

# MANUFACTURING WORKS

AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018



**Audited Financial Statements**  
**MANUFACTURING WORKS**  
**DECEMBER 31, 2019 AND 2018**  
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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Manufacturing Works

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Manufacturing Works (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manufacturing Works as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2020 on our consideration of Manufacturing Works' 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 Manufacturing Works' internal control over financial reporting and compliance.

### **Emphasis of Matters**

As discussed in Note 2 to the financial statements, Manufacturing Works adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, and ASU 2018-08, *Not-for-Profit Entities -- Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, during the year ended December 31, 2019 using the modified retrospective approach and the full retrospective approach, respectively. Our opinion is not modified with respect to these matters.

*Pease & Associates, LLC*

Cleveland, Ohio  
June 10, 2020

**MANUFACTURING WORKS**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 498,823	\$ 530,882
Grants receivable	148,222	107,528
Accounts receivable	30,150	38,555
Prepaid expenses	3,898	3,790
<b>Total Current Assets</b>	681,093	680,755
<b>Property and Equipment, net</b>	11,301	-
<b>Other Assets</b>		
Deposits	6,809	6,809
<b>TOTAL ASSETS</b>	<b>\$ 699,203</b>	<b>\$ 687,564</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 73,743	\$ 36,579
Accrued expenses	40,668	34,888
Agency funds payable	12,270	41,513
Refundable advances	183,855	315,938
<b>Total Current Liabilities</b>	310,536	428,918
<b>Net Assets</b>		
Without donor restrictions:		
Undesignated	115,954	(15,148)
Board designated - operating reserve	137,000	167,000
	252,954	151,852
With donor restrictions	135,713	106,794
<b>Total Net Assets</b>	388,667	258,646
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 699,203</b>	<b>\$ 687,564</b>

See notes to financial statements.

**MANUFACTURING WORKS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND OTHER SUPPORT</b>			
Grants	\$ 1,196,526	\$ 155,000	\$ 1,351,526
Consulting fees	187,660	-	187,660
Membership dues and contributions	303,643	15,150	318,793
Program events and workshops	219,601	-	219,601
Interest income	132	-	132
Net assets released from donor restrictions	141,231	(141,231)	-
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	2,048,793	28,919	2,077,712
<b>EXPENSES</b>			
Program services	1,653,487	-	1,653,487
Supporting services:			
Management and general expenses	232,802	-	232,802
Fundraising expenses	61,402	-	61,402
	1,947,691	-	1,947,691
<b>CHANGE IN NET ASSETS</b>	101,102	28,919	130,021
<b>NET ASSETS AT BEGINNING OF YEAR</b>	151,852	106,794	258,646
<b>NET ASSETS AT END OF YEAR</b>	\$ 252,954	\$ 135,713	\$ 388,667

See notes to financial statements.

**MANUFACTURING WORKS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND OTHER SUPPORT</b>			
Grants	\$ 706,461	\$ 147,000	\$ 853,461
Consulting fees	190,257	-	190,257
Membership dues and contributions	260,369	-	260,369
Program events and workshops	225,380	-	225,380
Interest income	185		185
Net assets released from donor restrictions	195,302	(195,302)	-
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	<b>1,577,954</b>	<b>(48,302)</b>	<b>1,529,652</b>
<b>EXPENSES</b>			
Program services	1,478,022	-	1,478,022
Supporting services:			
Management and general expenses	239,992	-	239,992
Fundraising expenses	33,161	-	33,161
	<b>1,751,175</b>	<b>-</b>	<b>1,751,175</b>
<b>CHANGE IN NET ASSETS</b>	<b>(173,221)</b>	<b>(48,302)</b>	<b>(221,523)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>325,073</b>	<b>155,096</b>	<b>480,169</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 151,852</b>	<b>\$ 106,794</b>	<b>\$ 258,646</b>

See notes to financial statements.

**MANUFACTURING WORKS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2019**

	Program Services				Supporting Services			
	Manufacturing Services	Global		Workforce Program	Total Program Services	Management and Fundraising		Total
		Wind Network (GLWN™)	Membership			General	Fundraising	
Payroll	\$ 366,397	\$ -	\$ 449,537	\$ 167,475	\$ 983,409	\$ 69,604	\$ 48,589	\$ 1,101,602
Payroll taxes and benefits	62,031	-	108,651	41,262	211,944	37,866	9,703	259,513
	428,428	-	558,188	208,737	1,195,353	107,470	58,292	1,361,115
Contractual services	87,801	42,869	103,828	8,629	243,127	50,627	399	294,153
Job training/management education	414	-	1,850	1,625	3,889	8,044	365	12,298
Occupancy	4,911	-	8,811	2,775	16,497	34,355	596	51,448
Travel	3,095	-	9,574	2,295	14,964	5,455	956	21,375
Office supplies and equipment	2,992	-	5,959	3,619	12,570	13,695	-	26,265
Communication	22,517	-	2,406	23,901	48,824	-	99	48,923
Other events and workshops	385	-	9,616	68,585	78,586	95	604	79,285
Telephone	727	-	2,407	411	3,545	5,083	88	8,716
Meetings	17	-	767	22,451	23,235	599	-	23,834
Dues and subscriptions	2,479	-	285	430	3,194	1,319	-	4,513
Postage and shipping	-	-	-	500	500	-	-	500
Staff recruitment	-	-	-	-	-	170	-	170
Depreciation	-	-	-	-	-	595	-	595
Bank charges and fees	-	-	-	9,203	9,203	-	3	9,206
Insurance	-	-	-	-	-	5,090	-	5,090
Miscellaneous	-	-	-	-	-	205	-	205
	\$ 553,766	\$ 42,869	\$ 703,691	\$ 353,161	\$ 1,653,487	\$ 232,802	\$ 61,402	\$ 1,947,691

See notes to financial statements.



**MANUFACTURING WORKS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2018**

	Program Services				Supporting Services			
	Manufacturing Services	Global Wind Network (GLWN™)	Workforce Program	Membership	Total Program Services	Management and General	Fundraising	Total
Payroll	\$ 304,218	\$ -	\$ 404,289	\$ 173,889	\$ 882,396	\$ 69,855	\$ 26,796	\$ 979,047
Payroll taxes and benefits	48,748	664	108,913	41,276	199,601	36,822	5,675	242,098
	352,966	664	513,202	215,165	1,081,997	106,677	32,471	1,221,145
Contractual services	60,030	42,195	37,672	39,302	179,199	65,608	-	244,807
Job training/management education	1,503	-	694	287	2,484	-	-	2,484
Occupancy	4,957	-	8,591	2,756	16,304	33,640	592	50,536
Travel	4,369	-	6,334	2,421	13,124	465	-	13,589
Office supplies and equipment	5,127	288	3,375	6,368	15,158	18,981	-	34,139
Communication	8,273	-	464	6,234	14,971	-	-	14,971
Other events and workshops	-	-	6,785	106,967	113,752	109	-	113,861
Telephone	787	-	2,499	445	3,731	5,508	96	9,335
Meetings	168	-	171	21,337	21,676	75	-	21,751
Dues and subscriptions	2,295	-	2,533	915	5,743	2,894	-	8,637
Postage and shipping	-	18	-	580	598	-	-	598
Staff recruitment	42	-	-	367	409	246	-	655
Bank charges and fees	-	-	-	8,526	8,526	-	2	8,528
Insurance	-	-	-	-	-	5,040	-	5,040
Miscellaneous	350	-	-	-	350	749	-	1,099
	\$ 440,867	\$ 43,165	\$ 582,320	\$ 411,670	\$ 1,478,022	\$ 239,992	\$ 33,161	\$ 1,751,175

See notes to financial statements.

**MANUFACTURING WORKS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 130,021	\$ (221,523)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	595	-
Changes in assets and liabilities:		
Grants and accounts receivable	(32,289)	29,064
Prepaid expenses	(108)	114
Accounts payable and accrued expenses	42,944	1,592
Agency funds payable	(29,243)	41,513
Refundable advances	(132,083)	250,174
	(20,163)	100,934
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(11,896)	-
	(11,896)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(32,059)	100,934
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	530,882	429,948
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 498,823	\$ 530,882

See notes to financial statements.

## MANUFACTURING WORKS

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

#### NOTE 1 – ORGANIZATION AND OPERATIONS

The mission of Manufacturing Works (incorporated in 1988) (the “Organization”) is to strengthen manufacturing to create healthy communities and fuel economic growth. The Organization provides expertise that is responsive to manufacturing-related businesses and their employees. Manufacturing Works connects leaders to each other and engages them in their communities. Manufacturing Works is based in Cleveland, Ohio and has a primary emphasis on serving manufacturers in the City of Cleveland and greater Cleveland. However, Manufacturing Works also serves manufacturers nationally and throughout Ohio.

Manufacturing Works’ website is [www.MfgWorksCLE.org](http://www.MfgWorksCLE.org).

Manufacturing Works currently operates the following programs:

- **Manufacturing Services** – works directly with manufacturing businesses to help them reduce costs, innovate, increase their effectiveness and grow their businesses. Competitiveness is improved through training and consulting services for companies in Lean, ISO, and through growth coaching. Manufacturing Works manages the **Cleveland Industrial Retention Initiative (CIRI)** in coordination with the City of Cleveland’s Department of Economic Development. CIRI, a program of the City of Cleveland, provides outreach to raise industry awareness of available resources, stimulate business and neighborhood investment, and to foster job creation. CIRI provides services that help manufacturers remain and grow within the City of Cleveland and provide employment opportunities for Cleveland’s residents.
- **Global Wind Network (GLWN™) Program** – assists in business development and job creation by working with the wind, fuel cell and clean energy supply chain as well as opinion leaders and policy makers to increase U.S. domestic content in the industry. GLWN™ provides linkages between wind turbine, fuel cell and clean energy companies seeking to grow in America and manufacturers, suppliers, and sub-contractors looking to gain new business. GLWN™ provides technical assistance to regional, state and national clean energy partners to strengthen the U.S. clean energy industry.
- **Workforce Program – WorkSource** provides targeted employee recruitment, screening, placement, and retention services for manufacturing companies throughout Northeast Ohio. Manufacturing Works also engages its members in peer-to-peer learning, such as Manufacturing Works’ HR Roundtable and supervisory training, to assist company leaders in developing and implementing effective HR management programs.

The **Apprenticeship Consortium** supports Consortium members in developing 21<sup>st</sup> century apprenticeship programs within their companies, using competency-based models.

The Youth team provides services to youth in junior high through high school. The Program is based at Cleveland's Max S. Hayes Vocational High School, a part of the Cleveland Metropolitan School District, and works with the school's staff to provide students employability, life skills and work-based learning which lead to careers in manufacturing, building and construction, transportation, and information technology. Manufacturing Works also provides high school pre-apprenticeship programs at Max Hayes and with other career-tech high schools that can serve as a feeder into adult apprenticeship opportunities.

As part of the Encore Cleveland initiative, a signature program of the Cleveland Foundation, the **Technical Corps Program** (TCP) identifies experienced industry technicians to share their skills and knowledge with Max Hayes Career & Technical Education teachers as adjunct faculty, teacher assistants, and manufacturing career champions. With the support of the Technical Corps Program, students are better prepared for skills certifications, college, and careers. The collaboration between Manufacturing Works' TCP and Max Hayes is designed to develop and secure a continuous group of qualified technicians in a variety of skills including Computer Aided Drafting and Design (CADD), Computer Numerical Controlled (CNC) Machining, Precision Machining Technology, and Welding and Cutting.

Manufacturing Works' Youth Programs also develop partnerships between community and business leaders and Cleveland Metropolitan School District administrators and teachers. These partnerships create out-of-school learning environments which mirror industry standards and expectations. Manufacturing Works organizes businesses into Technical Advisory Committees; conducts career exploration presentations at elementary schools and community events; supports work-based professional development (externships) for faculty; and recruits students and staff to the school.

- **Membership Program** – Manufacturing Works is a membership organization devoted to the advancement of manufacturing. Manufacturing Works provides its more than 330 members with networking, business education, professional development, cost reduction services, sourcing assistance, and opportunities to volunteer with and support the community. For 30 years Manufacturing Works has been a collective voice for the manufacturing community in the areas of policy, research and education. Manufacturing Works programs encourage investment and job creation in greater Cleveland.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting:** The financial statements are prepared on the accrual basis of accounting.

**Basis of presentation:** The financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification (ASC) 958, and the provisions of the American Institute of Certified Public Accountants (AICPA) "*Audit and Accounting Guide for Not-for-Profit Organizations*" (the "Guide").

Net assets and revenues, and 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 as follows:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors and grantors. Donor restrictions can be temporary in nature and those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions can be perpetual in nature, whereby the donor stipulates that the funds be maintained in perpetuity.

**Cash and cash equivalents:** Manufacturing Works considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents. When applicable, cash and cash equivalents designated for long-term purposes or received with donor imposed restrictions limiting their use to long-term purposes are classified as non-current assets.

Cash and cash equivalents consist of three checking accounts and two money market accounts with two financial institutions. Cash in these accounts may, at times, exceed the federally-insured limit. The Organization has not experienced any losses in such accounts and management does not believe the Organization is exposed to any substantial credit risk.

**Revenue recognition:** Contributions and grants are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are not recognized in the financial statements until the condition is satisfied. Conditional contributions and grants contain barriers that must be overcome or explicitly waived by the donor before the promises become unconditional. Contributions and grants that are restricted by the donor are reported 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 year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

In the case of cost reimbursement based grants, revenue is recognized in the period in which the related expenditures are incurred.

Earned revenues from consulting, program events and workshops are recognized when the services are performed.

Membership dues are recognized as revenue ratably over the membership period, limited to the value of the actual benefits received. Membership dues paid in excess of the actual benefits received are considered a contribution and are recorded as revenue without donor restrictions in the accompanying statements of activities as the dues become receivable. Membership dues are receivable at the beginning of the annual membership period. Unearned dues at year end are not material.

**Grants and accounts receivable:** Grants receivable consist of government and foundation grants. Accounts receivable consist of earned revenues from consulting, program events and workshops, as well as contributions from corporations and individuals. All grants and accounts receivable are expected to be collected within one year.

Grants and accounts receivable are recorded at net realizable value. The Organization uses the allowance method to provide for uncollectible grants and accounts receivable. Estimates of uncollectible amounts are based on prior years' experience and management's analysis of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. There was no allowance deemed necessary for grants and accounts receivable at December 31, 2019 and 2018, as uncollectible amounts were estimated to be immaterial.

**Refundable advances:** Funds received in advance of the Organization successfully meeting the donor's conditions are recorded as refundable advances in the statements of financial position.

**Property and equipment:** Property and equipment are recorded at cost at the date of acquisition. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are 5-7 years for office furniture and equipment. Depreciation expense for 2019 totaled \$595. At December 31, 2018, the assets owned by the Organization were fully depreciated.

**Contributed services:** Donated services are recognized as contributions if, the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by entities or persons possessing those skills, and would otherwise be purchased if not donated.

A number of volunteers have donated significant amounts of their time assisting Manufacturing Works with specific programs, management and internal functions, campaign solicitations and various committee assignments. These donated services have not been recognized in the accompanying financial statements because the criteria for recognition of such volunteer efforts have not been satisfied.

**Allocation of expenses by function:** The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include payroll, payroll taxes and benefits, office supplies and equipment, and telephone, which are allocated on the basis of estimates of time and effort, as well as occupancy expenses, which are allocated on a square-footage basis.

**Income taxes:** Manufacturing Works is a non-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization other than a private foundation under Section 509(a) of the Internal Revenue Code.

**Compensated absences:** Employees of Manufacturing Works are entitled to paid vacation depending on job classification, length of service, and other factors. As of December 31, 2019 and 2018, the amounts accrued for compensated absences totaled \$40,668 and \$33,653, respectively, and are included in accrued expenses in the accompanying statements of financial position.

**Agency funds payable:** Manufacturing Works is acting as a fiscal agent for an unrelated for profit corporation. The agency funds payable consists of cash held for this corporation in connection with a collaborative effort between Manufacturing Works and this corporation in producing a business training class during 2018 and 2019. The amount held by Manufacturing Works on behalf of this corporation is included in Manufacturing Works' cash and cash equivalents. When the funds are spent under the discretion and direction of this corporation, the payable is reduced. In 2019 and 2018, Manufacturing Works earned fees of \$20,000 and \$10,000, respectively, for its supporting services, which are included in program events and workshops revenue in the accompanying statements of activities.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and notes. These estimates may be adjusted as more current information becomes available, and any adjustments could be material.

**Changes in accounting principles:** In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers". ASU 2014-09 outlines a single comprehensive standard for recognizing revenue from contracts with customers across all industries and supersedes most existing revenue recognition guidance. In addition, ASU 2014-09 requires new and enhanced disclosures. The Organization adopted the new standard effective January 1, 2019 using the modified retrospective approach. Reported information for 2018 has not been adjusted. Application of the new standard did not have a material impact on the Organization's net assets at the date of initial application or its 2019 results of operations.

In June 2018, the FASB issued ASU 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made". ASU 2018-08 assists entities in evaluating (1) whether transactions should be accounted for as contributions or as exchange transactions and (2) when a contribution is deemed to be conditional and the recognition of revenue should be delayed until conditions are substantially met. The Organization adopted the new standard effective January 1, 2019 using the full retrospective approach and, accordingly, prior period amounts were revised. As a result of implementing ASU 2018-08, certain foundation grants previously accounted for upon award as unconditional based on a probability assessment about whether the Organization was likely to meet the donor's stipulations, no longer meet the criteria to be deemed unconditional upon award. Under ASU 2018-08, a probability assessment is not a factor when determining whether an agreement contains a barrier. Certain grants to the Organization contain measurable performance barriers and a right of return and are now deemed to be conditional upon award and do not become unconditional until the barriers are overcome; thereby deferring the recognition of revenue on the grants. As a result, net assets at January 1, 2018 have been reduced by \$227,091; grants revenue for 2018 has been reduced by \$404,787; and, correspondingly, grants receivable as of December 31, 2018 has been reduced by \$315,940 and refundable advances (liability) of \$315,938 as of December 31, 2018 has been recorded. As a result, net assets at December 31, 2018 are \$631,878 lower than previously reported (\$229,345 without donor restrictions and \$402,533 with donor restrictions). For 2019, grants revenue is \$189,167 higher than what would have been reported if the previous accounting guidance was in effect; and, as of December 31, 2019, grants receivable is \$258,856 lower and refundable advances (liability) is \$183,855 higher than what would have been reported if the previous accounting guidance was in effect. As a result, net assets at December 31, 2019 are \$442,711 lower than what would have been reported if the previous accounting guidance was in effect (\$104,785 without donor restrictions and \$337,926 with donor restrictions).

**Pending accounting pronouncements:** In February 2016, the FASB issued ASU 2016-02, “Leases”. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. Under the guidance of ASU 2016-02, a lessee should recognize in the statement of financial position a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 is effective for the Organization’s 2022 financial statements. The Organization is currently evaluating the impact that the standard will have on its financial statements and will implement the provisions upon the effective date.

**Subsequent events:** In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through June 10, 2020, the date the financial statements were available to be issued.

**NOTE 3 – GOVERNMENTAL AND FOUNDATION FUNDING**

In 2019 and 2018, the Organization received approximately 29% and 28%, respectively, of its total revenue and other support through direct and indirect federal and city grants and service agreements. A significant reduction in the level of this governmental support, if this were to occur, may have a significant effect on the Organization’s activities. Grants receivable from government funding sources totaled \$68,222 and \$49,196 at December 31, 2019 and 2018, respectively.

Also, during 2019 and 2018, the Organization received \$703,478 and \$324,819, respectively, of additional grant funding from one foundation. There are no grants receivable from this foundation recorded in the accompanying statements of financial position at December 31, 2019 and 2018.

**NOTE 4 – CONDITIONAL PROMISES TO GIVE**

At December 31, 2019 and 2018, the Organization had conditional promises to give of \$258,856 and \$315,940, respectively, related to the workforce and manufacturing services programs. Due to the nature of the promises to give, they are excluded from grants receivable and are recognized as revenue in the period in which the conditions are met.

**NOTE 5 – PROPERTY AND EQUIPMENT**

At December 31, 2019 and 2018, property and equipment is comprised of the following:

	2019	2018
Office furniture and equipment	\$ 84,933	\$ 73,037
Less – accumulated depreciation	<u>(73,632)</u>	<u>(73,037)</u>
	<u>\$ 11,301</u>	<u>\$ -</u>

Depreciation expense totaled \$595 in 2019. During 2018, all assets held were fully-depreciated.



## NOTE 6 – RESTRICTIONS AND DESIGNATIONS ON NET ASSETS

Net assets with donor restrictions at December 31, 2019 and 2018 relate to time and purpose-based restrictions for the following programs:

	<u>2019</u>	<u>2018</u>
Workforce Program	\$ 120,563	\$ 106,794
John Colm Excellence in Manufacturing Fund – Youth Programs	<u>15,150</u>	<u>-</u>
	<u>\$ 135,713</u>	<u>\$ 106,794</u>

Board designated net assets as of December 31, 2019 and 2018 consist of \$137,000 and \$167,000, respectively, of cash held by the Organization and designated by the Board of Directors to serve as an operating reserve to support the current and future operations of the Organization. Because the amount results from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions.

## NOTE 7 – RENTAL COMMITMENTS

The Organization leases its office facility under an operating lease which expires in June 2020 and was extended through June 2021 with a 2% increase in rent. The Organization has an additional option to extend the lease through June 2022 with an additional 2% increase in rent.

The Organization also leases certain office equipment under operating leases which expire in June 2021.

Rent expense for all operating leases in 2019 and 2018 totaled \$48,317 and \$47,771, respectively.

At December 31, 2019, future minimum rental payments required under the leases total \$48,381 in 2020 and \$24,416 in 2021.

The Organization also pays for certain operating expenses related to the office facility.

## NOTE 8 – LINE OF CREDIT

Manufacturing Works has available a \$150,000 bank demand line of credit. Each borrowing on the line of credit bears interest at the bank's prime rate (4.75% at December 31, 2019 and 5.5% at December 31, 2018) plus .35%. The line is secured by the assets of the Organization and expires on July 4, 2021. There were no outstanding borrowings on the line of credit at December 31, 2019 and 2018.

## NOTE 9 – RETIREMENT PLAN

The Organization sponsors a retirement savings plan under Section 401(k) of the Internal Revenue Code (the "Plan"). Under the Plan, employees may elect to defer a portion of their salary, subject to Plan provisions and Internal Revenue Code limits. It is the policy of Manufacturing Works to match a portion of eligible employee salary deferral contributions based on the discretion of its Board of Directors. Matching contributions for 2019 and 2018 totaled \$15,955 and \$21,333, respectively. In addition, the Organization may make discretionary nonelective contributions to the Plan. Manufacturing Works did not make any discretionary nonelective contributions for 2019 and 2018.

## NOTE 10 – LIQUIDITY

The following reflects the Organization’s financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general use because of donor-imposed or other restrictions within one year of the statements of financial position dates.

	<u>2019</u>	<u>2018</u>
Financial assets, at year-end	\$ 677,195	\$ 676,965
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions due to time or purpose restrictions	135,713	106,794
Board designation – operating reserve	137,000	167,000
Cash held for unrelated for profit corporation related to agency funds payable	<u>12,270</u>	<u>41,513</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 392,212</u>	<u>\$ 361,658</u>

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position dates, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 293,840	\$ 273,907
Grants receivable	68,222	49,196
Accounts receivable	<u>30,150</u>	<u>38,555</u>
	<u>\$ 392,212</u>	<u>\$ 361,658</u>

The Organization is substantially supported by restricted contributions. Because a donor’s restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization’s Board has designated cash as of December 31, 2019 and 2018 of \$137,000 and \$167,000, respectively, to serve as an operating reserve to support the current and future operations of the Organization. This operating reserve may be drawn upon in the event of financial distress or an immediate liquidity need resulting from unforeseen shortfalls or for certain nonrecurring expenditures. In the event of an unanticipated liquidity need, the Organization also could draw upon its \$150,000 available line of credit (as further discussed in Note 8).

## **NOTE 11 – SUBSEQUENT EVENTS**

Management is currently evaluating the impact of the COVID-19 pandemic on the Organization's operations and related markets. The Organization relies heavily on collecting government and foundation grants as well as membership dues and contributions. Management has concluded that while it is likely that the impact of the virus will have a negative effect on these key aspects of the Organization's operations, the specific impact is not readily determinable as of the date of these financial statements. In April 2020, the Organization received loans from the federal Paycheck Protection Program ("PPP"). This funding will help the Organization continue to pay its employees and fund its operations. The PPP loans can be forgiven, fully or in part, depending on the Organization maintaining employees and payroll at pre-pandemic levels and using the loan proceeds for permitted expenses.



REPORT OF INDEPENDENT AUDITORS 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  
Manufacturing Works

We have audited, 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, the financial statements of Manufacturing Works (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 10, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Manufacturing Works' 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 Manufacturing Works' internal control. Accordingly, we do not express an opinion on the effectiveness of Manufacturing Works' internal control.

*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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Manufacturing Works' 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 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*.

## **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.

*Pease & Associates, LLC*

Cleveland, Ohio  
June 10, 2020

**MANUFACTURING WORKS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED DECEMBER 31, 2019**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	_____ <b>X</b> No	
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	_____ <b>X</b> None reported	
Noncompliance material to financial statements noted?	_____ Yes	_____ <b>X</b> No	

**Federal Awards**

Manufacturing Works did not expend more than \$750,000 in federal awards during the year ended December 31, 2019, and therefore, is exempt from the audit requirements under the Single Audit Act and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**Section II – Financial Statement Findings**

No significant deficiencies, material weaknesses, or instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5 of *Government Auditing Standards* were identified.

**Section III – Federal Award Findings and Questioned Costs**

Not applicable