

**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018



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**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY
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YEARS ENDED DECEMBER 31, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Goodwill Industries of Northwest Ohio, Inc.
and Subsidiary
Toledo, Ohio

We have audited the accompanying consolidated financial statements of Goodwill Industries of Northwest Ohio, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 auditors' 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.

Board of Trustees
Goodwill Industries of Northwest Ohio, Inc.
and Subsidiary

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Northwest Ohio, Inc. and Subsidiary as of December 31, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, Goodwill Industries of Northwest Ohio, Inc. has adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The adoption of this standard did not have a significant impact on the Organization's reported historical revenue. Our opinion is not modified with respect to that matter.

As described in Note 1, the Organization adopted Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. The accounting change has not been retrospectively applied to prior periods presented but applied prospectively. Our opinion is not modified with respect to that matter.



CliftonLarsonAllen LLP

Toledo, Ohio
May 5, 2020

**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

ASSETS	2019	2018
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,384,541	\$ 1,749,209
Accounts Receivable	1,116,132	687,402
Inventories	682,753	686,308
Prepaid Expenses	171,164	266,117
Total Current Assets	3,354,590	3,389,036
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION	2,508,172	2,316,205
OTHER ASSETS		
Deposits	20,470	20,870
Investments	2,142,563	1,155,735
Total Other Assets	2,163,033	1,176,605
Total Assets	\$ 8,025,795	\$ 6,881,846
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 273,039	\$ 219,728
Accrued Compensation	464,901	345,925
Deferred Revenue	120,431	101,865
Incentive Rent	588,092	662,081
Other Accrued Liabilities	27,754	28,595
Total Current Liabilities	1,474,217	1,358,194
NET ASSETS		
Without Donor Restrictions:		
Undesignated	4,409,015	4,367,917
Board Designated	2,142,563	1,155,735
Total Net Assets Without Donor Restrictions	6,551,578	5,523,652
Total Liabilities and Net Assets	\$ 8,025,795	\$ 6,881,846

See accompanying Notes to Consolidated Financial Statements.

**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
REVENUE AND SUPPORT		
Retail Sales	\$ 10,247,487	\$ 10,364,899
Donated Goods	5,458,470	5,442,399
Contributions	855,185	191,030
Contract Sales	2,276,979	1,972,030
Grants	661,535	706,083
Investment Income (Loss)	261,700	(35,433)
Gain on Sale of Assets	1,500	1,012,109
Other	113,796	19,320
Total Revenue and Support	<u>19,876,652</u>	<u>19,672,437</u>
EXPENSES		
Functional Expenses:		
Program Services	16,766,379	16,159,708
Management and General	2,053,193	2,155,938
Fundraising	29,154	28,569
Total Expenses	<u>18,848,726</u>	<u>18,344,215</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,027,926	1,328,222
Net Asset - Beginning of Year	<u>5,523,652</u>	<u>4,195,430</u>
NET ASSETS - END OF YEAR	<u>\$ 6,551,578</u>	<u>\$ 5,523,652</u>

See accompanying Notes to Consolidated Financial Statements.

**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)**

	Program Services						2019 Total	2018 Total	
	Mission	Stores	Donated Goods Processing	Contracts	Program Services Total	Management and General			Fundraising
Cost of Goods Sold	\$ -	\$ 5,465,611	\$ -	\$ -	\$ 5,465,611	\$ -	\$ -	\$ 5,465,611	\$ 5,504,549
Salaries and Wages	700,725	2,942,766	632,109	1,097,657	5,373,257	1,105,395	11,004	6,489,656	6,193,094
Payroll Taxes	63,470	251,447	57,999	109,348	482,264	102,458	804	585,526	372,131
Employee Health Benefits	44,413	135,581	58,552	28,311	266,857	238,498	1,978	507,333	447,683
Total Payroll Related Expenses	808,608	3,329,794	748,660	1,235,316	6,122,378	1,446,351	13,786	7,582,515	7,012,908
Occupancy	17,240	2,827,600	459,713	12,355	3,316,908	71,289	4	3,388,201	3,418,559
Local Transportation	16,923	6,812	387,131	14,447	425,313	44,011	39	469,363	470,731
Postage and Shipping	177	246,437	79	-	246,693	2,036	83	248,812	211,061
Supplies	153,101	136,550	125,530	71,631	486,812	22,861	336	510,009	448,379
Bank Charges and Interest	136	159,737	1,354	1,510	162,737	27,541	119	190,397	208,812
National and Organizational Dues	150	-	-	-	150	124,962	-	125,112	114,614
Professional Fees	60,293	50,399	-	50	110,742	102,299	-	213,041	257,556
Telephone	7,600	26,258	6,256	2,420	42,534	13,880	19	56,433	53,634
Advertising, Printing, and Promotion	935	-	-	-	935	55,329	12,581	68,845	82,819
Building Maintenance	10,596	94,126	8,697	7,649	121,068	23,163	-	144,231	135,825
Equipment Maintenance	1,005	6,223	17,312	8,714	33,254	4,487	30	37,771	34,244
Software Expense	906	-	-	-	906	3,629	-	4,535	4,098
Security and Insurance	109	19,627	2,775	5,650	28,161	1,968	-	30,129	23,887
Miscellaneous	6,645	1,120	469	7,214	15,448	27,812	1,610	44,870	65,654
Total Functional Expenses Before Depreciation and Amortization	1,084,424	12,370,294	1,757,976	1,366,956	16,579,650	1,971,618	28,607	18,579,875	18,047,330
Depreciation and Amortization	15,727	143,749	16,796	10,457	186,729	81,575	547	268,851	296,885
Total Functional Expenses	<u>\$ 1,100,151</u>	<u>\$ 12,514,043</u>	<u>\$ 1,774,772</u>	<u>\$ 1,377,413</u>	<u>\$ 16,766,379</u>	<u>\$ 2,053,193</u>	<u>\$ 29,154</u>	<u>\$ 18,848,726</u>	<u>\$ 18,344,215</u>

See accompanying Notes to Consolidated Financial Statements.

**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

	Program Services				Program Services Total	Management and General	Fundraising	2018 Total
	Mission	Stores	Donated Goods Processing	Contracts				
Cost of Good Sold	\$ -	\$ 5,504,549	\$ -	\$ -	\$ 5,504,549	\$ -	\$ -	\$ 5,504,549
Salaries and Wages	611,810	2,968,225	681,738	791,254	5,053,027	1,126,411	13,656	6,193,094
Payroll Taxes	49,827	193,936	23,630	60,596	327,989	43,388	754	372,131
Employee Health Benefits	27,729	121,628	47,021	16,900	213,278	232,464	1,941	447,683
Total Payroll Related Expenses	<u>689,366</u>	<u>3,283,789</u>	<u>752,389</u>	<u>868,750</u>	<u>5,594,294</u>	<u>1,402,263</u>	<u>16,351</u>	<u>7,012,908</u>
Occupancy	5,432	2,816,428	501,475	11,764	3,335,099	83,460	-	3,418,559
Local Transportation	19,677	6,418	384,692	3,329	414,116	56,564	51	470,731
Postage and Shipping	1,558	206,438	60	7	208,063	2,903	95	211,061
Supplies	104,555	111,872	138,090	61,557	416,074	31,871	434	448,379
Bank Charges and Interest	136	147,668	1,979	480	150,263	58,442	107	208,812
National and Organizational Dues	-	-	-	-	-	114,614	-	114,614
Professional Fees	60,800	44,544	-	-	105,344	152,212	-	257,556
Telephone	7,649	23,586	5,920	2,288	39,443	14,191	-	53,634
Advertising, Printing, and Promotion	2,106	-	-	-	2,106	74,531	6,182	82,819
Building Maintenance	23,509	68,760	13,098	9,856	115,223	20,602	-	135,825
Equipment Maintenance	5,396	8,108	11,079	5,493	30,076	4,069	99	34,244
Software Expense	1,080	384	-	-	1,464	2,634	-	4,098
Security and Insurance	111	18,346	3,053	-	21,510	2,377	-	23,887
Miscellaneous	11,104	1,877	505	5,719	19,205	41,620	4,829	65,654
Total Functional Expenses Before Depreciation and Amortization	<u>932,479</u>	<u>12,242,767</u>	<u>1,812,340</u>	<u>969,243</u>	<u>15,956,829</u>	<u>2,062,353</u>	<u>28,148</u>	<u>18,047,330</u>
Depreciation and Amortization	<u>11,611</u>	<u>163,997</u>	<u>20,081</u>	<u>7,190</u>	<u>202,879</u>	<u>93,585</u>	<u>421</u>	<u>296,885</u>
Total Functional Expenses	<u><u>\$ 944,090</u></u>	<u><u>\$ 12,406,764</u></u>	<u><u>\$ 1,832,421</u></u>	<u><u>\$ 976,433</u></u>	<u><u>\$ 16,159,708</u></u>	<u><u>\$ 2,155,938</u></u>	<u><u>\$ 28,569</u></u>	<u><u>\$ 18,344,215</u></u>

See accompanying Notes to Consolidated Financial Statements.

**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,027,926	\$ 1,328,222
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	268,851	296,885
Amortization of Rent Incentive	(73,989)	(32,994)
Net Unrealized and Realized Losses (Gains) on Investments	(183,157)	70,261
Gain on Sale of Assets	(1,500)	(1,012,109)
(Increase) Decrease in Assets:		
Accounts Receivable, Net	(428,730)	(306,753)
Inventories	3,555	57,460
Prepaid Expenses	94,953	56,057
Deposits	400	3,301
Increase (Decrease) in Liabilities:		
Accounts Payable	53,311	119,246
Accrued Compensation	118,976	(4,308)
Deferred Revenue	18,566	101,865
Rent Incentive	-	500,000
Other Accrued Liabilities	(841)	(13,261)
Net Cash Provided by Operating Activities	898,321	1,163,872
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(460,818)	(482,922)
Purchases of Investments	(836,755)	-
Proceeds from Sale of Investments	33,084	6,740
Proceeds from Sale of Property and Equipment	1,500	1,500,000
Net Cash Provided (Used) by Investing Activities	(1,262,989)	1,023,818
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Notes Payable	-	(1,850,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(364,668)	337,690
Cash and Cash Equivalents - Beginning of Year	1,749,209	1,411,519
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,384,541	\$ 1,749,209
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 1,164	\$ 21,095

See accompanying Notes to Consolidated Financial Statements.

**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Goodwill Industries of Northwest Ohio, Inc. (Goodwill) is a nonprofit Ohio corporation organized in 1933 that provides human services to assist disadvantaged individuals with disabilities to achieve their optimum level of independence. Specifically, the programs of Goodwill provide employment, training, and rehabilitation services to assist in overcoming limitations that prevent the individual from being a productive, independent citizen. In addition, Goodwill operates thrift stores in Northwest Ohio as a means of providing jobs and training, as well as assistance and affordable goods to the local area's families and children. The Organization is a member of Goodwill Industries International.

The consolidated financial statements include the accounts of Goodwill Industries of Northwest, Ohio, Inc. and its subsidiary, ContracTech Inc. (collectively, the Organization). ContracTech Inc. (ContracTech) was established as a wholly owned subsidiary in 1992 and was formed to administer general services contracts. All material balances and transactions between the entities have been eliminated.

Significant accounting policies followed by the Organization are presented below.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. The accrual basis of accounting provides for the recognition of revenues when earned and expenses when incurred.

Basis of Presentation

In accordance with accounting principles generally accepted in the United States of America, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions which will be satisfied by actions of the Organization or passage of time.

**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant areas involving the use of management's estimates and assumptions are the end of year inventory and cost of sales, depreciable lives and methods of property and equipment, and the allocation of functional expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. The Organization maintains cash deposits with several financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. At times cash balances may be in excess of FDIC insurance limits. Management regularly monitors the financial condition of each institution in which it has depository accounts and believes the risk of loss are minimal.

Investments

Investments, consisting of equity and fixed income mutual funds, are carried at fair value. Fair value is determined based on quoted market values of the funds.

In general, investments are exposed to various risks such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Accounts Receivable

The Organization extends credit to its nonretail customers based on an evaluation of the customer's credit history. Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts using the specific identification method. The allowance is based on experience, third party contracts, and other circumstances which may affect the ability of the payor to meet their obligations. Receivables are considered delinquent when payments have not been received in accordance with the contractual terms. It is the policy of the Organization to charge off uncollectible accounts when management determines that the receivable will not be collected. There was no allowance for doubtful accounts as of December 31, 2019 and 2018.

**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

The Organization receives contributions of goods and materials (inventory) and processes these contributions as merchandise available for sale in its retail thrift stores. Accounting standards require that contributions be recognized as revenues or gains in the period received and as assets, decreases of liabilities or expenses depending on the form of benefits received. Contributions should be measured at fair value.

The Organization believes that the inventory of donated goods and materials does not possess an attribute that is easily measureable or verifiable with sufficient reliability to determine inventory value at the time of the donation. Instead, the value of inventory at the end of the year is estimated using historical sales of similar inventory. Inventory balances recorded at year-end are comprised mostly of goods donated to the Organization for resale through its thrift stores. The Organization considers the costs (store expenses, processing, transportation, and retail management) associated with bringing the donated inventory to sale in its estimate of the fair value of the inventory.

The estimate of the inventory value of donated goods and material in its retail stores is based on a 12-month rolling average of retail sales less cost of sales multiplied by the estimated shelf life of inventory on hand at December 31.

Property and Equipment

Property and equipment are carried at cost, except for donated items which are recorded at fair value when donated. Costs greater than \$500 that materially add to the productive capacity or extend the life of an asset are capitalized while maintenance and repair costs are expensed as incurred.

The Organization provides for depreciation and amortization using the straight-line method over the estimated useful lives of the depreciable assets, or for leasehold improvements, the shorter of estimated useful lives or the applicable lease term, which generally range from 5 to 45 years for building and leasehold improvements and 3 to 10 years for other assets.

Retail Stores

Retail store revenue is recorded, net of any sale discounts and in-kind vouchers, at the time the goods are sold. The payments are received, from customers, through cash or credit card. Cash is deposited daily and credit card charges are deposited within two days. The credit cards are settled at each store nightly.

Salvage

Salvage sales are included in retail sales on the consolidated statements of activities and are recorded when salvage loads are picked up.

**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ShopGoodwill

ShopGoodwill is the Organization's online sales platform and is included in retail sales on the consolidated statements of activities. Revenue is recognized at the time the goods are shipped and is recorded twice a month, net of any fees, adjustments and sales tax. The online system only take credit cards as payment. The funds are deposited into our operating account twice a month from Goodwill Orange County ShopGoodwill.

Donated Goods

Generally, contributions are received in the form of goods such as clothing, household furnishings, and electronics. The items are sorted, processed, and distributed to Goodwill's thrift stores. Items which cannot be retailed or reconditioned are sold as salvage. Collection, sorting, processing, renovation, and distribution costs are charged to operations as incurred. No amounts have been reflected in the consolidated financial statements for donated services, as services provided do not meet the definition for services required to be reported under accounting principles generally accepted in the United States of America. A number of volunteers, including the board of directors, however, have donated significant amounts of their time and expertise to the Organization's programs and supportive services.

Contributions

Contributions are recognized as revenue in the period received or unconditionally promised, whichever is earlier. They are recorded as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Deferred revenue on the consolidated statement of financial position is all related to contributions.

Contract Sales

Contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each contract, are made. Funds received but not yet earned are recorded as deferred revenue. Contract revenue is based on hours worked, units serviced, or billed lump sum.

Mission Services

Mission service fees are included in contract sales on the statements of activities and are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing services to their program participants. The revenue is recognized when services are rendered. Programs are funded by Ohioans with Disabilities (OOD), Department of Developmental Disabilities (DODD), or the Veteran Administration. The Organization also has programs that are funded by private donations and grants. All programs have separate cost centers. OOD, DODD, and the Veterans Administration are invoiced monthly.

**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants

Conditional grants are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each contract, are made. Funds received but not yet earned are shown as deferred revenue. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Each expense is allocated using a method that is appropriate to the manner in which the expense is accrued. Salaries, wages, taxes, and benefits, are allocated directly to the proper program, grant, department, administrative, or fundraising category based on hours spent on each. Shared direct expenses are allocated based on the percentage of total staff hours spent in each program area, which include occupancy costs, technology, equipment, telephone, postage, and office supplies.

Advertising

Advertising and promotion costs are expensed as incurred. Such costs were \$68,845 and \$82,818 for the years ended December 31, 2019 and 2018, respectively.

Income Taxes

Goodwill Industries of Northwest Ohio, Inc. and its subsidiary are each exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and are not classified as private foundations. As such, no provision for income tax expense has been made in the accompanying consolidated financial statements. The Internal Revenue Code provides for taxation of unrelated business income under certain circumstances. The Organization reports no net unrelated business taxable income; however, such status is subject to final determination upon examination of the related tax returns by the appropriate taxing authorities.

The Organization follows the income tax standard for uncertain tax positions. Management has determined that they have no uncertain tax positions.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

**GOODWILL INDUSTRIES OF NORTHWEST OHIO, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). Subsequent to May 2014, the FASB has issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity and understandability of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Our consolidated financial statements reflect the application of ASC 606 guidance, beginning in 2019. No cumulative-effect adjustment in net assets was recorded as the adoption of ASU 2014-09 did not significantly impact the Organization's reported historical revenue.

Additionally in June 2018, FASB issued Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

Subsequent Events

Management evaluated subsequent events through May 5, 2020, the date the consolidated financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of programs, contracts, and overhead to support the mission.

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NOTE 2 LIQUIDITY AND AVAILABILITY (CONTINUED)

At December 31, the Organization's financial resources were earmarked as follows:

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 1,384,541	\$ 1,749,209
Accounts Receivable	1,116,132	687,402
Available for Operations	<u>\$ 2,500,673</u>	<u>\$ 2,436,611</u>
Board Designated Endowment	\$ 2,142,563	\$ 1,155,735
Total Reserves	<u>\$ 2,142,563</u>	<u>\$ 1,155,735</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures through store sales and other contracts.

The Organization's board of trustees (the board) has designated a portion of its unrestricted resources for endowment and other purposes. Those amounts are identified as board-designated in the table above. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the board and President/CEO based on the spending policy as described in Note 5.

In addition, the Organization has available a \$500,000 line of credit with Fifth Third Bank.

NOTE 3 INVESTMENTS

Investments at December 31 consist of the following:

	<u>2019</u>	<u>2018</u>
Domestic Equities	\$ 707,223	\$ 432,094
International Equities	205,766	134,209
Emerging Markets	101,589	108,147
Domestic Fixed Income	731,121	330,836
International Fixed Income	140,953	67,260
Money Market	255,911	83,189
Total Investments	<u>\$ 2,142,563</u>	<u>\$ 1,155,735</u>

Investment income for December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Unrealized and Realized Gains (Losses)	\$ 183,157	\$ (70,261)
Investment Fees	(8,892)	(5,692)
Interest and Dividend Income	87,435	40,520
Total Investment Income	<u>\$ 261,700</u>	<u>\$ (35,433)</u>

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NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of the following:

	2019	2018
Land	\$ 326,092	\$ 326,092
Building and Leasehold Improvements	3,545,562	3,272,854
Furniture, Fixtures, and Equipment	1,837,576	1,657,392
Trucks and Trailers	159,324	169,809
	5,868,554	5,426,147
Less: Accumulated Depreciation and Amortization	3,360,382	3,109,942
Net Property and Equipment	\$ 2,508,172	\$ 2,316,205

NOTE 5 ENDOWMENTS

The Organization's endowments consist of a fund established to support the achievement of the Organization's mission. The Goodwill Industries of Northwest Ohio, Inc. Endowment Fund (Endowment Fund) consists of funds designated by the board to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board has interpreted the State 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. Consequently, the Organization classifies net assets with donor restrictions of a perpetual nature as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as perpetual in nature are classified as net assets with donor restrictions until those amounts are appropriated for expenditure.

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NOTE 5 ENDOWMENTS (CONTINUED)

Return Objectives and Risk Parameters

The Organization has adopted an investment policy for endowment assets that attempts to manage fund assets according to prudent standards as established in common trust law. Investment of the funds shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. The intent is for investments to be broadly diversified so as to participate in market growth. The principal investment objective of the portfolio is to provide a rate of return sufficient to offset the impact of inflation on Endowment Fund assets as well as to provide for a degree of real growth commensurate with a moderate level of risk. In order to attain these investment objectives, Endowment Fund assets are comprised of equity and fixed income securities as well as cash equivalents allocated in a manner broadly consistent with the long-term goals.

Distribution Policy

The board determines an amount to be withdrawn from the cumulative investment return of certain endowment funds to support the activities of the Organization; the remainder is retained to support operations of future years and to offset potential market declines. Annual distributions from the Endowment Fund may be made to the Organization based on the spending guidelines of the Endowment Fund; however, the Organization may request distributions in excess of the spending guidelines.

The President/CEO of the Organization may also take a distribution from the Endowment Fund on a yearly basis based on spending policy of no more than 3.5% of principal based on a rolling three-year average of year-end assets.

Strategies Employed for Achieving Objectives

In order to meet its needs, the investment strategy of the Organization is to emphasize total return; that is, the aggregate return from realized and unrealized capital gains and losses and dividend and interest income.

At December 31, 2019 and 2018, unrestricted board-designated endowment funds totaled \$2,142,563 and \$1,155,735, respectively.

Changes in unrestricted endowment net assets for the years ended December 31 were as follows:

	<u>2019</u>	<u>2018</u>
Endowment Net Assets - Beginning of Year	\$ 1,155,735	\$ 1,232,736
Net Investment Return:		
Investment Income, Net	53,671	23,260
Net Appreciation (Depreciation)	183,157	(70,261)
Total Net Investment Return	<u>236,828</u>	<u>(47,001)</u>
Contributions	750,000	-
Distributions	-	(30,000)
Endowment Net Assets - End of Year	<u><u>\$ 2,142,563</u></u>	<u><u>\$ 1,155,735</u></u>

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NOTE 6 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value. The term “fair value hierarchy” refers to the relative reliability of inputs to a fair value measurement. Generally, the lower the level of input for a fair value measurement, the more extensive the disclosure requirement.

The three-level fair value hierarchy prioritizes the inputs to valuation technique used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in active markets or markets that are not active, such as dealer or broker markets.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy due to the lack of observable quotes in inactive markets for those instruments during the years ended December 31, 2019 and 2018.

Certain financial assets and liabilities are measured at fair value on a recurring basis while others are measured on a nonrecurring basis. The Organization had no assets or liabilities measured on a nonrecurring basis at December 31, 2019 and 2018.

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NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes financial assets (no liabilities) measured at fair value as of December 31, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	2019			Total Fair Value
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Domestic Equities	\$ 707,223	\$ -	\$ -	\$ 707,223
International Equities	205,766	-	-	205,766
Emerging Markets	101,589	-	-	101,589
Domestic Fixed Income	731,121	-	-	731,121
International Fixed Income	140,953	-	-	140,953
Money Market	-	255,911	-	255,911
Total Investments at Fair Value	<u>\$ 1,886,652</u>	<u>\$ 255,911</u>	<u>\$ -</u>	<u>\$ 2,142,563</u>
	2018			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Domestic Equities	\$ 432,094	\$ -	\$ -	\$ 432,094
International Equities	134,209	-	-	134,209
Emerging Markets	108,147	-	-	108,147
Domestic Fixed Income	330,836	-	-	330,836
International Fixed Income	67,260	-	-	67,260
Money Market	-	83,189	-	83,189
Total Investments at Fair Value	<u>\$ 1,072,546</u>	<u>\$ 83,189</u>	<u>\$ -</u>	<u>\$ 1,155,735</u>

NOTE 7 LINE OF CREDIT

At December 31, 2019, the Organization has available a \$500,000 line of credit with interest at 1.60% in excess of the one-month LIBOR (3.29% as of December 31, 2019). This line of credit is secured by substantially all assets of the Organization and matures on October 4, 2020. There were no borrowings under this or a similar line of credit at December 31, 2019 and 2018.

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NOTE 8 MAJOR CUSTOMERS

Contract sales included revenue from two customers in 2019 and 2018 of approximately 63% and 92%, respectively, of total contract sales. Accounts receivable at December 31, 2019 and 2018 from these customer aggregated approximately 13% and 16%, respectively, of total receivables. There were two additional customers in 2018 that amounted to 25% of total receivables.

Grants included revenue from two grantors in 2019 and 2018 of approximately 97% and 99%, respectively, of total grant revenue. Accounts receivable at December 31, 2019 and 2018 from these grantors was approximately 6% and 16%, respectively, of total receivables.

NOTE 9 PENSION PLAN

The Organization has a defined contribution pension plan covering substantially all employees. The plan allows for contributions by the Organization to be determined annually at its discretion. Total pension expense, including administrative expenses paid by the Organization, was \$17,866 and \$23,467 for the years ended December 31, 2019 and 2018, respectively.

NOTE 10 LEASE COMMITMENTS

As of December 31, 2019, Goodwill leased 13 retail store locations; four in Toledo, and one each in Bowling Green, Bryan, Defiance, Findlay, Napoleon, Ottawa, Tiffin, Whitehouse, and Wauseon, Ohio. In addition, Goodwill leases 6 donation stations and office space. Rent expense, including maintenance fees, totaled \$2,417,236 and \$2,486,664 for the years ended December 31, 2019 and 2018, respectively.

Future minimum lease payments under noncancellable operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 2,291,709
2021	2,022,491
2022	1,655,818
2023	1,002,907
2024	944,999
2025 and Thereafter	960,102
Total	<u>\$ 8,878,026</u>

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NOTE 11 SUBSEQUENT EVENTS

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses and communities. It is expected the COVID-19 will impact the Organization's 2020 operations.

During the period from January 1, 2020 through May 5, 2020, both domestic and international equity markets have experienced large declines. These losses are not included in the consolidated financial statements as of and for the year ended December 31, 2019.

Management believes the Organization is taking appropriate actions to mitigate the negative financial impact. However, the full financial impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing. During the period from March 23, to May 11, 2020, all retail stores and donation stations were closed.

In April 2020, the Organization obtained an increase in the line of credit discussed in Note 7 from \$500,000 to \$1,000,000. The full \$1,000,000 has since been drawn.

In April 2020, the Organization executed a \$1,546,600 promissory note under the CARES Act Paycheck Protection Program. The note bears interest at a fixed rate of 1%. Under the provisions of the CARES Act, some or all of the principal and interest may be eligible for forgiveness through an application with the lender in future months.

In April 2020, the Organization executed a \$500,000 an Economic Injury Disaster Loan from the U.S. Small Business Administration. The note bears interest at a fixed rate of 2.75%. The note is payable in monthly installments of \$2,136 beginning April 21, 2021, is secured by all assets of the Organization, and matures April 21, 2050.

