

**Goodwill Industries of San Francisco,
San Mateo, and Marin Counties, Inc.**

Financial Statements

June 30, 2019

(With Comparative Totals for 2018)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Goodwill Industries of San Francisco, San Mateo, and Marin
Counties, Inc.
San Francisco, California

We have audited the accompanying financial statements of Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc. (a California nonprofit corporation) ("Goodwill"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Goodwill has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.'s 2018 financial statements, and our report dated November 5, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino^{LLP}
San Ramon, California

December 2, 2019

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 185,747	\$ 860,904
Investments	14,266,132	26,507,642
Accounts receivable, net	1,038,238	1,207,660
Merchandise inventories	1,996,518	2,002,262
Prepaid expenses	678,817	1,129,826
Total current assets	18,165,452	31,708,294
Noncurrent assets		
Property and equipment, net	39,474,582	34,379,919
Deposits and other assets	2,688,832	2,662,944
Total noncurrent assets	42,163,414	37,042,863
Total assets	\$ 60,328,866	\$ 68,751,157
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 9,152,715	\$ 7,492,701
Deferred revenue	211,761	166,107
Deferred grant revenue	106,442	1,735,504
Total current liabilities	9,470,918	9,394,312
Deferred rent	1,817,960	745,322
Total liabilities	11,288,878	10,139,634
Net assets		
Without donor restrictions	48,783,740	58,432,397
With donor restrictions	256,248	179,126
Total net assets	49,039,988	58,611,523
Total liabilities and net assets	\$ 60,328,866	\$ 68,751,157

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

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Statement of Activities
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Public support and revenue				
Public support				
Donated inventory	\$ 32,515,513	\$ -	\$ 32,515,513	\$ 31,193,024
Government grants	1,299,556	-	1,299,556	985,993
Contributions	2,473,593	77,122	2,550,715	467,324
Total public support	<u>36,288,662</u>	<u>77,122</u>	<u>36,365,784</u>	<u>32,646,341</u>
Revenue				
Merchandise sales	35,767,744	-	35,767,744	34,260,750
Miscellaneous	-	-	-	13,422
Total revenue	<u>35,767,744</u>	<u>-</u>	<u>35,767,744</u>	<u>34,274,172</u>
Total public support and revenue	<u>72,056,406</u>	<u>77,122</u>	<u>72,133,528</u>	<u>66,920,513</u>
Functional expenses				
Program services	73,979,100	-	73,979,100	66,240,013
Management and general	8,205,482	-	8,205,482	7,694,715
Fundraising	411,436	-	411,436	234,493
Total functional expenses	<u>82,596,018</u>	<u>-</u>	<u>82,596,018</u>	<u>74,169,221</u>
Change in net assets from operations	<u>(10,539,612)</u>	<u>77,122</u>	<u>(10,462,490)</u>	<u>(7,248,708)</u>
Non-operating activities				
Interest and dividends	534,267	-	534,267	212,785
Realized and unrealized gain on investments	365,855	-	365,855	2,234,717
Investment fees	(9,167)	-	(9,167)	(31,236)
Loss on disposal of property and equipment	-	-	-	(541,121)
Total non-operating activities	<u>890,955</u>	<u>-</u>	<u>890,955</u>	<u>1,875,145</u>
Change in net assets	(9,648,657)	77,122	(9,571,535)	(5,373,563)
Net assets, beginning of year	<u>58,432,397</u>	<u>179,126</u>	<u>58,611,523</u>	<u>63,985,086</u>
Net assets, end of year	<u>\$ 48,783,740</u>	<u>\$ 256,248</u>	<u>\$ 49,039,988</u>	<u>\$ 58,611,523</u>

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

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>2019 Total</u>	<u>2018 Total</u>
Compensation and fringe benefit costs						
Salaries and wages	\$ 17,866,740	\$ 3,246,144	\$ 228,169	\$ 3,474,313	\$ 21,341,053	\$ 18,504,189
Payroll taxes	1,529,465	272,441	19,409	291,850	1,821,315	1,611,194
Employee health and welfare benefits	2,632,417	224,468	13,742	238,210	2,870,627	2,300,427
Workers' compensation insurance	<u>1,170,149</u>	<u>176,086</u>	<u>15,275</u>	<u>191,361</u>	<u>1,361,510</u>	<u>2,224,509</u>
Total compensation and fringe benefit costs	<u>23,198,771</u>	<u>3,919,139</u>	<u>276,595</u>	<u>4,195,734</u>	<u>27,394,505</u>	<u>24,640,319</u>
Occupancy costs						
Rent	6,603,409	37,541	-	37,541	6,640,950	5,151,800
Other	<u>2,556,252</u>	<u>643,138</u>	<u>6,811</u>	<u>649,949</u>	<u>3,206,201</u>	<u>2,467,848</u>
Total occupancy costs	<u>9,159,661</u>	<u>680,679</u>	<u>6,811</u>	<u>687,490</u>	<u>9,847,151</u>	<u>7,619,648</u>
Cost of sales and service revenue						
Cost of donated goods sold	32,450,394	-	-	-	32,450,394	31,188,835
Cost of purchased goods sold	513,424	-	-	-	513,424	361,114
Auto and truck/shipping	2,539,879	61,737	-	61,737	2,601,616	2,476,308
Dump and toll fees	<u>885,656</u>	<u>4,929</u>	<u>-</u>	<u>4,929</u>	<u>890,585</u>	<u>765,068</u>
Total cost of sales and service revenue	<u>36,389,353</u>	<u>66,666</u>	<u>-</u>	<u>66,666</u>	<u>36,456,019</u>	<u>34,791,325</u>
Other expenses						
Depreciation and amortization	1,283,170	501,273	-	501,273	1,784,443	1,322,394
Legal, accounting and other consulting fees	734,754	1,969,622	70,484	2,040,106	2,774,860	2,089,641
Operating supplies	1,333,567	258,032	2,190	260,222	1,593,789	1,243,015
Printing and promotion	200,410	350,116	36,475	386,591	587,001	382,066
Equipment rental	425,621	8,602	323	8,925	434,546	262,851
Dues	44,331	133,674	-	133,674	178,005	169,368
Transaction fees	1,046,101	198,355	2,338	200,693	1,246,794	1,405,795
Other	<u>163,361</u>	<u>119,324</u>	<u>16,220</u>	<u>135,544</u>	<u>298,905</u>	<u>242,799</u>
Total other expenses	<u>5,231,315</u>	<u>3,538,998</u>	<u>128,030</u>	<u>3,667,028</u>	<u>8,898,343</u>	<u>7,117,929</u>
	<u>\$ 73,979,100</u>	<u>\$ 8,205,482</u>	<u>\$ 411,436</u>	<u>\$ 8,616,918</u>	<u>\$ 82,596,018</u>	<u>\$ 74,169,221</u>

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

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.

Statement of Cash Flows

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (9,571,535)	\$ (5,373,563)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	1,784,443	1,322,394
Net realized and unrealized gain on investments	(365,855)	(2,234,717)
Loss on disposal of property and equipment	-	541,121
Donated software licenses	(1,629,062)	(146,000)
Changes in operating assets and liabilities		
Accounts receivable, net	169,422	(513,666)
Merchandise inventories	5,744	150,735
Prepaid expenses	451,009	(158,379)
Deposits and other assets	(25,888)	(2,188,131)
Accounts payable and accrued expenses	599,502	199,807
Deferred revenue	45,654	9,897
Deferred rent	1,072,638	(54,143)
Net cash used in operating activities	(7,463,928)	(8,444,645)
Cash flows from investing activities		
Purchases of property and equipment	(2,438,254)	(5,789,905)
Payments on construction in progress	(3,380,340)	(3,893,725)
Purchases of investments	(534,473)	(25,887,808)
Proceeds from maturities or sales of investments	13,141,838	41,509,378
Net cash provided by investing activities	6,788,771	5,937,940
Net decrease in cash and cash equivalents	(675,157)	(2,506,705)
Cash and cash equivalents, beginning of year	860,904	3,367,609
Cash and cash equivalents, end of year	\$ 185,747	\$ 860,904

Supplemental schedule of noncash investing and financing activities

Construction in progress included in deferred grant revenue	\$ 106,442	\$ 1,735,504
Construction in progress included in accounts payable and accrued expenses	\$ 1,060,512	\$ -

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

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Notes to Financial Statements
June 30, 2019

1. NATURE OF OPERATIONS

Goodwill of San Francisco, San Mateo and Marin Counties, Inc. (“Goodwill”) is an autonomous nonprofit social enterprise providing people with barriers to employment a second chance through training and the dignity of work. Goodwill is equally committed to environmental sustainability and utilizes best practices for diverting millions of pounds of goods every year from local landfills. Goodwill employs and trains individuals through the operation of 19 retail locations, 25 donation sites, an e-commerce shopping platform, and an aftermarket business. Goodwill helps people overcome barriers to employment, build sustainable livelihoods and transform their lives and communities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of Goodwill have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Goodwill reflects net assets and changes therein into the following classes:

- *Net assets without donor restrictions* - represent resources without donor-imposed stipulations available to support Goodwill's operations or resources restricted for a specific purpose that have become available for use by Goodwill in accordance with the intentions of the donors.
- *Net assets with donor restrictions* - represent resources whose use by Goodwill is limited in accordance with donor-imposed stipulations for a specific purpose or passage of time. These stipulations may be satisfied by the actions of Goodwill according to the intention of the donor or may expire with the passage of time. Net assets with donor restrictions also includes donor-imposed stipulations that are restricted in perpetuity.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

- c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
 - d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
 - e. Methods used to allocate costs among program and support functions.
 - f. Underwater endowment funds.
3. Reporting investment return net of external and direct internal investment expenses.
4. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been applied on a retrospective basis in 2018.

Summarized financial information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such summarized information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the U.S. Accordingly, such information should be read in conjunction with Goodwill's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Cash and cash equivalents

Highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Goodwill places its cash and temporary cash investments with high credit quality institutions. Periodically, such investments may be in excess of federally insured limits.

Investments

Investments are reported at fair value. Investments in mutual funds with readily determinable fair values are reported at fair value based upon quoted market prices.

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Gains and losses that result from market fluctuations are recognized in the statement of activities in the period in which they occur. Dividend and interest income is recognized when earned. Donated securities are recorded at fair value at the date of donation.

Fair value measurements

Goodwill carries certain assets at fair value. Fair value is defined as 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. Goodwill has characterized the fair value of its financial instruments measured at fair value on a recurring basis, based on the priority of the inputs used to value the instruments, into a three-level 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 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 instruments. Financial instruments measured at fair value on a recurring basis in the statement of financial position are categorized based on the inputs to valuation techniques as follows:

- *Level 1* - consist of investments where values are based on unadjusted quoted prices for identical assets in an active market that Goodwill has the ability to access.
- *Level 2* - consist of investments where 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 investments.
- *Level 3* - consist of financial instruments where 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 assumptions of management about assumptions market participants would use in pricing the instruments.

The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

Accounts receivable

Accounts receivable primarily consist of amounts due from governmental agencies, merchandise sales receivables, and property tax receivables. Reserves for potential bad debts are maintained based on historical credit losses and management's expectations. Accounts receivable that are deemed uncollectible are written off by management. The allowance for bad debts was \$4,753 as of June 30, 2019.

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated services

Donated services are reflected in the financial statements at the fair value of the services received. Donations of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Merchandise inventories

Merchandise inventories consist of donated clothing, furniture and other goods. Donated inventory is stated at the lower of cost or net realizable value, including a reserve for obsolete or slow-moving inventory. This inventory valuation includes estimated labor and operating costs incurred in making the goods ready for resale which generally approximates 80% of the estimated sales price. Donated inventory valued at \$32,515,513 was received by Goodwill during the year ended June 30, 2019. New goods purchased at a discount from retailers or wholesalers are stated at the lower of cost or net realizable value of the new goods purchased, which generally approximates 35% of the estimated sales price. Cost is determined using the first-in, first-out method.

Property and equipment

Property and equipment is recorded at cost or at estimated fair value at the date of receipt, if donated.

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 to 30 years
Leasehold improvements	3 to 30 years or lease term if less
Furniture and fixtures	3 to 7 years
Equipment	3 to 7 years
Computers	3 years
Vehicles	5 years

Impairment of long-lived assets

Goodwill's policy is to review the recoverability of all long-lived assets on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets' carrying value is adjusted to fair value. Based upon Goodwill's review as of June 30, 2019, no adjustments were required to the carrying value of such assets.

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Goodwill recognizes retail sales revenues at the point of sale, net of sales tax and actual returns and maintains a provision for estimated future returns as needed. There was no provision for estimated returns at June 30, 2019. Sales of salvage and recycling items are recognized at the time of sale. Revenue from government grants are recognized when services are provided.

Contributions are recognized as revenue when received or unconditionally promised. Goodwill reports gifts of cash, in-kind donations and other assets as increases in net assets with donor restrictions if such gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions on the statement of activities.

Deferred revenue

Deferred revenue relates to vouchers and gift cards issued to various foundations and institutions in exchange for cash. There is no time limit specified for the redemption of these vouchers and gift cards. All unredeemed vouchers and gift cards are recognized on the balance sheet as deferred revenue obligations. At June 30, 2019, the amount of deferred revenue from unredeemed vouchers was \$211,761.

Deferred grant revenue

During the year ended June 30, 2018, Goodwill received a conditional grant for donated software and licenses valued at \$1,881,504. As certain conditions were required to be met in order to place the software licenses into service, only the value of software licenses placed into service during the year ended June 30, 2018 were recognized. For the year ended June 30, 2019, in kind revenue of \$1,629,062 was recognized for products and software licenses placed into service during the year. Donated software licenses for which the conditions have not been met total \$106,442 and are included in deferred grant revenue and construction in progress as of June 30, 2019.

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grant revenue

Goodwill administers the Comprehensive Access Point program for the City and County of San Francisco Economic and Workforce Development through means of funding from the Federal Workforce Investment and Opportunity Act (“WIOA”). Goodwill administers the Young Adult Court (YAC) employment services program for the San Francisco Department of Children, Youth and Family and the San Francisco District Attorney's office. Goodwill administers the Homeless Employment Services (HES) program for the City and County of San Francisco's Human Services Agency. Goodwill is a worksite for CareerPoint MARIN's Earn & Learn Expanded Subsidized Employment for the County of Marin's Health and Human Services Agency. Goodwill is a worksite for the City and County of San Francisco's JobsNow! program. Under the terms of the agreements, Goodwill receives funds based on the reimbursement of actual costs incurred for the programs, limited to the total contract amount. Revenue recognized under the contracts are included in government grants revenue on the statement of activities.

Program services

Program services consist primarily of expenses related to Goodwill's Workforce Development and Mission Advancement programs for the year ended June 30, 2019.

Advertising costs

Goodwill's advertising consists of promoting the Goodwill name, the social and environmental mission of Goodwill, the sale of merchandise at the retail stores, the computer recycling program, the various environmental campaigns and the donation campaigns and donation acceptance capability at the stores and the donation sites. Advertising costs are expensed in the period incurred. Advertising expense for the fiscal year ended June 30, 2019 was \$587,001 and is reflected as printing and promotion expense in the statement of functional expenses.

Shipping and handling costs

Shipping and handling and postage fees incurred are recorded as expenses in the period incurred. Shipping and handling fees expense for the fiscal year ended June 30, 2019 was \$1,063,983 and is included in auto and truck/shipping in the statement of functional expenses.

Functional expenses

The costs of providing Goodwill's programs and other activities, such as depreciation, supplies, travel, personnel and occupancy costs, are allocated among program services, management and general and fundraising classifications on the basis of time records, usage, and on other estimates made by Goodwill's management.

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

Goodwill is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and from California franchise and income taxes under Revenue and Taxation Code Section 23701(d). Goodwill has evaluated its current tax positions and has concluded that as of June 30, 2019, Goodwill does not have any significant uncertain tax positions for which a reserve would be necessary.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include inventory valuation, including donated inventory, the allowance for doubtful accounts, functional allocation of expenses, valuation of alternative investments and estimated useful lives of property and equipment.

3. MERCHANDISE INVENTORIES

Merchandise inventories consisted of the following:

Donated inventory	\$ 3,050,118
Purchased inventory	266,123
Inventory reserve	<u>(1,319,723)</u>
	<u>\$ 1,996,518</u>

4. INVESTMENTS

Goodwill holds investments in various mutual funds that primarily invest in equity and debt securities, all of which are traded in active markets and are determined to be Level 1 assets. All interest and dividend income, realized and unrealized gains and losses, and investment fees are reported in the statement of activities.

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Notes to Financial Statements
June 30, 2019

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Land	\$ 15,690,043
Buildings and improvements	7,545,993
Equipment	11,721,050
Leasehold improvements	12,759,383
Vehicles	2,650,262
Furniture and fixtures	2,284,511
Construction in progress	<u>7,302,118</u>
	59,953,360
Accumulated depreciation	<u>(20,478,778)</u>
	<u><u>\$ 39,474,582</u></u>

Depreciation and amortization expense amounted to \$1,784,443 for the year ended June 30, 2019.

During 2018, Goodwill purchased a parcel of land and building located at 750 Post Street in San Francisco. The total purchase price was approximately \$8,300,000. As of June 30, 2019 Goodwill was preparing the location for renovations and occupancy, which will include a training center, administration offices, and retail space. Goodwill began occupancy into the building in September 2019.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Restricted for a specific purpose	
Career pathways coaching and mentorship	\$ 70,000
Pacific office automation	50,000
Warehousing and Logistics Academy	50,000
Business process development	33,378
Other	<u>25,748</u>
	229,126
To be held in perpetuity for endowment purposes	<u>27,122</u>
	<u><u>\$ 256,248</u></u>

There were no net assets released from donor restrictions during the year ended June 30, 2019.

7. EMPLOYEE BENEFIT PLAN

Goodwill has a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code covering substantially all full-time employees of Goodwill that meet certain eligibility requirements. There were no employer contributions for 2019.

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Notes to Financial Statements
June 30, 2019

8. RELATED PARTY

Goodwill is affiliated with Goodwill Industries International ("GII"), the national sponsoring organization for Goodwill. Pursuant to this affiliation, amounts paid to GII during the year ended June 30, 2019 totaled approximately \$178,000.

9. COMMITMENTS AND CONTINGENCIES

At June 30, 2019, Goodwill operated 19 of its store locations under operating leases expiring in various years through fiscal year 2031. The monthly lease payment on some locations is subject to adjustment for changes in the Bay Area Consumer Price Index. Goodwill also leases several other facilities and trucks under operating leases.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2020	\$ 6,887,335
2021	6,395,221
2022	5,268,964
2023	4,623,747
2024	3,341,259
Thereafter	<u>17,190,012</u>
	<u>\$ 43,706,538</u>

Rent and other occupancy expenses amounted to \$9,847,151 for the year ended June 30, 2019.

Goodwill has various commitments and is contingently liable in connection with claims and contracts arising in the normal course of its activities. In addition, Goodwill receives funds from various federal and state government funded programs which are subject to audit by cognizant governmental agencies. Goodwill's management believes that the outcome of any such matters will not have a significant effect on Goodwill's financial position.

Goodwill is self-insured for workers' compensation. Goodwill has retained coverage by third-party insurance carriers for claims in excess of the coverage amounts. Starting June 1, 2016, Goodwill purchased excess insurance for its program that attaches at \$650,000 on a per-occurrence basis. Goodwill consults with an independent actuary in establishing this liability for future payments on known and anticipated claims. The estimated liability of approximately \$4,139,000 at June 30, 2019 is included in accrued expenses in the accompanying statement of financial position.

Goodwill Industries of San Francisco, San Mateo, and Marin Counties, Inc.
Notes to Financial Statements
June 30, 2019

10. LIQUIDITY AND FUNDS AVAILABLE

As part of Goodwill's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To meet liquidity needs, Goodwill has cash and cash equivalents and investments available. Accounts receivable are considered current and will be collected within one year.

The following reflects the Goodwill's financial assets reported on the statement of financial position, reduced by amounts not available for general use within one year because of donor imposed restrictions. Consequently, amounts available exclude net assets with donor restrictions (See Note 6) as of June 30, 2019.

Financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets:	
Cash and cash equivalents	\$ 185,747
Investments	14,266,132
Accounts receivable, net	<u>1,038,238</u>
	<u>15,490,117</u>
Less: amounts unavailable for general expenditure within one year:	
Restricted by donor for a specific purpose	(229,126)
Restricted by donor in perpetuity	<u>(27,122)</u>
	<u>(256,248)</u>
	<u>\$ 15,233,869</u>

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 2, 2019, which is the date the financial statements were available to be issued. No subsequent events have occurred, other than as described below, that would have a material impact on the presentation of the Goodwill's financial statements.

In September 2019, Goodwill relocated its administration offices and training centers to its owned building at 750 Post Street in San Francisco. On November 1, 2019, Goodwill sold and closed escrow for the building located at 295 Bay Street in San Francisco, which was Goodwill's primary headquarters.