



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

**Consolidated Financial Statements and
Supplemental Information**

*For the Year Ended December 31, 2017
(With Summarized Financial Information for the Year Ended December 31, 2016)*



**and
Report Thereon**



**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

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For the Year Ended December 31, 2017**

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Certified Public Accountants

INDEPENDENT AUDITOR'S 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, 2017, 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, 2017, 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 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 8, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 21 and 22 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
May 1, 2018

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the Year Ended December 31, 2017
(With Summarized Financial Information as of December 31, 2016)**

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 3,805,561	\$ 1,727,530
Accounts receivable, net	2,322,675	1,629,107
Inventory	1,070,125	963,881
Prepaid expenses and other	1,631,259	1,466,449
Investments	7,135,636	6,294,492
Investments – deferred compensation plan	483,815	356,312
Property and equipment, net	7,110,434	7,680,623
Deposits	444,078	472,066
	\$ 24,003,583	\$ 20,590,460
TOTAL ASSETS		
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,113,214	\$ 1,078,108
Accrued payroll and related liabilities	1,638,075	1,446,807
Deferred revenue and deposits	1,284,330	423,879
Capital lease obligations	115,051	202,485
Deferred rent and lease incentive	3,866,061	3,585,293
Deferred compensation liability	483,815	356,312
Note payable	846,009	1,005,427
	9,346,555	8,098,311
TOTAL LIABILITIES		
Net Assets		
Unrestricted	14,518,278	11,504,364
Temporarily restricted	138,750	580,000
Permanently restricted	-	407,785
	14,657,028	12,492,149
TOTAL NET ASSETS		
TOTAL LIABILITIES AND NET ASSETS		
	\$ 24,003,583	\$ 20,590,460

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, 2017**

(With Summarized Financial Information for the Year Ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
REVENUE AND SUPPORT					
Revenue:					
Donated goods sales	\$ 33,903,992	\$ -	\$ -	\$ 33,903,992	\$ 31,978,512
Service contracts	10,105,058	-	-	10,105,058	10,338,999
Investment income	809,293	59,839	-	869,132	359,617
Other income	14,750	-	-	14,750	60,359
Total Revenue	44,833,093	59,839	-	44,892,932	42,737,487
Support:					
Contributions – donated goods	9,924,933	-	-	9,924,933	9,009,096
Per pupil funding	6,356,652	-	-	6,356,652	2,924,428
Contributions – other	1,208,027	1,168,911	-	2,376,938	1,191,483
Grants	106,647	-	-	106,647	1,901,598
Legacies and bequests	17,284	-	-	17,284	110,901
Net assets released from restrictions:					
Satisfaction of purpose restrictions	1,670,000	(1,670,000)	-	-	-
Net asset reclassification (Note 11)	407,785	-	(407,785)	-	-
TOTAL REVENUE AND SUPPORT	64,524,421	(441,250)	(407,785)	63,675,386	57,874,993
EXPENSES					
Program Services:					
Retail program	41,641,612	-	-	41,641,612	38,516,745
Service contracts	8,654,064	-	-	8,654,064	8,540,412
Education program	4,401,685	-	-	4,401,685	3,391,930
Workforce development	2,734,878	-	-	2,734,878	2,724,867
Total Program Services	57,432,239	-	-	57,432,239	53,173,954
Supporting Services:					
Management and general	3,282,270	-	-	3,282,270	3,370,356
Fundraising	795,998	-	-	795,998	900,547
Total Supporting Services	4,078,268	-	-	4,078,268	4,270,903
TOTAL EXPENSES	61,510,507	-	-	61,510,507	57,444,857
CHANGE IN NET ASSETS	3,013,914	(441,250)	(407,785)	2,164,879	430,136
NET ASSETS, BEGINNING OF YEAR	11,504,364	580,000	407,785	12,492,149	12,062,013
NET ASSETS, END OF YEAR	\$ 14,518,278	\$ 138,750	\$ -	\$ 14,657,028	\$ 12,492,149

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, 2017
(With Summarized Financial Information for the Year Ended December 31, 2016)

	Program Services				Supporting Services		2017 Total	2016 Total	
	Retail Program	Service Contracts	Education Program	Workforce Development	Total Program Services	Management and General			Fundraising
Personnel Expenses:									
Salaries	\$ 15,947,290	\$ 5,379,300	\$ 2,291,070	\$ 1,546,109	\$ 25,163,769	\$ 1,533,238	\$ 435,135	\$ 27,132,142	\$ 25,218,876
Employee benefits	1,708,384	1,542,334	15,131	200,585	3,466,434	181,190	63,927	3,711,551	3,594,640
Payroll taxes	1,252,150	425,710	7,203	115,947	1,801,010	104,523	32,841	1,938,374	1,871,568
Total Personnel Expenses	18,907,824	7,347,344	2,313,404	1,862,641	30,431,213	1,818,951	531,903	32,782,067	30,685,084
Cost of sales – donated goods	9,828,961	-	-	-	9,828,961	-	-	9,828,961	8,606,539
Occupancy	6,722,333	72,920	562,676	313,118	7,671,047	218,715	72,876	7,962,638	7,371,712
Depreciation and amortization	811,980	41,779	352,026	67,763	1,273,548	163,840	793	1,438,181	1,287,757
Supplies	530,707	481,319	87,958	17,396	1,117,380	41,719	3,502	1,162,601	1,116,969
Utilities	841,769	12,543	19,042	52,159	925,513	37,622	12,536	975,671	933,569
Auctions	966,393	-	-	-	966,393	-	-	966,393	812,776
Other expenses	139,744	63,854	465,263	84,725	753,586	76,498	17,079	847,163	808,589
Professional fees	229,723	48,508	62,116	18,480	358,827	390,228	17,873	766,928	752,367
Postage and shipping	674,341	1,912	1,949	1,010	679,212	5,992	11,757	696,961	749,532
Bank service charges	532,267	3,478	5,898	1,073	542,716	61,705	8,695	613,116	545,820
Telephone	273,674	54,595	52,681	27,935	408,885	21,685	8,437	439,007	392,122
SourceAmerica commissions	-	378,030	-	-	378,030	-	-	378,030	384,840
Advertising	18,126	5,099	70,841	1,606	95,672	200,352	548	296,572	365,213
Insurance	183,293	28,006	39,572	9,471	260,342	30,710	2,743	293,795	269,253
Maintenance and repairs	215,608	4,112	26,958	14,172	260,850	6,862	2,266	269,978	273,440
Equipment rental and maintenance	180,422	33,472	707	362	214,963	6,069	1,771	222,803	110,906
Dues	28,807	21,561	2,343	51,117	103,828	73,758	40,342	217,928	297,305
Subcontractors	71,485	144	-	102,297	173,926	11,114	-	185,040	244,832
Stipends	-	-	156,301	26,875	183,176	-	-	183,176	106,587
Software maintenance	76,980	16,606	27,446	23,630	144,662	5,044	19,026	168,732	151,151
Printing and publications	47,508	5,275	33,057	19,131	104,971	23,109	31,534	159,614	179,791
Travel	57,882	8,421	29,845	24,926	121,074	17,068	2,851	140,993	138,182
Cost of sales – purchased goods	134,539	-	-	-	134,539	-	-	134,539	232,509
Taxes, licenses and permits	30,029	3,812	91,587	567	125,995	4,297	2,480	132,772	49,834
Vehicles – rentals and maintenance	102,563	21,124	-	-	123,687	1,005	-	124,692	251,916
Special events	380	116	15	77	588	57,380	52	58,020	76,348
Interest	34,274	34	-	14,347	48,655	5,973	34	54,662	59,034
In-kind services	-	-	-	-	-	2,574	6,900	9,474	9,572
Bad debt	-	-	-	-	-	-	-	-	174,640
Loss on disposal of property and equipment	-	-	-	-	-	-	-	-	6,668
TOTAL EXPENSES	\$ 41,641,612	\$ 8,654,064	\$ 4,401,685	\$ 2,734,878	\$ 57,432,239	\$ 3,282,270	\$ 795,998	\$ 61,510,507	\$ 57,444,857

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, 2017
(With Summarized Financial Information for the Year Ended December 31, 2016)
Increase (Decrease) in Cash and Cash Equivalents**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,164,879	\$ 430,136
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,438,181	1,287,757
Unrealized gains on investments	(673,649)	(307,099)
Realized losses (gains) on sales of investments	(62,098)	104,846
Losses on disposal of property and equipment	-	6,668
Changes in assets and liabilities:		
Accounts receivable	(693,568)	260,420
Inventory	(106,244)	(364,579)
Prepaid expenses and other	(164,810)	(281,379)
Deposits	27,988	(69,212)
Accounts payable and accrued expenses	35,106	(36,786)
Accrued payroll and related liabilities	191,268	275,551
Deferred revenue and deposits	860,451	396,632
Deferred rent and lease incentive	280,768	832,989
Deferred compensation liability	127,503	79,107
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,425,775	2,615,051
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	3,319,574	2,414,741
Purchases of investments	(3,552,474)	(2,352,867)
Proceeds from sales of property and equipment	-	175
Purchases of property and equipment	(867,992)	(2,976,880)
NET CASH USED IN INVESTING ACTIVITIES	(1,100,892)	(2,914,831)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(159,418)	(152,809)
Principal payments on capital lease obligations	(87,434)	(92,948)
NET CASH USED IN FINANCING ACTIVITIES	(246,852)	(245,757)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,078,031	(545,537)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,727,530	2,273,067
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,805,561	\$ 1,727,530
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 54,662	\$ 59,034
NONCASH TRANSACTIONS		
Noncash investing activities:		
Leasehold improvements acquired in operating lease	\$ 238,553	\$ 1,272,700
Deferred lease incentive included in operating lease	(238,553)	(1,272,700)
	\$ -	\$ -

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, 2017**

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 of Consolidation

The consolidated financial statements include the accounts of GGW, BKB and GEC (collectively referred to as Goodwill). The organizations are consolidated due to there being 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 and have been prepared 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

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

Inventory (continued)

items require processing in preparation for retail sale. The costs related to this processing, and the turnover of donated goods inventory, is included as retail program expense in the accompanying consolidated statement of activities.

Investments

Investments consist of exchange-traded equity and fixed-income 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.

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.

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

Fair Value Measurement (continued)

As of and for the year ended December 31, 2017, only Goodwill's investments, as described in Notes 3 and 4 of these consolidated financial statements, were measured at fair value on a recurring basis.

Property and Equipment and Related Depreciation and Amortization

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

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 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 revenue and support.

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

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 and grants 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.

Continued

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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 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. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is met), 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.

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 their fair value at the date of donation and are included in contributions – other 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 on the functions they directly benefit or management's estimates of the proportion of these costs applicable to each function.

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.

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

2. Accounts Receivable

Accounts receivable consisted of the following as of December 31, 2017:

U.S. government prime contracts	\$ 1,756,571
Donated goods sales	506,898
D.C. real estate refund	98,551
Commercial contracts	42,407
Contributions	60,873
Workforce development grants	17,803
Other	<u>14,212</u>
Total Accounts Receivable	2,497,315
Less: Allowance for Doubtful Accounts	<u>(174,640)</u>
Accounts Receivable, Net	<u>\$ 2,322,675</u>
Billed receivables	\$ 1,932,091
Unbilled receivables	<u>390,584</u>
Accounts Receivable, Net	<u>\$ 2,322,675</u>

All receivables 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, 2017:

Exchange-traded equity funds	\$ 4,536,031
Exchange-traded fixed-income funds	1,878,735
Money market funds	458,470
Certificate of deposit	<u>262,400</u>
Total Investments	<u>\$ 7,135,636</u>

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

As of December 31, 2017, investments totaling \$483,815 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 on the consolidated statement of financial position.

A summary of investment income is as follows for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 122,536	\$ 10,849	\$ 133,385
Realized and unrealized gains	<u>686,757</u>	<u>48,990</u>	<u>735,747</u>
Total Investment Income	<u>\$ 809,293</u>	<u>\$ 59,839</u>	<u>\$ 869,132</u>

Continued

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

4. Fair Value Measurement

The following table summarizes Goodwill's investments measured at fair value on a recurring basis as of December 31, 2017:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments:				
Exchange-traded equity funds:				
Large growth	\$ 1,076,093	\$ 1,076,093	\$ -	\$ -
Large value	950,331	950,331	-	-
Large blend	498,035	498,035	-	-
Large value – foreign	330,457	330,457	-	-
Large growth – foreign	316,985	316,985	-	-
Financial services –				
Europe stock	237,193	237,193	-	-
Mid-cap growth	215,825	215,825	-	-
Mid-cap value	196,933	196,933	-	-
Diversified emerging markets	190,176	190,176	-	-
Real estate investment trust	183,552	183,552	-	-
Small growth	178,485	178,485	-	-
Small value	161,966	161,966	-	-
Exchange-traded fixed-income funds:				
Intermediate-term bond	1,569,505	1,569,505	-	-
Credit bond fund	309,230	309,230	-	-
Money market funds	458,470	458,470	-	-
Certificate of deposit	<u>262,400</u>	<u>-</u>	<u>262,400</u>	<u>-</u>
Total Investments	<u>\$ 7,135,636</u>	<u>\$ 6,873,236</u>	<u>\$ 262,400</u>	<u>\$ -</u>
Investments – deferred compensation plan:				
Annuity contracts	<u>\$ 483,815</u>	<u>\$ -</u>	<u>\$ 483,815</u>	<u>\$ -</u>

Exchange-traded equity 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.

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

4. Fair Value Measurement (continued)

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.

5. Property and Equipment and Accumulated Depreciation and Amortization

Goodwill held the following property and equipment as of December 31, 2017:

Furniture and equipment	\$ 5,391,597
Leasehold improvements	5,265,125
Buildings and improvements	4,434,342
Land	1,218,700
Software	910,081
Vehicles and transportation equipment	666,630
Assets in process	<u>209,517</u>
Total Property and Equipment	18,095,992
Less: Accumulated Depreciation and Amortization	<u>(10,985,558)</u>
Property and Equipment, Net	<u>\$ 7,110,434</u>

As of December 31, 2017, assets in process included costs related to improvements on leased space. Before the leased space can be occupied, a significant amount of improvements must occur to make the space usable, which Goodwill was currently in the process of performing. Accordingly, no depreciation or amortization expense is reported for these costs for the year ended December 31, 2017.

Depreciation and amortization expense totaled \$1,438,181 for the year ended December 31, 2017.

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 had a cost of \$482,405 and accumulated depreciation of \$354,076 as of December 31, 2017.

**GOODWILL OF GREATER WASHINGTON
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

6. Capital Lease Obligations (continued)

Future minimum lease payments are as follows:

<u>For the Year Ending December 31,</u>	
2018	\$ 76,392
2019	30,744
2020	<u>15,372</u>
Subtotal	122,508
Less: Portion Representing Interest	<u>(7,457)</u>
Total	<u>\$ 115,051</u>

Interest expense related to capital lease totaled \$10,015 and is included in interest in the accompanying consolidated statement of functional expenses for the year ended December 31, 2017.

7. Line of Credit

Goodwill has a \$2,500,000 revolving line of credit with SunTrust Bank that matures on June 29, 2018, and bears interest at a rate equal to the one-month London Interbank Offered Rate Index Rate, plus 1.85% (which was 3.21% as of December 31, 2017). Interest expense on the line of credit totaled \$5,871 for the year ended December 31, 2017. The line of credit is unsecured and requires Goodwill to comply with certain financial and nonfinancial covenants. As of December 31, 2017, 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, 2017, Goodwill was in compliance with the loan covenants and the outstanding balance on the note was \$846,009.

**GOODWILL OF GREATER WASHINGTON
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

8. Note Payable (continued)

Scheduled payments of principal on the note are as follows:

For the Year Ending December 31,		
2018	\$	166,172
2019		173,213
2020		180,552
2021		188,202
2022		137,870
Total	\$	846,009

Interest expense related to this note totaled \$38,776 and is included in interest in the accompanying consolidated statement of functional expenses for the year ended December 31, 2017.

9. Commitments and Contingencies

Operating Leases

Goodwill leases store space and its administrative offices under several noncancelable leases, the last of which expires in August 2027. 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,		
2018	\$	7,170,128
2019		6,922,252
2020		5,731,995
2021		4,834,454
2022		3,989,890
Thereafter		9,219,488
Total	\$	37,868,207

Store and office rental expense totaled \$6,582,383 for the year ended December 31, 2017, and is included in occupancy expense in the accompanying consolidated statement of functional expenses.

**GOODWILL OF GREATER WASHINGTON
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

9. Commitments and Contingencies (continued)

Curriculum Licensing Agreement

On November 11, 2014, GGW 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 license 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

On June 17, 2016, GEC entered into an agreement with the Young Men's Christian Association of Metropolitan Washington (YMCA) to operate an on-site child development center at GEC's school building located in Washington, D.C. The agreement is for two years beginning on July 1, 2016, and expires on June 30, 2018, with the option to extend the contract for up to three one-year extensions. Under the terms of the agreement, GEC was required to pay YMCA \$631,036 during the first year and \$649,967 during the second year of the term for its services. Effective January 1, 2017, the agreement was amended to reflect reduced service usage and related annual fees to \$548,343 for the first year and \$479,620 for the second year.

10. Letter of Credit

As of December 31, 2017, 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. This letter of credit renews annually in August and requires Goodwill to pay an annual fee equal to 1% of the outstanding balance.

11. Net Assets

Net assets consisted of the following as of December 31, 2017:

Unrestricted Net Assets

Unrestricted	<u>\$ 14,518,278</u>
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Temporarily Restricted Net Assets

Workforce development programs	<u>\$ 138,750</u>
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Continued

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

11. Net Assets (continued)

Permanently Restricted Net Assets – Endowment Funds

On May 17, 2017, the Superior Court of the District of Columbia issued an order releasing the below referenced funds from restriction.

National Library for the Blind (Etta J. Griffin Memorial Trust Fund)	\$ 218,484
Mabel J. Langhorne Fund	<u>189,301</u>
Total	<u>\$ 407,785</u>

At December 31, 2017, GGW had no remaining permanently restricted net assets. For the year ended December 31, 2017, the changes in endowment net assets were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2017	\$ -	\$ -	\$ 407,785	\$ 407,785
Investment return:				
Investment income	-	10,849	-	10,849
Net appreciation (realized and unrealized)	<u>-</u>	<u>48,990</u>	<u>-</u>	<u>48,990</u>
Total investment return	<u>-</u>	<u>59,839</u>	<u>-</u>	<u>59,839</u>
Appropriation for Expenditure	<u>-</u>	<u>(59,839)</u>	<u>-</u>	<u>(59,839)</u>
Reclassification	<u>-</u>	<u>-</u>	<u>(407,785)</u>	<u>(407,785)</u>
Endowment Net Assets, December 31, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

12. 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 OF GREATER WASHINGTON
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

12. Operating Lease Agreement and Membership Interests (continued)

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, 2017, \$11,709 of allocated income, deductions, credits and other items, as it relates to Goodwill's interest in the Cryden Center, was recorded in the accompanying financial statements.

13. Significant Customers

During the year ended December 31, 2017, approximately 98% of service contracts income was earned through contracts with agencies of the federal government. Revenue from service contracts with federal agencies totaled \$9,900,348 for the year ended December 31, 2017.

14. Support

Donated Support

During the year ended December 31, 2017, Goodwill recognized support from contributed merchandise with an estimated fair value of \$9,924,933, of which \$1,022,832 is included in inventory at December 31, 2017, in the accompanying consolidated statement of financial position.

15. 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 payroll deduction on a pre-tax basis up to the amount allowed by federal law. Plan contributions totaled \$258,303 for the year ended December 31, 2017, 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

**GOODWILL OF GREATER WASHINGTON
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

15. Retirement Plans (continued)

Deferred Compensation Plan (continued)

plan participants and as permitted by the 457(b) eligible deferred compensation trust documents. As of December 31, 2017, deferred compensation assets and the related liability totaled \$483,815, and they are included in the accompanying statement of financial position.

16. 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 12 months' base salary.

Effective July 1, 2017, Goodwill renewed its 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 salaries.

17. Income Taxes

GGW and GEC are publicly supported organizations exempt from federal income tax under IRC Section 501(c)(3), except for unrelated business income. For the year ended December 31, 2017, 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, 2017, BKB had net operating loss carryforwards aggregating to approximately \$6,000,000. The loss carryforwards are available to offset taxable income and expire in 2027 through 2038. 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, 2017, 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, 2017, the statute of limitations for tax years 2014 through 2016 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which Goodwill

**GOODWILL OF GREATER WASHINGTON
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

17. Income Taxes (continued)

files tax returns. It is Goodwill's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense. As of December 31, 2017, Goodwill had no accrual for interest and/or penalties.

18. Prior Year Summarized Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with Goodwill's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

19. Subsequent Events

In preparing these consolidated financial statements, Goodwill has evaluated events and transactions, for potential recognition or disclosure, through May 1, 2018, the date the consolidated financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2017

	Goodwill of Greater Washington	Best Kept Buildings	The Goodwill Excel Center, Public Charter School	Eliminations	Total
ASSETS					
Cash and cash equivalents	\$ 28,700	\$ 12,565	\$ 3,764,296	\$ -	\$ 3,805,561
Accounts receivable, net	2,195,043	39,307	98,550	(10,225)	2,322,675
Intercompany receivable	6,012,005	-	-	(6,012,005)	-
Inventory	1,070,125	-	-	-	1,070,125
Prepaid expenses and other	1,472,314	770	158,175	-	1,631,259
Investments	7,135,636	-	-	-	7,135,636
Investments – deferred compensation plan	483,815	-	-	-	483,815
Property and equipment, net	4,586,412	-	2,529,846	(5,824)	7,110,434
Deposits	254,303	-	189,775	-	444,078
TOTAL ASSETS	\$ 23,238,353	\$ 52,642	\$ 6,740,642	\$ (6,028,054)	\$ 24,003,583
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	\$ 883,046	\$ 19,546	\$ 220,847	\$ (10,225)	\$ 1,113,214
Intercompany payables	-	6,012,005	-	(6,012,005)	-
Accrued payroll and related liabilities	1,376,160	261,915	-	-	1,638,075
Deferred revenue and deposits	138,666	-	1,145,664	-	1,284,330
Capital lease obligations	115,051	-	-	-	115,051
Deferred rent and lease incentive	1,785,827	-	2,080,234	-	3,866,061
Deferred compensation liability	483,815	-	-	-	483,815
Note payable	846,009	-	-	-	846,009
TOTAL LIABILITIES	5,628,574	6,293,466	3,446,745	(6,022,230)	9,346,555
Net Assets					
Unrestricted	17,471,029	(6,240,824)	3,293,897	(5,824)	14,518,278
Temporarily restricted	138,750	-	-	-	138,750
TOTAL NET ASSETS	17,609,779	(6,240,824)	3,293,897	(5,824)	14,657,028
TOTAL LIABILITIES AND NET ASSETS	\$ 23,238,353	\$ 52,642	\$ 6,740,642	\$ (6,028,054)	\$ 24,003,583

**GOODWILL OF GREATER WASHINGTON
AND SUBSIDIARIES**
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

	Goodwill of Greater Washington	Best Kept Buildings	The Goodwill Excel Center, Public Charter School	Eliminations	Total
REVENUE AND SUPPORT					
Revenue:					
Donated goods sales	\$ 33,903,992	\$ -	\$ -	\$ -	\$ 33,903,992
Service contracts	9,919,569	185,489	-	-	10,105,058
Investment income	903,610	-	-	(34,478)	869,132
Contract service income	1,376,940	6,547,493	-	(7,924,433)	-
Other income	11,761	2,989	-	-	14,750
Total Revenue	46,115,872	6,735,971	-	(7,958,911)	44,892,932
Support:					
Contributions – donated goods	9,924,933	-	-	-	9,924,933
Per pupil funding	-	-	6,356,652	-	6,356,652
Grants	106,647	-	-	-	106,647
Contributions – other	2,375,864	-	801,074	(800,000)	2,376,938
Legacies and bequests	17,284	-	-	-	17,284
TOTAL REVENUE AND SUPPORT	58,540,600	6,735,971	7,157,726	(8,758,911)	63,675,386
EXPENSES					
Program Services:					
Retail program	41,945,258	6,074,473	-	(6,378,119)	41,641,612
Service contracts	8,432,997	332,432	-	(111,365)	8,654,064
Education program	969,546	-	4,232,707	(800,568)	4,401,685
Workforce development	2,734,878	-	-	-	2,734,878
Total Program Services	54,082,679	6,406,905	4,232,707	(7,290,052)	57,432,239
Supporting Services:					
Management and general	3,207,948	1,058,912	484,838	(1,469,428)	3,282,270
Fundraising	795,998	-	-	-	795,998
Total Supporting Services	4,003,946	1,058,912	484,838	(1,469,428)	4,078,268
TOTAL EXPENSES	58,086,625	7,465,817	4,717,545	(8,759,480)	61,510,507
CHANGE IN NET ASSETS	453,975	(729,846)	2,440,181	569	2,164,879
NET ASSETS, BEGINNING OF YEAR	17,155,804	(5,510,978)	853,716	(6,393)	12,492,149
NET ASSETS, END OF YEAR	\$ 17,609,779	\$ (6,240,824)	\$ 3,293,897	\$ (5,824)	\$ 14,657,028