PBTK
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)

FINANCIAL STATEMENTS AND REGULATORY REPORTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Board of Directors
Goodwill Industries of Southern Nevada, Inc.
North Las Vegas, Nevada

We have audited the accompanying financial statements of Goodwill Industries of Southern Nevada, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2018 and 2017 (as restated), and the related statements of activities, functional expenses and cash flows for the years then ended, and the notes to the financial statements.

An audit performed in accordance with applicable professional standards is a process designed to obtain reasonable assurance about whether the Organization's financial statements are free from material misstatement. This process 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 Organization's preparation and fair presentation of the financial statements to enable the design of audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

Management's Responsibility for the Financial Statements. Management is responsible for the preparation and fair presentation of the 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 the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 Organization as of December 31, 2018 and 2017 (as restated), and its changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter regarding going concern. The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 11 to the financial statements, the Organization has a net asset deficiency at year end, is not in compliance with its bond covenants,

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is delinquent on its bond payments, and has filed for relief under Chapter 11 of the Bankruptcy Code. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 11. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*. In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Las Vegas, Nevada
July 8, 2019

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017 (Restated)
ASSETS		
Current assets		
Cash	$ 2,811,568	$ 1,002,250
Accounts receivable	33,336	74,499
Contracts receivable	28,726	45,453
Grants receivable	255,360	182,079
Inventory	2,802,218	2,945,823
Prepaid expenses and other	595,584	594,550
	6,526,792	4,844,654
Property and equipment, net of accumulated depreciation	18,453,094	19,373,280
Deposits	437,901	437,901
Restricted cash	1,449,974	1,048,648
	$ 26,867,761	$ 25,704,483
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 234,982	$ 261,860
Pre-filing liabilities subject to compromise	2,339,274	2,814,043
Accrued expenses	3,025,569	2,928,030
Current portion of deferred gain on sale-leaseback	610,692	610,691
Current portion of long-term debt	795,000	806,779
	7,005,517	7,421,403
Long-term liabilities		
Deferred gain on sale-leaseback	1,475,840	2,086,532
Long-term debt	19,574,502	19,550,480
	28,055,859	29,058,415
Net assets (deficiency)		
Without donor restrictions	(1,515,174)	(3,494,609)
With donor restrictioons	327,076	140,677
	(1,188,098)	(3,353,932)
	$ 26,867,761	$ 25,704,483

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017 (Restated)
Changes in net assets without donor restrictions		
Revenues and gains		
Contributions	$ 52,892	$ 254,426
Grants	1,106,596	1,029,503
Goods contributed for sale	32,337,250	28,754,581
Sale of contributed goods	32,480,855	33,342,597
Less cost of goods sold	(32,480,855)	(33,342,597)
Sale of purchased goods	67,545	67,089
Less cost of goods sold	(37,466)	(63,222)
Vocational assistance programs	292,133	530,577
Amortization of deferred gain on sale-leaseback	610,692	610,692
Special events	-	27,500
Less direct benefit costs	(480)	(1,233)
Interest	12,731	3,338
Other	39	70
	34,441,932	31,213,321
Net assets released from donor restrictions	316,386	658,296
	34,758,318	31,871,617
Expenses		
Program services	29,566,199	36,253,049
Support services:		
Management and general	742,151	890,790
Interest and debt related amortization	37,512	811,637
Fundraising	423,168	525,248
	30,769,030	38,480,724
Unallocated payments to affiliated organization	153,243	165,137
	30,922,273	38,645,861
Increase (decrease) in net assets without donor restrictions before reorganization items	3,836,045	(6,774,244)
Reorganization items:		
Gain (loss) from lease compromise activities	2,547	1,027,536
Professional fees	(1,859,157)	(551,330)
	(1,856,610)	476,206
Increase (decrease) in net assets without donor restrictions	1,979,435	(6,298,038)
Changes in net assets with donor restrictions		
Contributions	502,785	701,337
Net assets released from doner restrictions	(316,386)	(658,296)
Increase in net assets with donor restrictions	186,399	43,041
Increase (decrease) in net assets	2,165,834	(6,254,997)
Net assets (deficiency), beginning of year		
As previously reported	(3,654,452)	2,901,065
Prior period adjustments	300,520	-
As adjusted	(3,353,932)	2,901,065
Net assets (deficiency), end of year	$ (1,188,098)	$ (3,353,932)

See notes to financial statements

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Program	Management and General	Fundraising	Total
2018				
Personnel:				
Salaries	**$ 16,071,212**	**$ 412,441**	**$ 235,170**	**$ 16,718,823**
Payroll taxes	**1,418,415**	**36,401**	**20,756**	**1,475,572**
Employee benefits	**415,217**	**10,656**	**6,076**	**431,949**
	17,904,844	**459,498**	**262,002**	**18,626,344**
Advertising	**200,449**	**5,144**	**2,933**	**208,526**
Merchant fees	**452,794**	**-**	**-**	**452,794**
Travel	**21,770**	**559**	**319**	**22,647**
Occupancy	**5,064,636**	**129,975**	**74,111**	**5,268,722**
Equipment rental	**673,540**	**17,285**	**9,856**	**700,681**
Repairs and maintenance	**341,331**	**8,760**	**4,995**	**355,085**
Insurance	**827,404**	**21,234**	**12,107**	**860,745**
Utilities	**1,048,230**	**26,901**	**15,339**	**1,090,470**
Property taxes	**136,526**	**3,504**	**1,998**	**142,028**
Office	**350,620**	**8,998**	**5,131**	**364,749**
Client assistance	**194,672**	**-**	**-**	**194,672**
Printing and duplication	**20,574**	**528**	**301**	**21,403**
Security	**69,013**	**1,771**	**1,010**	**71,794**
Supplies	**627,384**	**16,101**	**9,181**	**652,665**
Telecommunications	**230,430**	**5,914**	**3,372**	**239,715**
Mileage and other vehicle expense	**231,667**	**5,945**	**3,390**	**241,002**
Postage and shipping	**91,284**	**2,343**	**1,336**	**94,962**
Meetings and conferences	**15,829**	**406**	**232**	**16,467**
Professional services	**81,865**	**2,101**	**1,198**	**85,164**
Depreciation and equipment amortization	**981,339**	**25,184**	**14,360**	**1,020,883**
	$ 29,566,199	**$ 742,151**	**$ 423,168**	**$ 30,731,518**
2017 (Restated)				
Personnel:				
Salaries	$ 19,236,528	$ 484,684	$ 285,791	$ 20,007,003
Payroll taxes	1,689,783	42,576	25,105	1,757,464
Employee benefits	528,966	13,328	7,857	550,151
	21,455,277	540,588	318,753	22,314,618
Advertising	377,966	9,523	5,615	393,104
Equipment rental	509,364	12,834	7,568	529,766
Repairs and maintenance	320,272	8,070	4,758	333,100
Utilities	917,601	23,120	13,633	954,354
Insurance	744,138	18,749	11,055	773,942
Meetings and conferences	12,050	304	179	12,533
Occupancy	6,661,727	167,849	98,971	6,928,547
Office	648,968	16,351	9,642	674,961
Client assistance	181,645	-	-	181,645
Postage and shipping	525,106	13,231	7,801	546,138
Printing and duplication	71,732	1,807	1,066	74,605
Professional fees	125,528	3,163	1,865	130,556
Property taxes	172,538	4,347	2,563	179,448
Security	112,763	2,841	1,675	117,279
Merchant fees	717,021	-	-	717,021
Supplies	706,217	17,794	10,492	734,503
Telecommunications	240,805	6,067	3,578	250,450
Travel	24,895	627	370	25,892
Mileage and other vehicle expense	294,796	7,428	4,380	306,604
Depreciation and equipment amortization	1,432,640	36,097	21,284	1,490,021
	$ 36,253,049	$ 890,790	$ 525,248	$ 37,669,087

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017 (Restated)
Cash flows from operating activities		
Increase (decrease) in net assets	$ 2,165,834	$ (6,254,997)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization of property and equipment	1,020,883	1,490,021
Debt related amortization	37,512	32,245
Amortization of deferred gain on sale-leaseback	(610,692)	(610,692)
Reorganization items	1,856,610	(372,789)
(Increase) decrease in operating assets:		
Accounts receivable	41,163	142
Contracts receivable	16,727	805
Grants receivable	(73,281)	(51,284)
Inventory	143,605	4,637,947
Prepaid expenses and other	(1,034)	(488,992)
Deposits	-	(4,059)
Increase (decrease) in operating liabilities		
Accounts payable and pre-filing liabilities subject to compromise	(501,647)	1,530,078
Accrued expenses	97,539	(750,454)
Net cash provided by (used in) operating activities before reorganization items	4,193,219	(842,029)
Operating cash flows from reorganization items:		
Gain from lease compromise activities	-	1,027,536
Professional fees	(1,859,156)	(551,330)
Net cash provided by (used in) operating activities	2,334,063	(365,823)
Cash flows from investing activities		
Purchase of property and equipment	(98,150)	(140,024)
Cash flows from financing activities		
Repayment of long-term debt	(25,269)	-
Net increase (decrease) in cash	2,210,644	(505,847)
Cash, beginning of year	2,050,898	2,556,745
Cash, end of year	$ 4,261,542	$ 2,050,898
Unrestricted cash	$ 2,811,568	$ 1,002,253
Restricted cash	1,449,974	1,048,645
Total cash, end of year	$ 4,261,542	$ 2,050,898
Supplemental cash flow information		
Interest paid	$ -	$ 599,369

See notes to financial statements

1. Nature of operations, concentrations, risks and uncertainties:

Activities. Goodwill Industries of Southern Nevada, Inc. (the Organization) is a not-for-profit corporation that solicits and collects donated materials, processes and resells them to the general public, and provides employment and training services to people with disabilities and other barriers to employment.

The Organization operates under, and has the use of, the Goodwill name as allowed under an in-substance franchise license agreement with Goodwill Industries International, Inc. The agreement requires payment of "dues" (which are in-substance royalties) based on sales and other specified factors. Such dues or royalty expense is designated as "unallocated payments to affiliated organization" in the statements of activities.

The Organization funds job training, employment placement services and other community programs by selling donated, "gently used" items through its retail, post-retail and e-commerce operations. Its nationally certified workforce development services target job seekers with disabilities and other barriers to employment. The Organization's largest workforce development program currently, Career Connections, specializes in increasing the employability of hard-to-place job seekers who face barriers to employment by giving them access to skills training opportunities, job search tools, career advice, one-on-one counseling, job leads and supportive services. The Organization's more traditional workforce development programs deliver vocational rehabilitation services, including assessment, training, job placement and job coaching, to clients with disabilities.

The Organization operates 15 thrift retail stores, 2 clearance centers, 2 distribution centers and 9 attended donation centers and has approximately 800 employees.

Concentrations, risks and uncertainties. The Organization operates exclusively in Southern Nevada and the near and long-term impact and duration of any significant negative changes in the Nevada economy on the Organization's future operating activities and cash flows cannot be predicted at this time, but might be substantial.

The Organization carries cash and cash equivalents on deposit with financial institutions in excess of federally-insured limits. The extent of a future loss, if any, as a result of uninsured deposits, is not subject to estimation at this time.

Tax-exempt status. The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). Therefore, contributions to the Organization qualify for the charitable contributions deduction to the extent provided by Section 170 of the IRC.

Because there are no known circumstances that would place the Organization's status as a tax-exempt organization in jeopardy, and because it does not engage in unrelated business income activities, no provision has been made for uncertain tax positions taken or to be taken. The Organization's tax returns for years prior to 2014 are generally considered to be no longer subject to examination by the Internal Revenue Service.

2. Petition for relief under Chapter 11:

On August 11, 2017, the Organization filed petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the District of Nevada. Under Chapter 11, certain claims against the Organization in existence before the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Organization continues operations as Debtor-in-Possession. These claims are reflected in the December 31, 2018 and 2017, statements of financial position as liabilities subject to compromise. Additional liabilities subject to compromise may have arisen after the filing date resulting from rejection of leases (Note 10) and other executory contracts and from the determination by the Court (or agreed to by parties in interest) of allowed claims for contingencies and other disputed amounts. Claims secured by the Organization's assets (secured claims) also are stayed, although the holders of such claims have the right to request the Court for relief from the stay. Secured claims are collateralized primarily by liens on the Organization's property and equipment.

The Organization received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including most employee wages. (See also Note 11.)

3. Summary of significant accounting policies:

Basis of presentation. The accompanying financial statements have been presented on the going-concern basis (Note 11) in accordance with accounting principles generally accepted in the United States (GAAP) applicable to not-for-profit entities in Chapter 11 reorganization.

The Organization has elected not to adopt the option available under GAAP to measure any of its eligible financial instruments or other items at estimated fair value. Accordingly, the Organization continues to measure all of its assets and liabilities on the historical cost basis of accounting except as otherwise prescribed by GAAP and disclosed herein.

Accounts and contracts receivable. Receivables are carried at estimated net realizable value, are short-term, and non-interest bearing. In establishing an allowance for doubtful collection, if any, the Organization considers the customer's or contributor's apparent financial condition, payment history, the Organization's relationship with the customer or contributor, management's assessment of the relative strength of the Organization's legal position, the related cost of any proceedings, and general and local economic conditions. Receivables are deemed to be delinquent when payments are past due 30 days and written off when they are determined to be uncollectible based on an evaluation by management of facts and circumstances. The maximum losses that the Organization would incur if a customer or contributor failed to pay would be limited to the carrying value after any allowances provided.

Inventory. Inventory held for sale is comprised primarily of donated goods and some purchased products. Donated goods inventory is recorded at fair value as described below and new goods inventory is valued at the lower of cost or net realizable value using the first-in first-out (FIFO) method.

Purchased inventory is recorded at cost and is subject to adjustment to the estimated net realizable value, if lower, at year end. Donated goods inventory is valued at the expected sales price (fair value).

The Organization's method for valuing its donated goods inventory varies depending on the location and condition or quality of the donated items. Donated goods on the retail floor of its stores has been processed and pre-determined to be of retail quality. Goods in this category are aggregated by type and valued by multiplying item counts in each type by the average expected sales prices associated with the type. Item counts are determined by specific counts for higher priced items and by an estimation process for lower priced items. Estimated sales prices for each of the respective type of goods is based on the average price received for the specific type during the month of December of the then current year.

The Organization values donated goods in its e-commerce program at the expected sales price associated with each item. Donated goods in the Organization's clearance centers are valued by establishing product weights for the various types of goods multiplied by the average price per pound the Organization expects to receive for each type. The Organization values donated goods in its distribution centers and storage trailers at the prevailing salvage market value per pound for each type of goods.

The Organization's inventory valuation was $2,802,218, $2,945,823 and $7,533,839 at December 31, 2018, 2017 and 2016, respectively. The $4,588,016 decline in valuation from December 31, 2016 to December 31, 2017 was attributable to two factors. Approximately $3,924,000 of the difference resulted from a more rigorous application of the Organization's item count method by new management during the inventory year-end count process employed at December 31 2017. The second was the closure of four store location during 2017, which reduced the quantity of goods available for retail sale by approximately $664,000.

Use of estimates. Timely preparation of financial statements in conformity with GAAP requires management to make estimates that affect reported amounts, some of which may require revision in future years.

Property and equipment. Property and equipment (Note 4) is stated at cost, or if donated, at the estimated fair value at the time it is received, based on level 2 or level 3 inputs, as defined by GAAP. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which for leasehold improvements is limited to the lease term, excluding contingent renewal option periods (Notes 4 and 9).

Revenue recognition. All contributions are recognized as support in the statement of activities in the period received, including bequests and unconditional pledges receivable, at their estimated net realizable value, discounted to present value if due in more than one year. Bequests are recognized at the time the Organization's right to them is established to the extent the value of the proceeds is subject to reasonable estimation.

Revenues from exchange transactions are recognized when earned. Contributions received are recorded as unrestricted, or restricted support, depending on the presence and nature of any donor restrictions. All donor-restricted support is reported as an increase in restricted net assets, depending on the nature of the restriction, except that donor restrictions met in the same period received are reported as unrestricted support. When a restriction is met, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions." Unless otherwise specified by the donors, contributions of long-lived assets are considered restricted only until the assets are placed into service at which time the assets are reclassified to unrestricted net assets.

Donated goods and services. Goods contributed for sale are recorded in revenue at expected selling prices. Accordingly, no acquisition costs are recognized for the sales of such goods.

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets, (b) require specialized skills, (c) are performed by people with those skills, and (d) would otherwise be purchased by the Organization. Contributions include donated services valued at $46,597 and $146,953 during 2018 and 2017, respectively.

Functional expenses. Certain costs and expenses have been allocated among the programs and support services benefited, based primarily upon estimates by management. Expenses that can be determined to be directly related to programs or supporting services are recorded in the appropriate category. Those expenses that cannot be directly attributed are allocated based on the amount of time and effort, as estimated by management, and reviewed and amended annually.

Advertising. The Organization uses advertising to promote its programs among the beneficiaries it serves. The costs of advertising are expensed as incurred.

Reclassification. Certain minor reclassifications to prior period amounts have been made to conform to the current period presentation.

Financial asset liquidity. Financial assets at December 31, 2018, consist of the following:

Cash (unrestricted)	$ 2,811,568
Accounts receivable	33,336
Contracts receivable	28,726
Grants receivable	255,360
Restricted cash	1,449,974
	$ 4,578,964

Unrestricted cash, accounts, contracts and grants receivable are fully available to meet cash needs for general expenditures within the following year.

Restricted cash at December 31, 2018, consists of a bond reserve fund in the amount of $1,171,651 and donor restricted amounts of $278,323. Restricted cash at December 31, 2017, consists of a bond reserve fund in the amount of $927,303 and donor restricted amounts of $121,345. The bond reserve fund is not available for general expenditure cash needs. The donor restricted amounts can be used only in accordance with the specific donor restrictions, which typically are included in general expenditures when satisfied.

4. Property and equipment:

	2018	2017 (Restated)
Leasehold improvements	**$ 961,612**	$ 959,076
Office equipment, furniture and fixtures	**6,138,791**	6,157,112
Construction in progress	**87,605**	-
Land	**4,680,000**	4,680,000
Buildings	**12,796,456**	12,796,456
	24,664,464	24,592,644
Less accumulated depreciation and amortization	**(6,211,370)**	(5,219,364)
	$ 18,453,094	$ 19,373,280

5. Donor restricted net assets:

Net assets restricted by donors for certain program activities at December 31, 2018 and 2017 were as follows:

Donor	Nature of restriction	December 31, 2017	Restricted Contributions	Expenditures for Restricted Purposes	December 31, 2018
Give the Gift of a Job Campaign	Supportive Services and Career Center Support	$ 12,000	$ 300	$ 9,324	$ 2,976
Ameriprise Financial	Mission Salaries	15,000	-	-	15,000
Bank of America	Mission Salaries	2,686	-	-	2,686
Bank of Nevada	Mission Salaries	5,000	5,000	4,988	5,012
Bank of the West	Mission Salaries	7,500	7,500	8,190	6,810
Benevity Community Impact Fund	Mission Salaries	-	10,156	-	10,156
Board of Directors	Mission Salaries	-	2,639	400	2,239
Caesars Foundation	Mission Salaries	10,000	-	-	10,000
Capital One Servicers	Supportive Services and Mission Salaries	2,700	25,000	23,254	4,446
JP Morgan	Mission Salaries	40,000	-	40,000	-
Margaret Simpson Daniels Trust	Mission Salaries	-	37,803	37,803	-
MGM Resorts Foundation	Supportive Services	-	70,702	55,291	15,411
Customer	Mission Salaries	-	2,735	2,271	464
Network for Good	Mission Salaries and Career Center Support	-	3,796	1,752	2,044
Southwest Gas	Mission Salaries	-	7,500	-	7,500
Staples Foundation	Supportive Services	3,312	-	-	3,312
State Farm	Supportive Services and Mission Salaries	-	10,000	3,868	6,132
United Way	Mission Salaries	-	2,613	1,016	1,597
United Way Leadership	Supportive Services and Mission Salaries	21,706	37,862	59,206	362
US Bank Foundation	Mission Salaries	5,000	5,000	4,754	5,246
Wells Fargo Bank	Mission Salaries	-	25,000	18,417	6,583
Windsong Trust	Disability Program Salaries and Services	14,052	75,000	14,052	75,000
Retail Customers	Supportive Services provided to both internal and external clients	-	134,179	28,431	105,748
USAA Savings Bank	Mission Salaries	1,721	40,000	3,369	38,352
		$140,677	$502,785	$316,386	$327,076

6. Related party transactions:

There were no board member contributions in 2017 and 2018 board member contributions of $2,639 are included in the table in Note 5 above.

7. Federal grants:

The Organization receives substantially all of its federal grants as pass-throughs from *workforce* CONNECTIONS, which is Southern Nevada's Local Workforce Investment Board (Note 13). Federal grant revenues for 2018 and 2017 were $1,071,596 and $1,009,113, respectively and nonfederal grant revenues were $35,000 and $20,389, respectively.

8. Deferred gain on sale-leaseback:

In 2007, the Organization entered into a sale-leaseback arrangement that was accounted for under the financing method since the Organization retained continuing involvement in the property in the form of an option to repurchase. In 2010, however, the repurchase option was removed from the lease agreement, by amendment, thereby resulting in a change to sale lease-back accounting. Accordingly, in 2010, the property and associated debt were removed and a net deferred gain of $7,582,760 was recorded, which is being amortized at the rate of $610,692 annually over the remaining life of the lease, scheduled to end in June 2022. At December

31, 2018 and 2017, the net deferred gain was $2,086,532 and $2,697,223, respectively.

9. Long-term debt:

Changes in long-term debt for the year ended December 31, 2018, were as follows:

	Beginning balance	Additions	Deductions	Ending balance	Current portion
Bonds	$ 21,365,000	-	$ -	$ 21,365,000	$ 795,000
Capital leases	25,269	-	25,269	-	-
Bond issuance costs	(723,291)	-	(26,428)	(696,863)	-
Bond discount	(309,719)	-	(11,084)	(298,635)	-
Total	$ 20,357,259	-	$ (12,243)	$ 20,369,502	$ 795,000

Pursuant to a Limited Offering Memorandum (the LOM) dated November 13, 2015, and amended December 9, 2015, the Public Finance Authority of Madison, Wisconsin sold the Public Finance Authority Revenue Bonds (Goodwill Industries of Southern Nevada Project) Series 2015 (the Bonds) to an "accredited investor" or "Qualified Institutional Buyer." The proceeds from the Bonds were loaned to the Organization to finance the acquisition of retail and/or donation facilities located, or to be located, in Las Vegas, North Las Vegas or Henderson, Clark County, Nevada, to fund the bond reserve fund, to pay off the existing line of credit under customary terms and the term loan, and to pay certain issuance expenses of the Bonds.

The Bonds consisted of Series A sold for $19,024,145 and Series B sold for $2,351,943, both net of original issue discount and issuance costs. Series A is tax-exempt with $8,975,000 at an interest rate 5.50%, and $10,760,000 at an interest rate of 5.75%. Series B is taxable with $2,410,000 at an interest rate 5.25%.

Financial covenants included "days cash on hand," "unrestricted financial reserve to debt ratio," "fixed charges coverage ratio," and limitations on borrowings, all of which were first effective as of and for the year ended December 31, 2016.

As of August 11, 2017 (the date of Chapter 11 filing), the Organization determined that it was not in compliance with the fixed charges coverage ratio and unrestricted financial resources to debt ratio. Under bankruptcy law, the Bonds were not considered in default per the bond agreement as a result of the non-compliance and therefore, a reclassification of the debt balance to current liabilities was not required.

Effective April 18, 2019 (the Effective Date), a plan of reorganization (the Plan) was approved by the Bankruptcy Court and the Organization officially emerged from bankruptcy (See Note 11). Pursuant to the Plan, the principal balance was increased, interest during the bankruptcy period was substantially eliminated and the terms of payment were amended. (See below for the maturity schedule under the plan.)

During 2018, principal and interest payments were not made on the Bonds, and interest did not accrue. Under the original terms of the Bonds, which are not effective during bankruptcy, future debt service requirements at December 31, 2017, were as follows:

	Principal	Interest	Total
2018	$ 795,000	$ 1,156,163	$ 1,951,163
2019	1,165,000	1,112,325	2,277,325
2020	350,000	1,094,175	1,444,175
2021	370,000	1,074,925	1,444,925
2022	390,000	1,054,575	1,444,575
2023-2027	2,300,000	4,926,375	7,226,375
2028-2032	3,005,000	4,219,625	7,224,625
2032-2037	3,930,000	3,295,763	7,225,763
2038-2042	5,185,000	2,041,825	7,226,825
2043-2045	3,875,000	453,963	4,328,963
Totals	$21,365,000	$20,429,714	$41,794,714

Under the Plan, the maturity schedule of the Bonds will be as follows:

	Principal	Interest	Total
2019	$ 335,081	$ 616,783	$ 951,894
2020	335,081	1,215,973	1,551,054
2021	335,081	1,198,382	1,533,463
2022	335,081	1,180,790	1,515,871
2023	335,081	1,163,198	1,498,279
2024-2028	3,078,973	5,389,344	8,468,317
2029-2033	3,078,971	4,542,628	7,621,599
2034-2038	3,078,970	3,695,910	6,774,880
2039-2043	5,544,140	2,550,304	8,094,444
2044-2048	5,544,140	956,364	6,500,504
Totals	$22,000,599	$22,509,676	$44,510,275

10. Commitments:

Operating leases. The Organization has operating lease arrangements as lessee for several retail and donation locations, vehicles and office equipment expiring at various dates through 2035 (Notes 13 and 14). The operating leases are collateralized by various non-leased assets, including inventory, certain chattels and personal property.

These leases contain provisions for annual adjustments to the base rent.

The Chapter 11 proceedings pursuant to orders by the Bankruptcy Court relating to the operating leases for non-residential real property, resulted in a gain from lease compromise activities of approximately $1 million characterized as a reorganization item and recognized almost entirely in 2017.

Subject to any additional effects of the final resolution of the Chapter 11 proceedings, aggregate minimal rental commitments on operating leases with remaining terms of one year or more at December 31, 2018, were as follows:

2019	$ 2,951,046
2020	2,999,464
2021	2,850,361
2022	2,534,580
2023	2,084,215
Thereafter	23,402,490

Total occupancy expense (including rent and common area maintenance charges) for all operating leases in 2018 and 2017, was $5,268,722 and $6,928,547, respectively.

11. Going concern

In addition to uncertainties inherent in the bankruptcy process, the principal conditions and events that might have raised substantial doubt about the Organizations ability to continue as a going concern were as follows:

- Failure to meet bond financial covenants
- Failure to pay bond principal and interest when due
- Recent significant deterioration of operating results and net assets

Bond financial covenants include “days cash on hand,” “unrestricted financial reserve to debt ratio,” “fixed charges coverage ratio,” and limitations on borrowings, all of which were effective as of and for the year ended December 31, 2016. As of December 31, 2016, the Organization determined that it was not in compliance with the “fixed charges coverage ratio,” a condition that had not been corrected as of the date of Chapter 11 filing.

Summarized historical operating results. During 2015, net assets increased by $2,112,257 leaving a net asset balance of $2,189,521 at December 31, 2015. For 2016, net assets increased by $711,544, $1,400,713 less than 2015, leaving a net asset balance of $2,901,065 at December 31, 2016. The increase in net assets in 2015 and 2016 was driven primarily by non-cash inventory changes. The year 2017, saw a $6,254,997 decrease in net assets, leaving a net asset deficiency of $3,353,932 at December 31, 2017.

While revenue from goods contributed for sale increased by more than $4 million from 2015 to 2016, contributing to a total revenue increase of approximately $3.5 million, program services expenses increased $4.7 million, from $32.6 million to $37.3 million, primarily as a result of increases in payroll and related expenses ($2.8 million) and interest expense related to the bonds ($1.2 million).

For 2017, there was an $8.2 million decrease in revenue from goods contributed for sale, primarily as a result of the closure of four stores in 2017 and a change in the Organization's method used to count inventory.

For 2018, revenue from goods contributed for sale was $32.3 million, net assets increased by $2.2 million (net of reorganization-related expenses of $1.9 million), and the year-end unrestricted cash balance was $2.8 million.

Management's budget for 2019 reflects another estimated expected increase in net assets approximating $2.2 million, an estimated year-end cash balance of $4.1 million and revenue from goods contributed for sale for 2019 of $29 million. Management believes its 2019 budget, which has not been examined by the Organization's independent auditors, to be reasonable and attainable.

Plan of reorganization. A formal plan of reorganization was confirmed by the Bankruptcy Court effective April 18, 2019, which is summarized as follows:

- Substantially all unsecured pre-filing creditors will receive very minimal payment, if any, in the form of settlement for their claims,
- No payments, principal or interest, would be required on the Bonds until December 1, 2019, and
- Unpaid interest on the Bonds for the period from the date of filing, August 11, 2017, through January 31, 2019, is to be forgiven by the lenders.

If management's expectation of substantial realization of the Organization's approved 2019 budget occurs, it is managements judgement that any substantial doubt that may have arisen about the Organization's ability to pay its obligations as they come due at least for one year following issuance of these financial statements has been effectively alleviated.

The following table presents the effects of the confirmed plan on a pro-forma basis as of December 31, 2018.

	Actual	Adjustments	Pro-forma
Current assets	$ 6,526,792	-	$ 6,526,792
Property and equipment	18,453,094	-	18,453,094
Other assets	1,887,875	-	1,887,875
	$26,867,761	-	$26,867,761
Accounts payable	$ 234,982	-	$ 234,982
Pre-filing liabilities subject to compromise	2,339,274	$(1,640,728)	698,546
Accrued expenses	3,025,569	(236,299)	2,789,270
Current portion of long-term liabilities	1,405,692	(459,919)	945,773
Total current liabilities	7,005,517	(2,336,946)	4,668,571
Deferred gain on sale-leaseback	1,475,840	-	1,475,840
Long-term debt	19,574,502	1,095,518	20,670,020
Net assets	(1,188,098)	1,241,428	53,330
	$26,867,761	-	$26,867,761

Under the plan, pre-filing liabilities subject to compromise of $1,640,728 are not payable from the resources of the Organization; accrued interest expense of $236,299 for the period from June 1, 2017, through the filing date of August 18, 2017, are "capitalized" (added to) the principal of the bonds; the principal payment on the bonds due in 2019 is reduced by $459,919; and the principal balance on the bonds is increased by an additional $399,300 to the agreed-upon amount.

12. Restatement of prior period financial statements:

The Organization's financial statements for the year ended December 31, 2017, have been restated to reflect the correction of errors in the recording of interest expense during the bankruptcy period (an overstatement of interest expense of $403,938) and to record the abandonment of property and equipment incident to lease terminations resulting from actions of the Bankruptcy court (an overstatement of gain on reorganization of $103,418). The net effect of the restatement is an increase in net assets of $300,520 as of December 31, 2017.

13. Subsequent events:

Management has evaluated events subsequent to December 31, 2018, for possible recognition or disclosure in these financial statements through July 8, 2019, the date they were available to be issued. Except as discussed in Note 11 and as follows, no events were identified that require recognition or disclosure in the financial statements.

On May 10, 2019, the Organization entered into a lease and service agreement for four 2020 Freightliner model M2106 vehicles, for a term of 78 months at a monthly fixed charge of $1,665 for each vehicle and a mileage charge of $0.075 per mile for a maximum of 325,000 miles per vehicle. Any miles over the maximum will be charged at $0.15 per mile. The agreement also includes five 2019 Freightliner model M2106 box vehicles at a monthly fixed charge of $1,609 for each vehicle and a mileage charge of $0.075 per mile.

On June 10, 2019, the Organization entered into a lease for a 25,470-square-foot facility to be used as a retail store and donation center located in the Cheyenne Commons Shopping Center in Las Vegas, Nevada. The initial term of the lease is for 10 years at monthly base rent of $21,756 for the first 5 years and $23,390 for the second 5 years, with 4 renewal options of 5 years each.

Effective June 30, 2019, the Organization will no longer receive the pass-through federal grants from *workforce* CONNECTIONS, Southern Nevada's Local Workforce Investment Board.

14. Future accounting changes:

Effective for its annual financial statements for 2020 and interim financial statements thereafter, management expects to adopt new accounting standards issued by the FASB that will require significant changes in accounting consisting primarily of recording most continuing operating leases as both assets and liabilities.

The effects on the Organization's future financial statements of these changes and related retrospective adjustments have not yet been determined.

PBTK
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Goodwill Industries of Southern Nevada, Inc.
North Las Vegas, Nevada

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Goodwill Industries of Southern Nevada, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the notes to the financial statements, and have issued our report thereon dated July 8, 2019.

Internal Control over Financial Reporting. In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018 - 002, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018 - 001 to be a significant deficiency.

Compliance and Other Matters. As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

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compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Organization's Responses to Findings. The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Piercy Bowler Taylor & Kern

Las Vegas, Nevada
July 8, 2019

SINGLE AUDIT
AND
ACCOMPANYING INFORMATION

P B T K
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Goodwill Industries of Southern Nevada, Inc.
North Las Vegas, Nevada

We have audited the compliance of Goodwill Industries of Southern Nevada, Inc. (the Organization) with the types of compliance requirements described in the Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2018. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility. The Organization's management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility. Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Major Federal Program. In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2018.

Other Matters. The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018 - 003 and 2018 - 004. Our opinion on the major federal program is not modified with respect to these matters.

The Organization's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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Report on Internal Control Over Compliance. The Organization's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance. We have audited the financial statements of the Organization as of and for the year ended December 31, 2018, and have issued our report thereon dated July 8, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Piercy Bowler Taylor & Kern

Las Vegas, Nevada
July 8, 2019

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.
(Debtor-in-Possession)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor/Pass-though Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
United States Department of Labor			
Passed through *workforce* CONNECTIONS			
WIOA Cluster *			
WIOA Adult Program	17.258	WC-16-GSN-AD-AW-00	$ 309,999
WIOA - Dislocated Worker Formula Grants	17.278	WC-16-GSN-AD-AW-00	149,162
WIOA Youth Activities	17.259	WC-16-GSN-AS-YTH-00	82,575
WIOA Youth Activities	17.259	WC-16-GSN-AS-YTH-00	472,244
Total WIOA Cluster			1,013,980
WIOA Dislocated Worker Grants/WIA National Emergency Grants	17.277		56,682
			$ 1,070,662

* A "major" program

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Goodwill Industries of Southern Nevada,Inc. (the Organization) under programs of the federal government for the year ended December 31, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the Organization. The Schedule includes all expended federal financial assistance received directly from federal agencies and that passed through other entities.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The Organization has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

GOODWILL INDUSTRIES OF SOUTHERN NEVADA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2018

Section I - Summary of Auditors' Results

Financial Statements	
Type of auditors' report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	Yes
Significant deficiencies identified that are not considered to be material weaknesses	Yes
Noncompliance material to financial statements	No
Federal Awards	
Internal control over major programs	
Material weaknesses identified	No
Significant deficiencies identified that are not considered to be material weaknesses	None reported
Type of auditors' report issued on compliance for major programs	Unmodified
Audit findings required to be reported in accordance with 2 CFR 200.516(a)	Yes
Identification of major programs	
CFDA number	17.258, 17.259, 17.278
Name of federal program or cluster	WIOA Cluster
Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee	No

(Continued)

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*

2018 - 001

Criteria or specific requirement	The manager-prepared daily cash tracking report, which is used to record the physical cash counts for the registers, should trace to the register-generated summary history report. The same amount should be traced to the automatic generated point of sale (POS) report. The amount should then be traced to a QuickBooks journal entry. The bank deposit slip for that day should trace to the reviewed bank reconciliation.
Condition and context	Review and approval of daily store checkouts is not sufficiently effective nor adequately documented. Among the items selected for testing were 9 packets that included amounts that could not be traced from the summary history report to the manager prepared tracking report, 3 packets were missing the summary history report, 1 packet had a recorded amount that was different than the amount deposited, and there were 5 packets where the sum of the summary history reports did not agree with the deposit slip.
Effect	Improper recording and possible misappropriation of significant amounts of cash could occur without timely discovery.
Cause	Policies and procedures for the proper handling of cash received are not consistently applied and monitored.
Recommendation	We recommend management more carefully monitor daily store cash register checkouts reports for accurate completion and documentation.
Management's response	Management informed us that procedures have been improved to provide for the daily reconciliation of cash deposits as reported by the Organization's bank to the Organization's POS system and reported cash receipts. Additionally, monitoring procedures have been put in place to ensure compliance with the Organization's policies and procedures regarding the accurate recording of cash receipts.

(Continued)

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards* (continued)

2018 - 002

Criteria or specific requirement	Payroll department personnel responsible for processing hours worked, as well as certain other payroll staff, should not have the ability to enter or change pay rates, add or delete employees, administer benefit plans or perform any other functions that should typically be restricted to human resources (HR) presonnel.
Condition and context	The iSolved system is used to manage payroll, HR functions, employee benefits and time entry data. By examination of the iSolved user access rights, it was determined that the payroll personnel had system access to perform functions typically restricted to HR personnel. Mitigating controls such as management oversight, including review and approval processes were also found to be not in place.
Effect	Significant errors in payroll amounts and classification, including possible material defalcations, may not be prevented or timely detected and corrected.
Cause	Policies and procedures requiring the appropriate segregation of duties and responsibilities and independent review and approval of payrolls are not consistently applied and monitored.
Recommendation	We recommend that management work closely with iSolved to properly establish user access rights that support appropriate segregation of duties, prevent conflicts of interest, fraudulant activities and human error. We also recommend that the iSolved administrator be someone who is independent of both the HR and payroll departments. In addition, we recommend that each payroll receive a timely and properly documented independent review.
Management's response	Management informed us that they have performed a complete review of all employee rolls and permissions built into iSolved's payroll processing platform. Based on the review and assessment, rolls and permissions have been updated to preclude payroll administration employees from accessing underlying employee records. Only HR employees have the ability to establish and alter employee records. The Organization's IT Director is the only individual allowed access to the routines necessary to change permission sets. Exception reports are run and reviewed in detail prior to the submission of weekly payroll for processing. The payroll register is reviewed in detail and compared to weekly payroll journal entries by a person independent of the payroll processing function. Any exceptions are reported to the Chief Financial Officer. `

(Continued)

Section III – Findings and questioned costs for federal awards, including audit findings required by 2 CFR 200.516(a)

2018 - 003

Federal program	CFDA #17.258: WIOA Adult Program, CFDA #17.259: WIOA Youth Activities
Criteria or specific requirement	Verify that benefits paid to individuals were calculated correctly and in compliance with the requirements of the program. Per the Grant Agreement: Financial Management Requirements - "Pursuant thereto, the sub-recipient shall establish and maintain a financial management system in accordance with Title 2 of the Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards providing: 1) accurate, current and complete disclosure of financial information, on a cash or accrual basis, pertaining to this sub-award in accordance with State and Federal reporting requirements... The sub-recipient shall adhere to generally accepted accounting principles (GAAP) and shall maintain records that will allow for the comparison of actual outlays with budgeted amounts. The sub-recipient must support its accounting records with source documentation such as timesheets and invoices."
Condition and context	Grant employee payroll expenditures did not appropriately reconcile with payroll registers and the iSolved payroll sytem information was internally inconsistent and did not tie between the detail and summary reports.
A statistically valid sample was used	Yes
Questioned costs	None noted.
Effect	Grant payroll expenditures may be materially misstated.
Cause	Recorded grant payroll expenditures are not reconciled to the payroll registers to confirm accuracy of amounts.
Repeat finding	No
Recommendation	We recommend that someone independent of and knowledgeable of the payroll process reconcile the payroll system information to the payroll register to ensure accuracy of reported amounts.
Management's response	Management informed us that iSolved sourced payroll reports were re-written in the fourth quarter of 2018 to provide more accurate and consistently prepared support for grant reporting and invoicing. Before the re-write, the Grant Accountant had to manually calculate mission employee's payroll and benefits costs directly from timecards and internally prepared time reports. Accordingly, payroll journal entries posted directly from iSolved generate reports needed to be adjusted based on time consuming reconciliations performed at month end and based on the Grant Accountant's manual calculations. This reconciliation is now performed by the Organization's Accounting Manager on a weekly basis as a part of the payroll approval process.

(Continued)

Section III – Findings and questioned costs for federal awards, including audit findings required by 2 CFR 200.516(a) (continued)

2018 - 004

Federal program	CFDA #17.258: WIOA Adult Program, CFDA #17.259: WIOA Youth Activities
Criteria or specific requirement	Appropriate analytical procedures are performed and reasons are ascertained for any unexpected differences. Procedures include: -Comparing current period reports to prior period reports. -Comparing anticipated results to the data included in the reports. -Comparing information obtained during the audit of the financial statements to the reports. Per the Grant Agreement: Financial Reporting - "The sub-reciepient shall submit all financial reports required by WC relative to this sub-award in accordance with specified time frames. The sub-recipient shall provide WC access to all records and data necessary to verify or clarify information requested or provided in such reports relative to this sub-award."
Condition and context	We compared the total quarterly reimbursement invoice amounts to the quarterly increment in total Federal Financial Report (FFR) amounts with the expectation that the amounts will tie. We noted that all four quarters had variances between the quarterly increment and the reimbursement requests. Although the reports were filed on time, they were not accurately prepared and lacked the analytical review to prevent these inaccuracies prior to filing.
A statistically valid sample was used	Yes
Questioned costs	None noted.
Effect	Grant expenditures to date could be overstated, resulting in excess reimbursement of grant expenditures.
Cause	Proper analytical procedures were not performed prior to the FFR filing.
Repeat finding	No
Recommendation	We recommend that the client perform analytical procedures comparing the amounts of invoiced requested reimbursement per quarter to the change in amounts between quarterly FFR filings.
Management's response	Management informed us that the Organization’s Grant Accountant and Controller worked closely with Workforce Connections to quickly communicate and resolve any differences between Summarized Quarterly Reports and the totals related to summing individual invoice detail. Reconciling differences while present were small and quickly resolved with the Workforce Connections team. The Company experienced high turnover at the Grant Accountant position in 2018. The current Grant Accountant has been with the company for six months providing stability at the position. All grant accounting documentation regarding process and procedures has been improved and updated so that future employees at this position will have a resource guide.

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*

2017 - 001

Criteria or specific requirement	The manager-prepared Daily Cash Tracking Report, which is used to record the physical cash counts for the registers, should trace to the register-generated Summary History Report. The same amount should be traced to the automatic generated point of sale (POS) report. The amount should then be traced to a QuickBooks journal entry. The bank deposit slip for that day should trace to the reviewed bank reconciliation.
Condition and context	Review and approval of daily store checkouts is not sufficiently documented. Among the items selected for testing, 1 packet was completely missing, 2 packets did not have deposit slips, 1 packet was missing the summary history report, 1 packet did not completely trace from the drawer summary history report to the daily tracking report, and 15 packets traced to bank statement reconciliations with no evidence of review. 6 of the 26 items tested were found without exception.
Current status	This finding is repeated in the current year as 2018-001.
Reasons for this finding's recurrence	The recurrence is due to the Organization being understaffed for majority of the year. In addition, they experienced higher turnover in managerial roles.
Planned corrective action	See management's response at 2018-001.

(Continued)

2017 - 002

Criteria or specific requirement	Production based pay, bonuses, salaries and hourly pay rates should be independently reviewed and and approved.
Condition and context	1 of the 8 payroll periods selected for testing did not include any indication of independent review and approval.
Current status	The finding is repeated in the current year as part of 2018-002
Reasons for this finding’s recurrence	The recurrence is due to the Organization being understaffed for majority of the year. In addition, they experienced higher turnover in managerial roles.
Planned corrective action	See management's response at 2018-002.

(Continued)

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards* (continued)

2017 - 003

Criteria or specific requirement	Authority and responsibility for initiating and posting, reviewing and approving journal entries is clearly established, and restricted to prevent a concentration of incompatible functions.
Condition and context	We noted that seven out of our twelve tested journal entires did not have signed evidence of a reviewer. The client's accounting software tracks which user created and posted each entry, therefore, signature of preparer is not necessary. In addition, we noted one instance where the support for an entry was not complete.
Current status	The finding is repeated to a somewhat lesser degree and is included in a seperate letter to management.

(Continued)

Section III – Findings and questioned costs for federal awards, including audit findings required by 2 CFR 200.516(a)

None reported