



**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, 2018
(With Summarized Financial Information for the Year Ended December 31, 2017)*

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**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**TABLE OF CONTENTS
For the Year Ended December 31, 2018**

	<i>Page</i>
Independent Auditors' 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.....	7-20
Supplementary Information	
Consolidating Schedule of Financial Position.....	21
Consolidating Schedule of Activities.....	22

INDEPENDENT AUDITORS' REPORT

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

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, 2018, 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

- 1 -

Opinion

In our opinion, the 2018 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill as of December 31, 2018, 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

Goodwill's 2017 consolidated financial statements were audited by Raffa, P.C., whose practice was combined with Marcum LLP as of October 1, 2018, and whose report dated May 1, 2018, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the 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 on pages 21 and 22 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 6, 2019

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2018
(With Summarized Financial Information as of December 31, 2017)**

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 6,630,820	\$ 3,805,561
Accounts receivable, net	2,658,054	2,322,675
Inventory	1,048,464	1,070,125
Prepaid expenses and other	1,777,324	1,631,259
Investments	6,380,683	7,135,636
Investments – deferred compensation plan	511,643	483,815
Property and equipment, net	7,104,293	7,110,434
Deposits	439,285	444,078
TOTAL ASSETS	\$ 26,550,566	\$ 24,003,583
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,298,440	\$ 1,113,214
Accrued payroll and related liabilities	2,288,323	1,638,075
Deferred revenue and deposits	1,326,036	1,284,330
Capital lease obligations	94,152	115,051
Deferred rent and lease incentive	3,688,503	3,866,061
Deferred compensation obligations	511,643	483,815
Note payable	679,837	846,009
TOTAL LIABILITIES	9,886,934	9,346,555
Net Assets		
Without donor restrictions	16,308,632	14,518,278
With donor restrictions	355,000	138,750
TOTAL NET ASSETS	16,663,632	14,657,028
TOTAL LIABILITIES AND NET ASSETS	\$ 26,550,566	\$ 24,003,583

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, 2018**

(With Summarized Financial Information for the Year Ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
REVENUE AND SUPPORT				
Revenue:				
Donated goods sales	\$ 38,805,882	\$ -	\$ 38,805,882	\$ 33,903,992
Service contracts	10,633,977	-	10,633,977	10,105,058
Investment income (loss)	(347,957)	-	(347,957)	837,668
Other income	48,819	-	48,819	15,673
	49,140,721	-	49,140,721	44,862,391
Support:				
Contributions – donated goods	10,655,683	-	10,655,683	9,924,933
Per pupil funding	6,856,702	-	6,856,702	6,356,652
Contributions – other	1,256,647	560,000	1,816,647	2,376,938
Grants	147,711	-	147,711	106,647
Legacies and bequests	-	-	-	17,284
Net assets released from restrictions:				
Satisfaction of purpose restrictions	343,750	(343,750)	-	-
	68,401,214	216,250	68,617,464	63,644,845
TOTAL REVENUE AND SUPPORT	68,401,214	216,250	68,617,464	63,644,845
EXPENSES				
Program Services:				
Retail program	45,705,911	-	45,705,911	41,621,644
Service contracts	8,938,580	-	8,938,580	8,650,586
Education program	5,468,490	-	5,468,490	4,399,287
Workforce development	2,522,590	-	2,522,590	2,733,805
	62,635,571	-	62,635,571	57,405,322
Supporting Services:				
Management and general	3,227,992	-	3,227,992	3,278,877
Fundraising	747,297	-	747,297	795,767
	3,975,289	-	3,975,289	4,074,644
	66,610,860	-	66,610,860	61,479,966
CHANGE IN NET ASSETS	1,790,354	216,250	2,006,604	2,164,879
NET ASSETS, BEGINNING OF YEAR	14,518,278	138,750	14,657,028	12,492,149
NET ASSETS, END OF YEAR	\$ 16,308,632	\$ 355,000	\$ 16,663,632	\$ 14,657,028

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

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018
(With Summarized Financial Information for the Year Ended December 31, 2017)**

	Program Services				Supporting Services			2018 Total	2017 Total
	Retail Program	Service Contracts	Education Program	Workforce Development	Total Program Services	Management and General	Fundraising		
Personnel Expenses:									
Salaries	\$ 17,256,328	\$ 5,541,679	\$ 3,048,883	\$ 1,465,085	\$ 27,311,975	\$ 1,614,195	\$ 409,036	\$ 29,335,206	\$ 27,132,142
Employee benefits	3,059,557	2,005,463	55,108	300,152	5,420,280	291,723	86,164	5,798,167	5,649,925
Total Personnel Expenses	20,315,885	7,547,142	3,103,991	1,765,237	32,732,255	1,905,918	495,200	35,133,373	32,782,067
Cost of sales – donated goods	10,645,330	-	-	-	10,645,330	-	-	10,645,330	9,828,961
Occupancy	7,388,003	73,638	468,725	256,244	8,186,610	220,870	73,594	8,481,074	7,962,638
Depreciation and amortization	942,069	44,323	360,769	58,996	1,406,157	98,245	17,166	1,521,568	1,438,181
Supplies	737,902	503,041	103,210	16,380	1,360,533	39,980	4,072	1,404,585	1,162,601
Auctions	1,203,776	-	-	-	1,203,776	-	-	1,203,776	966,393
Utilities	992,921	14,503	38,290	45,079	1,090,793	43,500	14,494	1,148,787	975,671
Other expenses	194,489	71,116	594,080	75,136	934,821	56,913	21,889	1,013,623	847,163
Professional fees	388,761	42,444	109,481	8,357	549,043	272,361	2,939	824,343	766,928
Postage and shipping	661,644	1,731	3,542	545	667,462	23,726	7,983	699,171	696,961
Bank service charges	607,160	90	1,679	-	608,929	43,382	16,052	668,363	582,575
SourceAmerica commissions	-	395,638	-	-	395,638	-	-	395,638	378,030
Advertising	13,220	3,293	81,886	1,680	100,079	290,116	207	390,402	296,572
Telephone	196,812	48,349	56,983	30,155	332,299	14,946	5,835	353,080	439,007
Insurance	202,147	26,686	37,443	11,636	277,912	28,184	1,829	307,925	293,795
Equipment rental and maintenance	257,959	38,315	7,981	375	304,630	2,570	710	307,910	222,803
Maintenance and repairs	240,872	4,120	36,986	11,648	293,626	5,130	1,697	300,453	269,978
Subcontractors	114,045	23,991	-	110,448	248,484	12,703	-	261,187	185,040
Dues	24,595	11,788	75,317	21,570	133,270	54,309	32,934	220,513	217,928
Software maintenance	98,357	20,110	40,540	25,363	184,370	5,769	19,311	209,450	168,732
Taxes, licenses and permits	57,413	10,380	106,950	3,839	178,582	9,459	2,126	190,167	132,772
Student transportation stipends	-	-	158,340	22,840	181,180	-	-	181,180	183,176
Travel	68,470	11,433	33,608	27,713	141,224	14,028	8,223	163,475	140,993
Vehicles – rentals and maintenance	135,012	25,872	-	-	160,884	238	3	161,125	124,692
Printing and publications	54,611	4,763	40,542	11,052	110,968	26,597	18,253	155,818	159,614
Cost of sales – purchased goods	85,837	-	-	-	85,837	-	-	85,837	134,539
In-kind services	46,779	14,014	2,025	10,472	73,290	2,678	261	76,229	9,474
Special events	3,120	360	6,122	2,381	11,983	51,831	1,080	64,894	58,020
Interest	28,722	1,440	-	5,444	35,606	4,539	1,439	41,584	54,662
TOTAL EXPENSES	\$ 45,705,911	\$ 8,938,580	\$ 5,468,490	\$ 2,522,590	\$ 62,635,571	\$ 3,227,992	\$ 747,297	\$ 66,610,860	\$ 61,479,966

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, 2018
(With Summarized Financial Information for the Year Ended December 31, 2017)**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,006,604	\$ 2,164,879
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,521,568	1,438,181
Unrealized losses (gains) on investments	406,142	(673,649)
Realized losses (gains) on sales of investments	57,380	(62,098)
Losses on disposal of property and equipment	10,603	-
Changes in assets and liabilities:		
Accounts receivable	(335,379)	(693,568)
Inventory	21,661	(106,244)
Prepaid expenses and other	(146,065)	(164,810)
Deposits	4,793	27,988
Accounts payable and accrued expenses	185,226	35,106
Accrued payroll and related liabilities	650,248	191,268
Deferred revenue and deposits	41,706	860,451
Deferred rent and lease incentive	(177,558)	280,768
Deferred compensation obligations	27,828	127,503
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,274,757	3,425,775
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	2,116,913	3,319,574
Purchases of investments	(1,853,310)	(3,552,474)
Purchases of property and equipment	(1,431,106)	(867,992)
NET CASH USED IN INVESTING ACTIVITIES	(1,167,503)	(1,100,892)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(166,172)	(159,418)
Principal payments on capital lease obligations	(115,823)	(87,434)
NET CASH USED IN FINANCING ACTIVITIES	(281,995)	(246,852)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,825,259	2,078,031
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,805,561	1,727,530
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 6,630,820	\$ 3,805,561
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 41,584	\$ 54,662
NONCASH TRANSACTIONS		
Noncash investing activities:		
Property and equipment acquired in capital lease	\$ 138,863	\$ -
Capital lease obligation	(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	-	238,553
Deferred lease incentive included in operating lease	-	(238,553)
	\$ -	\$ -

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

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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

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.

As of and for the year ended December 31, 2018, 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.

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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

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 and support.

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, 2018.

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 during the period in which the items are sold.

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

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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

Revenue and Support Recognition (continued)

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.

Grants and contributions are considered without donor restrictions 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 net assets with donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is met), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Per Pupil Funding

Per pupil funding represents the per pupil student allocation and facility allowance from the District of Columbia, as well as federal entitlement funding, to cover the cost of academic expenses. Revenue is recognized ratably over the academic year. Unearned funding is recognized as deferred revenue in the accompanying consolidated statement of financial position until earned.

In-Kind Contributions

In-kind contributions represent the value of pro bono services and/or goods donated that are not for resale. These donations are recorded based on the fair value at the date of donation and are included in contributions – other in the accompanying consolidated statement of activities.

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 costs 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.

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.

Continued

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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

New Accounting Pronouncement Adopted

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively. The major changes required by the ASU affecting Goodwill include (a) renaming unrestricted net assets to “net assets without donor restrictions” and temporary restricted net assets to “net assets with donor restrictions,” (b) disclosing a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, and (d) presenting investment return net of external and direct internal investment expenses.

2. Accounts Receivable

Accounts receivable consisted of the following as of December 31, 2018:

U.S. government prime contracts	\$ 1,686,510
Donated goods sales	519,222
D.C. real estate tax rebate	204,189
Contributions	149,258
Other	85,957
Commercial contracts	<u>12,918</u>
Total Accounts Receivable	<u>\$ 2,658,054</u>
Billed receivables	\$ 2,099,806
Unbilled receivables	<u>558,248</u>
Total Accounts Receivable	<u>\$ 2,658,054</u>

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

3. Investments

Investments are stated at fair value and consisted of the following as of December 31, 2018:

Exchange-traded equity funds	\$ 3,942,440
Mutual funds – fixed-income funds	1,193,841
Exchange-traded fixed-income funds	649,589
Money market funds	332,413
Certificate of deposit	<u>262,400</u>
Total Investments	<u>\$ 6,380,683</u>

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

Continued

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

3. Investments (continued)

At December 31, 2018, investments totaling \$511,643 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 (loss) is as follows for the year ended December 31, 2018:

Interest and dividends, net	\$ 115,565
Realized and unrealized losses	<u>(463,522)</u>
Investment Loss, Net	<u>\$ (347,957)</u>

4. Property and Equipment and Accumulated Depreciation and Amortization

Goodwill held the following property and equipment as of December 31, 2018:

Furniture and equipment	\$ 6,275,150
Leasehold improvements	5,383,945
Buildings and improvements	4,734,815
Land	1,218,700
Software	933,668
Vehicles and transportation equipment	311,120
Assets in process	<u>337,284</u>
Total Property and Equipment	19,194,682
Less: Accumulated Depreciation and Amortization	<u>(12,090,389)</u>
Property and Equipment, Net	<u>\$ 7,104,293</u>

As of December 31, 2018, 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, 2018.

Depreciation and amortization expense totaled \$1,521,568 for the year ended December 31, 2018.

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

5. Fair Value Measurement

The following table summarizes Goodwill's investments measured at fair value on a recurring basis as of December 31, 2018:

	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)
Investments:				
Exchange-traded equity funds	\$ 3,942,440	\$ 3,942,440	\$ -	\$ -
Mutual funds – fixed-income funds	1,193,841	1,193,841	-	-
Exchange-traded fixed-income funds	649,589	649,589	-	-
Money market funds	332,413	332,413	-	-
Certificate of deposit	<u>262,400</u>	<u>-</u>	<u>262,400</u>	<u>-</u>
Total Investments	<u>\$ 6,380,683</u>	<u>\$ 6,118,283</u>	<u>\$ 262,400</u>	<u>\$ -</u>
Investments – deferred compensation plan:				
Annuity contracts	<u>\$ 511,643</u>	<u>\$ -</u>	<u>\$ 511,643</u>	<u>\$ -</u>

Exchange-traded equity funds, mutual funds – fixed-income funds, exchange-traded fixed-income 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.

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.

6. Capital Lease Obligations

Goodwill leases vehicles and copiers through capital leases. During the year ended December 31, 2018, all vehicle leases, with a cost of \$427,514 and accumulated depreciation of \$389,182, were disposed of due to maturity or termination of the lease agreement. Also, Goodwill entered into new operating leases for copiers during the year ended December 31, 2018. The new leases are for three years and have a cost of \$138,863 and accumulated depreciation of \$48,141 as of December 31, 2018.

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

6. Capital Lease Obligations (continued)

Future minimum lease payments are as follows:

<u>For the Year Ending December 31,</u>	
2019	\$ 48,776
2020	<u>48,776</u>
Subtotal	97,552
Less: Portion Representing Interest	<u>(3,400)</u>
Total	<u>\$ 94,152</u>

Interest expense related to capital leases totaled \$9,344 and is included in interest expense in the accompanying consolidated statement of functional expenses for the year ended December 31, 2018.

7. Line of Credit

Goodwill has a \$2,500,000 revolving line of credit with SunTrust Bank that matures on July 31, 2019, with interest at a rate equal to the one-month London Interbank Offered Rate Index Rate, plus 1.85% (which was 2.7% as of December 31, 2018). 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 SunTrust Bank. Interest expense on the line of credit totaled \$219 for the year ended December 31, 2018. The line of credit is unsecured and requires Goodwill to comply with certain financial and nonfinancial covenants. As of December 31, 2018, Goodwill was in compliance with the loan covenants and there was no balance outstanding on the line of credit.

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 property and requires Goodwill to comply with, among other provisions, certain financial and nonfinancial covenants and restrictions on future borrowings. As of December 31, 2018, Goodwill was in compliance with the loan covenants and the outstanding balance on the note was \$679,837.

Continued

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

8. Note Payable (continued)

Scheduled payments of principal on the note are as follows:

For the Year Ending December 31,		
2019	\$	173,213
2020		180,552
2021		188,202
2022		137,870
Total	\$	679,837

Interest expense related to this note totaled \$32,021 and is included in interest expense in the accompanying consolidated statement of functional expenses for the year ended December 31, 2018.

9. Commitments and Contingencies

Operating Leases

Goodwill leases store and 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,		
2019	\$	7,276,012
2020		6,950,448
2021		6,953,621
2022		6,142,080
2023		5,096,035
Thereafter		26,286,744
Total	\$	58,704,940

Store, warehouse and office rental expense totaled \$7,188,498 for the year ended December 31, 2018, and is included in occupancy expense in the accompanying consolidated statement of functional expenses.

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

9. Commitments and Contingencies (continued)

Operating Leases (continued)

On December 12, 2018, Goodwill entered into agreements to lease six new trucks under operating leases. The new trucks are expected to be valued at \$645,540, and the lease period will be for 84 months. The lease for each truck will commence upon receipt of the truck.

Curriculum Licensing Agreement

GGW has entered into a Licensing and Services Agreement (the "Agreement") with Goodwill Education Initiatives, Inc. (GEI) for the use of GEI's intellectual property, educational expertise and other consulting services in connection with the operation of GEC. GGW sublicensed this agreement to GEC, and GEC must abide by all terms and conditions of this licensing agreement. Under the sublicense agreement with GGW, GEC was required to pay a start-up fee of \$50,000 to assist in the school opening, followed by annual fees. On September 1, 2017, GGW entered into a Membership Agreement with GEI replacing the existing Licensing and Services Agreement. GGW will pay GEI a monthly fee of \$3,000. The agreement expires on July 31, 2021, with options to renew for two additional three-year terms.

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. Under the terms of the First Amendment to Contract, GEC was required to pay the YMCA \$479,620 for the period July 1, 2017, through June 30, 2018, and \$509,659 under the terms of the Second Agreement to Contract for the period July 1, 2018, through June 30, 2019.

10. Letter of Credit

As of December 31, 2018, Goodwill has a \$262,400 letter of credit from SunTrust 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, 2018, Goodwill has a \$207,723 Irrevocable Standby Letter of Credit from SunTrust Bank pursuant to a real estate lease agreement security deposit requirement. This letter of credit automatically renews for 12 months from August 1, 2019, the date of expiration, and requires Goodwill to pay an annual fee of 1% of the outstanding balance.

Continued

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

11. Net Assets

Net assets consisted of the following as of December 31, 2018:

Net Assets Without Donor Restrictions

Without restrictions	<u>\$ 16,308,632</u>
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Net Assets With Donor Restrictions

Expansion services	\$ 305,000
Workforce development programs	<u>50,000</u>
Total	<u>\$ 355,000</u>

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, 2018, were as follows:

Cash and cash equivalents	\$ 6,630,820
Accounts receivable	2,658,054
Investments	<u>6,380,683</u>
Total Financial Assets	15,669,557
Less:	
Amounts with donor purpose restrictions	(355,000)
Amounts restricted as collateral for letter of credit (see Note 10)	<u>(262,400)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 15,052,157</u>

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 equity securities. 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 SunTrust Bank that matures on July 31, 2019.

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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:

<u>Required Event</u>	<u>Ownership Interest</u>
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, 2018, \$15,500 of allocated income, deductions, credits and other items, as it relates to Goodwill's interest in the Cryden Center, were recorded in the accompanying financial statements.

14. Significant Customers

During the year ended December 31, 2018, approximately 98% of service contracts income was earned through contracts with agencies of the federal government. Revenue from service contracts with federal agencies totaled \$10,469,311 for the year ended December 31, 2018.

15. Support

Donated Support

During the year ended December 31, 2018, Goodwill recognized support from contributed merchandise with an estimated fair value of \$10,655,683, of which \$1,033,184 is included in inventory at December 31, 2018, 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

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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 \$284,672 for the year ended December 31, 2018, 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, 2018, deferred compensation assets and the related liability totaled \$511,643 and are included in the accompanying statement of financial position.

17. 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. The contract provides the President and CEO with an initial base salary and an annual incentive bonus of up to 20% of the base salary, as well as incremental retention bonuses, which are to be paid at various dates upon successful completion of the terms set forth in the contract. 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 12 months' base salary.

Effective July 1, 2017, Goodwill renewed its employment contracts with certain key executive officers. The contracts have three-year terms. In the event of termination without cause, the key executive officers will receive pay equal to six months of their base salaries.

18. 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, 2018, 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, 2018, BKB had net operating loss carryforwards aggregating to approximately \$6,642,773. The loss carryforwards are available to offset up to 80% of taxable income and are eligible for

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

18. Income Taxes (continued)

carryforward indefinitely. 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, 2018, 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. While as of December 31, 2018, the statute of limitations for tax years 2015 through 2017 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, 2018, Goodwill had no accrual for interest and/or penalties.

19. 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, 2017, from which the summarized information was derived.

20. Reclassifications

Certain 2017 amounts have been reclassified to conform with the 2018 financial statement presentation.

21. Subsequent Events

In preparing these consolidated financial statements, Goodwill has evaluated events and transactions, for potential recognition or disclosure, through May 6, 2019, the date the consolidated financial statements were available to be issued. There were no subsequent events identified through May 6, 2019, that require recognition or disclosure in these consolidated financial statements.

SUPPLEMENTARY INFORMATION

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
December 31, 2018**

	Goodwill of Greater Washington	Best Kept Buildings	The Goodwill Excel Center, Public Charter School	Eliminations	Total
ASSETS					
Cash and cash equivalents	\$ 1,283,827	\$ 19,613	\$ 5,327,380	\$ -	\$ 6,630,820
Accounts receivable, net	2,372,639	18,201	270,055	(2,841)	2,658,054
Intercompany receivable	6,658,099	-	-	(6,658,099)	-
Inventory	1,048,464	-	-	-	1,048,464
Prepaid expenses and other	1,615,457	898	160,969	-	1,777,324
Investments	6,380,683	-	-	-	6,380,683
Investments – deferred compensation plan	511,643	-	-	-	511,643
Property and equipment, net	4,916,308	-	2,193,241	(5,256)	7,104,293
Deposits	249,510	-	189,775	-	439,285
TOTAL ASSETS	\$ 25,036,630	\$ 38,712	\$ 8,141,420	\$ (6,666,196)	\$ 26,550,566
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	\$ 978,585	\$ 13,043	\$ 309,653	\$ (2,841)	\$ 1,298,440
Intercompany payables	-	6,658,099	-	(6,658,099)	-
Accrued payroll and related liabilities	1,924,899	363,424	-	-	2,288,323
Deferred revenue and deposits	151,143	-	1,174,893	-	1,326,036
Capital lease obligations	94,152	-	-	-	94,152
Deferred rent and lease incentive	1,745,079	-	1,943,424	-	3,688,503
Deferred compensation obligations	511,643	-	-	-	511,643
Note payable	679,837	-	-	-	679,837
TOTAL LIABILITIES	6,085,338	7,034,566	3,427,970	(6,660,940)	9,886,934
Net Assets					
Without donor restrictions	18,596,292	(6,995,854)	4,713,450	(5,256)	16,308,632
With donor restrictions	355,000	-	-	-	355,000
TOTAL NET ASSETS	18,951,292	(6,995,854)	4,713,450	(5,256)	16,663,632
TOTAL LIABILITIES AND NET ASSETS	\$ 25,036,630	\$ 38,712	\$ 8,141,420	\$ (6,666,196)	\$ 26,550,566

See independent auditors' report on supplementary information.

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Year Ended December 31, 2018**

	Goodwill of Greater Washington	Best Kept Buildings	The Goodwill Excel Center, Public Charter School	Eliminations	Total
REVENUE AND SUPPORT					
Revenue:					
Donated goods sales	\$ 38,805,882	\$ -	\$ -	\$ -	\$ 38,805,882
Service contracts	10,501,738	132,239	-	-	10,633,977
Investment loss	(347,957)	-	-	-	(347,957)
Contract service income	1,519,430	7,415,837	-	(8,935,267)	-
Other income	20,074	-	28,745	-	48,819
Total Revenue	50,499,167	7,548,076	28,745	(8,935,267)	49,140,721
Support:					
Contributions – donated goods	10,655,683	-	-	-	10,655,683
Per pupil funding	-	-	6,856,702	-	6,856,702
Contributions – other	1,788,492	-	28,155	-	1,816,647
Grants	94,232	-	53,479	-	147,711
TOTAL REVENUE AND SUPPORT	63,037,574	7,548,076	6,967,081	(8,935,267)	68,617,464
EXPENSES					
Program Services:					
Retail program	46,051,960	6,920,965	-	(7,267,014)	45,705,911
Service contracts	8,758,148	263,715	-	(83,283)	8,938,580
Education program	480,502	-	4,988,556	(568)	5,468,490
Workforce development	2,522,590	-	-	-	2,522,590
Total Program Services	57,813,200	7,184,680	4,988,556	(7,350,865)	62,635,571
Supporting Services:					
Management and general	3,135,564	1,118,426	558,972	(1,584,970)	3,227,992
Fundraising	747,297	-	-	-	747,297
Total Supporting Services	3,882,861	1,118,426	558,972	(1,584,970)	3,975,289
TOTAL EXPENSES	61,696,061	8,303,106	5,547,528	(8,935,835)	66,610,860
CHANGE IN NET ASSETS	1,341,513	(755,030)	1,419,553	568	2,006,604
NET ASSETS, BEGINNING OF YEAR	17,609,779	(6,240,824)	3,293,897	(5,824)	14,657,028
NET ASSETS, END OF YEAR	\$ 18,951,292	\$ (6,995,854)	\$ 4,713,450	\$ (5,256)	\$ 16,663,632

See independent auditors' report on supplementary information.