)	\$ -	\$ 494,808	\$ 486,727

Changes in endowment net assets were as follows for the year ended December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2011	\$ -	\$ -	\$ 494,808	\$ 494,808
Investment return:				
Investment income	-	11,605	-	11,605
Net depreciation (realized and unrealized)	(8,081)	(11,605)	-	(19,686)
Total investment return	(8,081)	-	-	(8,081)
Appropriation for expenditure	-	-	-	-
Endowment net assets, December 31, 2011	\$ (8,081)	\$ -	\$ 494,808	\$ 486,727

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

12. Endowment Funds (continued)

Permanently Restricted Net Assets

Perpetual endowment funds that are required to be retained permanently, either by explicit donor stipulation or by UPMIFA, are as follows as of December 31, 2011:

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

13. Significant Customers

During the year ended December 31, 2011, approximately 98% of service contracts income was earned through contracts with agencies of the federal government. The service contracts income from federal agencies totaled approximately \$13,280,000 for the year ended December 31, 2011.

14. Donated Support

During the year ended December 31, 2011, Goodwill recognized support from contributed merchandise with an estimated fair value of \$3,449,270, of which \$215,579 is included in inventory at December 31, 2011.

15. 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 \$93,208 for the year ended December 31, 2011, and are included in employee benefits in the accompanying consolidated statement of functional expenses.

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

16. 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, an annual incentive bonus of up to 20% of base salary and a retention bonus if the President and CEO remains in her current position through December 31, 2012. 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.

17. 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, 2011, 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, 2011, BKB had net operating loss carryforwards aggregating to approximately \$2,064,000. The loss carryforwards are available to offset taxable income and expire in 2025 through 2030. 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, 2011, 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, 2011, the statute of limitations for tax years 2008 through 2010 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, 2011, Goodwill had no accrual for interest and/or penalties.

18. Reclassification

Certain 2010 amounts have been reclassified to conform to the 2011 consolidated financial statement presentation.

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

19. Subsequent Events

In preparing these consolidated financial statements, Goodwill has evaluated events and transactions for potential recognition or disclosure through May 22, 2012, the date the consolidated financial statements were available to be issued. There are no 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, 2011

	Goodwill of Greater Washington	Best Kept Buildings	Eliminations	Total
ASSETS				
Cash and cash equivalents	\$ -	\$ 4,979	\$ -	\$ 4,979
Accounts receivable	3,583,052	34,882	-	3,617,934
Intercompany receivable	2,174,237	-	(2,174,237)	-
Inventory	276,044	-	-	276,044
Prepaid expenses and other	593,589	355	-	593,944
Investments	3,929,336	-	-	3,929,336
Investments - deferred compensation plan	92,984	-	-	92,984
Property and equipment, net	4,139,847	3,694	-	4,143,541
Deposits and loan costs	271,414	-	-	271,414
	<u>\$ 15,060,503</u>	<u>\$ 43,910</u>	<u>\$ (2,174,237)</u>	<u>\$ 12,930,176</u>
TOTAL ASSETS				
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 1,152,492	\$ 12,196	\$ -	\$ 1,164,688
Intercompany payable	-	2,174,237	(2,174,237)	-
Accrued payroll and related liabilities	1,016,348	85,725	-	1,102,073
Deferred revenue and deposits	41,649	-	-	41,649
Charitable gift annuities	152,156	-	-	152,156
Capital lease obligation	47,281	-	-	47,281
Line of credit	586,000	-	-	586,000
Deferred rent	1,411,234	-	-	1,411,234
Deferred compensation liability	92,984	-	-	92,984
Notes payable	1,659,072	-	-	1,659,072
	<u>6,159,216</u>	<u>2,272,158</u>	<u>(2,174,237)</u>	<u>6,257,137</u>
Total Liabilities				
Net Assets				
Unrestricted	8,266,735	(2,228,248)	-	6,038,487
Temporarily restricted	139,744	-	-	139,744
Permanently restricted	494,808	-	-	494,808
	<u>8,901,287</u>	<u>(2,228,248)</u>	<u>-</u>	<u>6,673,039</u>
Total Net Assets				
TOTAL LIABILITIES AND NET ASSETS				
	<u>\$ 15,060,503</u>	<u>\$ 43,910</u>	<u>\$ (2,174,237)</u>	<u>\$ 12,930,176</u>

GOODWILL OF GREATER WASHINGTON
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

	Goodwill of Greater Washington	Best Kept Buildings	Eliminations	Total
REVENUE AND SUPPORT				
Revenue:				
Donated goods sales	\$ 16,630,557	\$ -	\$ -	\$ 16,630,557
Service contracts	13,365,419	174,254	-	13,539,673
Other income	154,976	-	-	154,976
Net investment loss	(12,402)	-	-	(12,402)
Contract service income	184,584	1,097,002	(1,281,586)	-
Total Revenue	30,323,134	1,271,256	(1,281,586)	30,312,804
Support:				
Contributions - donated goods	3,449,270	-	-	3,449,270
Workforce development grants	1,593,587	-	-	1,593,587
Contributions - other	466,718	-	-	466,718
Legacies and bequests	5,000	-	-	5,000
TOTAL REVENUE AND SUPPORT	35,837,709	1,271,256	(1,281,586)	35,827,379
EXPENSES				
Program Services:				
Retail program	17,697,449	1,341,833	(1,097,002)	17,942,280
Service contracts	11,047,117	367,314	(48,293)	11,366,138
Workforce development	2,267,743	-	-	2,267,743
Total Program Services	31,012,309	1,709,147	(1,145,295)	31,576,161
Supporting Services:				
Management and general	1,715,442	177,005	(136,291)	1,756,156
Fundraising	772,146	-	-	772,146
Total Supporting Services	2,487,588	177,005	(136,291)	2,528,302
TOTAL EXPENSES	33,499,897	1,886,152	(1,281,586)	34,104,463
CHANGE IN NET ASSETS	2,337,812	(614,896)	-	1,722,916
NET ASSETS, BEGINNING OF YEAR	6,563,475	(1,613,352)	-	4,950,123
NET ASSETS, END OF YEAR	\$ 8,901,287	\$ (2,228,248)	\$ -	\$ 6,673,039