

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Menasha, Wisconsin

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2018 and 2017



Independent Auditor's Report

Board of Directors
Goodwill Industries of North Central Wisconsin, Inc.
Menasha, Wisconsin

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Goodwill Industries of North Central Wisconsin, Inc. adopted the amendments in Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities – Presentation of Financial Statements for Not-for-Profit Entities*, as of and for the year ended December 31, 2018. The amendments have been applied on a retrospective basis with the exception of certain information as permitted by the ASU.

In addition, as discussed in Note 1 to the financial statements, Goodwill Industries of North Central Wisconsin, Inc. adopted the amendments in ASU No. 2014-09, *Revenue from Contracts with Customers* and ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* effective January 1, 2018. The amendments have been applied on a full retrospective basis.

Wipfli LLP

Wipfli LLP

April 24, 2019
Green Bay, Wisconsin

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Financial Position December 31, 2018 and 2017

<i>Assets</i>	2018	2017
Current assets:		
Cash and cash equivalents	\$ 14,044,902	\$ 9,766,679
Designated cash	879,019	940,083
Accounts receivable customers - Net	33,479	102,707
Accounts receivable grants and other	717,182	994,565
Inventories	14,460,774	12,912,144
Prepaid expenses and other	509,935	376,042
Total current assets	30,645,291	25,092,220
Property and equipment - Net	52,567,583	54,836,573
Interest in Community Foundations	1,206,113	1,235,988
Other assets:		
Deferred compensation	1,751,748	2,230,561
Restricted cash	611,918	566,002
Total current assets	2,363,666	2,796,563
TOTAL ASSETS	\$ 86,782,653	\$ 83,961,344

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Financial Position (Continued)

December 31, 2018 and 2017

<i>Liabilities and Net Assets</i>	2018	2017
Current liabilities:		
Current maturities of long-term debt	\$ 2,534,807	\$ 2,453,215
Accounts payable	1,701,860	1,498,556
Accrued and other liabilities:		
Payroll	1,147,018	1,175,235
Other	1,960,990	1,654,573
Total current liabilities	7,344,675	6,781,579
Long-term liabilities:		
Long-term debt - Net	19,750,773	22,235,076
Deferred compensation	1,751,748	2,230,561
Other - Fair value of interest rate swap agreements	679,992	1,115,850
Total long-term liabilities	22,182,513	25,581,487
Total liabilities	29,527,188	32,363,066
Net assets:		
Without donor restrictions	56,755,423	50,967,102
With donor restrictions:		
Perpetual in nature	202,183	199,277
Time-restricted for future periods	297,859	431,899
Total net assets	57,255,465	51,598,278
TOTAL LIABILITIES AND NET ASSETS	\$ 86,782,653	\$ 83,961,344

See accompanying notes to consolidated financial statements.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statement of Activities Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Public support:			
Government grants	\$ 1,979,552	\$ 0	\$ 1,979,552
In-kind contributions	1,510,517	0	1,510,517
Contributions	1,600,077	261,105	1,861,182
Total public support	5,090,146	261,105	5,351,251
Revenue:			
Retail sales	45,841,704	0	45,841,704
Outlet store sales	1,246,054	0	1,246,054
Post-retail sales	3,577,833	0	3,577,833
E-Commerce	4,688,505	0	4,688,505
Contractivity	251,655	0	251,655
Program fees	472,780	0	472,780
Rental income	205,558	0	205,558
Miscellaneous	208,087	0	208,087
Total revenue	56,492,176	0	56,492,176
Net assets released from donor restrictions	388,133	(388,133)	0
Total public support and revenue	61,970,455	(127,028)	61,843,427
Expenses:			
Program services	49,366,503	0	49,366,503
Management and general	7,157,357	0	7,157,357
Fund-raising	152,172	0	152,172
Total expenses	56,676,032	0	56,676,032
Excess of revenue over expenses	5,294,423	(127,028)	5,167,395
Other nonoperating activities:			
Change in interest in Community Foundations	(25,769)	(4,106)	(29,875)
Loss on disposal of property and equipment	(50,114)	0	(50,114)
Investment income	133,923	0	133,923
Change in fair value of interest rate swap	435,858	0	435,858
Total other nonoperating activities	493,898	(4,106)	489,792
Change in net assets	5,788,321	(131,134)	5,657,187
Net assets at beginning	50,967,102	631,176	51,598,278
Net assets at end	\$ 56,755,423	\$ 500,042	\$ 57,255,465

See accompanying notes to consolidated financial statements.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statement of Activities Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Public support:			
Government grants	\$ 2,704,814	\$ 0	\$ 2,704,814
In-kind contributions	1,691,879	0	1,691,879
Contributions	1,974,126	387,674	2,361,800
Total public support	6,370,819	387,674	6,758,493
Revenue:			
Retail sales	45,587,755	0	45,587,755
Outlet store sales	1,188,791	0	1,188,791
Post-retail sales	3,072,991	0	3,072,991
E-Commerce	3,769,950	0	3,769,950
Contractivity	209,446	0	209,446
Program fees	543,387	0	543,387
Rental income	250,365	0	250,365
Miscellaneous	195,996	0	195,996
Total revenue	54,818,681	0	54,818,681
Net assets released from donor restrictions	226,295	(226,295)	0
Total public support and revenue	61,415,795	161,379	61,577,174
Expenses:			
Program services	50,820,088	0	50,820,088
Management and general	7,481,949	0	7,481,949
Fund-raising	180,770	0	180,770
Total expenses	58,482,807	0	58,482,807
Excess of revenue over expenses	2,932,988	161,379	3,094,367
Other nonoperating activities:			
Change in interest in Community Four	135,711	32,704	168,415
Loss on disposal of property and equipment	(19,424)	0	(19,424)
Investment income	57,876	0	57,876
Change in fair value of interest rate swaps	285,827	0	285,827
Total other nonoperating activities	459,990	32,704	492,694
Change in net assets	3,392,978	194,083	3,587,061
Net assets at beginning	47,574,124	437,093	48,011,217
Net assets at end	\$ 50,967,102	\$ 631,176	\$ 51,598,278

See accompanying notes to consolidated financial statements.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Cash Flows Years Ended December 31, 2018 and 2017

	2018	2017
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 5,657,187	\$ 3,587,061
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for depreciation	3,487,648	3,563,596
Amortization of debt issuance costs classified as interest expense	56,040	53,709
Change in fair value of interest rate swap agreements	(435,858)	(285,827)
Loss on disposal of property and equipment	50,114	19,424
Bad debt expense	1,696	0
Change in interest in Community Foundations	29,875	(168,415)
Changes in operating assets and liabilities:		
Accounts receivable - Net	344,915	(14,282)
Inventories	(1,548,630)	(1,229,806)
Prepaid expenses and other	(133,893)	(72,247)
Accounts payable	203,304	(517,302)
Accrued and other liabilities	278,200	(173,706)
Total adjustments	2,333,411	1,175,144
Cash flows from operating activities	7,990,598	4,762,205
Cash flows from investing activities:		
Capital expenditures for property and equipment	(1,268,772)	(1,231,033)
Change in restricted cash	(45,916)	142,644
Proceeds from sale of property and equipment	0	7,910
Cash flows from investing activities	(1,314,688)	(1,080,479)

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued) Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from financing activities:		
Principal payments on long-term debt	(2,458,751)	(2,354,778)
Issuance of long-term debt	0	2,036,774
Payments for deferred financing fees	0	(122,887)
Cash flows from financing activities	(2,458,751)	(440,891)
Change in cash and cash equivalents	4,217,159	3,240,835
Cash and cash equivalents at beginning	10,706,762	7,465,927
Cash and cash equivalents at end	\$ 14,923,921	\$ 10,706,762
Supplemental cash flow information:		
Cash paid for interest	\$ 1,036,218	\$ 995,017
Noncash financing and investing activities:		
Change in assets held on behalf of employees in the deferred compensation plan	(478,813)	219,963
Refinanced debt	0	2,926,453
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 14,044,902	\$ 9,766,679
Designated cash	879,019	940,083
Total cash and cash equivalents	\$ 14,923,921	\$ 10,706,762

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses Year Ended December 31, 2018

	Retail Services	Other Program Services	Fund-Raising	Management and General	Total
Expenses:					
Salaries - Clients	\$ 842,986	\$ 19,218	\$ 0	\$ 3,067	\$ 865,271
Salaries - Staff	18,690,543	3,478,760	109,965	3,850,465	26,129,733
Fringe benefits	4,894,783	890,408	31,136	929,907	6,746,234
Cost of sales	4,168,523	0	0	0	4,168,523
Administrative fees	1,840,894	243,994	4,788	743,272	2,832,948
Bad debts	0	1,696	0	0	1,696
Industrial supplies	519,720	44,909	169	21,838	586,636
Janitorial supplies	210,885	122	0	17,970	228,977
Telephone	135,392	27,728	162	45,356	208,638
Postage and shipping	1,572,486	14,984	580	9,820	1,597,870
Rent	836,643	18,120	0	0	854,763
Insurance	287,405	6,954	0	45,747	340,106
Interest	1,118,250	0	0	125,043	1,243,293
Property and other taxes	143,746	54	25	364	144,189
Advertising	542,116	7,265	0	80,806	630,187
Outside printing	11,190	22,917	2,926	13,428	50,461
Travel	500,866	198,098	380	87,557	786,901
Equipment rent	323,892	3,313	0	8,216	335,421
Trash removal	571,219	36	0	3,070	574,325
Conferences and meetings	20,746	10,220	418	16,109	47,493
Utilities	1,126,048	766	0	124,699	1,251,513
Tools	377,040	33,751	0	73,696	484,487
Repairs and maintenance - Land and building	626,802	65,236	0	81,250	773,288
Repairs and maintenance - Equipment	321,833	3,710	583	97,706	423,832
Referrals	6,025	951,732	0	0	957,757
Miscellaneous	22,759	600,126	80	67,956	690,921
Dues and subscriptions	5,849	28,019	319	198,734	232,921
Depreciation	2,922,290	53,436	641	511,281	3,487,648
Total expenses	\$ 42,640,931	\$ 6,725,572	\$ 152,172	\$ 7,157,357	\$ 56,676,032

See accompanying notes to consolidated financial statements.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses Year Ended December 31, 2017

	Retail Services	Other Program Services	Fund-Raising	Management and General	Total
Expenses:					
Salaries - Clients	\$ 903,449	\$ 16,389	\$ 0	\$ 4,363	\$ 924,202
Salaries - Staff	18,509,965	4,498,329	119,718	4,141,578	27,269,590
Fringe benefits	5,109,403	1,144,095	31,241	989,021	7,273,760
Cost of sales	4,768,881	2,928	0	0	4,771,809
Administrative fees	1,681,503	140,134	26,281	674,926	2,522,844
Industrial supplies	574,794	55,733	232	30,971	661,730
Janitorial supplies	198,549	296	0	17,768	216,613
Telephone	140,833	41,421	159	45,412	227,825
Postage and shipping	1,352,174	18,005	114	11,348	1,381,641
Rent	802,757	26,188	0	0	828,945
Insurance	284,184	6,889	0	44,206	335,279
Interest	1,085,045	0	0	129,622	1,214,667
Property and other taxes	168,542	74	0	332	168,948
Advertising	477,743	5,778	0	71,241	554,762
Outside printing	12,761	23,315	696	9,194	45,966
Travel	431,715	237,321	517	75,995	745,548
Equipment rent	310,639	5,098	0	7,744	323,481
Trash removal	525,761	0	0	2,468	528,229
Conferences and meetings	9,928	20,163	542	9,377	40,010
Utilities	1,131,425	985	0	120,382	1,252,792
Tools	423,376	14,815	0	33,166	471,357
Repairs and maintenance - Land and building	526,720	347,022	0	109,993	983,735
Repairs and maintenance - Equipment	273,569	1,926	0	80,605	356,100
Referrals	10,177	925,413	0	0	935,590
Miscellaneous	21,745	489,035	0	123,221	634,001
Dues and subscriptions	8,194	32,807	380	208,406	249,787
Depreciation	2,963,796	58,301	890	540,609	3,563,596
Total expenses	\$ 42,707,628	\$ 8,112,460	\$ 180,770	\$ 7,481,949	\$ 58,482,807

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Organization Activity

The consolidated financial statements include the accounts of Goodwill Industries of North Central Wisconsin, Inc. (“Goodwill Industries”), Financial Information & Service Center, Inc. (FISC), Money Management Education Associates (MMEA), and Goodwill Industries Development Corporation, collectively referred to as the Organization. Goodwill Industries exists to improve the community by improving the lives of its people through services, partnership, collaboration, and the responsible use of community resources. Goodwill Industries’ support comes primarily from retail sales in 27 retail locations throughout north central Wisconsin, contributions, and fees and grants from governmental agencies.

FISC is a nonprofit, Wisconsin corporation organized for the purpose of assisting and educating people in the management of personal finances through the following:

- Counseling and educating individuals, primarily with negative net worth, about finances including money management, debt, credit, and withholding taxes.
- Assisting individuals in their debt management with consumer creditors.
- Providing money management information, basic investment education, and successful planning for the future to people primarily having a positive net worth.

MMEA is a nonprofit Wisconsin corporation organized to equip people to take responsibility for their financial well-being through financial education, planning, and personal management services.

Goodwill Industries Development Corporation exists to hold title to certain real estate and to further the work done by Goodwill Industries.

Principles of Consolidation

The Goodwill organizations have common board members and management and are, therefore, consolidated. All significant intercompany accounts and transactions have been eliminated in preparing the consolidated financial statements.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Organization prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. These principles state that net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of contribution.

Net Assets With Donor Restrictions - Net assets subject to donor or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other explicit donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources must be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Reclassifications

Certain 2017 amounts have been reclassified to conform with 2018 presentation, primarily a reclassification of client wages on the statement of activities between program categories. There was no impact on the change in net assets.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Designated Cash

The Organization considers cash that is segregated to cover employee benefit payments to be designated cash.

Restricted Cash

Restricted cash primarily includes cash and cash equivalents designated for specific purposes by donors and funds held in trust for clients receiving financial services.

Accounts Receivable - Net

Accounts receivable arise from contract payments for program services, amounts expected from salvage customers, and miscellaneous credits and are stated at the amount management expects to collect from outstanding balances. Accounts receivable from grants and other is reported at the amount that the Organization has earned in accordance with the grant award or based on donor information. Accounts receivable from contracts with customers is reported at the amount that reflects the consideration to which the Organization expects to be entitled, in exchange for providing goods for sale and services. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status 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. Changes in the valuation allowance have not been material to the consolidated financial statements.

Inventories

The Organization receives a substantial amount of donated goods during the year. At the end of its fiscal year, the Organization estimates the value of donated goods on hand and records the amount as inventory with a corresponding adjustment to contributions by applying two methodologies used by other Goodwill organizations.

- Donated goods in inventory in the warehouse and stockrooms are valued by applying an average sales value per container depending upon the classification. The average value per classification is calculated by analyzing the sales price for containers holding similar goods.
- Donated goods located on the sales floor in each store are valued by calculating an average of one month's worth of donated sales using the last three months of donated sales.

It is not practical to determine the fair value of goods donated during the course of the year. At December 31, 2018 and 2017, approximately 94% of inventories were composed of donated goods.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property, Equipment, and Depreciation

Property and equipment acquisitions are valued at cost or, if donated, at fair market value at date of donation. Maintenance and repair costs are charged to expense as incurred. Gains or losses on disposition of property and equipment are reflected in revenue or expense. Depreciation is computed on the straight-line method for financial reporting purposes based on the estimated useful lives of the respective assets. Estimated useful lives range from 5 to 15 years for major movable equipment and 5 to 40 years for land improvements, buildings, and fixed equipment.

Debt Issuance Costs

Long-term debt is presented net of debt issuance costs on the consolidated statements of financial position and the amortization of debt issuance costs is presented as interest expense on the consolidated statements of activities. See Note 9 for more information.

Contributions and Unconditional Promises to Give

Contributions are considered to be without donor restrictions unless specifically restricted by the donor. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions received without donor restrictions in the accompanying consolidated financial statements.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, less an allowance for promises estimated to be uncollectible. The gifts are reported as either net assets without donor restrictions or net assets with donor restrictions if they are received with donor stipulations that limit the use of donated assets.

The Organization reports gifts of property and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Deferred Compensation

Deferred compensation consists of funds held for the benefit of organizational officers. The plan is fully funded and is invested primarily in equity mutual funds, fixed income mutual funds, and cash equivalents which are reported at fair value. The accompanying consolidated financial statements include an asset and corresponding liability associated with this plan.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Interest Rate Swap Agreements

Derivative instruments are used to manage risk related to interest rate movements. Several outstanding interest rate swap agreements have been designated and qualify as cash flow hedges and are reported at fair value. The agreements are deemed to be fully effective; therefore, the change in fair value of the agreements is included as other nonoperating activity on the consolidated statements of activities. At the inception of each agreement, the risk management strategy and the hedge's effectiveness are documented. The interest rate risk management strategy is to stabilize cash flow requirements by maintaining the interest rate swaps to convert variable-rate debt to a fixed rate.

In-kind Contributions

In-kind contributions represent the net increase in donated inventory on hand at December 31. When the net change in donated inventory is a decrease, the change is reported in cost of sales on the consolidated statement of functional expenses. In-kind contributions related to an increase in donated inventory on hand in the amount of \$1,510,517 and \$1,691,879 were recognized in 2018 and 2017. Sales of donated inventory are recognized when the transaction occurs and are reported in retail sales on the consolidated statements of activities.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and in the consolidated statements of functional expenses. Direct costs necessary for Goodwill Industries operations are charged to the program or activity. Shared costs for Goodwill Industries are reported as support services. Certain FISC expenses, including office expenses, professional fees, and depreciation are allocated to program services and supporting services based on time and effort of direct employees.

Tax Status

The Organization is comprised of four nonprofit organizations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The entities are also exempt from state income taxes on related income.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

The Organization is required to assess whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The Organization has determined there are no amounts to record as assets or liabilities related to uncertain tax positions.

Advertising Costs

Advertising costs are expensed as incurred.

Revenue Recognition

Retail and Outlet Store Sales

Retail and outlet store sales revenue includes traditional store sales as well as outlet store sales and is reported at the amount that reflects the consideration to which Goodwill Industries expects to be entitled in exchange for providing goods to the customer. These amounts are generated from sales to customers in the North Central Wisconsin area. Customers pay for goods sold on a stand-alone selling price basis at the point of sale which occurs at a point in time. Control is transferred immediately to the customer at the point of sale. Retail and consumer products provide customers with several distinct opportunities that are considered performance obligations:

- Goodwill Industries' sales policy provides a right of return to the customer which begins at the point of sale and expires at the end of the return period (14 days for the retail and outlet stores). A return allows a customer to get "in-store credit" in the amount of the selling price of the goods being returned.
- Goodwill Industries provides a customer loyalty program ("Good Points" or rewards dollars) that entitles a customer to earn rewards dollars that may be redeemed for future purchases at no, or reduced cost. Rewards dollars expire 60 days after they are earned.
- Goodwill Industries allows customers to purchase gift certificates on a stand-alone selling price basis. Customers can then purchase goods in retail locations as if the gift certificate was cash.

Goodwill Industries estimates and recognizes a reduction in reported revenue on a stand-alone selling price basis using actual returns for the allowable return window at fiscal year end and records a liability for variable consideration and customer incentives to which Goodwill Industries is not yet entitled. Cash received from gift certificates is recognized as a liability until the customer uses it in a store and converts it into sales revenue. When the return period expires, or when customer loyalty points expire, the estimated consideration is reclassified from a liability to earned sales revenue.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

E-commerce Sales

E-commerce sales revenue results from customer purchases of retail and consumer products on various e-commerce sites and is reported at the amount that reflects the consideration to which Goodwill Industries expects to be entitled in exchange for providing the goods to the customer. These amounts are generated from sales to customers across the geographic United States. Customers pay for goods on a stand-alone selling price basis sold at the point of sale and control of goods sold using e-commerce is transferred at the point of shipment, which happens virtually simultaneously with the point of sale.

Goodwill Industries' e-commerce sales policy provides a right of return to the customer which begins at the point of sale and expires at the end of the return period (ranging from 7 to 30 days, depending on the site). E-commerce sales are not eligible for rewards dollars.

Post Retail Sales

Post retail sales revenue results from industrial customers purchasing bulk retail and consumer goods that Goodwill Industries does not sell in its retail environment. Revenue is reported at the amount that reflects the consideration to which Goodwill Industries expects to be entitled in exchange for providing post retail goods to the customer. These amounts are generated from customers located throughout the United States and Canada. Post retail sales are priced by weight and Goodwill Industries invoices the customer when the post retail goods ship, which is the point at which control transfers to the customer (FOB shipping point).

There are no discounts on purchases or payment and Goodwill Industries does not allow returns for refund of post retail sales.

Contractivity

Goodwill Industries performs light assembly jobs for other organizations. These assembly services are typically performed using parts owned and supplied by the customer. Revenue is reported at the amount that reflects the consideration to which Goodwill Industries expects to be entitled in exchange for providing the services to the customer. These amounts are generated from customers located in the Northeastern Wisconsin area. Customers are invoiced, and revenue is recognized at the time that the performance obligation is satisfied which occurs as the service is performed over time. Goodwill Industries determines the transaction price based on standard charges for services provided to similar customers and contracts.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Goodwill Industries does collect sales tax as required by the State of Wisconsin Department of Revenue. Goodwill Industries excludes sales tax from the measurement of all transaction prices as they are collected and remitted directly to the State of Wisconsin as a pass-through.

Grant awards

Grant awards are either recorded as contributions or exchange transactions based on criteria contained in the grant award:

- *Grant awards that are contributions* - Grants that qualify as contributions are recorded as invoiced to the funding sources in accordance with the terms of the award and ASC Topic 958-605. Revenue is recognized in the accounting period when the related allowable expenses or asset acquisition costs are incurred. Amounts received in excess of expenses or asset acquisitions are reflected as grant funds received in advance.
- *Grant awards that are exchange transactions* - Exchange transactions typically reimburse based on a predetermined rate for services performed in accordance with the terms of the award and ASC Topic 606. The revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. There were no grant awards that were considered exchange transactions during the years ended December 31, 2018 and 2017.

Change in Accounting Principles

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958). This ASU provides certain improvements in financial reporting for not-for-profit organizations and requires changes to net asset classification, enhancements to liquidity presentation and disclosures, presentation of an analysis of expenses by function and by nature, netting of investment expenses with return, among other changes. The guidance was adopted effective December 31, 2018. This policy was adopted retrospectively with the exception of omissions allowed for liquidity. There was no change in total net assets as of December 31, 2017. Temporarily restricted and permanently restricted net assets of \$431,899 and 199,277 were combined and are now reported as net assets with donor restrictions of \$631,176 at December 31, 2017.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Change in Accounting Principles (Continued)

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Goodwill Industries of North Central Wisconsin, Inc. adopted this guidance as of January 1, 2018 as it felt it was the most faithful depiction of the timing of revenue reasonably expected to be collected in exchange for goods or services. This ASU was not adopted for FISC and its consolidated subsidiaries as FISC is not considered a public business entity and is not subject to required implementation at January 1, 2018. The Organization applied Topic 606 on a retrospective basis and elected the practical expedient in paragraph FASB ASC 606-10-65-1(f)(1), under which an entity need not restate contracts that begin and are completed within the same annual reporting period. There was no change to reported revenue, net assets, or the change in net assets for either period presented.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in ASU No. 2018-08 will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determine whether the transaction is conditional. Goodwill Industries of North Central Wisconsin, Inc. adopted this guidance as of January 1, 2018. This ASU was not adopted for FISC and its consolidated subsidiaries as FISC is not considered a public business entity and is not subject to required implementation at January 1, 2018.

New Accounting Pronouncement

In 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which is intended to improve financial reporting on leasing transactions. ASU No. 2016-02 will require lessees to recognize right of use assets and lease obligations for operating and finance leases under terms greater than 12 months. ASU No. 2016-02 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption permitted. Management is evaluating what impact this new standard will have on its financial statements and this standard update is effective for the Organizations' December 31, 2019, fiscal year end as a public business entity.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Subsequent Events

Subsequent events have been evaluated through April 24, 2019, which is the date the consolidated financial statements were available to be issued.

Note 2: Accounts Receivable Customers and Revenue From Contracts With Customers

Accounts receivable consisted of the following at December 31:

	2018	2017
Accounts receivable from customers	\$ 115,479	\$ 184,707
<u>Less - Allowance for doubtful accounts</u>	<u>82,000</u>	<u>82,000</u>
<u>Accounts receivable - Net</u>	<u>\$ 33,479</u>	<u>\$ 102,707</u>

Accounts receivable from customers at December 31, 2016, was \$0 (net of allowance). Goodwill Industries did not have any contract assets as of December 31, 2018 or 2017. Contract liabilities related to retail sales for which Goodwill Industries was not entitled to the revenue, and totaled \$241,800, \$273,952, and \$226,796 at December 31, 2018 and 2017, and 2016. \$32,152 of revenue was recognized in 2018 that was included in contract liabilities at December 31, 2017. \$47,156 of contract liabilities were added in 2017. The change in contract liabilities was a factor of expiration of return periods, Good Points balances, or gift certificate usage periods.

Revenue from contracts with customers for Goodwill Industries for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Retail sales – recognized point in time	\$47,087,758	\$46,779,897
E-commerce sales – recognized point in time	4,688,505	3,769,950
Post-retail sales – recognized point in time	3,577,833	3,072,991
<u>Contractivity – recognized over time</u>	<u>251,655</u>	<u>209,446</u>
<u>Total revenue from contracts with customers</u>	<u>\$55,605,751</u>	<u>\$53,832,284</u>

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Accounts Receivable Customers and Revenue From Contracts With Customers (Continued)

Sales revenue (retail, e-commerce, and post-retail) is recognized at a point in time as control does not transfer to the customer until the point of sale, or when shipment occurs in the case of e-commerce sales. As discussed in Note 1, certain variable consideration and customer rights are reported as contract liabilities and are recognized in revenue when Goodwill Industries is entitled to the revenue recognition, usually at the expiration of a certain amount of time. Contractivity revenue is recognized over time as the customer simultaneously receives and consumes the benefit of services on the parts that they own. Goodwill Industries uses the output method to measure value transferred to the customer using a per unit pricing structure, whereby the Organization is entitled to payment based on the units of output.

Note 3: Restricted Cash

Restricted cash consisted of the following at December 31:

	2018	2017
Payment partner funds	\$ 611,312	\$ 565,086
Other	606	916
Total restricted cash	\$ 611,918	\$ 566,002

Note 4: Liquidity and Availability of Financial Resources

Financial assets available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within twelve months of the statement of financial position date, comprise the following as of December 31, 2018:

Cash and cash equivalents	\$14,923,921
Accounts receivable	750,661
Investments	1,206,113
Subtotal liquid financial resources	16,880,695
Less – reserves to meet debt covenants	(2,500,000)
Less – endowment funds	(202,183)
Less – restrictions by donor with time restrictions	(233,454)
Less – operating reserves for specific needs	(879,019)
Net financial resources available for general expenditures	\$13,066,039

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: Liquidity and Availability of Financial Resources (Continued)

Goodwill Industries regularly monitors the availability of resources required to meet its operating, debt service and capital needs. The Organization also has a line of credit available to meet short-term needs; see Note 8 for more information.

Note 5: Interest in Community Foundations

As of December 31, 2018 and 2017, funds with a fair value totaling \$1,206,113 and \$1,235,988 respectively, are being held for the use and future benefit of Goodwill Industries at the following foundations: Community Foundation for the Fox Valley Region, Greater Green Bay Community Foundation, Inc., South Wood County Community Foundation, Community Foundation of North Central Wisconsin, La Crosse Community Foundation, Oshkosh Area Community Foundation, Stevens Point Area Foundation, Eau Claire Area Foundation, Shawano Area Community Foundation, Inc., Marshfield Area Community Foundation, and Waupaca Area Community Foundation (collectively referred to as the "Community Foundations").

In a prior year, Goodwill Industries transferred funds to each community foundation; accordingly, the value of these funds is included in the accompanying consolidated statements of financial position. In addition, donor restricted endowments were established for the benefit of Goodwill Industries. All changes in the value of the funds transferred by Goodwill Industries are considered changes in unrestricted net assets. All changes in the value of the donor restricted endowment funds are recorded as net assets with donor restrictions in accordance with the standards applicable to endowments as described in Note 7. The accompanying consolidated financial statements include a decrease of \$29,875 in 2018 and an increase of \$168,415 in 2017 in interest in Community Foundations.

Goodwill Industries has granted variance power to the various foundations. As such, the Boards of Directors of the various foundations have the power to modify any restriction or condition on the distribution of funds, if in their judgment, such restrictions become inconsistent with the charitable needs of Goodwill Industries or inconsistent with the charitable needs served by the foundations. In the opinion of Goodwill Industries, the likelihood of modification of any use restriction is remote.

Annually, the Community Foundations determine amounts available for distribution to Goodwill Industries based on various distribution policies of their respective foundations. Goodwill Industries can elect to receive these distributions or leave them in the fund balance of the respective funds at the Community Foundations.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Property and Equipment - Net

Property and equipment consisted of the following at December 31:

	2018	2017
Land and land improvements	\$19,439,417	\$19,419,088
Buildings and improvements	50,132,716	49,944,597
Furniture and equipment	16,859,435	17,059,120
Construction in progress	0	4,640
Total property and equipment	86,431,568	86,427,445
Less - Accumulated depreciation	33,863,985	31,590,872
<u>Property and equipment, net</u>	<u>\$52,567,583</u>	<u>\$54,836,573</u>

Construction in progress as of December 31, 2017 consists of costs to purchase and construct store locations throughout Wisconsin as well as remodeling and updating of current locations.

Note 7: Endowment

The Organization's endowment consists of a fund established to benefit the Organization for a variety of purposes established by donor restrictions. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed stipulations. The endowment is included in the Interest in Community Foundations on the statement of financial position.

The Board of Directors believes the Uniform Prudent Management of Institutional Funds Act (UPMIFA) is the relevant state law governing its endowment funds. The Board of Directors has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as net assets with donor restriction that have a perpetual restriction (a) the original value of the donor's gifts to the permanent endowment, (b) the original value of a donor's subsequent gifts to the permanent restricted endowment, and (c) accumulations to the permanent endowment. At the time the Organization elects to appropriate expenditures from donor-restricted endowment funds in a manner consistent with the standard of prudence prescribed by UPMIFA, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Endowment (Continued)

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to preserve the purchasing power of the endowment assets. Under the Organization's investment policy, as approved by the Board of Directors, the endowment assets are invested in a manner to protect principal, grow the aggregate portfolio value in excess of the rate of inflation and achieve an effective annual rate of return that is equal to or greater than the designated benchmarks for the various types of investment vehicles, and ensure that any risk assumed is commensurate with the given investment vehicle and the Organization's objectives. To achieve its investment goals, the Organization targets an asset allocation that will achieve a balanced return of current income and long-term growth of principal while exercising risk control.

The Organization's asset allocations include a blend of equity and debt securities and cash equivalents. Interest, dividends, and net appreciation in fair value of endowment funds on donor-restricted endowment funds are classified as net assets with donor restrictions until appropriated for distribution at the discretion of the Board of Directors.

Changes in endowment funds were as follows:

	With Donor Restrictions - Accumulated Gains	With Donor Restrictions - Original Gift	With Donor Restrictions Total
Endowments at January 1, 2017	\$ 35,808	\$ 199,277	\$ 235,085
<u>Net appreciation</u>	<u>32,704</u>	<u>0</u>	<u>32,704</u>
Endowments at December 31, 2017	68,512	199,277	267,789
Contributions	0	2,906	2,906
<u>Net appreciation (depreciation)</u>	<u>(4,106)</u>	<u>0</u>	<u>(4,106)</u>
<u>Endowments at December 31, 2018</u>	<u>\$ 64,406</u>	<u>\$ 202,183</u>	<u>\$ 266,589</u>

There were no endowments that were without donor restriction as of December 31, 2018 or 2017.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8: Line of Credit

The Organization has a line of credit of \$1,000,000 with Wells Fargo Bank, with interest at 2.25% plus One Month LIBOR which was 2.51% at December 31, 2018. The line of credit expires October 30, 2019. The line of credit is collateralized by equipment and inventories. No amounts were outstanding on the line of credit at December 31, 2018.

Note 9: Long-Term Debt

Long-term debt consisted of the following at December 31:

	2018	2017
City of Tomah, Wisconsin, Industrial Revenue Bonds, Series 2002, dated September 27, 2002, payable in monthly installments of \$36,658 including interest at 1.7% secured by land and buildings, matures September 2022.	\$ 831,607	\$ 1,253,461
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2005, dated November 17, 2005, at variable interest rates (effective rate of 4.16% with swap agreement—Note 11), secured by land and buildings, maturing in varying amounts through November 2025.	5,375,000	5,990,000
Wisconsin Health and Education Facilities Authority Revenue Bonds, Series 2008, dated May 15, 2008, at variable interest rates (effective rate of 4.16% with swap agreement—Note 11), secured by land and buildings, maturing in varying amounts through November 2028.	4,505,000	5,065,000
Wisconsin Health and Education Facilities Authority Revenue Bonds, Series 2010, dated December 1, 2010, at variable interest rates (effective rates ranging from 1.96% to 2.14% with multiple swap agreement—Note 11), secured by land and buildings, maturing in varying amounts through December 2030. The bonds will be remarketed every five years, in December 2020 and December 2025.	7,718,992	8,212,989

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9: Long-Term Debt (Continued)

	2018	2017
Wisconsin Health and Education Facilities Authority Revenue Bonds, Series 2017, dated April 1, 2017, at a variable interest rate (effective rates ranging from 1.71% to 2.09% with multiple swap agreements—Note 11), secured by land and buildings, maturing in varying amounts through April 2047. The bonds will be remarketed every five years in April 2022, April 2027 and April 2032.	4,386,059	4,753,959
Totals	22,816,658	25,275,409
Less - Current maturities	2,534,807	2,453,215
Long-term portion	20,281,851	22,822,194
Less – Debt issuance costs - net	531,078	587,118
<u>Long-term portion – net of debt issuance costs</u>	<u>\$19,750,773</u>	<u>\$22,235,076</u>

The Wisconsin Health and Education Facilities Authority Revenue Bonds, Series 2017, dated April 1, 2017, have a maximum commitment to issue \$7,321,793. As of December 31, 2018 and 2017, bond proceeds totaling \$5,021,793 had been issued, leaving \$2,300,000 left available to draw at a future date. Advances can be drawn from the available bond proceeds through the earlier of the full funding date (defined in the covenant agreement as April 27, 2018) or the completion date, which is the date the projects have been completed and paid for and are sufficient for the efficient operation as a project.

Unamortized bond issuance costs related to issuance of long-term debt are amortized and reported as interest expense over the life of the related debt using the straight-line method. Net deferred financing costs as of December 31, 2018 and 2017, were \$531,078 and \$587,118, respectively, with accumulated amortization of \$466,298 and \$410,258, respectively. Amortization was \$56,040 and \$53,709 during 2018 and 2017, respectively and is included in interest expense.

Certain notes described above are subject to certain performance and financial covenants.

The Organization entered into letters of credit with Wells Fargo Bank related to the Wisconsin Health and Education Facilities Authority Revenue Bonds series 2005 and 2008, totaling \$10,074,979 and \$11,256,884 at December 31, 2018 and 2017, respectively. The letters of credit are to guarantee performance in relation to bond requirements and are secured as described above.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9: Long-Term Debt (Continued)

Scheduled principal payments on long-term debt at December 31, 2018, including current maturities, are summarized as follows:

2019	\$ 2,534,807
2020	2,577,668
2021	2,248,871
2022	2,336,371
2023	2,091,371
Thereafter	11,027,570
Total	\$22,816,658

Note 10: Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	2018	2017
Contributions – time restricted	\$ 233,453	\$ 363,387
Accumulated investment earnings – time restricted	64,406	68,512
Donor-restricted endowments – perpetual in nature	202,183	199,277
Total net assets with donor restrictions	\$ 500,042	\$ 631,176

Note 11: Interest Rate Swap Agreements

Goodwill Industries has entered into master agreements with a financial institution for blended interest rate swap transactions to reduce the impact of changes in interest rates on its variable rate long-term debt. The agreements effectively change the interest rate exposure on the variable rate bonds to a fixed rate. The interest rate swaps are recorded at fair value, which is the amount at which they could be settled.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11: Interest Rate Swap Agreements (Continued)

Information regarding interest rate swap agreements effective during 2018 and 2017 is as follows:

Bond Issue		Fair Value of		Effective Date	Termination Date	Cancellable Date	Fixed Interest Rate	Fees	Total Interest/Fees
		Outstanding Notional 12/31/18	SWAP Agreement 12/31/18						
WHEFA Series 2005 and 2008	*	\$9,860,000	(\$720,462)	6/2/2008	6/1/2023	NA	4.160%	1.275%	5.435%
WHEFA Series 2010	**	\$1,520,506	\$8,783	5/1/2013	2/1/2031	6/1/2017	2.010%	2.240%	4.250%
WHEFA Series 2010	**	\$802,426	\$5,859	10/26/2012	2/1/2031	6/1/2017	1.960%	2.240%	4.200%
WHEFA Series 2010	**	\$1,973,451	\$5,700	12/30/2011	2/1/2031	6/1/2017	2.140%	2.240%	4.380%
WHEFA Series 2010	**	\$1,167,394	\$3,291	10/30/2017	2/1/2031	12/1/2020	2.050%	2.240%	4.290%
WHEFA Series 2010	**	\$2,255,214	\$6,225	10/31/2017	2/1/2031	12/1/2020	2.060%	2.240%	4.300%
Total 2010 WHEFA		<u>\$7,718,991</u>	<u>\$29,858</u>						
WHEFA Series 2017	**	\$1,785,266	\$4,397	11/1/2017	12/1/2035	4/1/2022	2.050%	2.230%	4.280%
WHEFA Series 2017	**	\$1,845,562	\$3,473	11/1/2017	5/1/2037	4/1/2022	2.090%	2.230%	4.320%
WHEFA Series 2017	***	\$669,375	\$2,742	12/5/2013	3/1/2023	10/1/2017	1.710%	2.230%	3.940%
Total 2017 WHEFA		<u>\$4,300,203</u>	<u>\$10,612</u>						
Totals at December 31, 2018		<u>\$21,879,194</u>	<u>(\$679,992)</u>						

*Floating rate is USD-SFMA Municipal Swap Index

**Floating rate is 67% of USD LIBOR-BBA. Unhedged floating rate (LIBOR) is 14%.

***Floating rate is 70% of USD LIBOR-BBA. Unhedged floating rate (LIBOR) is 11%.

The fair value of the swap agreements is recorded on the accompanying consolidated statement of financial position as a liability and totaled \$679,992 and \$1,115,580 as of December 31, 2018 and 2017, respectively. The interest rate swaps reflect a liability balance due to decreases in market rates since inception. For the years ended December 31, 2018 and 2017, \$435,858 and \$285,827, respectively, was recorded as income and is included in nonoperating activities in the consolidated statements of activities related to the change in the swap agreements' fair value. Goodwill Industries intends to hold the interest rate swap agreements until expiration; therefore, it does not anticipate realizing any losses related to the valuation.

Goodwill Industries is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreements. However, Goodwill Industries does not anticipate nonperformance by the counterparty.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12: Leases

The Organization conducts a portion of its operations in leased facilities under noncancelable operating leases. The Organization is required to pay all operating expenses, maintenance costs, repairs, and insurance on the leased facilities. In addition, the Organization rents various equipment used in operations. Rental expense for all leases totaled approximately \$1,146,000 and \$1,109,000 for the years ended December 31, 2018 and 2017, respectively.

Future minimum payments under the noncancelable operating leases with initial or remaining terms in excess of one year are:

2019	\$ 1,183,459
2020	838,799
2021	603,792
2022	606,414
2023	607,596
Thereafter	5,912,544
<hr/>	
Total	\$ 9,752,604

Note 13: Retirement Plans

The Organization has a defined contribution pension plan covering substantially all employees who work at least 1,000 hours during the plan year. The plan provides for a discretionary matching contribution by the Organization equal to 100% of the employee's total contribution with the maximum contribution of up to 6% of the employee's total compensation. Pension expense totaled \$541,375 and \$248,219 for the years ended December 31, 2018 and 2017, respectively.

The Organization has a deferred compensation plan available for officers of the Organization and may make discretionary matching contributions to the plan. There was no matching contribution made for the years ended December 31, 2018 or 2017.

Note 14: Self-Funded Health Insurance

Goodwill Industries sponsors a self-funded health insurance plan covering certain employees and their dependents. The health insurance expense is based upon actual claims paid, administration fees, and provisions for unpaid and unreported claims at year-end. Employer-paid health insurance expense was approximately \$3.4 million and \$3.7 million for the years ended December 31, 2018 and 2017, respectively.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 14: Self-Funded Health Insurance (Continued)

The Organization's exposure is limited with a stop-loss insurance policy for claims in excess of \$100,000 per insured and 125% of expected claims in the aggregate (aggregate exposure of \$5.2 million in 2018). As of December 31, 2018 and 2017, the obligation for self-funded insurance claims incurred but not reported was approximately \$440,000 and is recorded in other liabilities on the consolidated statements of financial position.

Note 15: Concentration of Credit Risk

Financial instruments that potentially subject the Organization to credit risk consist principally of accounts receivable and cash deposits in excess of insured limits in financial institutions.

Accounts receivable consist of amounts due from customers or governmental agencies for services provided. The majority of Goodwill Industries' accounts receivable is related to business activity with local government funding agencies and commercial businesses located within Winnebago County and adjacent counties.

The Organization places its cash and investments with creditworthy, high-quality financial institutions to mitigate the risk caused by concentration. However, at times, these balances exceeded the amounts insured by the Federal Deposit Insurance Corporation (FDIC). Management believes these financial institutions have strong credit ratings and credit risk related to these deposits is minimal.

Fair value of the interest rate swap agreements is estimated based on quoted market prices for similar contracts. See Note 11 for more information on these arrangements.

Note 16: Contributed Services

No amounts have been reflected in the consolidated financial statements for donated services since no objective basis is available to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of their time in the Organization's program services and in its fund-raising campaigns. The Organization has estimated 20,600 and 37,600 volunteer hours were contributed in 2018 and 2017, respectively.

Note 17: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. A three-tier hierarchy prioritizes the inputs used in measuring fair value.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 17: Fair Value Measurements (Continued)

These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Following is a description of the valuation methodology used for each:

- *Cash equivalents*—The cash equivalents are measured at cost, which approximates fair value.
- *Equity funds*—The equity funds are valued at quoted market prices.
- *Fixed income funds*—The fixed income funds are valued using quotes from pricing vendors based on recent trading activity and other observable market data.
- *Interest in community foundations*—The interest in community foundations fair value measurement is based upon the market value of the underlying assets, consisting mainly of equity securities and fixed income securities, which are valued based upon either quoted market prices or based upon recent trading activity and other observable market data.
- *Interest rate swaps*—The interest rate swaps' fair value measurement is based on a discounted cash flow model that utilizes observable market data, such as market interest rates and interest rate curves.

Information regarding assets measured at fair value on a recurring basis as of December 31, 2018, is as shown on the following page:

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 17: Fair Value Measurements (Continued)

2018	Fair Value Measurements Using			Total Assets (Liabilities) at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Deferred compensation:				
Cash and equivalents	\$ 0	\$ 117,775	\$ 0	\$ 117,775
Equity mutual funds:				
Growth funds	808,448	0	0	808,448
Large blend funds	217,441	0	0	217,441
Value funds	201,896	0	0	201,896
Fixed income:				
Bond funds	316,314	0	0	316,314
Conservative allocation funds	89,874	0	0	89,874
Subtotal deferred compensation	1,633,973	117,775	0	1,751,748
Interest in Community Foundations	0	0	1,206,113	1,206,113
Totals assets	\$ 1,633,973	\$ 117,775	\$ 1,206,113	\$ 2,957,860

Information regarding liabilities measured at fair value on a recurring basis as of December 31, 2018, is as follows:

2018	Fair Value Measurements Using			Total Assets (Liabilities) at Fair Value
	Level 1	Level 2	Level 3	
Liabilities:				
Interest rate swap agreements	\$ 0	\$ (679,992)	\$ 0	\$ (679,992)

The interest in Community Foundations is comprised of funds held and invested by multiple community foundations that may be invested in cash equivalents, equities, mutual funds, or other investments. The specific composition is not determinable.

Information regarding assets measured at fair value on a recurring basis as of December 31, 2017, is as indicated on the following page:

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 17: Fair Value Measurements (Continued)

2017	Fair Value Measurements Using			Total Assets (Liabilities) at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Deferred compensation:				
Cash and equivalents	\$ 0	\$ 167,601	\$ 0	\$ 167,601
Equity mutual funds:				
Growth funds	1,128,264	0	0	1,128,264
Large blend funds	349,469	0	0	349,469
Value funds	262,784	0	0	262,784
Fixed income:				
Bond funds	155,564	0	0	155,564
Conservative allocation funds	166,879	0	0	166,879
Subtotal deferred compensation	2,062,960	167,601	0	2,230,561
Interest in Community Foundations	0	0	1,235,988	1,235,988
Totals assets	\$ 2,062,960	\$ 167,601	\$ 1,235,988	\$ 3,466,549

Information regarding liabilities measured at fair value on a recurring basis as of December 31, 2017, is as follows:

2017	Fair Value Measurements Using			Total Assets (Liabilities) at Fair Value
	Level 1	Level 2	Level 3	
Liabilities:				
Interest rate swap agreements	\$ 0	\$ (1,115,850)	\$ 0	\$ (1,115,850)

Changes in Level 3 recurring measurements are as follows:

	2018	2017
Interest in Community Foundations – Beginning of the year	\$1,235,988	\$ 1,067,573
Net appreciation (depreciation)	(29,875)	168,415
Interest in Community Foundations – End of the year	\$ 1,206,113	\$ 1,235,988