

GIRL SCOUTS OF NORTHERN
CALIFORNIA

SEPTEMBER 30, 2019

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

February 2020

Greetings from Girl Scouts of Northern California,

We are pleased to share the *Report on Audit of Financial Statements for the year ended September 30, 2019*. During 2019 almost 39,000 girls benefited from troop, after school, and camp programs that help girls lead, thrive and gain skills.

Girls want to lead change, take charge of their futures, and make the world a better place. Girl Scouts helps girls make this happen. Girls are worried about the world around them, their futures, and the economic challenges facing their families and communities. Girls also believe they can be the change they want to see, and when we learn about their Bronze, Silver and Gold Award community take action projects, we believe it too. Girls want to build skills to effect change in their communities, address climate change, end homelessness, ensure their own financial independence, and use technology to make the world a better place.

From 5th grade troops earning Bronze Awards through service in their communities, to girls earning cybersecurity badges, building robots, honing their public speaking skills, planning cookie sales, traveling abroad, and building leadership skills at camp, Girl Scouts is meeting girls where they are and supporting girls to get where they want to go.

Meet our future! During 2019, our members included almost 13,000 girls who live in low income communities. Girls benefited from sisterhood, supportive adults, and special experiences, through troops, staff-led programs, and summer camps. We served almost 37,000 girls in troops, supported by over 28,000 adult volunteers, 2,000 girls in staff-supported programs delivered in low income communities, and over 10,000 girls who attended summer day and resident camps.



GSNorCal Brownie Girl Scouts (grades 2 and 3: preparing presentations for their "Think Like an Engineer Journey."

Thank you for supporting Girl Scouts of Northern California and investing in girls, so that every girl discovers her power to make the world a better place, and so that our world benefits from these awesome girls!

Yours in Girl Scouting,



Ellen Richey
President



Marina H. Park
CEO

Girl Scouts of Northern California

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A Century Strong

Independent Auditors' Report

THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS
GIRL SCOUTS OF NORTHERN CALIFORNIA
Alameda, California

Report on the Financial Statements

We have audited the accompanying financial statements of **GIRL SCOUTS OF NORTHERN CALIFORNIA (The Council)**, which comprise the statement of financial position as of September 30, 2019, the related statements of activities, functional expense, and cash flows for the year 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.

Auditors' 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 The Council as of September 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.

Report on Summarized Comparative Information

We have previously audited The Council's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 30, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Effect of Adopting New Accounting Standard

As described in Note 1(p), The Council adopted the Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-14: *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to that matter.

Hood & Strong LLP

San Francisco, California
January 30, 2020

Girl Scouts of Northern California

Statement of Financial Position

<i>September 30, 2019 (with comparative totals for 2018)</i>	2019	2018
Assets:		
Cash	\$ 1,680,422	\$ 2,421,159
Investments	21,050,527	19,692,940
Pledges receivable, net	1,299,177	212,624
Accounts receivable, net	256,979	347,552
Inventory, prepaid expenses and other assets	1,091,131	1,099,260
Property and equipment, net	12,260,977	10,813,585
Total assets	\$ 37,639,213	\$ 34,587,120
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 350,361	\$ 510,916
Accrued expenses and other liabilities	1,664,974	1,452,947
Custodial funds	114,864	138,030
Deferred revenue	653,426	661,691
Capital lease obligation	54,298	77,137
Total liabilities	2,837,923	2,840,721
Net Assets:		
Without donor restrictions	29,474,780	28,850,709
With donor restrictions	5,326,510	2,895,690
Total net assets	34,801,290	31,746,399
Total liabilities and net assets	\$ 37,639,213	\$ 34,587,120

See accompanying notes to financial statements.

Girl Scouts of Northern California

Statement of Activities

Year ended September 30, 2019 (with comparative totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Revenue:				
Contributions and grants	\$ 882,979	\$ 3,594,124	\$ 4,477,103	\$ 1,807,427
Program sales, net of direct costs (Note 6)	15,268,343		15,268,343	15,745,707
Program event fees (net of financial assistance \$169,181 for 2019)	3,071,439		3,071,439	3,060,651
Investment income, net	465,351	20,726	486,077	350,191
Miscellaneous income	205,833		205,833	258,173
Rental income	511,910		511,910	501,387
Gain on sale of property and equipment	320,501		320,501	1,022,900
Net assets released from restrictions	1,184,030	(1,184,030)	-	-
	21,910,386	2,430,820	24,341,206	22,746,436
Operating expenses:				
Program services	16,862,543		16,862,543	15,940,123
Management and general	3,012,060		3,012,060	2,633,634
Fundraising	1,411,712		1,411,712	1,232,967
Total operating expenses	21,286,315	-	21,286,315	19,806,724
Change in Net Assets	624,071	2,430,820	3,054,891	2,939,712
Net Assets, beginning of year	28,850,709	2,895,690	31,746,399	28,806,687
Net Assets, end of year	\$ 29,474,780	\$ 5,326,510	\$ 34,801,290	\$ 31,746,399

See accompanying notes to financial statements.

Girl Scouts of Northern California

Statement of Functional Expense

Year ended September 30, 2019 (with comparative totals for 2018)

	2019			2018	
	Program Services	Management and General	Fundraising	Total Expenses	Total
Expenses:					
Salaries	\$ 7,462,817	\$ 1,559,114	\$ 798,385	\$ 9,820,316	\$ 9,065,787
Benefits	1,740,275	392,154	195,882	2,328,311	2,291,239
Payroll taxes	511,236	115,058	57,592	683,886	637,191
Total payroll expenses	9,714,328	2,066,326	1,051,859	12,832,513	11,994,217
Workers' compensation insurance	82,902	18,792	9,295	110,989	106,222
Telephone and postage	191,641	28,909	19,471	240,021	214,602
Outside services	1,099,996	505,119	110,159	1,715,274	1,559,956
Supplies	1,728,412	36,423	4,330	1,769,165	1,692,473
Occupancy	1,260,014	197,678	85,097	1,542,789	1,430,419
Equipment expense	359,144	59,538	31,717	450,399	390,574
Printing and publications	172,060	1,918	38,541	212,519	208,675
Transportation	666,906	10,620	5,579	683,105	604,063
Insurance	307,160	6,787	2,851	316,798	374,528
Other expenses	466,585	59,103	43,839	569,527	575,012
Depreciation and amortization expense	813,395	20,847	8,974	843,216	655,983
Total operating expenses	16,862,543	3,012,060	1,411,712	21,286,315	19,806,724
Program cost of sales	6,298,009			6,298,009	6,569,644
Total expenses	\$ 23,160,552	\$ 3,012,060	\$ 1,411,712	\$ 27,584,324	\$ 26,376,368

See accompanying notes to financial statements.

Girl Scouts of Northern California

Statement of Cash Flows

<i>Year ended September 30, 2019 (with comparative totals for 2018)</i>	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	\$ 3,054,891	\$ 2,939,712
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-lived assets	(1,323,099)	(419,347)
Depreciation and amortization	843,216	655,983
Net realized and unrealized loss on investments	121,227	52,015
Gain on disposal of equipment	(320,501)	(1,022,900)
Change in operating assets and liabilities:		
Accounts and pledges receivable	(995,980)	225,542
Inventory, prepaid expenses and other assets	8,129	(179,154)
Accounts payable	(153,013)	161,733
Custodial funds	(23,166)	(4,929)
Accrued expenses and other liabilities	147,042	(45,230)
Deferred revenue	(8,265)	63,605
Net cash provided by operating activities	1,350,481	2,427,030
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(2,406,743)	(2,355,086)
Proceeds from sale of property and equipment	494,079	877,410
Purchases of investments	(2,138,656)	(10,510,584)
Proceeds from sale of investments	659,842	9,843,267
Net cash used in investing activities	(3,391,478)	(2,144,993)
Cash Flows from Financing Activities:		
Contributions restricted for long-lived assets	1,323,099	419,347
Payments on capital lease obligations	(22,839)	(19,345)
Net cash provided by financing activities	1,300,260	400,002
Change in Cash and Cash Equivalents	(740,737)	682,039
Cash and Cash Equivalents, beginning of year	2,421,159	1,739,120
Cash and Cash Equivalents, end of year	\$ 1,680,422	\$ 2,421,159
Supplemental Disclosures:		
Cash paid for interest	\$ 2,670	\$ 1,765
Noncash Investing Activities:		
Property and equipment purchases included in accounts payable and accrued liabilities	\$ 199,970	\$ 142,527
Capital lease assets	\$ -	\$ 86,628
Other assets acquired in sale of property and equipment (Note 4)	\$ -	\$ 285,950

See accompanying notes to financial statements.

Girl Scouts of Northern California

Notes to Financial Statements

Note 1 - Nature of Organization and Significant Accounting Policies:

a. Organization

Girl Scouts of Northern California (The Council) helps girls develop the skills and knowledge to become confident and build bright futures. That means better, stronger communities for everyone around them. The Council is a chartered member of Girls Scouts of the USA (GSUSA).

The Council includes approximately 39,000 girl and 28,000 adult members from Santa Clara County to the Oregon border and from Chico to the Pacific Ocean, covering over 33,000 square miles.

The Council creates opportunities that help girls thrive, while building girls' courage, confidence, and character. Girls have fun with friends in volunteer-led troops, after-school programs in low income communities, and at summer camp.

The Council focuses on building experiences that girls want, developing volunteers, reaching diverse girls and their families, and expanding both partnerships and financial support:

Girl Experience: Girls participate in the national Girl Scout leadership program with opportunities to engage in girl-led, hands-on activities in four core program areas:

- ***Outdoors:*** Girls build skills, become environmental stewards, and pursue adventure in the great outdoors.
- ***STEM (Science, Technology, Engineering and Math):*** Girls explore science, technology, engineering, and math through hands-on experiences like earning badges in cybersecurity, space science, engineering, and robotics, and participating in robotics teams, out-of-school-time science and nature programs, career exploration days, and programs in a box that include everything from designing toys to building “green” doll houses.
- ***Life Skills and Entrepreneurship:*** The cookie program and fall sale teach business skills like goal-setting, money handling, public speaking, budgeting, and sales. Girls also build skills for healthy living and healthy relationships.
- ***Community Service and Take Action:*** Girls give back to their communities and earn Bronze, Silver and Gold Awards for “take action” projects where they identify issues they care about, discover the root causes of the issues, and take action to develop sustainable solutions – all part of the Girl Scout mission to build girls of courage, confidence, and character who make the world a better place.

Girl Scouts of Northern California

Notes to Financial Statements

- ***Volunteerism:*** Adult volunteers are the core of The Council, contributing their time and energy to lead Girl Scout troops, train volunteers, and run product sales, camps, and programs. With volunteers pulled in more directions than ever, The Council is committed to simplifying their work through technology and training.
- ***Diversity, Equity, and Inclusion:*** The Council serves girls in low income and rural communities, through staff and volunteer-led troops, camp financial aid, after-school, and weekend programs. The Council has developed and is continuing to expand innovative programs that reach girls and their families in Vietnamese and Latinx communities.

The Council mainly derives its revenues and support from donors, grants, product sales, and program fees.

The accompanying financial statements do not include financial data for individual Girl Scout troops and other groups such as service units, committees, and volunteer-led camps.

b. Basis of Accounting and Description of Net Assets

The financial statements of The Council have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Net assets and changes therein are classified as follows:

Net Assets Without Donor Restrictions – The portion of net assets that is not restricted by donor-imposed stipulations. These net assets are intended for use of management and the Board of Directors for general operations. The Board of Directors has designated \$7,523,576 as operating reserves.

Net Assets With Donor Restrictions – The portion of net assets whose use by The Council is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of The Council. Other donor-imposed restrictions are perpetual in nature that neither expire by the passage of time nor can be otherwise removed by actions of The Council.

c. Revenue Recognition

Product sales are earned when a purchase is made. Rental income and program fees are recognized as revenue during the period the rent is for or the program occurs.

Contributions and pledges are recognized at their fair value when an unconditional promise to pay is made by the donor. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires or is satisfied in the reporting period in which the support is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires or is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Girl Scouts of Northern California

Notes to Financial Statements

The Council provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of the customer or donor to meet their obligation. It is The Council's policy to write off uncollectible receivables when management determines the receivable will not be collected.

d. Donated Goods and Services

Contributions of donated long-lived assets, goods, and services that create or enhance non-financial assets that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

A number of unpaid volunteers have made significant contributions of their time to The Council. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

During the year ended September 30, 2019, in-kind donations of professional services received were approximately \$11,000. The Council did not record the value of donated facilities as of September 30, 2019, as sufficient information was not available to value the donations.

e. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and all highly liquid investments with an initial maturity from the date of purchase of three months or less, except those held with investments.

f. Investments

Investments are reported at their fair value in the statement of financial position. Realized and unrealized gains and losses are included in the statement of activities.

g. Fair Value Measurements

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.

Girl Scouts of Northern California

Notes to Financial Statements

The Council classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

h. Inventories

Purchased supplies and merchandise inventories are stated at the lower of cost, using the average cost method, or market. No reserve for obsolescence was deemed necessary. Related cost of goods sold includes reward card incentives to girls net of estimated forfeited amounts.

i. Property and Equipment

Property and equipment are stated at cost if purchased or fair value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally ranging from three to fifty years. Leasehold improvements are amortized using the straight line method over the shorter of the estimated useful life of the assets or the lease term. Expenditures from major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

j. Custodial Funds

Custodial funds consist primarily of membership fees collected that will be remitted to GSUSA and other fees collected for the use of members.

k. Functional Expense Allocation

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and benefits are allocated using estimates of time and effort; components of occupancy, insurance and depreciation expenses are allocated based on headcount.

Girl Scouts of Northern California

Notes to Financial Statements

l. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities 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.

m. Income Taxes

The Council is a tax-exempt organization under Internal Revenue Service Code (IRC) §501(c)(3) and the California tax code.

Management evaluated The Council's tax positions and concluded that The Council had maintained its tax-exempt status and had not taken uncertain tax positions that required adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

n. Comparative Information

The financial statements include certain comparative information for which the prior year information is summarized in total but not by net asset class. Accordingly, such information should be read in conjunction with The Council's financial statements for the year ended September 30, 2018, from which the summarized information is derived.

o. Subsequent Events

The Council has evaluated subsequent events through January 30, 2020, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

p. Recent Accounting Pronouncements

Adopted

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14 *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are designed to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The Council adopted this ASU as of October 1, 2018. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of prior year liquidity and availability of resource information as permitted by the ASU.

Girl Scouts of Northern California

Notes to Financial Statements

Pronouncements Effective in the Future

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The new standard will supersede much of the existing authoritative literature for leases. Under the ASU, a lessee will be required to recognize right-to-use assets and liabilities on its statement of financial position for all leases with lease terms of more than twelve months. The ASU is effective for annual reporting periods beginning after December 15, 2020. Early application will be permitted for all organizations. The Council is currently assessing the impact the adoption of this ASU will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The guidance related to contributions received are effective for the Council's fiscal year ending September 30, 2020. The Council is currently evaluating the impact of this pronouncement on its financial statements.

Note 2 - Investments:

The following table summarizes The Council's investments at fair value as of September 30, 2019 by level within the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 12,412,596			\$ 12,412,596
Bond Mutual Funds	3,645,703		\$ 7,491	3,653,194
Equity Mutual Funds	3,941,489			3,941,489
Balanced Mutual Funds	1,043,248			1,043,248
Total	\$ 21,043,036	\$ -	\$ 7,491	\$ 21,050,527

Girl Scouts of Northern California

Notes to Financial Statements

The following table summarizes The Council's investments at fair value as of September 30, 2018 by level within the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 11,134,830			\$ 11,134,830
Bond Mutual Funds	3,493,695		\$ 7,372	3,501,067
Equity Mutual Funds	4,056,974			4,056,974
Balanced Mutual Funds	1,000,069			1,000,069
Total	\$ 19,685,568	\$ -	\$ 7,372	\$ 19,692,940

Investment income for the years ended September 30 is composed of:

	2019	2018
Net realized and unrealized loss	\$ (121,227)	\$ (52,015)
Interest and dividends	607,304	402,206
Total	\$ 486,077	\$ 350,191

The Council considers \$12,358,254 of its investments as available for short term purposes as of September 30, 2019.

Note 3 - Pledges Receivable:

Pledges receivable at September 30 are expected to be collected in:

	2019	2018
Less than one year	\$ 747,800	\$ 204,174
One to five years	584,600	12,950
Total pledge receivables	1,332,400	217,124
Less unamortized discount and allowance for uncollectible pledges	(33,223)	(4,500)
Total pledge receivables, net	\$ 1,299,177	\$ 212,624

Girl Scouts of Northern California

Notes to Financial Statements

Note 4 - Property and Equipment:

Property and equipment consist of the following at September 30:

	2019	2018
Land	\$ 1,810,660	\$ 1,546,470
Building and improvements	22,471,133	20,571,801
Leasehold improvements	222,870	222,870
Equipment	881,891	874,016
Furniture and fixtures	479,277	483,123
Vehicles	573,462	573,462
Software	76,535	99,294
Construction in progress	333,855	390,747
	26,849,683	24,761,783
Less accumulated depreciation and amortization	(14,588,706)	(13,948,198)
Total property and equipment, net	\$ 12,260,977	\$ 10,813,585

In September and November 2016, the Board of Directors authorized The Council to pursue the sale of three properties with a combined carrying value of approximately \$247,000. In July 2017, one of the properties was sold for approximately \$1,500,000, resulting in a gain on sale of approximately \$1,393,000. In December 2017, another of the properties was sold for approximately \$740,000, resulting in a gain on sale of approximately \$675,000. In March 2018, the last of the properties was sold for approximately \$422,000, resulting in a gain on sale of approximately \$348,000. As part of the sale of property, The Council received a \$224,950 note receivable and \$61,000 of licenses for retained usage of the land.

In February 2018, the Board of Directors authorized The Council to pursue the sale of a property with a carrying value of approximately \$174,000. In January 2019, the property was sold for approximately \$494,000, resulting in a gain on sale of approximately \$320,000.

Note 5 - Commitments:

Line of Credit

The Council has a \$4,000,000 line of credit with Wells Fargo Bank. Advances on the line of credit bear interest at the prime rate plus 0%, but not less than 5%. The line of credit expires September 10, 2020. The line is secured by The Council's accounts receivable, inventory, and property and equipment. At September 30, 2019 and 2018 there was no outstanding balance on the line of credit. The line of credit agreement contains various covenants, which require The Council to maintain certain financial ratios and investment balances. At September 30, 2019 and 2018, The Council was in compliance with these requirements.

Girl Scouts of Northern California

Notes to Financial Statements

Leases

The Council leases office space and equipment under operating and capital leases, with various expiration dates. Rent expense for the years ending September 30, 2019 and 2018, was approximately \$659,000 and \$637,000, respectively. Monthly rental payments increase annually on the anniversary of the rent commencement date. The rent is expensed on a straight-line basis over the life of the lease.

Total lease payments for the years ending September 30, are as follows:

	Operating	Capital	Total
2020	\$ 454,000	\$ 25,509	\$ 479,509
2021	467,000	20,159	487,159
2022	481,000	8,613	489,613
2023	453,000	2,871	455,871
Total	\$ 1,855,000	\$ 57,152	\$ 1,912,152

Capital lease payments include \$2,854 of interest.

Note 6 - Program Related Sales:

Program related sales are detailed as follows for the years ended September 30, 2019 and 2018. The gross revenue and direct expenses of the program related products sales and merchandise are as follows:

	2019			
	<u>Merchandise</u>	<u>Cookie Sales</u>	<u>Fall Sale</u>	<u>Total</u>
Gross revenue	\$ 1,280,671	\$ 22,185,624	\$ 1,965,241	\$ 25,431,536
Cost of goods sold	(680,318)	(4,707,062)	(910,629)	(6,298,009)
Revenue retained by troops		(3,527,277)	(337,907)	(3,865,184)
Program sales, net	\$ 600,353	\$ 13,951,285	\$ 716,705	\$ 15,268,343

Girl Scouts of Northern California

Notes to Financial Statements

2018

	<u>Merchandise</u>	<u>Cookie Sales</u>	<u>Fall Sale</u>	<u>Total</u>
Gross revenue	\$ 1,328,584	\$ 22,610,994	\$ 2,303,382	\$ 26,242,960
Cost of goods sold	(679,535)	(4,843,521)	(1,046,588)	(6,569,644)
Revenue retained by troops	-	(3,542,138)	(385,471)	(3,927,609)
Program sales, net	\$ 649,049	\$ 14,225,335	\$ 871,323	\$ 15,745,707

Note 7 - Net Assets With Donor Restrictions:

Net assets with donor restrictions of time and purpose are available as follows at September 30:

	2019	2018
Property improvements	\$ 2,738,567	\$ 530,297
Restricted programs	1,160,258	920,051
Time restrictions	5,432	10,150
Endowment earnings	258,504	271,923
Endowment investments	886,779	886,299
Land-Camp Bothin/Arequipa	276,970	276,970
	\$ 5,326,510	\$ 2,895,690

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes by the donor as follows during the years ending September 30:

	2019	2018
Property improvements	\$ 327,336	\$ 683,000
Restricted programs	828,134	625,929
Time restrictions	4,550	26,430
Endowment earnings	24,010	16,988
	\$ 1,184,030	\$ 1,352,347

Girl Scouts of Northern California

Notes to Financial Statements

Note 8 - Endowments:

The Council's endowment consists of individual funds established for a variety of purposes. Its endowment consists of donor restricted 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.

The Board of Directors of The Council has interpreted the State of California Uniform Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary.

The Council classifies net assets with donor restrictions in perpetuity as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Council in a manner consistent with the standard of prudence prescribed by SPMIFA.

Investment return objectives, risks parameters, and strategies

The Council has adopted investment and spending policies, approved by the Board of Directors, for the endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment assets while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost rate of return which exceeds the annual distribution with acceptable levels of risk.

Spending policies

The Council has a policy of appropriating for distribution each year up to 4% of its donor restricted endowment funds average fair value of the prior 12 quarters throughout the preceding fiscal year in which the distribution is planned. In establishing this policy, The Council has considered long-term expected return on its investment assets, the nature and deviation of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions and the possible effects on inflation.

The Council expects the current spending policy to allow its endowment funds to grow at a nominal, average rate annually. This is consistent with The Council's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Girl Scouts of Northern California

Notes to Financial Statements

Changes in donor-restricted endowment net assets for the fiscal year ended September 30, 2019:

	With Donor Restrictions		Total
	Time and Purpose	Restricted in Perpetuity	
Endowment net assets at October 1, 2018	\$ 271,923	\$ 886,299	\$ 1,158,222
Interest and dividends	50,971	480	51,451
Net depreciation of investments	(30,725)		(30,725)
Appropriation of endowment assets for expenditure	(33,665)		(33,665)
Endowment net assets at September 30, 2019	\$ 258,504	\$ 886,779	\$ 1,145,283

Changes in donor-restricted endowment net assets for the fiscal year ended September 30, 2018:

	With Donor Restrictions		Total
	Time and Purpose	Restricted in Perpetuity	
Endowment net assets at October 1, 2017	\$ 235,011	\$ 889,871	\$ 1,124,882
Write off		(3,900)	(3,900)
Interest and dividends	18,917	328	19,245
Net appreciation of investments	41,813		41,813
Appropriation of endowment assets for expenditure	(23,818)		(23,818)
Endowment net assets at September 30, 2018	\$ 271,923	\$ 886,299	\$ 1,158,222

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Notes to Financial Statements

Note 9 - Related Party Transactions:

The Council is a chartered member of Girls Scouts of the USA (GSUSA). As part of being a chartered member of GSUSA, The Council collects and passes through membership fees on behalf of GSUSA. The Council also purchases a majority of its merchandise inventory from GSUSA. The total merchandise inventory purchased from GSUSA in fiscal years 2019 and 2018 was \$571,712 and \$623,547, or 82% and 79% of total purchases, respectively.

GSUSA made contributions to The Council in fiscal years 2019 and 2018 in the amounts of \$14,733 and \$138,941, respectively. In 2019 and 2018, GSUSA also provided other incentive payments, included in miscellaneous income, totaling \$30,712 and \$143,176, respectively.

Note 10 - Employee Retirement Plans:

Defined benefit pension plan

The Council participates in the National Girl Scout Council Retirement Plan (NGSCR), a multi-employer noncontributory defined benefit pension plan (the Plan) sponsored by GSUSA. The National Board of GSUSA voted to freeze the Plan to new entrants and to freeze future benefit accruals for all current participants under the Plan effective July 31, 2010. The Plan covers substantially all of the employees of various Girl Scout councils who were eligible to participate in the Plan prior to the Plan freeze. Accrued and vested benefits prior to July 31, 2010 are based on years of service and salary levels.

The Council made contributions into the Plan of \$966,720 during each of the fiscal years ended September 30, 2019 and 2018. These contributions approximated 2.99% and 2.98% for the years ended September 2019 and 2018, of total NGSCR contributions.

As of December 31, 2018, the NGSCR fulfilled the required funding as prescribed by an agreement with the IRS to contribute a minimum of \$30,000,000 per year.

Defined contribution plan

The Council has a contributory 403(b) defined contribution plan that is available to all regular employees who are expected to work 1,000 hours or more each year. For the year ended September, 2018, The Council matched salary deferrals by employees up to 2.5% of salary. Beginning January 1, 2019, The Council matched employee salary deferrals up to 3% of salary.

Total payments to the plan for the years ended September 30, 2019 and 2018 totaled \$235,999 and \$184,720, respectively.

Girl Scouts of Northern California

Notes to Financial Statements

Note 11 - Concentration of Credit Risk:

The Council has defined its financial instruments which are potentially subject to risk as cash equivalents, accounts and pledges receivable, and investments.

The Council maintains cash equivalents and investments with commercial banks and other major financial institutions in excess of federally insured limits. The majority of investments are diversified into various mutual funds in order to limit the concentration of market risk. Accounts and pledges receivable are unsecured and concentrated primarily in the San Francisco Bay Area. However, concentrations of credit risk with respect to these receivables are limited due to the number of participants and donors. As of September 30, 2019, 75% of pledges receivable was from one donor.

The majority of contributions consist of donations from individuals and foundations. Approximately 56% of contribution revenue is comprised of funds from two donors for the year ended September 30, 2019.

Note 12 - Availability and Liquidity:

The Council's financial assets at September 30, 2019, that are available to meet general expenditures within one year are as follows:

Financial assets:	
Cash	\$ 1,680,422
Receivables	1,556,156
Investments	21,050,527
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Total	24,287,105
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Less amounts not available to be used within one year:	
Board designated reserves	(7,523,576)
Net assets with donor restrictions	(5,326,510)
Net assets expected to be released in current year	888,492
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Financial assets available to meet general expenditures within one year	\$ 12,325,511

The Council reviews its operating cash flow needs as part of its annual budget process. The Council maintains Board Designated Operating Reserves, which can be made available by the Board for day-to-day operations in the event of unforeseen shortfalls, the long-term repair and maintenance of certain camp and outdoor program center properties, and to support nonrecurring strategic investments. The Council also has available a line of credit totaling \$4 million (Note 5).