

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018



WIPFLI

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, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows and 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, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

May 12, 2020
Green Bay, Wisconsin

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Financial Position

December 31, 2019 and 2018

<i>Assets</i>	2019	2018
Current assets:		
Cash and cash equivalents	\$ 18,976,317	\$ 14,044,902
Designated cash	747,963	879,019
Accounts receivable customers - Net	381,891	298,908
Accounts receivable grants and other	328,697	451,753
Inventories	14,942,927	14,460,774
Prepaid expenses and other	388,599	509,935
Total current assets	35,766,394	30,645,291
Property and equipment - Net	50,615,940	52,567,583
Interest in Community Foundations	1,327,474	1,206,113
Other assets:		
Deferred compensation	1,460,202	1,751,748
Restricted cash	643,633	611,918
Total current assets	2,103,835	2,363,666
TOTAL ASSETS	\$ 89,813,643	\$ 86,782,653

<i>Liabilities and Net Assets</i>	2019	2018
Current liabilities:		
Current maturities of long-term debt	\$ 2,312,798	\$ 2,534,807
Accounts payable	2,429,936	1,701,860
Accrued and other liabilities:		
Payroll	1,076,362	1,147,018
Other	1,876,097	1,960,990
Total current liabilities	7,695,193	7,344,675
Long-term liabilities:		
Long-term debt - Net	18,019,033	19,750,773
Deferred compensation	1,460,202	1,751,748
Other - Fair value of interest rate swap agreements	0	679,992
Total long-term liabilities	19,479,235	22,182,513
Total liabilities	27,174,428	29,527,188
Net assets:		
Without donor restrictions	62,144,350	56,755,423
With donor restrictions:		
Perpetual in nature	212,900	202,183
Time-restricted for future periods	281,965	297,859
Total net assets	62,639,215	57,255,465
TOTAL LIABILITIES AND NET ASSETS	\$ 89,813,643	\$ 86,782,653

See accompanying notes to consolidated financial statements.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statement of Activities

Year December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Public support:			
Government grants	\$ 333,261	\$ 0	\$ 333,261
In-kind contributions	316,167	0	316,167
Contributions	1,806,293	206,417	2,012,710
Total public support	2,455,721	206,417	2,662,138
Revenue:			
Retail sales	46,535,338	0	46,535,338
Outlet store sales	1,376,223	0	1,376,223
Post-retail sales	3,309,283	0	3,309,283
E-Commerce	4,729,024	0	4,729,024
Contracted services	253,533	0	253,533
Program fees	1,804,817	0	1,804,817
Rental income	303,664	0	303,664
Miscellaneous	187,108	0	187,108
Total revenue	58,498,990	0	58,498,990
Net assets released from donor restrictions	231,088	(231,088)	0
Total public support and revenue	61,185,799	(24,671)	61,161,128
Expenses:			
Program services	47,508,959	0	47,508,959
Management and general	8,313,070	0	8,313,070
Fund-raising	76,219	0	76,219
Total expenses	55,898,248	0	55,898,248
Excess (deficiency) of revenue over expenses	5,287,551	(24,671)	5,262,880
Other nonoperating activities:			
Change in interest in Community Foundations	91,150	19,494	110,644
Loss on disposal of property and equipment	(156,963)	0	(156,963)
Investment income	260,997	0	260,997
Change in fair value of interest rate swap	(93,808)	0	(93,808)
Total other nonoperating activities	101,376	19,494	120,870
Change in net assets	5,388,927	(5,177)	5,383,750
Net assets at beginning	56,755,423	500,042	57,255,465
Net assets at end	\$ 62,144,350	\$ 494,865	\$ 62,639,215

See accompanying notes to consolidated financial statements.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statement of Activities

Year December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Public support:			
Government grants	\$ 439,573	\$ 0	\$ 439,573
In-kind contributions	1,510,517	0	1,510,517
Contributions	1,566,437	261,105	1,827,542
Total public support	3,516,527	261,105	3,777,632
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
Contracted services	251,655	0	251,655
Program fees	2,046,399	0	2,046,399
Rental income	205,558	0	205,558
Miscellaneous	208,087	0	208,087
Total revenue	58,065,795	0	58,065,795
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 (deficiency) 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 Functional Expenses

Year December 31, 2019

	Retail Services	Other Program Services	Fund-Raising	Management and General	Total
Expenses:					
Salaries - Clients	\$ 598,778	\$ 409	\$ 0	\$ 1,095	\$ 600,282
Salaries - Staff	19,294,459	2,733,077	51,330	4,216,560	26,295,426
Fringe benefits	5,081,171	699,796	12,874	1,074,306	6,868,147
Cost of sales	4,113,769	825	0	0	4,114,594
Administrative fees	1,646,476	185,713	9,013	691,869	2,533,071
Bad debts	0	21,324	0	0	21,324
Industrial supplies	535,448	35,603	60	19,647	590,758
Janitorial supplies	232,104	60	0	20,145	252,309
Telephone	141,519	25,368	0	48,883	215,770
Postage and shipping	1,500,288	13,971	349	9,069	1,523,677
Rent	841,390	18,380	0	950	860,720
Insurance	312,376	6,909	0	46,782	366,067
Interest	996,246	0	0	591,526	1,587,772
Property and other taxes	143,025	64	26	329	143,444
Advertising	461,123	4,632	0	30,469	496,224
Outside printing	9,946	17,716	1,617	57,146	86,425
Travel	443,954	139,112	71	95,751	678,888
Equipment rent	380,125	3,554	0	7,790	391,469
Trash removal	665,247	0	0	3,782	669,029
Conferences and meetings	14,082	4,562	195	18,731	37,570
Utilities	1,046,596	863	0	115,458	1,162,917
Tools	399,010	18,137	0	65,598	482,745
Repairs and maintenance - Land and building	748,195	5,385	0	111,906	865,486
Repairs and maintenance - Equipment	365,971	1,708	0	108,786	476,465
Referrals	5,413	635,660	0	0	641,073
Miscellaneous	16,366	128,480	0	206,452	351,298
Dues and subscriptions	4,133	25,215	280	246,527	276,155
Depreciation	2,741,559	43,667	404	523,513	3,309,143
Total expenses	\$ 42,738,769	\$ 4,770,190	\$ 76,219	\$ 8,313,070	\$ 55,898,248

See accompanying notes to consolidated financial statements.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses

Year 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 Statements of Cash Flows

Years December 31, 2019 and 2018

	2019	2018
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Change in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 5,383,750	\$ 5,657,187
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Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Provision for depreciation	3,309,143	3,487,648
Amortization of debt issuance costs classified as interest expense	531,078	56,040
Change in fair value of interest rate swap agreements	93,808	(435,858)
Loss on disposal of property and equipment	156,963	50,114
Bad debt expense	21,324	1,696
Change in interest in Community Foundations	(110,644)	29,875
Changes in operating assets and liabilities:		
Accounts receivable - Net	18,749	344,915
Inventories	(482,153)	(1,548,630)
Prepaid expenses and other	121,335	(133,893)
Accounts payable	728,076	203,304
Accrued and other liabilities	(155,549)	278,200
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Total adjustments	4,232,130	2,333,411
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Net cash flows from operating activities	9,615,880	7,990,598
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Cash flows from investing activities:		
Capital expenditures for property and equipment	(1,527,050)	(1,268,772)
Proceeds from sale of property and equipment	12,587	0
Contribution to Community Foundations	(10,717)	0
<hr/>		
Net cash flows from investing activities	(1,525,180)	(1,268,772)
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Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

Years December 31, 2019 and 2018

	2019	2018
Cash flows from financing activities:		
Principal payments on long-term debt	(2,305,860)	(2,458,751)
Payments to liquidate interest rate swap agreement	(773,800)	0
Payments for deferred financing fees	(178,967)	0
Net cash flows from financing activities	(3,258,627)	(2,458,751)
Change in cash and cash equivalents	4,832,073	4,263,075
Cash and cash equivalents at beginning	15,535,839	11,272,764
Cash and cash equivalents at end	\$ 20,367,913	\$ 15,535,839
Supplemental cash flow information:		
Cash paid for interest	\$ 896,860	\$ 1,036,218
Noncash financing and investing activities:		
Change in assets held on behalf of employees in the deferred compensation plan	(291,546)	(478,813)
Refinanced debt	19,929,903	0
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 18,976,317	\$ 14,044,902
Restricted cash	643,633	611,918
Designated cash	747,963	879,019
Total cash and cash equivalents	\$ 20,367,913	\$ 15,535,839

See accompanying notes to consolidated financial statements.

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 prepare 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.

Basis of Presentation

The Organization prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States (GAAP). These principles state that net assets and revenue, 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* are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of contribution.

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 (Continued)

- *Net assets with donor restrictions* are 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 GAAP 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.

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.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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. Approximately 93% and 94% of inventories were composed of donated goods at December 31, 2019 and 2018, respectively.

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, including unconditional promises to give, are recognized as revenue when received. Conditional contributions and promises to give, are recognized as revenue when the barriers to entitlement are overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets is removed. Assets received for which the condition has not been satisfied are recorded as a refundable advance liability.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Contributions and Unconditional Promises to Give (Continued)

Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

Contributed property and equipment, excluding in-kind contributions, are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions when 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.

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 at December 31, 2019. 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, 2019. 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 of \$316,167 and \$1,510,517 related to an increase in donated inventory on hand were recognized in 2019 and 2018, respectively. Sales of donated inventory are recognized when the transaction occurs and are reported in retail sales on the consolidated statements of activities.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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, and shared costs 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.

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 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 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.

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.

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)

Contracted Services

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.

Program Fees

Goodwill Industries provides either center-based employment, prevocational day services, or community-based programs. These services are provided to individuals authorized by the customer in exchange for fees, primarily from managed care or other organizations under third-party reimbursement arrangements, the State of Wisconsin Division of Vocational Rehabilitation (DVR), or from families under private pay arrangements. Contract terms are established using predetermined rate-based reimbursement agreements; managed care or other organizations negotiate the reimbursement rates annually with Goodwill Industries based on 15-minute, hourly, or other increments, private pay rates are negotiated with the families, and the DVR negotiates rates annually based on a completed unit of service basis. Amounts earned, for purposes of practicality, are invoiced to the customer and recorded as revenue on a monthly basis. There are no volume, pricing, or payment discounts, payments are typically received within 30 to 60 days after billing, and Goodwill Industries does not receive payments in advance of services provided.

Goodwill Industries considers the performance obligation to be providing services to the eligible individual and the performance obligation is satisfied over-time as the services are provided under managed care or other rate-based reimbursement contracts as the individual is simultaneously receiving and consuming the benefits of the service, and at a point in time upon unit-of-service completion under DVR contracts as Goodwill Industries is not entitled to bill or collect revenue from DVR until the unit of service is accomplished. Goodwill Industries feels the output method is the most faithful depiction of the transfer of goods or services (i.e., increment of time or completed service unit) as neither the individuals nor Goodwill Industries is obligated beyond those terms.

FISC provides counseling services related to budgeting, debt, student loan, and housing counseling services. The Organization enters into a contract with individuals who are seeking such services and pricing terms are established using standard rates either per service or per hour. The performance obligation is to provide the agreed upon counseling service and customers pay using cash, credit card, or money order, and revenue is recognized at the time the service is provided. There is no variable consideration in the contract and no contract assets, contract liabilities, or accounts receivable from contracts with customers as a result.

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)

Program Fees (Continued)

FISC also provides representative payee and bill paying services to customers. The Organization enters into a contract with individuals who are seeking such services, and pricing terms are established using standard rates per month. The performance obligation is to provide services generally for one month; customers are charged, and revenue is recognized at the end of each month for services based on the monthly fee as the performance obligation is satisfied. There is no variable consideration in the contract, and the amounts are credited immediately from the customers' accounts. As a result, there are no contract assets, contract liabilities, or accounts receivable from contracts with customers.

Goodwill Industries does collect sales tax as required by the Wisconsin Department of Revenue. Goodwill Industries excludes sales tax from the measurement of all transaction prices, since 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 considered exchange transactions during the years ended December 31, 2019 and 2018.

Recently Adopted Accounting Pronouncements

During 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows*, to provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. FISC has adopted the guidance on a retrospective basis to all periods presented. The impact of this update on the consolidated statements of cash flows was to increase cash and restricted cash \$566,002 as of January 1, 2018, increasing the originally reported cash and cash equivalents balance of \$10,706,762 to \$11,272,764.

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 May 12, 2020, which is the date the consolidated financial statements were available to be issued.

In March 2020, Wisconsin Governor Tony Evers issued Emergency Order #12, *Safer at Home Act*, for the entire state of Wisconsin in response to the worldwide pandemic caused by COVID-19. As a result, the Organization temporarily closed all retail stores and training centers, donation locations, the outlet, contracted services, and warehouse operations, including post-retail sales. Operations that continued include limited mission services and e-commerce activities along with essential campus support. Revenue for March 2020 was approximately 45% under budget due to the COVID-19 crisis. The negative impact on revenue is expected to continue until operations can resume. The Organization temporarily laid-off about 95% of its employees to mitigate the financial impact of the pandemic. The Organization is focused on restart plans, although the total financial impact of the COVID-19 crisis will be unknown until operations resume.

Reclassifications

Certain 2018 amounts have been reclassified to conform with 2019 presentation, primarily reclassification of program service fees as revenues from contracts with customers. There was no impact on net assets or the change in net assets.

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

Accounts receivable consisted of the following at December 31:

	2019	2018
Accounts receivable from customers	\$ 436,891	\$ 380,908
Less - Allowance for doubtful accounts	55,000	82,000
Accounts receivable - Net	\$ 381,891	\$ 298,908

Goodwill Industries did not have any contract assets as of December 31, 2019 or 2018. Contract liabilities related to retail sales revenue to which Goodwill Industries was not entitled totaled \$245,896, \$241,800, and \$273,952 at December 31, 2019 and 2018, and 2017, respectively. Contract liabilities of \$4,096 were added in 2019, which decreased revenue. Revenue of \$32,152 was recognized in 2018 that was included in contract liabilities at December 31, 2017. The change in contract liabilities was a factor of expiration of return periods, Good Points balances, or gift certificate usage periods.

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)

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

	2019	2018
Retail sales (recognized point in time)	\$ 47,911,561	\$ 47,087,758
Program fees (recognized over time)	1,450,579	1,598,299
Program fees (recognized point in time)	354,238	448,100
E-commerce sales (recognized point in time)	4,729,024	4,688,505
Post retail sales (recognized point in time)	3,309,283	3,577,833
Contracted services (recognized over time)	253,533	251,655
Total revenue from contracts with customers	\$ 58,008,218	\$ 57,652,150

Sales revenue (retail, e-commerce, and post-retail) is recognized at a point in time. This is because 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 recognized in revenue when Goodwill Industries is entitled to the revenue recognition, usually at the expiration of a certain amount of time. Contracted services revenue is recognized over time as the customer simultaneously receives and consumes the benefit of services on the parts that they own. Program fees recognized at a point in time reflect the fact that Goodwill Industries cannot reasonably expect to collect payment until the service is completed. Program fees recognized over time reflect the fact that the customer is simultaneously consuming and receiving the benefits of the services. 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.

Organization had one major customer during 2019. At December 31, 2019, amounts due from that customer included in accounts receivable - net were approximately \$161,845, or 33%, of the total balance. There were no such concentrations in 2018.

Note 3: Restricted Cash

Restricted cash consisted of the following at December 31:

	2019	2018
Payment partner funds	\$ 643,633	\$ 611,312
Other	0	606
Total restricted cash	\$ 643,633	\$ 611,918

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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 12 months of the statement of financial position date, comprise the following as of December 31:

	2019	2018
Cash and cash equivalents	\$ 19,724,280	\$ 14,923,921
Accounts receivable	710,588	750,661
Investments	1,327,474	1,206,113
<hr/>		
Subtotal liquid financial resources	21,762,342	16,880,695
Less:		
Reserves to meet debt covenants	(6,032,481)	(2,500,000)
Endowment funds	(212,900)	(202,183)
Restrictions by donor with time restrictions	(198,065)	(233,454)
Operating reserves for specific needs	(747,963)	(879,019)
<hr/>		
Net financial resources available for general expenditures	\$ 14,570,933	\$ 13,066,039

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, 2019 and 2018, funds with a fair value totaling \$1,327,474 and \$1,206,113 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 net assets without donor restrictions. 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 an increase of \$110,644 in 2019 and a decrease of \$29,875 in 2018 in interest in Community Foundations.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5: Interest in Community Foundations (Continued)

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.

Note 6: Property and Equipment - Net

Property and equipment consisted of the following at December 31:

	2019	2018
Land and land improvements	\$ 19,404,564	\$ 19,439,417
Buildings and improvements	50,252,173	50,132,716
Furniture and equipment	17,017,302	16,859,435
Construction in progress	355,354	0
Total property and equipment	87,029,393	86,431,568
Less - Accumulated depreciation	36,413,453	33,863,985
Property and equipment - net	\$ 50,615,940	\$ 52,567,583

Construction in progress as of December 31, 2019, consists of costs for remodeling and updating of equipment and 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 consolidated statements of financial position.

The Board of Directors (the "Board") believes the Uniform Prudent Management of Institutional Funds Act (UPMIFA) is the relevant state law governing its endowment funds. The Board 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.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Endowment (Continued)

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.

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, 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 Board's discretion.

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, 2018	\$ 68,512	\$ 199,277	\$ 267,789
Contributions	0	2,906	2,906
Net depreciation	(4,106)	0	(4,106)
Endowments at December 31, 2018	64,406	202,183	266,589
Contributions	0	10,717	10,717
Net appreciation	19,494	0	19,494
Endowments at December 31, 2019	\$ 83,900	\$ 212,900	\$ 296,800

There were no endowments that were without donor restriction as of December 31, 2019 or 2018.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8: Line of Credit

The Organization had a line of credit of \$1,000,000 with Wells Fargo Bank, with interest at 2.25% plus one-month LIBOR. The line of credit expired on October 30, 2019.

In April 2020, the Organization established a line of credit of \$1,000,000 with PNC Bank, with interest at 1.5% plus one-month LIBOR. The line of credit expires in April 2021.

Note 9: Long-Term Debt

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

	2019	2018
City of Tomah, Wisconsin, Industrial Revenue Bonds, Series 2002, dated September 27, 2002, payable in monthly installments of \$36,658, including including interest at 1.7% secured by land and buildings, matures September 2022.	\$ 402,527	\$ 831,607
Wisconsin Health and Educational Facilities Authority (WHEFA) Revenue Bonds, Series 2019, dated December 20, 2019, payable in monthly installments of \$168,500 plus interest at 2.16% secured by land and buildings, matures December 2029.	20,108,271	0

The following debt agreements were refinanced in December 2019 and paid in full:

WHEFA 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.	0	5,375,000
WHEFA 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 buildings.	0	4,505,000
WHEFA 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.	0	7,718,992

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9: Long-Term Debt

	2019	2018
WHEFA Revenue Bonds, Series 2018, dated April 1, 2018, at a variable interest rate (effective rates ranging from 1.70% to 2.09% with multiple swap agreements - Note 11), secured by land and buildings.	\$ 0	\$ 4,386,059
Totals	20,510,798	22,816,658
Less - Current maturities	0	2,534,807
Long-term portion	20,510,798	20,281,851
Less - Debt issuance costs - Net	178,967	531,078
Total long-term debt	\$ 20,331,831	\$ 19,750,773

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 were \$178,967 and \$531,078 as of December 31, 2019 and 2018, respectively, with accumulated amortization of \$0 and \$466,298, respectively. The net deferred financing costs related to debt agreements refinanced in 2019 were fully expensed as amortization. Amortization was \$531,078 and \$56,040 during 2019 and 2018, respectively, and is included in interest expense.

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

Scheduled principal payments on long-term debt at December 31, 2019, including current maturities, are summarized as follows:

2020	\$ 2,312,798	
2021	2,022,000	
2022	2,022,000	
2023	2,022,000	
2024	2,022,000	
Other	10,110,000	
Total restricted cash	\$ 20,510,798	

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10: Net Assets With Donor Restrictions

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

	2019	2018
Contributions - Time restricted	\$ 198,065	\$ 233,453
Accumulated investment earnings - Time restricted	83,900	64,406
Donor-restricted endowments - Perpetual in nature	212,900	202,183
Total net assets with restrictions	\$ 494,865	\$ 500,042

Net assets released from restriction during 2019 and 2018 were \$231,088 and \$388,133, respectively, and were released as a result of satisfying time-related restrictions.

Note 11: Interest Rate Swap Agreements

Goodwill Industries had 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. All interest swap agreements ended in December 2019 when the related long-term debt was refinanced (see Note 9) and the swap liabilities were paid in full.

The fair value of the swap agreements is recorded on the accompanying consolidated statement of financial position as a liability and totaled \$0 and \$679,992 as of December 31, 2019 and 2018, respectively. The interest rate swaps reflect a liability balance due to changes in market rates since inception. For the year ended December 31, 2019, \$93,808 was recorded as an expense related to the change in the swap agreements' fair value; this amount is included in nonoperating activities in the consolidated statements of activities. The valuation was done prior to the payment in full of the liabilities for the swap agreements in December 2019. For the year ended December 31, 2018, \$435,858 was recorded as income.

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 is as follows:

Bond Issue		Outstanding Notional 12/31/2018	Fair Value of Swap Agreement 12/31/2018	Effective Date	Termination Date	Cancellable Date	Fixed Interest Rate	Fees	Total Interest/ Fees
WHEFA Series 2005 and 2008	*	\$ 9,860,000	\$ (720,462)	6/2/2008	6/1/2023	NA	4.16%	1.28%	5.44%
WHEFA Series 2010	**	1,520,506	8,783	5/1/2013	2/1/2031	6/1/2018	2.01%	2.24%	4.25%
WHEFA Series 2010	**	802,426	5,859	10/26/2012	2/1/2031	6/1/2018	1.96%	2.24%	4.20%
WHEFA Series 2010	**	1,973,451	5,700	12/30/2011	2/1/2031	6/1/2018	2.14%	2.24%	4.38%
WHEFA Series 2010	**	1,167,394	3,291	10/30/2018	2/1/2031	12/1/2020	2.05%	2.24%	4.29%
WHEFA Series 2010	**	2,255,214	6,225	10/31/2018	2/1/2031	12/1/2020	2.06%	2.24%	4.30%
Total 2010 WHEFA		7,718,991	29,858						
WHEFA Series 2018	**	1,785,266	4,397	11/1/2018	12/1/2035	4/1/2022	2.05%	2.23%	4.28%
WHEFA Series 2018	**	1,845,562	3,473	11/1/2018	5/1/2037	4/1/2022	2.09%	2.23%	4.32%
WHEFA Series 2018	***	669,375	2,742	12/5/2013	3/1/2023	10/1/2018	1.71%	2.23%	3.94%
Total 2018 WHEFA		4,300,203	10,612						
Totals at December 31, 2018		\$ 21,879,194	\$ (679,992)						

*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%.

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 \$1,250,000 and \$1,146,000 for the years ended December 31, 2019 and 2018, respectively.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12: Leases (Continued)

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

2020	\$	1,087,499
2021		1,003,531
2022		985,941
2023		983,226
2024		979,732
Other		6,260,757
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Total	\$	11,300,686

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 \$352,098 and \$541,375 for the years ended December 31, 2019 and 2018, respectively.

The Organization has a deferred compensation plan available for its officers and may make discretionary matching contributions to the plan. There was no matching contribution made for the years ended December 31, 2019 or 2018.

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 \$3.5 million and \$3.4 million for the years ended December 31, 2019 and 2018, respectively.

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 \$5.6 million in 2019). As of December 31, 2019 and 2018, the obligation for self-funded insurance claims incurred but not reported was approximately \$500,000 and \$440,000, respectively, and is recorded in other liabilities on the consolidated statements of financial position.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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 amounts insured by the 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 volunteer hours were contributed annually in both 2019 and 2018.

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.

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.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 17: Fair Value Measurements (Continued)

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

- *Cash equivalents* are measured at cost, which approximates fair value.
- *Equity funds* are valued at quoted market prices.
- *Fixed income funds* are valued using quotes from pricing vendors based on recent trading activity and other observable market data.
- *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'* 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.

The following table sets forth information regarding assets measured at fair value on a recurring basis as of December 31, 2019:

	Fair Value Measurements Using			Total Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Deferred compensation:				
Cash and equivalents	\$ 0	\$ 309,543	\$ 0	\$ 309,543
Equity mutual funds:				
Growth funds	291,006	0	0	291,006
Large blend funds	380,816	0	0	380,816
Value funds	161,344	0	0	161,344
Fixed income:				
Bond funds	250,836	0	0	250,836
Conservative allocation funds	66,657	0	0	66,657
Subtotal deferred compensation	1,150,659	309,543	0	1,460,202
Interest in Community Foundations	0	0	1,327,474	1,327,474
Total	\$ 1,150,659	\$ 309,543	\$ 1,327,474	\$ 2,787,676

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 17: Fair Value Measurements (Continued)

The following table sets forth information regarding assets measured at fair value on a recurring basis as of December 31, 2018:

	Fair Value Measurements Using			Total Assets 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
Total	\$ 1,633,973	\$ 117,775	\$ 1,206,113	\$ 2,957,861

All interest rate swap agreements were paid in full in December 2019. Information regarding liabilities measured at fair value on a recurring basis as of December 31, 2018, is as follows:

	Fair Value Measurements Using			Total 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.

Changes in Level 3 recurring measurements as of December 31 are as follows :

	2019	2018
Interest in Community Foundations - Beginning of year	\$ 1,206,113	\$ 1,235,988
Contributions	10,717	0
Net appreciation (depreciation)	110,644	(29,875)
Total restricted cash	\$ 1,327,474	\$ 1,206,113