



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

**Consolidated Financial Statements and Supplemental
Information**

For the Year Ended December 31, 2014

(With Summarized Financial Information for the Year Ended December 31, 2013)



**and
Report Thereon**



GOODWILL OF GREATER WASHINGTON

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For the Year Ended December 31, 2014

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Davis Memorial Goodwill Industries (d/b/a Goodwill of Greater Washington) (GGW) and its subsidiary, Best Kept Buildings (BKB) (collectively referred to as Goodwill), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

Other Matters

Report on Summarized Comparative Information

We have previously audited Goodwill's 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 30, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Consolidating Information

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

Raffa, P.C.

Raffa, P.C.

Washington, DC
April 29, 2015

GOODWILL OF GREATER WASHINGTON
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2014
(With Summarized Financial Information as of December 31, 2013)

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 2,301,973	\$ 2,141,866
Accounts receivable	2,023,024	2,107,448
Inventory	538,123	479,276
Prepaid expenses and other	965,540	896,055
Investments	5,974,267	5,193,678
Investments - deferred compensation plan	223,732	169,445
Property and equipment, net	4,709,793	4,850,884
Deposits	290,142	281,335
TOTAL ASSETS	\$ 17,026,594	\$ 16,119,987
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 811,617	\$ 1,077,859
Accrued payroll and related liabilities	1,000,814	1,023,125
Deferred revenue and deposits	31,702	9,077
Capital lease obligations	383,621	356,990
Deferred rent	1,496,346	1,491,768
Deferred compensation liability	223,732	169,445
Note payable	1,304,962	1,445,724
TOTAL LIABILITIES	5,252,794	5,573,988
Net Assets		
Unrestricted	10,983,992	9,941,191
Temporarily restricted	326,000	110,000
Permanently restricted	463,808	494,808
TOTAL NET ASSETS	11,773,800	10,545,999
TOTAL LIABILITIES AND NET ASSETS	\$ 17,026,594	\$ 16,119,987

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, 2014

(With Summarized Financial Information for the Year Ended December 31, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
REVENUE AND SUPPORT					
Revenue:					
Donated goods sales	\$ 25,607,297	\$ -	\$ -	\$ 25,607,297	\$ 23,530,617
Service contracts	9,918,428	-	-	9,918,428	10,159,439
Net investment income	232,967	23,831	-	256,798	622,550
Other income	6,010	-	-	6,010	5,936
Total Revenue	35,764,702	23,831	-	35,788,533	34,318,542
Support:					
Contributions - donated goods	6,165,692	-	-	6,165,692	5,472,056
Workforce development grants and contracts	1,481,059	774,370	-	2,255,429	2,356,509
Contributions - other	1,418,262	-	-	1,418,262	933,675
Legacies and bequests	452,388	-	-	452,388	162,193
Net assets released from restrictions:					
Satisfaction of purpose restrictions	580,708	(580,708)	-	-	-
Net asset reclassification (Note 12)	32,493	(1,493)	(31,000)	-	-
TOTAL REVENUE AND SUPPORT	45,895,304	216,000	(31,000)	46,080,304	43,242,975
EXPENSES					
Program Services:					
Retail program	28,189,469	-	-	28,189,469	25,308,972
Service contracts	8,518,865	-	-	8,518,865	8,747,092
Workforce development	4,336,947	-	-	4,336,947	3,980,228
Total Program Services	41,045,281	-	-	41,045,281	38,036,292
Supporting Services:					
Management and general	2,722,874	-	-	2,722,874	2,440,733
Fundraising	1,084,348	-	-	1,084,348	977,990
Total Supporting Services	3,807,222	-	-	3,807,222	3,418,723
TOTAL EXPENSES	44,852,503	-	-	44,852,503	41,455,015
CHANGE IN NET ASSETS	1,042,801	216,000	(31,000)	1,227,801	1,787,960
NET ASSETS, BEGINNING OF YEAR	9,941,191	110,000	494,808	10,545,999	8,758,039
NET ASSETS, END OF YEAR	\$ 10,983,992	\$ 326,000	\$ 463,808	\$ 11,773,800	\$ 10,545,999

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, 2014

(With Summarized Financial Information for the Year Ended December 31, 2013)

	Program Services			Total Program Services	Supporting Services		2014 Total	2013 Total
	Retail Program	Service Contracts	Workforce Development		Management and General	Fundraising		
Salaries	\$ 10,712,403	\$ 5,284,442	\$ 1,947,668	\$ 17,944,513	\$ 1,178,798	\$ 365,019	\$ 19,488,330	\$ 18,136,651
Employee benefits	1,259,314	1,439,178	236,449	2,934,941	139,160	48,294	3,122,395	2,704,201
Payroll taxes	836,082	414,138	147,795	1,398,015	74,731	25,616	1,498,362	1,287,488
Subtotal	12,807,799	7,137,758	2,331,912	22,277,469	1,392,689	438,929	24,109,087	22,128,340
Cost of sales - donated goods	6,122,345	-	-	6,122,345	-	-	6,122,345	5,399,066
Occupancy	3,902,331	66,210	427,009	4,395,550	198,590	66,170	4,660,310	4,211,829
Utilities	1,139,744	8,911	59,564	1,208,219	26,729	8,906	1,243,854	1,023,917
Depreciation and amortization	487,121	128,805	178,345	794,271	129,671	128,805	1,052,747	949,764
Supplies	468,014	414,788	20,619	903,421	57,897	5,099	966,417	969,027
Subcontractors	70,128	36,039	722,946	829,113	230	-	829,343	1,071,631
Taxes, licenses and permits	534,997	12,671	56,865	604,533	27,286	8,044	639,863	543,055
Auctions	531,535	-	-	531,535	-	-	531,535	499,091
Professional fees	113,195	48,044	31,730	192,969	235,683	64,479	493,131	678,405
Other expenses	137,792	66,487	137,557	341,836	78,139	18,931	438,906	497,813
Bank service charges	285,406	5,343	2,658	293,407	96,808	403	390,618	324,343
SourceAmerica commissions	-	366,943	-	366,943	-	-	366,943	374,559
Postage and shipping	282,684	2,769	2,854	288,307	6,575	31,012	325,894	335,424
Telephone	205,858	48,178	27,996	282,032	27,008	9,532	318,572	291,734
Maintenance and repairs	225,690	11,701	32,920	270,311	9,523	3,039	282,873	208,835
Insurance	164,983	38,657	18,960	222,600	51,705	3,567	277,872	234,179
Travel and vehicles	182,919	35,064	35,775	253,758	14,350	8,204	276,312	254,560
Cost of sales - purchased goods	268,339	-	-	268,339	-	-	268,339	273,369
Dues	57,784	22,804	55,345	135,933	57,657	33,916	227,506	218,103
Advertising	25,985	9,130	1,396	36,511	184,606	186	221,303	229,580
Equipment rental and maintenance	78,748	54,423	19,349	152,520	30,697	10,240	193,457	235,143
Printing and publications	8,091	1,512	4,814	14,417	63,898	86,837	165,152	155,347
Special events	1,535	602	1,027	3,164	1,524	157,922	162,610	144,097
Stipends	-	-	146,056	146,056	-	-	146,056	42,643
Interest	58,080	127	21,250	79,457	381	127	79,965	84,683
In-kind services	-	-	-	-	30,840	-	30,840	13,870
Loss on disposal of property and equipment	28,366	1,899	-	30,265	388	-	30,653	62,608
TOTAL EXPENSES	\$ 28,189,469	\$ 8,518,865	\$ 4,336,947	\$ 41,045,281	\$ 2,722,874	\$ 1,084,348	\$ 44,852,503	\$ 41,455,015

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, 2014

(With Summarized Financial Information for the Year Ended December 31, 2013)

Increase (Decrease) in Cash and Cash Equivalents

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,227,801	\$ 1,787,960
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,052,747	949,764
Unrealized losses (gains) on investments	825,141	(274,999)
Realized gains on investments	(762,814)	(244,213)
Loss on disposal of property and equipment	30,652	62,608
Changes in assets and liabilities:		
Accounts receivable	84,424	(656,064)
Inventory	(58,847)	(120,643)
Prepaid expenses and other	(69,485)	(111,414)
Deposits	(8,807)	(13,498)
Accounts payable and accrued expenses	(266,242)	98,273
Accrued payroll and related liabilities	(22,311)	21,159
Deferred revenue and deposits	22,625	9,077
Charitable gift annuities	-	(116,880)
Deferred rent	4,578	40,532
Deferred compensation liability	54,287	52,639
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,113,749	1,484,301
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	5,076,862	3,538,701
Purchases of investments	(5,974,065)	(3,629,508)
Proceeds from sales of property and equipment	4,450	1,085
Purchases of property and equipment	(855,708)	(1,180,764)
NET CASH USED IN INVESTING ACTIVITIES	(1,748,461)	(1,270,486)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(140,762)	(135,040)
Principal payments on capital lease obligations	(64,419)	(66,675)
NET CASH USED IN FINANCING ACTIVITIES	(205,181)	(201,715)
NET INCREASE IN CASH AND CASH EQUIVALENTS	160,107	12,100
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,141,866	2,129,766
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,301,973	\$ 2,141,866
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 79,965	\$ 84,502
NONCASH TRANSACTIONS		
Property and equipment purchased under capital leases	\$ 91,050	\$ -

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, 2014

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 custodial 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, 2014, all accounts receivable are deemed fully collectible.

Inventory

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

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2014

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

Investments

Investments consist of money market funds, certificates of deposit, equity mutual funds, fixed income mutual funds and exchange traded funds. These investments are recorded in the accompanying consolidated financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Fair Value Measurements

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

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

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

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

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

As of and for the year ended December 31, 2014, only Goodwill's investments, as described in Note 4 of these consolidated financial statements, were measured at fair value on a recurring basis.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2014

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

Property and Equipment and Related Depreciation and Amortization

Property and equipment are carried at cost. Depreciation and amortization are recorded using the straight-line method in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives.

Buildings and building improvements	5 to 20 years
Furniture and equipment	3 to 10 years
Software costs	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 put 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 income.

Net Assets

The net assets of Goodwill are classified as follows:

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

Revenue and Support Recognition

Grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted revenue and support.

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

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

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2014

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

Revenue and Support Recognition (continued)

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

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

In-kind Contributions

In-kind contributions represent the value of donated software and pro bono legal assistance. Donations are recorded based on their fair value at the date of donation and are included in general and administrative expenses in the accompanying 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. Accordingly, costs have been allocated based upon the functions they directly benefit or upon management's estimates of the proportion of these costs applicable to each function.

Estimates

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

2. Accounts Receivable

Accounts receivable were composed of the following as of December 31, 2014:

U.S. government prime contracts	\$ 1,149,547
Contributions	449,568
Workforce development grants and contracts	203,243
Donated goods sales	190,240
Commercial contracts	23,335
Other	<u>7,091</u>
Total	<u>\$ 2,023,024</u>
Billed receivables	\$ 1,202,670
Unbilled receivables	<u>820,354</u>
Total	<u>\$ 2,023,024</u>

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

3. Investments

Investments are stated at fair value and consisted of the following as of December 31, 2014:

Equity mutual funds	\$ 2,819,119
Fixed-income mutual funds	1,698,463
Exchange traded equity funds	676,078
Money market funds	518,207
Certificate of deposit	<u>262,400</u>
Total	<u>\$ 5,974,267</u>

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

Investments totaling \$223,732 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, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 288,595	\$ 30,530	\$ 319,125
Realized and unrealized losses	<u>(55,628)</u>	<u>(6,699)</u>	<u>(62,327)</u>
Total Investment Income	<u>\$ 232,967</u>	<u>\$ 23,831</u>	<u>\$ 256,798</u>

4. Fair Value Measurements

The following table summarizes Goodwill's investments measured at fair value on a recurring basis as of December 31, 2014:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Equity mutual funds:				
Large value	\$ 1,115,156	\$ 1,115,155	\$ -	\$ -
Large growth	954,307	954,307	-	-
World Stock	217,371	217,371	-	-
Mid-cap value	145,808	145,808	-	-
Mid-cap growth	142,874	142,874	-	-
Small growth	126,606	126,606	-	-
Real estate	116,997	116,997	-	-
Fixed-income mutual funds:				
Intermediate-term bonds	1,113,052	1,113,052	-	-
Bank loans	198,488	198,488	-	-
Non-traditional bonds	197,782	197,782	-	-
World bonds	189,141	189,141	-	-

Continued

GOODWILL OF GREATER WASHINGTON

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

4. Fair Value Measurements (continued)

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments: (continued)				
Exchange traded equity funds:				
Foreign large growth	\$ 222,372	\$ 222,372	\$ -	\$ -
Foreign large value	217,235	217,325	-	-
Small value	129,642	129,642	-	-
Diversified emerging markets	106,829	106,829	-	-
Money market funds	518,207	518,207	-	-
Certificate of deposit	<u>262,400</u>	<u>-</u>	<u>262,400</u>	<u>-</u>
Total Investments	<u>\$ 5,974,267</u>	<u>\$ 5,711,867</u>	<u>\$ 262,400</u>	<u>\$ -</u>
Investments – Deferred Compensation Plan:				
Annuity contracts	<u>\$ 223,732</u>	<u>\$ -</u>	<u>\$ 223,732</u>	<u>\$ -</u>

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

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 credit worthiness of the issuer.

5. Property and Equipment and Accumulated Depreciation and Amortization

Goodwill held the following property and equipment as of December 31, 2014:

Buildings and improvements	\$ 4,020,682
Furniture, fixtures and equipment	2,962,492
Leasehold improvements	2,296,192
Land	1,218,700
Vehicles and other transportation equipment	677,192
Software	544,955
Assets in process	<u>235,378</u>
Total Property and Equipment	11,955,591
Less: Accumulated Depreciation and Amortization	<u>(7,245,798)</u>
Property and Equipment, Net	<u>\$ 4,709,793</u>

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2014

5. Property and Equipment and Accumulated Depreciation and Amortization (continued)

Goodwill received donated computer software with an estimated fair value of \$229,608, which is included as software costs in property and equipment reported in the accompanying consolidated statement of financial position and in contributions – other reported in the accompanying consolidated statement of activities.

As of December 31, 2014, assets in process include costs related to improvements on leased space and implementation of a new payroll software system. Before the leased space can be occupied, a significant amount of improvements must occur to make the space useable, which Goodwill is currently in the process of performing. Similarly, for the software to be ready for operation, significant amount of testing and training needs to be performed to place it in service. Accordingly, no depreciation or amortization expense is reported for these costs for the year ended December 31, 2014.

Depreciation and amortization expense totaled \$1,052,747 for the year ended December 31, 2014.

6. Capital Lease Obligations

Goodwill leases vehicles and copiers through capital leases. The leases expire at various dates through July 2020. The vehicles and copiers have a cost of \$482,405 and accumulated depreciation of \$119,806, as of December 31, 2014.

Future minimum lease payments are as follows:

<u>For the Year Ending December 31,</u>	
2015	\$ 107,979
2016	107,979
2017	97,450
2018	76,392
2019	30,744
Thereafter	<u>15,372</u>
Subtotal	435,916
Less: Portion representing interest	<u>(52,295)</u>
Total	<u>\$ 383,621</u>

7. Line of Credit

Goodwill has a \$2,500,000 revolving line of credit with SunTrust Bank that matures on June 30, 2015 and bears interest at a rate equal to the three-month London Interbank Offered Rate (LIBOR), Index Rate, plus 1.85% (which was 2.00% as of December 31, 2014). There was no interest expense on the line of credit for the year ended December 31, 2014. The line of credit

Continued

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

7. Line of Credit (continued)

is unsecured and requires Goodwill to comply with certain financial and nonfinancial covenants. As of December 31, 2014, 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, 2014, Goodwill was in compliance with the loan covenants and the outstanding balance on the note was \$1,304,962.

Scheduled payments of principal on the note are as follows:

<u>For the Year Ending</u> <u>December 31</u>	
2015	\$ 146,726
2016	152,810
2017	159,417
2018	166,172
2019	173,213
Thereafter	<u>506,624</u>
Total	<u>\$ 1,304,962</u>

Interest expense related to this note totaled \$57,431 and included in the interest in the accompanying consolidated statement of functional expenses for the year ended December 31, 2014.

9. Lease Commitments

Goodwill leases store space and its administrative offices under several noncancellable leases, the last of which expires in December 2024. 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 real estate taxes and other operating expenses.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

9. Lease Commitments (continued)

Future minimum lease payments under these leases are as follows:

<u>For the Year Ending December 31,</u>	
2015	\$ 3,962,898
2016	3,539,947
2017	3,316,142
2018	3,413,252
2019	3,071,390
Thereafter	<u>5,041,573</u>
Total	<u>\$ 22,345,202</u>

Store and office rental expense totaled \$4,660,310 for the year ended December 31, 2014, and is recorded as occupancy expense in the accompanying consolidated statement of functional expenses.

10. Letter of Credit

As of December 31, 2014, 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 2017. This letter of credit renews annually in August and requires Goodwill to pay an annual fee equal to 1.0% of the outstanding balance.

11. Net Assets

Net assets consisted of the following as of December 31, 2014:

Unrestricted Net Assets

Unrestricted	<u>\$ 10,983,992</u>
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Temporarily Restricted Net Assets

Workforce development programs	\$ 186,000
Retail store expansion	<u>140,000</u>
Total	<u>\$ 326,000</u>

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2014

11. Net Assets (continued)

Permanently Restricted Net Assets

Permanently restricted net assets represent amounts invested in perpetuity, the income from which is available to support certain programs. Permanently restricted net assets consisted of the following endowment funds as of December 31, 2014:

National Library for the Blind (Etta J. Griffin Memorial Trust Fund)	\$ 218,484
Mabel J. Langhorne Fund	189,301
Hazel and Karl Fenning Fund	<u>56,023</u>
Total	<u>\$ 463,808</u>

On November 5, 2014, Goodwill notified the Attorney General for the District of Columbia of its intent to release the restriction on the principal of the Hazel and Karl Fenning Fund pursuant to Section 6 of the District of Columbia's Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, if certain criteria are met, 60 days after notification to the Attorney General, an institution may release or modify the restriction, in whole or part. On January 4, 2015 (60 days after notification to the Attorney General), Goodwill was permitted to release or modify the restriction. On February 10, 2015, the Attorney General affirmatively stated that it did not object to release of the restriction.

12. Endowment Funds

Goodwill's endowment consists of three (3) 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 UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Goodwill classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the endowment fund's applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Goodwill in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Goodwill considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of Goodwill and the donor-restricted endowment fund.

GOODWILL OF GREATER WASHINGTON

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

12. Endowment Funds (continued)

Interpretation of Relevant Law (continued)

- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of Goodwill.
- The investment policies of Goodwill.

Endowment Investment Policies

Goodwill's investments are managed in accordance with the Board-adopted *Investment Policy Statement*. Goodwill's investment policy is to obtain the highest overall total return on investments consistent with an above-average level of risk appropriate for a nonprofit corporation. Average risk is defined to mean that some variability in returns is tolerated, but a high level of safety of principal must exist. Goodwill has invested the permanently restricted assets in investment vehicles with a preferred asset allocation of 5% cash and cash equivalents, 30% fixed-income securities and 65% equities.

Endowment Spending Policy

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

Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires Goodwill to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2014.

Goodwill's endowment net asset composition by fund type was as follows as of December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>-</u>	\$ <u>463,808</u>	\$ <u>463,808</u>

GOODWILL OF GREATER WASHINGTON

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

12. Endowment Funds (continued)

Changes in endowment net assets were as follows for the year ended December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2014	\$ -	\$ -	\$ 494,808	\$ 494,808
Investment return:				
Investment income	-	30,530	-	30,530
Net depreciation (realized and unrealized)	-	(6,699)	-	(6,699)
Total investment return	-	23,831	-	23,831
Reclassification based on Board Resolution (a)	-	(1,493)	(31,000)	(32,493)
Appropriation for expenditure	-	(22,338)	-	(22,338)
Endowment net assets, December 31, 2014	\$ -	\$ -	\$ 463,808	\$ 463,808

The portion of perpetual endowment funds that are required to be retained permanently, either by explicit donor stipulation or by UPMIFA \$ 463,808

(a) The Davis Memorial Goodwill Industries Guild (the Guild), which established the Fenning-Murray Social Service Endowment Fund (the Fund), ceased operation in September 2011. In the resolution establishing the Fund, the Guild stated that upon a super majority vote of the members of the Guild, the principal and/or income of the Fund may be used for other charitable purposes as the Guild shall determine. On December 9, 2014, Goodwill's Board, in its authority as successor of the Guild, approved by a unanimous vote the release of the restriction on the principal and income of the Fund.

13. Operating Lease Agreement and Membership Interests

On July 31, 2014, Goodwill entered into a ten year operating lease agreement for building space located in Forestville, Maryland. In connection with the agreement, Goodwill will be issued (granted) up to a 17.55% non-voting subordinated ownership interest in Cryden

GOODWILL OF GREATER WASHINGTON

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

13. Operating Lease Agreement and Membership Interests (continued)

Partners, LLC and Cryden Center, LLC, (collectively the Cryden Center) subject to a vesting schedule. Cryden Center is the owner of the property (building space). The ownership interest will be 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, 2014, Goodwill was not allocated any income, deductions, credits and other items as it relates to its interest in the Cryden Center.

14. Significant Customers

During the year ended December 31, 2014, approximately 97% of service contracts income was earned through contracts with agencies of the federal government. Revenue from service contracts with federal agencies totaled \$9,590,749 for the year ended December 31, 2014.

15. Donated Support

During the year ended December 31, 2014, Goodwill recognized support from contributed merchandise with an estimated fair value of \$6,165,692, of which \$385,356 is included in inventory at December 31, 2014 in the accompanying consolidated statement of financial position.

16. Retirement Plan

Goodwill has a group tax-deferred annuity plan available for its employees. Participation is voluntary and contributions to the plan are funded by employee salary deductions and employer matching contributions. Employees may elect voluntary deferrals from salary by payroll deduction on a pre-tax basis up to the amount allowed by federal law. Plan contributions totaled \$164,062 for the year ended December 31, 2014, and are included in employee benefits in the accompanying consolidated statement of functional expenses.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2014

17. Employment Contracts

Effective January 1, 2014, 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 five-year terms unless notice is given by either party 60 days prior to the expiration date. The contract provides the President and CEO with an initial base salary and an annual incentive bonus of up to 20% of base salary as well as a retention bonus which is to be paid upon successful completion of the initial five-year term. 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 twelve months of her base salary.

Effective July 1, 2014, Goodwill entered into employment contracts with certain key executive officers. The contracts have a three-year term. In the event of termination without cause, the key executive officers will receive pay equal to six months of their base salary.

18. Income Taxes

GGW is a publicly supported organization exempt from federal income tax under Internal Revenue Code Section 501(c)(3), except for unrelated business income. For the year ended December 31, 2014, 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, 2014, BKB had net operating loss carryforwards aggregating to approximately \$3,875,323. The loss carryforwards are available to offset taxable income and expire in 2025 through 2033. No deferred tax asset has been recorded for these cumulative net operating loss carryforwards, as management believes that the future taxable income required to realize such a deferred tax asset is uncertain at this time.

Goodwill performed an evaluation of uncertain tax positions for the year ended December 31, 2014, 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, 2014, the statute of limitations for tax years 2011 through 2013 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, 2014, 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, 2013, from which the summarized information was derived.

GOODWILL OF GREATER WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

20. Reclassification

Certain 2013 amounts have been reclassified to conform to the 2014 consolidated financial statement presentation.

21. Subsequent Events

In preparing these consolidated financial statements, Goodwill has evaluated events and transactions for potential recognition or disclosure through April 29, 2015, the date the consolidated financial statements were available to be issued. Other than the matter disclosed in Note 12 related to Goodwill's Endowment Funds, there were 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, 2014

	Goodwill of Greater Washington	Best Kept Buildings	Eliminations	Total
ASSETS				
Cash and cash equivalents	\$ 2,264,435	\$ 37,538	\$ -	\$ 2,301,973
Accounts receivable	1,999,689	23,335	-	2,023,024
Intercompany receivable	4,012,358	-	(4,012,358)	-
Inventory	538,123	-	-	538,123
Prepaid expenses and other	965,540	-	-	965,540
Investments	5,974,267	-	-	5,974,267
Investments - deferred compensation plan	223,732	-	-	223,732
Property and equipment, net	4,708,697	1,096	-	4,709,793
Deposits	284,232	5,910	-	290,142
	<u>\$ 20,971,073</u>	<u>\$ 67,879</u>	<u>\$ (4,012,358)</u>	<u>\$ 17,026,594</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 781,139	\$ 30,478	\$ -	\$ 811,617
Intercompany payable	-	4,012,358	(4,012,358)	-
Accrued payroll and related liabilities	906,564	94,250	-	1,000,814
Deferred revenue and deposits	31,702	-	-	31,702
Capital lease obligations	383,621	-	-	383,621
Deferred rent	1,496,346	-	-	1,496,346
Deferred compensation liability	223,732	-	-	223,732
Note payable	1,304,962	-	-	1,304,962
	<u>5,128,066</u>	<u>4,137,086</u>	<u>(4,012,358)</u>	<u>5,252,794</u>
Net Assets				
Unrestricted	15,053,199	(4,069,207)	-	10,983,992
Temporarily restricted	326,000	-	-	326,000
Permanently restricted	463,808	-	-	463,808
	<u>15,843,007</u>	<u>(4,069,207)</u>	<u>-</u>	<u>11,773,800</u>
TOTAL NET ASSETS	<u>\$ 20,971,073</u>	<u>\$ 67,879</u>	<u>\$ (4,012,358)</u>	<u>\$ 17,026,594</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,971,073</u>	<u>\$ 67,879</u>	<u>\$ (4,012,358)</u>	<u>\$ 17,026,594</u>

GOODWILL OF GREATER WASHINGTON
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

	Goodwill of Greater Washington	Best Kept Buildings	Eliminations	Total
REVENUE AND SUPPORT				
Revenue:				
Donated goods sales	\$ 25,607,297	\$ -	\$ -	\$ 25,607,297
Service contracts	9,627,120	291,308	-	9,918,428
Net investment income	256,805	-	-	256,805
Other income	6,003	-	-	6,003
Contract service income	599,638	3,057,932	(3,657,570)	-
Total Revenue	36,096,863	3,349,240	(3,657,570)	35,788,533
Support:				
Contributions - donated goods	6,165,692	-	-	6,165,692
Workforce development grants	2,255,429	-	-	2,255,429
Contributions - other	1,418,262	-	-	1,418,262
Legacies and bequests	452,388	-	-	452,388
TOTAL REVENUE AND SUPPORT	46,388,634	3,349,240	(3,657,570)	46,080,304
EXPENSES				
Program Services:				
Retail program	28,335,084	2,912,317	(3,057,932)	28,189,469
Service contracts	8,102,668	416,197	-	8,518,865
Workforce development	4,336,947	-	-	4,336,947
Total Program Services	40,774,699	3,328,514	(3,057,932)	41,045,281
Supporting Services:				
Management and general	2,628,100	694,412	(599,638)	2,722,874
Fundraising	1,084,348	-	-	1,084,348
Total Supporting Services	3,712,448	694,412	(599,638)	3,807,222
TOTAL EXPENSES	44,487,147	4,022,926	(3,657,570)	44,852,503
CHANGE IN NET ASSETS	1,901,487	(673,686)	-	1,227,801
NET ASSETS, BEGINNING OF YEAR	13,941,520	(3,395,521)	-	10,545,999
NET ASSETS, END OF YEAR	\$ 15,843,007	\$ (4,069,207)	\$ -	\$ 11,773,800