Goodwill Industries of Greater New York and Northern New Jersey, Inc. and Affiliate

Consolidated Financial Statements (Together with Independent Auditors' Report)

Years Ended June 30, 2016 and 2015

MARKS PANETH

ACCOUNTANTS & ADVISORS

GOODWILL INDUSTRIES OF GREATER NEW YORK AND NORTHERN NEW JERSEY, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2016 AND 2015

CONTENTS

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MARKS PANETH
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Goodwill Industries of Greater New York and
Northern New Jersey, Inc. and Affiliate

We have audited the accompanying consolidated financial statements of Goodwill Industries of Greater New York and Northern New Jersey, Inc. and Affiliate (collectively, "Goodwill"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 consolidated financial position of Goodwill Industries of Greater New York and Northern New Jersey, Inc. and Affiliate as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of Goodwill Industries of Greater New York and Northern New Jersey, Inc. and Affiliate as a whole. The consolidating information (shown on pages 21-22) is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual companies and 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 consolidating information has been subjected to the auditing procedures applied in the audits 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Marks Paneth LLP

New York, NY
November 28, 2016

GOODWILL INDUSTRIES OF GREATER NEW YORK AND NORTHERN NEW JERSEY, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents (Notes 2E and 19)	$ 759,293	$ 515,371
Accounts receivable, net (Notes 2G and 5)	10,382,051	9,066,663
Pledges receivable (Notes 2G and 3)	25,000	-
Inventory (Note 2H)	4,347,485	4,067,543
Prepaid expenses, deferred charges and other	1,514,270	1,308,568
Property and equipment, net (Notes 2D and 6)	14,930,353	17,133,874
Investments (Notes 2F, 2L, 7, 11, 15 and 19)	19,430,466	19,836,336
Investments - deferred compensation (Notes 2F, 2L, 7 and 9)	-	576,446
Mortgage escrow deposits	114,948	109,149
Reserve for replacements (Notes 2F, 4 and 7)	452,609	287,405
Security deposits held by lessors	841,812	842,768
Tenant security deposits held (Note 2E)	98,580	90,542
TOTAL ASSETS	$ 52,896,867	$ 53,834,665
LIABILITIES		
Accounts and accrued expenses payable	$ 4,005,751	$ 3,414,978
Payroll taxes payable	692,545	919,843
Accrued salaries	2,242,181	1,759,976
Accrued vacation	1,386,128	1,429,152
Accrued mortgage interest	123,860	104,017
Deferred revenue/due to funding sources (Note 8)	3,483,234	3,905,599
Deferred compensation payable (Note 9)	-	576,446
Deferred rent (Note 2M)	2,225,494	1,746,216
Mortgages payable (Note 10)	2,490,356	2,722,149
Line of credit payable (Note 11)	1,675,000	1,400,000
Loan payable (Note 12)	650,000	-
Tenant security deposits payable	98,580	90,542
TOTAL LIABILITIES	19,073,129	18,068,918
COMMITMENTS AND CONTINGENCIES (Note 17)		
NET ASSETS (Note 2C)		
Unrestricted		
Operating	14,871,269	16,404,386
Board designated for endowment (Note 15)	18,106,129	18,532,688
Total unrestricted	32,977,398	34,937,074
Temporarily restricted (Note 13)	56,462	63,795
Permanently restricted (Notes 14 and 15)	789,878	764,878
TOTAL NET ASSETS	33,823,738	35,765,747
TOTAL LIABILITIES AND NET ASSETS	$ 52,896,867	$ 53,834,665

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

GOODWILL INDUSTRIES OF GREATER NEW YORK AND NORTHERN NEW JERSEY, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	For the Year Ended June 30, 2016				For the Year Ended June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015
OPERATING REVENUES:								
Public Support:								
Contributions (Note 2H)	$ 623,759	$ -	$ -	$ 623,759	$ 569,628	$ 20,000	$ -	$ 589,628
Bequests and legacies (Note 2I)	900,000	-	25,000	925,000	-	-	30,000	30,000
Contributed revenue - donated goods (Note 2H)	42,808,656	-	-	42,808,656	40,436,531	-	-	40,436,531
Net assets released from restrictions (Note 13)	7,333	(7,333)	-	-	155,455	(155,455)	-	-
Total Public Support	44,339,748	(7,333)	25,000	44,357,415	41,161,614	(135,455)	30,000	41,056,159
Governmental Support:								
Fees and grants from governmental agencies	33,351,235	-	-	33,351,235	31,440,756	-	-	31,440,756
Total Governmental Support	33,351,235	-	-	33,351,235	31,440,756	-	-	31,440,756
Other Revenue:								
Industrial operations	42,308,193	-	-	42,308,193	43,964,462	-	-	43,964,462
Tenant rent	1,741,189	-	-	1,741,189	1,687,651	-	-	1,687,651
Endowment earnings appropriations (Note 7)	885,330	-	-	885,330	886,071	-	-	886,071
Other	711,259	-	-	711,259	979,573	-	-	979,573
Total Other Revenue	45,645,971	-	-	45,645,971	47,517,757	-	-	47,517,757
TOTAL OPERATING REVENUES	123,336,954	(7,333)	25,000	123,354,621	120,120,127	(135,455)	30,000	120,014,672
OPERATING EXPENSES: (Note 2J)								
Industrial operations	78,178,033	-	-	78,178,033	76,254,305	-	-	76,254,305
Rehabilitation and employment services	32,084,076	-	-	32,084,076	31,337,567	-	-	31,337,567
Management and administration	10,101,946	-	-	10,101,946	9,613,740	-	-	9,613,740
Other supporting services	208,068	-	-	208,068	199,071	-	-	199,071
Fundraising	478,094	-	-	478,094	543,059	-	-	543,059
Residential operations of affiliate	2,510,491	-	-	2,510,491	2,416,300	-	-	2,416,300
TOTAL OPERATING EXPENSES	123,560,708	-	-	123,560,708	120,364,042	-	-	120,364,042
OPERATING (LOSS) INCOME	(223,754)	(7,333)	25,000	(206,087)	(243,915)	(135,455)	30,000	(349,370)
NONOPERATING (LOSS) INCOME:								
Investment activity (Note 7)	(1,284,672)	-	-	(1,284,672)	(1,294,305)	-	-	(1,294,305)
Gain on sale of property and equipment (Note 6)	28,028	-	-	28,028	542,231	-	-	542,231
Occupancy expense in excess of lease payments (Note 2M)	(479,278)	-	-	(479,278)	(25,252)	-	-	(25,252)
TOTAL NONOPERATING LOSS	(1,735,922)	-	-	(1,735,922)	(777,326)	-	-	(777,326)
CHANGE IN NET ASSETS	(1,959,676)	(7,333)	25,000	(1,942,009)	(1,021,241)	(135,455)	30,000	(1,126,696)
Net Assets - Beginning of Year	34,937,074	63,795	764,878	35,765,747	35,958,315	199,250	734,878	36,892,443
NET ASSETS - END OF YEAR	$ 32,977,398	$ 56,462	$ 789,878	$ 33,823,738	$ 34,937,074	$ 63,795	$ 764,878	$ 35,765,747

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

GOODWILL INDUSTRIES OF GREATER NEW YORK AND NORTHERN NEW JERSEY, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
(With Comparative Totals for Fiscal 2015)

	For the Year Ended June 30, 2016													
	Goodwill Industries of Greater New York and Northern New Jersey, Inc.													
	Program Services					Supporting Services								
		Rehabilitation and Employment Services												
	Industrial Operations	Extended Rehabilitation	Others	Total	Total Program Services	Management and Administration	Other Supporting Services	Fundraising	Total Supporting Services	Total Goodwill Industries of Greater New York and Northern New Jersey, Inc.	Goodwill Industries Housing Company, Inc.	Consolidating Eliminations	Consolidated Total 2016	Consolidated Total 2015
Salaries:														
Program participants	$ 19,583,266	$ 166,304	$ 313,167	$ 479,471	$ 20,062,737	$ 173,472	$ 4,480	$ 527	$ 178,479	$ 20,241,216	$ -	$ -	$ 20,241,216	$ 20,700,640
Employees	20,030,209	290,723	15,038,716	15,329,439	35,359,648	4,986,273	88,026	176,161	5,250,460	40,610,108	417,995	-	41,028,103	38,291,946
Payroll taxes and benefits (Note 16)	7,461,874	139,307	4,210,659	4,349,966	11,811,840	1,308,885	19,162	48,214	1,376,261	13,188,101	191,214	-	13,379,315	13,350,376
Total Salaries and Related Costs	47,075,349	596,334	19,562,542	20,158,876	67,234,225	6,468,630	111,668	224,902	6,805,200	74,039,425	609,209	-	74,648,634	72,342,962
Occupancy (Notes 2M and 17B)	17,427,381	42,354	4,093,495	4,135,849	21,563,230	284,706	27,974	48,965	361,645	21,924,875	568,862	(152,382)	22,341,355	21,718,377
Grants to subrecipients (Note 17C)	-	-	-	-	-	-	-	-	-	-	-	-	-	14,237
Specific assistance to program participants	-	-	29,553	29,553	29,553	-	-	-	-	29,553	-	-	29,553	5,991
Purchased goods (Note 2H)	2,458,046	-	-	-	2,458,046	-	-	-	-	2,458,046	-	-	2,458,046	2,098,115
Trucking services	3,347,778	9,294	905	10,199	3,357,977	1,091	12	9	1,112	3,359,089	-	-	3,359,089	3,242,680
Professional fees (Notes 7 and 18)	767,499	6,022	2,869,147	2,875,169	3,642,668	1,225,832	9,500	56,914	1,292,246	4,934,914	278,453	-	5,213,367	5,352,665
Supplies	936,826	40,268	752,465	792,733	1,729,559	132,907	1,757	3,584	138,248	1,867,807	69,977	-	1,937,784	1,816,642
Telephone	197,461	9,590	488,245	497,835	695,296	137,112	6,013	1,901	145,026	840,322	-	-	840,322	801,071
Postage and shipping	566,495	72	8,700	8,772	575,267	12,096	392	10,396	22,884	598,151	-	-	598,151	549,197
Insurance	632,781	42,237	126,063	168,300	801,081	62,214	8,371	1,419	72,004	873,085	144,544	-	1,017,629	997,012
Printing and advertising	19,386	282	2,959	3,241	22,627	25,730	-	8,496	34,226	56,853	-	-	56,853	45,737
Transportation (Note 17B)	421,773	847	353,888	354,735	776,508	142,132	1,107	6,629	149,868	926,376	-	-	926,376	812,249
Equipment maintenance and rental (Note 17B)	534,396	2,393	319,772	322,165	856,561	374,701	1,605	1,993	378,299	1,234,860	149,352	-	1,384,212	1,377,685
Membership dues/staff development	51,885	6,918	187,176	194,094	245,979	356,654	890	5,678	363,222	609,201	-	-	609,201	562,595
Client activities	5,587	7,355	1,028,587	1,035,942	1,041,529	6,878	11	316	7,205	1,048,734	-	-	1,048,734	964,598
Expensed equipment (Note 2D)	85,645	1,449	313,709	315,158	400,803	34,671	1,739	12,060	48,470	449,273	-	-	449,273	453,773
Bad debts	24,372	-	425,233	425,233	449,605	-	-	17,300	17,300	466,905	36,000	-	502,905	573,552
Interest	23,338	-	-	-	23,338	40,304	-	-	40,304	63,642	150,212	-	213,854	224,558
Depreciation and amortization	1,911,201	9,651	808,902	818,553	2,729,754	667,964	33,150	35,438	736,552	3,466,306	430,694	-	3,897,000	3,438,483
Miscellaneous	1,716,375	85	25,949	26,034	1,742,409	164,917	3,879	43,977	212,773	1,955,182	73,188	-	2,028,370	2,971,863
TOTAL EXPENSES BEFORE ALLOCATION	78,203,574	775,151	31,397,290	32,172,441	110,376,015	10,138,539	208,068	479,977	10,826,584	121,202,599	2,510,491	(152,382)	123,560,708	120,364,042
ALLOCATION OF ELIMINATIONS	(25,541)	-	(88,365)	(88,365)	(113,906)	(36,593)	-	(1,883)	(38,476)	(152,382)	-	152,382	-	-
TOTAL EXPENSES	$ 78,178,033	$ 775,151	$ 31,308,925	$ 32,084,076	$ 110,262,109	$ 10,101,946	$ 208,068	$ 478,094	$ 10,788,108	$ 121,050,217	$ 2,510,491	$ -	$ 123,560,708	$ 120,364,042

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

GOODWILL INDUSTRIES OF GREATER NEW YORK AND
NORTHERN NEW JERSEY, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	For the Year Ended June 30, 2015												
	Goodwill Industries of Greater New York and Northern New Jersey, Inc.												
	Program Services					Supporting Services							
		Rehabilitation and Employment Services											
	Industrial Operations	Extended Rehabilitation	Others	Total	Total Program Services	Management and Administration	Other Supporting Services	Fundraising	Total Supporting Services	Total Goodwill Industries of Greater New York and Northern New Jersey, Inc.	Goodwill Industries Housing Company, Inc.	Consolidating Eliminations	Consolidated Total
Salaries:													
Program participants	$ 20,157,678	$ 143,251	$ 262,626	$ 405,877	$ 20,563,555	$ 127,964	$ 4,551	$ 4,570	$ 137,085	$ 20,700,640	$ -	$ -	$ 20,700,640
Employees	18,089,800	304,863	14,385,186	14,690,049	32,779,849	4,799,007	77,534	229,234	5,105,775	37,885,624	406,322	-	38,291,946
Payroll taxes and benefits (Note 16)	7,612,120	122,013	4,140,099	4,262,112	11,874,232	1,250,551	18,073	27,581	1,296,205	13,170,437	179,939	-	13,350,376
Total Salaries and Related Costs	45,859,598	570,127	18,787,911	19,358,038	65,217,636	6,177,522	100,158	261,385	6,539,065	71,756,701	586,261	-	72,342,962
Occupancy (Note 17B)	16,849,978	36,858	3,995,259	4,032,117	20,882,095	297,485	32,639	71,973	402,097	21,284,192	581,264	(147,079)	21,718,377
Grants to subrecipients (Note 17C)	13,237	-	-	-	13,237	-	-	1,000	1,000	14,237	-	-	14,237
Specific assistance to program participants	-	-	5,991	5,991	5,991	-	-	-	-	5,991	-	-	5,991
Purchased goods (Note 2H)	2,098,115	-	-	-	2,098,115	-	-	-	-	2,098,115	-	-	2,098,115
Trucking services	3,232,665	8,890	1,125	10,015	3,242,680	-	-	-	-	3,242,680	-	-	3,242,680
Professional fees (Note 7 and 18)	511,011	23,033	3,407,296	3,430,329	3,941,340	1,054,535	9,569	87,584	1,151,688	5,093,028	259,637	-	5,352,665
Supplies	894,196	13,972	685,842	699,814	1,594,010	146,529	3,212	9,193	158,934	1,752,944	63,698	-	1,816,642
Telephone	194,361	10,118	471,675	481,793	676,154	114,036	7,610	3,271	124,917	801,071	-	-	801,071
Postage and shipping	502,273	8	7,629	7,637	509,910	16,160	362	22,765	39,287	549,197	-	-	549,197
Insurance	604,008	45,513	135,094	180,607	784,615	66,496	8,840	1,315	76,651	861,266	135,746	-	997,012
Printing and advertising	2,102	1,363	6,771	8,134	10,236	35,499	2	-	35,501	45,737	-	-	45,737
Transportation (Note 17B)	374,497	3,508	274,533	278,041	652,538	156,420	999	2,292	159,711	812,249	-	-	812,249
Equipment maintenance and rental (Note 17B)	617,147	1,377	327,867	329,244	946,391	317,282	1,069	1,663	320,014	1,266,405	111,280	-	1,377,685
Membership dues/staff development	45,259	9,520	201,770	211,290	256,549	301,200	1,204	3,642	306,046	562,595	-	-	562,595
Client activities	2,533	7,932	941,650	949,582	952,115	12,302	-	181	12,483	964,598	-	-	964,598
Expensed equipment (Note 2D)	79,368	361	342,547	342,908	422,276	27,464	255	3,778	31,497	453,773	-	-	453,773
Bad debts	4,000	13,000	520,552	533,552	537,552	-	-	-	-	537,552	36,000	-	573,552
Interest	7,675	-	-	-	7,675	47,847	-	-	47,847	55,522	169,036	-	224,558
Depreciation and amortization	1,736,569	9,178	533,778	542,956	2,279,525	694,662	33,152	16,142	743,956	3,023,481	415,002	-	3,438,483
Miscellaneous	2,650,365	324	20,485	20,809	2,671,174	183,621	-	58,692	242,313	2,913,487	58,376	-	2,971,863
TOTAL EXPENSES BEFORE RECLASSIFICATION	76,278,957	755,082	30,667,775	31,422,857	107,701,814	9,649,060	199,071	544,876	10,393,007	118,094,821	2,416,300	(147,079)	120,364,042
ALLOCATION OF ELIMINATIONS	(24,652)	-	(85,290)	(85,290)	(109,942)	(35,320)	-	(1,817)	(37,137)	(147,079)	-	147,079	-
TOTAL EXPENSES	$ 76,254,305	$ 755,082	$ 30,582,485	$ 31,337,567	$ 107,591,872	$ 9,613,740	$ 199,071	$ 543,059	$ 10,355,870	$ 117,947,742	$ 2,416,300	$ -	$ 120,364,042

GOODWILL INDUSTRIES OF GREATER NEW YORK AND NORTHERN NEW JERSEY, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (1,942,009)	$ (1,126,696)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,897,000	3,438,483
Realized gain on investment sales	(5,586,488)	(184,302)
Unrealized loss on investments	6,240,053	738,788
Gain on sale of property and equipment	(28,028)	(542,231)
Permanently restricted contributions	(25,000)	(30,000)
Bad debt expense	502,905	573,552
Subtotal	3,058,433	2,867,594
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(1,818,293)	(1,530,688)
Pledges receivable	(25,000)	11,900
Inventory	(279,942)	(124,888)
Prepaid expenses, deferred charges and other	(205,702)	(24,272)
Security deposits held by lessors	956	(17,358)
Increase (decrease) in liabilities:		
Accounts and accrued expenses payable	590,773	(473,518)
Payroll taxes payable	(227,298)	119,117
Accrued salaries	482,205	291,055
Accrued vacation	(43,024)	212
Accrued mortgage interest	19,843	19,842
Deferred revenue/due to funding sources	(422,365)	908,448
Deferred rent	479,278	25,252
Net Cash Provided by Operating Activities	1,609,864	2,072,696
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment acquisitions	(1,778,795)	(1,959,104)
Proceeds from sale of property and equipment	113,344	614,724
Reserve for replacement deposits	(165,204)	(165,204)
Reserve for replacement withdrawals	-	141,000
Investment purchases	(15,149,669)	(697,150)
Proceeds from sale of investments	14,901,974	698,713
Net Cash Used by Investing Activities	(2,078,350)	(1,367,021)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in mortgage escrows	(5,799)	(901)
Principal repayments of mortgages payable	(231,793)	(212,968)
Proceeds from line of credit	275,000	-
Repayment of line of credit	-	(1,600,000)
Proceeds from loan payable	650,000	-
Collections of permanently restricted contributions	25,000	30,000
Net Cash Provided by (Used in) Financing Activities	712,408	(1,783,869)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	243,922	(1,078,194)
Cash and Cash Equivalents - Beginning of Year	515,371	1,593,565
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 759,293	$ 515,371
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest (excludes amounts subsidized)	$ 2,332	$ 11,820

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

NOTE 1—ORGANIZATION AND NATURE OF ACTIVITIES

The consolidated financial statements of Goodwill Industries of Greater New York and Northern New Jersey, Inc. and Affiliate (collectively, “Goodwill") have been prepared by consolidating Goodwill Industries of Greater New York and Northern New Jersey, Inc. (the “Agency") and Goodwill Industries Housing Company, Inc. ("GIHC"). The Agency is organized under the Not-for-Profit Corporation Law of the State of New York. GIHC is organized under the Membership Corporation Law and Article II of the Private Housing Finance Law of the State of New York. The Agency and GIHC have been granted exemption from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. GIHC operates a 202-unit apartment building located in Queens, New York, pursuant to the regulations of the United States Department of Housing and Urban Development ("HUD"). Assets of GIHC cannot be distributed to the Agency or otherwise used (other than for the operating purposes of GIHC) without the written consent of HUD. Goodwill provides housing and comprehensive rehabilitation services to persons with emotional, developmental and/or physical disabilities, the economically disadvantaged and the elderly, receiving its principal governmental support from federal, New York State and New York City sources.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Goodwill’s consolidated financial statements have been prepared on the accrual basis of accounting. Goodwill adheres to accounting principles generally accepted in the United States of America (“U.S. GAAP”).

B. The consolidated financial statements include the accounts of Goodwill Industries of Greater New York and Northern New Jersey, Inc. and Goodwill Industries Housing Company, Inc. Upon consolidation, all significant intercompany balances and transactions are eliminated.

C. Goodwill maintains its net assets under the following three classes:

- Unrestricted – represents resources available for support of Goodwill’s operations over which the Board of Directors has discretionary control.
- Temporarily restricted – represents assets resulting from contributions and other inflows of assets whose use by Goodwill is limited by donor-imposed stipulations. In addition, earnings on endowment assets are classified as temporarily restricted until appropriated for operations by the Board of Directors. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished, or endowment earnings are appropriated for operations), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, Goodwill reports the support as unrestricted.
- Permanently restricted – represents those resources received subject to donor-imposed stipulations that they be maintained intact in perpetuity by Goodwill.

D. Property and equipment is stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. The Agency capitalizes property and equipment with a cost of $1,500 or more and a useful life of greater than two years. GIHC capitalizes property and equipment with a cost of $250 or more and a useful life of greater than one year. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the useful life of the asset or the remaining term of the lease. Certain purchases of equipment are expensed by Goodwill (rather than capitalized) because the cost of these items was reimbursed by governmental funding sources, where the contractual agreement specifies that title to these assets rests with the governmental funding source rather than Goodwill.

E. Goodwill considers all highly liquid instruments with maturities of 90 days or less when acquired to be cash and cash equivalents, except for cash maintained in its investment portfolio. Tenant security deposits held are maintained in bank cash accounts and are not considered cash and cash equivalents for statement of cash flow purposes.

F. Investments and the reserve for replacements are recorded at fair value.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Goodwill determines whether an allowance for uncollectibles should be provided for accounts and pledges receivable. Such estimates are based on management's assessment of the aged basis of its government funding sources, current economic conditions, creditworthiness of tenants, government, customers, contributors and other sources and historical information. Pledges receivable that are expected to be collected in future years are recorded at their net present value (if materially less than the actual amount pledged) computed using the risk adjusted interest rate applicable to the year in which the contribution is made.

H. During the years ended June 30, 2016 and 2015, Goodwill received contributed merchandise (clothing, etc.) with a fair value estimated to be $42,808,656 and $40,436,531, respectively. Goodwill reflects such contributed merchandise as contribution revenue in the accompanying consolidated financial statements. Goodwill reflects its industrial operations sales net of the aforementioned estimated amount of contributed goods. This merchandise requires program-related expenses/processes accomplished by people with disabilities and other disadvantaging conditions before it reaches its point of sale. The fair value of the contributed merchandise is estimated at the retail sales value in excess of the processing costs. The contributed merchandise inventory is estimated by utilizing inventory turnover rates. Inventory consists of the following as of June 30, 2016 and 2015:

	2016	2015
Contributed merchandise	$ 3,567,388	$ 3,369,711
Purchased goods	780,097	697,832
	$ 4,347,485	$ 4,067,543

In addition, Goodwill records contributed services and goods (other than merchandise) at their fair values on the date received. For the years ended June 30, 2016 and 2015, Goodwill received contributed services, goods and rent which amounted to approximately $60,000, for both such years.

I. Goodwill recognizes bequests and legacies when the proceeds are measurable and an irrevocable right to the proceeds has been established by Goodwill. Goodwill's policy is to designate bequests and legacies as Board designated net assets.

J. The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited.

K. The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. Fair value measurements are based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair values into three levels as described in Note 7.

M. Goodwill leases real property under various leases through 2031. The difference between rental payments actually due under the lease and rent expense calculated on the straight-line basis for the years ended June 30, 2016 and 2015, amounted to $479,278 and $25,252, respectively and is reflected in the accompanying consolidated statements of activities as occupancy expense in excess of lease payments. As of June 30, 2016 and 2015, a liability in the amount of $2,225,494 and $1,746,216, respectively, is reflected on the accompanying consolidated statements of financial position as deferred rent.

NOTE 3—PLEDGES RECEIVABLE

As of June 30, 2016 and 2015, pledges receivable are expected to be collected as follows:

	2016	2015
Less than one year	$ 25,000	$ -
	$ 25,000	$ -

NOTE 4—RESERVE FOR REPLACEMENTS

A regulatory agreement between GIHC and HUD requires that GIHC maintain a reserve fund for replacements under the control of the New York City Housing Development Corporation. The funds are periodically used with the consent of HUD. As of June 30, 2016 and 2015, the funds were invested in United States Treasury bills.

NOTE 5—ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of June 30, 2016 and 2015:

	2016	2015
Government sources:		
New York City Human Resources Administration	$ 1,292,874	$ 464,497
New York State Vocational and Educational Services for Individuals with Disabilities	139,292	836,800
New York City Department of Youth & Community Development	1,289,425	759,031
New York State Office for People with Developmental Disabilities	1,338,023	1,605,795
New York City Department of Health and Mental Hygiene	378,998	418,843
Other	666,591	742,311
Industrial operations and other:		
Good Temps (a temporary staffing service for employers)	2,986,258	3,071,227
Others:		
Janitorial Services	134,284	179,467
Motor Messenger	155,457	136,427
Tenants receivable	576,068	427,687
Other receivables	2,287,861	1,370,015
Subtotal	11,245,131	10,012,100
Less: allowance for doubtful accounts	(863,080)	(945,437)
	$ 10,382,051	$ 9,066,663

NOTE 6—PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2016 and 2015:

	2016	2015	Estimated Useful Lives
Land	$ 1,432,988	$ 1,432,988	-
Buildings and improvements	21,827,186	21,460,444	5-50 years
Equipment	26,737,514	26,138,302	5-10 years
Leasehold improvements	14,441,645	13,764,432	2-12 years
Transportation equipment	759,826	816,017	5 years
Construction-in-progress (see below)	66,500	25,476	-
Collection boxes	145,042	145,042	5 years
Total Cost	65,410,701	63,782,701	
Less: accumulated depreciation and amortization	(50,480,348)	(46,648,827)	
Net book value	$ 14,930,353	$ 17,133,874	

During the year ended June 30, 2016, Goodwill sold property and equipment for net proceeds of $113,344. Goodwill had a gain on this sale of $28,028, which is reported as nonoperating income on the accompanying consolidated statements of activities.

During the year ended June 30, 2015, Goodwill sold a building in Astoria, NY for net proceeds of $614,724. Goodwill had a gain on this sale of $542,231, which is reported as nonoperating income on the accompanying consolidated statements of activities.

Goodwill is involved in a variety of construction projects as of June 30, 2016, whereby Goodwill will incur additional costs subsequent to June 30, 2016.

Depreciation and amortization expense for the years ended June 30, 2016 and 2015, amounted to $3,897,000 and $3,438,483, respectively.

NOTE 7—INVESTMENTS

Investments consist of the following as of June 30, 2016 and 2015:

	2016	2015
Money market funds	$ 953,879	$ 508,176
Equities	10,611,805	7,454,002
Corporate bonds	2,744,197	1,440,452
Limited partnerships (consisting primarily of listed stocks)	5,120,585	10,433,706
	$ 19,430,466	$ 19,836,336

Investments are subject to market volatility that could substantially change their carrying value in the near term.

Investment activity (including endowment earnings appropriation of $885,330 and $886,071, respectively) consists of the following for the years ended June 30, 2016 and 2015:

	2016	2015
Realized gain on investment sales	$ 5,586,488	$ 184,302
Unrealized loss on investments	(6,240,053)	(738,788)
Interest and dividend income	254,223	146,252
	$ (399,342)	$ (408,234)

NOTE 7—INVESTMENTS (Continued)

For the years ended June 30, 2016 and 2015, investment expenses amounted to $41,887 and $75,968, respectively, and are included in professional fees in the accompanying consolidated financial statements.

The fair value hierarchy defines three levels as follows:

Level 1 – Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 – Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3 – Valuations based on unobservable inputs are used when little or no market data is available. The hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, Goodwill utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Money market funds:

Money market funds are valued at the net asset value (“NAV”) at a constant $1.00 per share.

Equities:

Equity securities are valued at the closing price reported on the active market on which the individual securities are traded.

Corporate Bonds:

Corporate bonds are valued at the closing price reported in the active market in which the bond is traded.

U.S. Treasury Notes:

U.S. Treasury notes are valued at the closing price reported in the active market in which the individual securities are traded.

Mutual Funds:

Mutual funds are valued at the net asset value (“NAV”) of shares held at year end based upon quoted market prices determined in an active market.

Limited partnerships – equity securities:

Investments in limited partnerships are designated as Level 3 since the valuations for such investments are based on unobservable inputs. These valuations are not meant to be indicative of the classification of the investments in the underlying investment portfolio in the limited partnerships. The majority of the underlying investments of the limited partnerships consist of common stock, preferred stock, money market funds and debt instruments, which are generally classified as Level 1 investments in the partnerships’ audited financial statements.

NOTE 7—INVESTMENTS (Continued)

Financial assets carried at fair value at June 30, 2016, are classified in the table as follows:

	Level 1	Level 2	Level 3	Total
Assets Carried at Fair Value:				
Investments:				
Money market funds	$ 953,879	$ -	$ -	$ 953,879
Equities	10,611,805	-	-	10,611,805
Corporate bonds	2,744,197	-	-	2,744,197
Limited partnerships – equity securities	-	-	5,120,585	5,120,585
Subtotal	14,309,881	-	5,120,585	19,430,466
Reserve for replacements:				
U.S. Treasury notes	452,609	-	-	452,609
Total Assets Carried at Fair Value	$ 14,762,490	$ -	$ 5,120,585	$ 19,883,075

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ended June 30, 2016:

Balance, June 30, 2015	$ 10,433,706
Realized gain	2,834,068
Unrealized loss	(3,059,203)
Redemptions	(5,087,986)
Balance, June 30, 2016	$ 5,120,585

NOTE 7—INVESTMENTS (Continued)

Financial assets carried at fair value at June 30, 2015, are classified in the table as follows:

	Level 1	Level 2	Level 3	Total
Assets Carried at Fair Value:				
Investments:				
Money market funds	$ 508,176	$ -	$ -	$ 508,176
Equities	7,454,002			7,454,002
Corporate bonds	1,440,452	-	-	1,440,452
Limited partnerships – equity securities	-	-	10,433,706	10,433,706
Subtotal	9,402,630	-	10,433,706	19,836,336
Investments – deferred compensation (Note 9):				
Money market funds	432,342	-	-	432,342
Mutual funds				
U.S. large cap equity	91,380	-	-	91,380
Global equity	16,465	-	-	16,465
Balanced	36,259	-	-	36,259
Subtotal	576,446	-	-	576,446
Reserve for replacements:				
U.S. Treasury notes	287,405	-	-	287,405
Total Assets Carried at Fair Value	$ 10,266,481	$ -	$ 10,433,706	$ 20,700,187

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ended June 30, 2015:

Balance, June 30, 2014	$ 10,676,417
Unrealized loss	(242,711)
Balance, June 30, 2015	$ 10,433,706

NOTE 8—DEFERRED REVENUE/DUE TO FUNDING SOURCES

Included in deferred revenue/due to funding sources as of June 30, 2016 and 2015, was Community Support Program ("CSP") Medicaid liability due to the New York State Office of Mental Health ("NYS OMH") amounting to $1,169,773.

The balance represents advances received from various funding sources under government grants for which Goodwill has not yet met the grant conditions or provided the services. In addition, it includes amounts due to government agencies for advances received during current and prior years. Such amounts will be recouped by the funding sources.

NOTE 9—DEFERRED COMPENSATION PLAN

Goodwill maintained a deferred compensation plan for a key employee. The annual contribution to this plan was stipulated by the individual's employment agreement. During the year ended June 30, 2016, the balance of the plan was distributed and the plan was dissolved. As of June 30, 2016 and 2015, the balance in the deferred compensation plan investment and liability amounted to $0 and $576,446, respectively. Goodwill maintained these investments in cash and cash equivalents and other securities.

NOTE 10—MORTGAGES PAYABLE

Mortgages payable consist of the following as of June 30, 2016 and 2015:

	2016	2015	Annual Interest Rate	Due Date
HUD insured note	$ 878,008	$ 1,109,801	8.500%	2019
Subordinate note – HDC	835,000	835,000	7.757%	2029
Subordinate note – HDC deferred interest	777,348	777,348		2029
	$ 2,490,356	$ 2,722,149		

The HUD insured note is payable to the New York City Housing Development Corporation ("HDC") and is secured by GIHC's property located in Astoria, Queens, New York, as well as the rental receipts. This mortgage is secured by HUD pursuant to Section 223(f) of the National Housing Act. The monthly payment is $26,436, applied first to interest with the balance to principal. HUD is obligated, pursuant to an agreement for interest reduction payments, to pay HDC the difference between the debt service computed at the actual mortgage rate of 8.50% annually and the debt service computed at 1% annually, up to an annual maximum of $225,756. The actual subsidy of GIHC's interest expense was $211,522 and $212,737 for the years ended June 30, 2016 and 2015, respectively.

The second mortgage is payable to the HDC and is secured by GIHC's property located in Astoria, Queens, New York, as well as the rents. This mortgage is insured by HUD pursuant to Section 223(f) of the National Housing Act. The monthly payment is $5,513, applied first to interest with the balance to principal. HUD is obligated, pursuant to an agreement for interest reduction payments, to pay HDC the difference between the debt service computed at the actual mortgage rate of 7.757% annually and the debt service computed at 1% annually, up to an annual maximum of $44,929. The actual subsidy of GIHC's interest expense was $44,929 for both years ended June 30, 2016 and 2015, respectively. The second mortgage provides that when HUD shall cease to hold or insure the HUD note, the deferred interest ($777,348 as of June 30, 2016 and 2015), shall be paid in equal monthly installments over a period not exceeding fifteen years.

Future annual principal payments of Goodwill's mortgages payable are as follows for the years ended after June 30, 2016:

2017	$ 253,289
2018	274,580
2019	298,850
2020	53,485
2021	1,531
Thereafter	1,608,621
	$ 2,490,356

NOTE 11—LINE OF CREDIT

The Agency has a line of credit with a bank that has a maximum borrowing limit of $3,000,000. Borrowings are secured by certain of the Agency's investments held by the bank. Interest charged by the bank depends on the amount borrowed. Draws of $500,000 or less are at the bank's prime lending rate. Draws greater than $500,000 and up to $1,500,000 are at the London Inter-Bank Offered Rate ("LIBOR") plus .75% or the Match Funded Rate ("MFR") plus 1%. Loans above the $1,500,000 level are at LIBOR or MFR plus 2%. All loans under this line are subject to the requirement that for 30 consecutive days prior to the expiration there shall be no loans outstanding. As of June 30, 2016 and 2015, Goodwill has outstanding borrowings of $1,675,000 and $1,400,000, respectively. The outstanding balance as of November 28, 2016, amounted to $2.1 million. The interest expense for the line of credit for the years ended June 30, 2016 and 2015, amounted to $48,412 and $55,521, respectively.

NOTE 12—LOAN PAYABLE

During the year ended June 30, 2016, the Agency received a loan of $650,000 from Goodwill Industries International. Subsequent to year end, the Agency borrowed an additional $350,000, to bring the total loan balance to $1,000,000. The loan is repayable in 48 monthly installments and bears interest at 3.5% and matures in July 2020. The loan is secured by the Agency's future revenue. As of November xx, 2016, $1,000,000 is outstanding. Interest expense for the loan amounted to $15,230 for the year ended June 30, 2016.

Future annual principal payments of the Agency's loan payable are as follows for the years ended after June 30, 2016:

2017	$ 138,613
2018	214,070
2019	221,684
2020	75,633
	$ 650,000

NOTE 13—TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for program services at June 30, 2016 and 2015. Net assets were released from donor restrictions during the years ended June 30, 2016 and 2015, by incurring expenses satisfying the restricted purpose or occurrence specified by the donors.

NOTE 14—PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are for an endowment fund. The earnings from the endowment fund are temporarily restricted until appropriated and support the operations of Goodwill.

NOTE 15—ENDOWMENT NET ASSETS

Endowment net assets consist of donor-restricted and Board designated endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. See Note 2C for how Goodwill maintains its net assets.

Goodwill recognizes that New York State adopted as law the New York Prudent Management of Institutional Funds Act ("NYPMIFA") on September 17, 2010. NYPMIFA replaced the prior law which was the Uniform Management of Institutional Funds Act ("UMIFA"). NYPMIFA creates a rebuttable presumption of imprudence if an organization appropriates more than 7% of a donor-restricted permanent endowment fund's fair value (averaged over a period of not less than the preceding five years) in any year. Any unappropriated earnings that would otherwise be considered unrestricted by the donor will be reflected as temporarily restricted until appropriated. All earnings have been appropriated and designated by the Board as of June 30, 2016 and 2015.

Goodwill's Board of Directors has interpreted NYPMIFA as allowing Goodwill to appropriate for expenditure or accumulate so much of an endowment fund as Goodwill determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

Goodwill has adopted investment and spending policies that attempt to achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets of endowed funds and to provide a predicable stream of funding for programs supported by its endowment and other board-designated commitments reflected in the annual operating budget. The investment policy adopted by the board sets forth a quarterly withdrawal rate of 5% on the average quarterly closing fair market value of the previous twenty quarters.

The policy for valuing Goodwill's investments is disclosed in Notes 2F and 2L. In accordance with U.S. GAAP, organizations are required to disclose any deterioration of the fair value of assets associated with donor-restricted endowment funds that fall below the level the donor requires the organization to retain in perpetuity. Goodwill has not incurred such deficiencies in its endowment funds as of June 30, 2016 and 2015.

NOTE 15—ENDOWMENT NET ASSETS (Continued)

Changes in net endowment assets for year ended June 30, 2016, are as follows:

	Unrestricted - Board Designated	Permanently Restricted	Total
Investment activity:			
Interest and dividends	$ 244,147	$ 10,076	$ 254,223
Realized gains	5,365,062	221,426	5,586,488
Unrealized losses	(5,992,722)	(247,331)	(6,240,053)
Investment fees	(40,227)	(1,660)	(41,887)
	(423,740)	(17,489)	(441,229)
Contributions to endowments	900,000	25,000	925,000
Transfer to Board designated	(17,489)	17,489	-
Endowment earnings appropriation	(885,330)	-	(885,330)
Change in endowment net assets	(426,559)	25,000	(401,559)
Endowment net assets, beginning of year	18,532,688	764,878	19,297,566
Endowment net assets, end of year	$ 18,106,129	$ 789,878	$ 18,896,007

Changes in net endowment assets for year ended June 30, 2015, are as follows:

	Unrestricted - Undesignated	Unrestricted - Board Designated	Permanently Restricted	Total
Investment activity:				
Interest and dividends	$ -	$ 141,041	$ 5,211	$ 146,252
Realized gains	-	177,736	6,566	184,302
Unrealized losses	-	(712,466)	(26,322)	(738,788)
Investment fees	-	(73,261)	(2,707)	(75,968)
	-	(466,950)	(17,252)	(484,202)
Contributions to endowments	-	-	30,000	30,000
Principal repaid from operations	(788,836)	788,836	-	-
Interest on loan to operations at 3%	-	11,833	-	11,833
Transfer to Board designated	-	(17,252)	17,252	-
Endowment earnings appropriation	-	(886,071)	-	(886,071)
Change in endowment net assets	(788,836)	(569,604)	30,000	(1,328,440)
Endowment net assets, beginning of year	788,836	19,102,292	734,878	20,626,006
Endowment net assets, end of year	$ -	$ 18,532,688	$ 764,878	$ 19,297,566

Endowment net assets of $17,996,007 and $19,297,566 as of June 30, 2016 and 2015, respectively, are included in investments and cash in the accompanying consolidated statements of financial position.

In April 2014, the Board of Directors lent $1,000,000 out of the endowment to operations at 3% interest. The loan was repaid by suspending the quarterly endowment payouts over five quarters starting in April 2014.

NOTE 16—PENSION PLANS

Goodwill has three pension plans covering all qualifying employees. The first plan is maintained by the Agency and is a qualified money purchase defined contribution pension plan covering all eligible employees. The pension plan provides for a 3% contribution by the Agency. The Agency is also required to match employee contributions in excess of 3%, up to a maximum of 6%. Employer contributions amounted to $1,125,797 and $1,101,015 for the years ended June 30, 2016 and 2015, respectively. Such contributions are included in payroll taxes and benefits in the accompanying consolidated financial statements. The second plan is a 403(b) Plan maintained by the Agency that only provides for employee contributions.

The third plan is maintained by GIHC, a participant in a multiemployer pension plan covering its union employees. GIHC contributes to the Building Service 32BJ Pension Fund (the "Plan"), a multi-employer, non-contributory defined benefit pension plan. The Plan provides retirement benefits to eligible participants employed in the building service industry who are covered under collective bargaining agreements. The Plan is administered by a Board of Trustees ("Trustees"). The Plan is subject to the provisions of the Employees Retirement Income Security Act of 1974.

The risks of participating in multiemployer pension plans are different from single-employer plans in that: assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and if GIHC stops participating in the multiemployer plan, GIHC may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. GIHC has no plans to withdraw.

According to the audited financial statements of the Plan, on September 27, 2013, the actuary certified that for the Plan year beginning July 1, 2013, the Plan was in critical status (funded percentage is less than 65%), also known as the "red zone" under the Pension Protection Act ("PPA"). The certification of critical status was based upon the actuary's determination that the Plan is projected to have an accumulated funding deficiency for the plan year ending June 30, 2014. The significance of entering critical status is that the Plan's Trustees are required by law to adopt a rehabilitation plan, consistent with the requirements of the PPA, designed to improve the Plan's funding over a period of years. The Trustees adopted a rehabilitation plan consistent with this requirement. The Plan will emerge from critical status when its actuary certifies for a plan year that the Plan is not projected to have an accumulated funding deficiency for the plan year or ant of the nine succeeding plan years. Pursuant to the PPA, a surcharge is imposed on all contributing employers.

GIHC's pension contribution for the years ended June 30, 2016 and 2015, were $32,762 and $32,954.

Pension Plan	Employer Identification Number	Pension Plan Number	PPA Zone Status Plan Year 7/1/13 to 6/30/14	FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective Bargaining Agreements
Building Service 32BJ Pension Fund	13-1879376	001	Red	Yes	Yes	None

NOTE 17—COMMITMENTS AND CONTINGENCIES

A. Pursuant to Goodwill's contractual relationships with certain governmental funding sources, outside governmental agencies have the right to examine the books and records of Goodwill involving transactions relating to these contracts. The accompanying consolidated financial statements make no provision for possible disallowances or payback other than discussed in Note 8. In addition, certain agreements provide that some property and equipment, or portions thereof, either owned by or on loan to Goodwill must be utilized by Goodwill to continue owning and/or using these assets.

B. Goodwill is obligated, pursuant to various lease agreements, to approximate future minimum annual rentals for real and personal property for years ended after June 30, 2016, as follows:

2017	$ 14,056,000
2018	13,533,000
2019	12,331,000
2020	9,643,000
2021	7,866,000
Thereafter	23,806,000
	$ 81,235,000

Rent expense for real property amounted to $14,941,112 and $14,105,496 for the years ended June 30, 2016 and 2015, respectively. Rent expense for personal property amounted to $1,234,860 and $1,273,136 for the years ended June 30, 2016 and 2015, respectively. Such amounts are included in occupancy, transportation and equipment maintenance and rental expenses in the accompanying consolidated financial statements. Goodwill is also obligated for certain other costs at some of the locations. In addition, under the terms of several of the leases, Goodwill is obligated to pay escalation rentals for certain operating expenses and real estate taxes.

C. Pursuant to a contract between the Agency and a governmental funding source, the Agency provides grant monies to a number of subcontractors. Such grant monies are provided to the subcontractors based on their expenditures in accordance with grant agreements between the Agency and the subcontractors. The governmental funding source has the right to examine the books and records of the subcontractors involving transactions relating to these contracts.

D. Goodwill is a defendant with respect to various claims involving accidents and other issues arising in the normal conduct of its business. Management and legal counsels believe the ultimate resolution of these claims will not have a material impact on the financial position and changes in net assets of Goodwill.

E. Goodwill believes it has no uncertain tax positions as of June 30, 2016 and 2015, in accordance with Accounting Standards Codification ("ASC") Topic 740 ("Income Taxes"), which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

NOTE 18—RELATED-PARTY TRANSACTIONS

A partner of a law firm that provides legal services for Goodwill is a member of Goodwill's Board of Directors. This Board member left Goodwill's Board during the year ended June 30, 2015. For the year ended June 30, 2015, payments to this firm amounted to approximately $109,000.

NOTE 19—CONCENTRATIONS

Cash and cash equivalents that potentially subject Goodwill to a concentration of credit risk include cash accounts with various institutions that exceeded the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Interest bearing accounts are insured up to $250,000 per depositor. As of June 30, 2016 and 2015, cash and cash equivalents held in banks exceeded FDIC limits by approximately $556,000 and $262,000, respectively. Such excess includes outstanding checks.

NOTE 20—SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the consolidated statement of financial position through November 28, 2016, the date the consolidated financial statements were available to be issued.

GOODWILL INDUSTRIES OF GREATER NEW YORK AND NORTHERN NEW JERSEY, INC. AND AFFILIATE
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015

	As of June 30, 2016				As of June 30, 2015			
	Goodwill Industries of Greater New York and Northern New Jersey, Inc.	Goodwill Industries Housing Company, Inc.	Consolidating Eliminations	Consolidated Total 2016	Goodwill Industries of Greater New York and Northern New Jersey, Inc.	Goodwill Industries Housing Company, Inc.	Consolidating Eliminations	Consolidated Total 2015
ASSETS								
Cash and cash equivalents	$ 669,968	$ 89,325	$ -	$ 759,293	$ 366,382	$ 148,989	$ -	$ 515,371
Accounts receivable, net	9,998,452	383,599	-	10,382,051	8,795,445	271,218	-	9,066,663
Pledges receivable	25,000	-	-	25,000	-	-	-	-
Inventory	4,347,485	-	-	4,347,485	4,067,543	-	-	4,067,543
Prepaid expenses, deferred charges and other	1,455,149	59,121	-	1,514,270	1,257,927	50,641	-	1,308,568
Due from affiliate	2,400,408	-	(2,400,408)	-	2,576,192	-	(2,576,192)	-
Property and equipment, net	11,821,243	3,109,110	-	14,930,353	13,672,471	3,461,403	-	17,133,874
Investments	19,430,466	-	-	19,430,466	19,836,336	-	-	19,836,336
Investments - deferred compensation	-	-	-	-	576,446	-	-	576,446
Mortgage escrow deposits	-	114,948	-	114,948	-	109,149	-	109,149
Reserve for replacements	-	452,609	-	452,609	-	287,405	-	287,405
Security deposits held by lessors	841,812	-	-	841,812	842,768	-	-	842,768
Tenant security deposits held	-	98,580	-	98,580	-	90,542	-	90,542
TOTAL ASSETS	$ 50,989,983	$ 4,307,292	$ (2,400,408)	$ 52,896,867	$ 51,991,510	$ 4,419,347	$ (2,576,192)	$ 53,834,665
LIABILITIES								
Accounts payable and accrued expenses	$ 3,887,927	$ 2,518,232	$ (2,400,408)	$ 4,005,751	$ 3,291,065	$ 2,700,105	$ (2,576,192)	$ 3,414,978
Payroll taxes payable	691,279	1,266	-	692,545	918,391	1,452	-	919,843
Accrued salaries	2,238,446	3,735	-	2,242,181	1,756,083	3,893	-	1,759,976
Accrued vacation	1,373,320	12,808	-	1,386,128	1,414,065	15,087	-	1,429,152
Accrued mortgage interest	-	123,860	-	123,860	-	104,017	-	104,017
Deferred revenue/due to funding source	3,483,234	-	-	3,483,234	3,905,599	-	-	3,905,599
Deferred compensation payable	-	-	-	-	576,446	-	-	576,446
Deferred rent	2,225,494	-	-	2,225,494	1,746,216	-	-	1,746,216
Mortgages payable	-	2,490,356	-	2,490,356	-	2,722,149	-	2,722,149
Line of credit payable	1,675,000	-	-	1,675,000	1,400,000	-	-	1,400,000
Loan payable	650,000	-	-	650,000	-	-	-	-
Tenant security deposits payable	-	98,580	-	98,580	-	90,542	-	90,542
TOTAL LIABILITIES	16,224,700	5,248,837	(2,400,408)	19,073,129	15,007,865	5,637,245	(2,576,192)	18,068,918
NET ASSETS								
Unrestricted								
Operating	15,812,814	(941,545)	-	14,871,269	17,622,284	(1,217,898)	-	16,404,386
Board designated for endowment	18,106,129	-	-	18,106,129	18,532,688	-	-	18,532,688
Total unrestricted	33,918,943	(941,545)	-	32,977,398	36,154,972	(1,217,898)	-	34,937,074
Temporarily restricted	56,462	-	-	56,462	63,795	-	-	63,795
Permanently restricted	789,878	-	-	789,878	764,878	-	-	764,878
TOTAL NET ASSETS	34,765,283	(941,545)	-	33,823,738	36,983,645	(1,217,898)	-	35,765,747
TOTAL LIABILITIES AND NET ASSETS	$ 50,989,983	$ 4,307,292	$ (2,400,408)	$ 52,896,867	$ 51,991,510	$ 4,419,347	$ (2,576,192)	$ 53,834,665

See independent auditors' report.

GOODWILL INDUSTRIES OF GREATER NEW YORK AND NORTHERN NEW JERSEY, INC. AND AFFILIATE
CONSOLIDATING SCHEDULES OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	For the Year Ended June 30, 2016				For the Year Ended June 30, 2015			
	Goodwill Industries of Greater New York and Jersey, Inc.	Goodwill Industries Housing Company, Inc.	Consolidating Eliminations	Consolidated Total 2016	Goodwill Industries of Greater New York and Jersey, Inc.	Goodwill Industries Housing Company, Inc.	Consolidating Eliminations	Consolidated Total 2015
CHANGES IN UNRESTRICTED NET ASSETS:								
OPERATING REVENUES:								
Public Support:								
Contributions	$ 623,759	$ -	$ -	$ 623,759	$ 569,628	$ -	$ -	$ 569,628
Bequests and legacies	900,000	-	-	900,000	-	-	-	-
Contributed revenue - donated goods	42,808,656	-	-	42,808,656	40,436,531	-	-	40,436,531
Net assets released from restrictions	7,333	-	-	7,333	155,455	-	-	155,455
Total Public Support	44,339,748	-	-	44,339,748	41,161,614	-	-	41,161,614
Governmental Support:								
Fees and grants from governmental agencies	32,702,452	648,783	-	33,351,235	30,785,508	655,248	-	31,440,756
Total Governmental Support	32,702,452	648,783	-	33,351,235	30,785,508	655,248	-	31,440,756
Other Revenue:								
Industrial operations	42,308,193	-	-	42,308,193	43,964,462	-	-	43,964,462
Tenant rent	-	1,893,571	(152,382)	1,741,189	-	1,834,730	(147,079)	1,687,651
Endowment earnings appropriations	885,330	-	-	885,330	886,071	-	-	886,071
Other	466,769	244,490	-	711,259	774,589	204,984	-	979,573
Total Other Revenue	43,660,292	2,138,061	(152,382)	45,645,971	45,625,122	2,039,714	(147,079)	47,517,757
TOTAL UNRESTRICTED REVENUES	120,702,492	2,786,844	(152,382)	123,336,954	117,572,244	2,694,962	(147,079)	120,120,127
OPERATING EXPENSES:								
Industrial operations	78,203,574	-	(25,541)	78,178,033	76,278,957	-	(24,652)	76,254,305
Rehabilitation and employment services	32,172,441	-	(88,365)	32,084,076	31,422,857	-	(85,290)	31,337,567
Management and administration	10,138,539	-	(36,593)	10,101,946	9,649,060	-	(35,320)	9,613,740
Other supporting services	208,068	-	-	208,068	199,071	-	-	199,071
Fundraising	479,977	-	(1,883)	478,094	544,876	-	(1,817)	543,059
Residential operations of affiliate	-	2,510,491	-	2,510,491	-	2,416,300	-	2,416,300
TOTAL OPERATING EXPENSES	121,202,599	2,510,491	(152,382)	123,560,708	118,094,821	2,416,300	(147,079)	120,364,042
OPERATING (LOSS) INCOME	(500,107)	276,353	-	(223,754)	(522,577)	278,662	-	(243,915)
NONOPERATING LOSS:								
Investment activity	(1,284,672)	-	-	(1,284,672)	(1,294,305)	-	-	(1,294,305)
Gain on sale of property and equipment	28,028	-	-	28,028	542,231	-	-	542,231
Occupancy expense in excess of lease payments (Note 2M)	(479,278)	-	-	(479,278)	(25,252)	-	-	(25,252)
TOTAL NONOPERATING LOSS:	(1,735,922)	-	-	(1,735,922)	(777,326)	-	-	(777,326)
Change in Unrestricted Net Assets	(2,236,029)	276,353	-	(1,959,676)	(1,299,903)	278,662	-	(1,021,241)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:								
Contributions	-	-	-	-	20,000	-	-	20,000
Net assets released from restrictions	(7,333)	-	-	(7,333)	(155,455)	-	-	(155,455)
Change in Temporarily Restricted Net Assets	(7,333)	-	-	(7,333)	(135,455)	-	-	(135,455)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:								
Bequests and legacies	25,000	-	-	25,000	30,000	-	-	30,000
Change in Permanently Restricted Net Assets	25,000	-	-	25,000	30,000	-	-	30,000
CHANGE IN NET ASSETS	(2,218,362)	276,353	-	(1,942,009)	(1,405,358)	278,662	-	(1,126,696)
Net Assets - Beginning of Year	36,983,645	(1,217,898)	-	35,765,747	38,389,003	(1,496,560)	-	36,892,443
NET ASSETS - END OF YEAR	$ 34,765,283	$ (941,545)	$ -	$ 33,823,738	$ 36,983,645	$ (1,217,898)	$ -	$ 35,765,747

See independent auditors' report.