

Consolidated Financial Statements  
Report of Independent Certified Public  
Accountants

**Goodwill Industries of Southeastern  
Wisconsin, Inc. and Affiliates**

December 31, 2019 and 2018

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of Goodwill Industries of Southeastern Wisconsin, Inc. (a Wisconsin non-stock, not-for-profit corporation) and Affiliates (collectively, Goodwill), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's responsibility for the financial statements

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

### 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 Goodwill'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 Goodwill'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 Southeastern Wisconsin, Inc. and Affiliates as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of matter**

As discussed in Note B to the financial statements, Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Update No. 2016-02, *Leases* (Topic 842). Our opinion is not modified with respect to this matter.

*Grant Thornton LLP*

Appleton, Wisconsin  
May 29, 2020

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**December 31,  
(In thousands)**

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
Current assets		
Cash and cash equivalents	\$ 63,698	\$ 53,117
Accounts receivable, net	11,332	12,384
Inventories and supplies	10,104	9,611
Prepaid expenses and other assets	2,070	2,139
Total current assets	87,204	77,251
Property, plant and equipment, net	130,671	140,655
Finance lease right-of-use assets, net	1,556	-
Operating lease right-of-use assets	86,673	-
Investments	908	690
<b>TOTAL ASSETS</b>	<b>\$ 307,012</b>	<b>\$ 218,596</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Current maturities of long-term debt	\$ 1,998	\$ 3,023
Current portion of finance or capital lease liabilities	475	648
Current portion of operating lease liabilities	9,042	-
Accounts payable	10,043	10,367
Accrued liabilities	17,817	21,641
Contract liability	123	733
Total current liabilities	39,498	36,412
Long-term debt, less current maturities and bond issuance costs	31,918	38,066
Obligations under finance or capital leases liabilities, less current portion	1,094	1,063
Obligations under operating lease liabilities, less current portion	81,988	-
Other long-term liabilities	2,484	1,535
Total liabilities	156,982	77,076
Net assets		
Without donor restrictions	149,778	141,269
With donor restrictions	252	251
Total net assets	150,030	141,520
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 307,012</b>	<b>\$ 218,596</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

Year ended December 31, 2019  
(In thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating revenue and support			
Retail services	\$ 173,202	\$ -	\$ 173,202
Food and administrative services	84,305	-	84,305
Participant services	27,970	-	27,970
Other revenues	987	-	987
	<hr/>	<hr/>	<hr/>
Total operating revenue	286,464	-	286,464
Contributions	2,551	198	2,749
In-kind contributions	124,000	-	124,000
Participant programs	10,966	-	10,966
Miscellaneous income	3,813	-	3,813
Net assets released from restrictions	197	(197)	-
	<hr/>	<hr/>	<hr/>
Total operating revenue and support and net assets released from restrictions	427,991	1	427,992
Operating expenses			
Program services	386,213	-	386,213
Management and general	32,701	-	32,701
Fundraising	645	-	645
	<hr/>	<hr/>	<hr/>
Total operating expenses	419,559	-	419,559
Excess of operating revenue and support and net assets released from restrictions over operating expenses	8,432	1	8,433
Non-operating activities			
Gain on disposal of property, plant and equipment	77	-	77
	<hr/>	<hr/>	<hr/>
Change in net assets	8,509	1	8,510
Net assets, beginning of year	141,269	251	141,520
	<hr/>	<hr/>	<hr/>
Net assets, end of year	<u>\$ 149,778</u>	<u>\$ 252</u>	<u>\$ 150,030</u>

The accompanying notes are an integral part of this consolidated financial statement.

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

Year ended December 31, 2018  
(In thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating revenue and support			
Retail services	\$ 164,651	\$ -	\$ 164,651
Food and administrative services	78,611	-	78,611
Participant services	30,869	-	30,869
Other revenues	6,813	-	6,813
	<hr/>	<hr/>	<hr/>
Total operating revenue	280,944	-	280,944
Contributions	2,287	273	2,560
In-kind contributions	117,059	-	117,059
Participant programs	11,374	-	11,374
Miscellaneous income	3,461	-	3,461
Net assets released from restrictions	383	(383)	-
	<hr/>	<hr/>	<hr/>
Total operating revenue and support and net assets released from restrictions	415,508	(110)	415,398
Operating expenses			
Program services	380,746	-	380,746
Management and general	29,471	-	29,471
Fundraising	617	-	617
	<hr/>	<hr/>	<hr/>
Total operating expenses	410,834	-	410,834
Excess of operating revenue and support and net assets released from restrictions over operating expenses	4,674	(110)	4,564
Non-operating activities			
Loss on disposal of property, plant and equipment	(940)	-	(940)
	<hr/>	<hr/>	<hr/>
Change in net assets	3,734	(110)	3,624
Net assets, beginning of year	137,535	361	137,896
	<hr/>	<hr/>	<hr/>
Net assets, end of year	<u>\$ 141,269</u>	<u>\$ 251</u>	<u>\$ 141,520</u>

The accompanying notes are an integral part of this consolidated financial statement.

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended December 31, 2019**  
**(In thousands)**

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 116,323	\$ 14,989	\$ 224	\$ 131,536
Employee benefits	22,061	2,470	30	24,561
Payroll taxes	8,971	1,023	14	10,008
	<u>147,355</u>	<u>18,482</u>	<u>268</u>	<u>166,105</u>
Total salaries and related expenses				
In-kind supplies	123,343	-	-	123,343
Supplies and other	49,970	522	12	50,504
Rent and occupancy	27,133	1,974	5	29,112
Professional fees and contracted services	16,357	4,540	157	21,054
Depreciation	11,947	986	-	12,933
Finance lease amortization	630	-	-	630
Advertising	1,784	2,173	-	3,957
Transportation	3,441	82	1	3,524
Equipment purchases, rental and maintenance	3,563	1,448	147	5,158
Interest expense	60	2,259	-	2,319
Conferences and training	224	235	55	514
Specific assistance to individuals	428	-	-	428
Bad debt recoveries, net	(22)	-	-	(22)
	<u>386,213</u>	<u>32,701</u>	<u>645</u>	<u>419,559</u>
Total expenses	<u>\$ 386,213</u>	<u>\$ 32,701</u>	<u>\$ 645</u>	<u>\$ 419,559</u>

The accompanying notes are an integral part of this consolidated financial statement.



**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended December 31, 2018**  
**(In thousands)**

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 119,066	\$ 14,462	\$ 222	\$ 133,750
Employee benefits	21,609	2,212	16	23,837
Payroll taxes	9,400	1,008	14	10,422
Total salaries and related expenses	150,075	17,682	252	168,009
In-kind supplies	116,753	-	-	116,753
Supplies and other	51,580	218	12	51,810
Rent and occupancy	25,882	2,086	5	27,973
Professional fees and contracted services	14,448	3,289	247	17,984
Depreciation	12,833	943	-	13,776
Advertising	2,469	2,098	-	4,567
Transportation	3,355	372	1	3,728
Equipment purchases, rental and maintenance	2,669	1,238	50	3,957
Interest expense	49	1,296	-	1,345
Conferences and training	174	249	46	469
Specific assistance to individuals	406	-	-	406
Bad debt expense, net	53	-	4	57
Total expenses	<u>\$ 380,746</u>	<u>\$ 29,471</u>	<u>\$ 617</u>	<u>\$ 410,834</u>

The accompanying notes are an integral part of this consolidated financial statement.

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**STATEMENTS OF CASH FLOWS**

**December 31, 2019 and 2018**

**(In thousands)**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 8,510	\$ 3,624
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	13,639	13,799
Realized and unrealized (gain) loss on investments	(158)	39
Unrealized loss (gain) on interest rate swaps	769	(169)
(Gain) loss on disposal of property, plant and equipment	(77)	940
Accounts receivable allowance	(40)	(31)
Changes in operating assets and liabilities		
Accounts receivable	1,092	168
Inventories and supplies	(493)	1,069
Prepaid expenses and other assets	69	(226)
Accounts payable and accrued liabilities	(228)	2,996
Contract liability	(610)	(105)
Operating lease assets and liabilities, net	437	-
Other long-term assets and liabilities	206	(8)
	<u>23,116</u>	<u>22,096</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Capital expenditures	(4,553)	(8,030)
Proceeds from sale of property, plant and equipment	336	320
Purchases of investments	(86)	(66)
	<u>(4,303)</u>	<u>(7,776)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Repayment of long-term debt	(7,248)	(3,091)
Payments on finance or capital lease liabilities	(984)	(525)
	<u>(8,232)</u>	<u>(3,616)</u>
Net cash used in financing activities		
Net increase in cash and cash equivalents	10,581	10,704
Cash and cash equivalents, beginning of year	<u>53,117</u>	<u>42,413</u>
Cash and cash equivalents, end of year	<u>\$ 63,698</u>	<u>\$ 53,117</u>
Supplemental disclosure of cash flow information		
Cash payments for interest	\$ 1,480	\$ 1,471
Non-cash transactions		
Assets acquired under finance or capital leases	\$ 842	\$ 470
Purchase of property and equipment financed through finance leases	5,916	-
Purchases of property and equipment in accounts payable	-	242
Donated goods and materials contributed for resale	123,343	116,752

The accompanying notes are an integral part of these consolidated financial statements.

## Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates

### NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

#### NOTE A - ORGANIZATION

Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates (collectively, Goodwill) was formed in 1919 and is a Wisconsin non-stock, not-for-profit corporation. The mission of Goodwill is to provide training, employment and supportive services for people with disabilities or disadvantages who seek greater independence. Disabilities or disadvantages include physical or intellectual disabilities, mental health issues, skill limitations, lack of education and job preparation, communication challenges and other socio-economic disadvantages.

Goodwill pursues its mission by employing people with disabilities and other barriers within the organization's own operations in southeastern Wisconsin and northeastern Illinois. In addition, Goodwill provides social services, community programs, vocational training, transitional employment, employment services and supportive services for individuals who have disabilities, are disadvantaged or have other special needs, in order to enhance their employment opportunities, prevent or alleviate rehabilitation problems and facilitate their ability to live independently in the community.

Goodwill Industries of Southeastern Wisconsin, Inc. has the following affiliates and subsidiaries: Goodwill Industries of Metropolitan Chicago, Inc. is a separate, not-for-profit entity that focuses on providing mission services in the Metropolitan Chicago area. Goodwill Retail Services, Inc. is a separate, not-for-profit entity responsible for the retail stores operated by Goodwill. Goodwill Manufacturing, Inc. is a separate, not-for-profit corporation that provides assembly, laundry, packaging and recycling services. Goodwill Industries of Southeastern Wisconsin, Inc. is the sole member and manager of Goodwill TalentBridge, LLC.

#### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies used by Goodwill is as follows:

##### ***Financial Statement Presentation***

The consolidated financial statements are prepared on the accrual basis of accounting. All significant intercompany activity has been eliminated.

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions as without donor restrictions or with donor restrictions, as follows:

##### ***Without donor restrictions***

Net assets and transactions are not subject to donor-imposed stipulations.

##### ***With donor restrictions***

Net assets and transactions are subject to donor-imposed stipulations that will be met by the actions of Goodwill and/or the passage of time. As of December 31, 2019 and 2018, Goodwill has \$252 and \$251, respectively, of net assets restricted by donors.

All contributions are considered to be available for general operating purposes unless specifically restricted by the donor. Contribution revenue is reported as an increase in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Donor restricted contributions whose purpose has been fulfilled and/or the stipulated time period has elapsed are reported as reclassifications between net assets with donor restrictions and net assets without donor restrictions.

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

***Contributed Goods and Services and Donations In-Kind***

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue and classified in accordance with donor-imposed restrictions on the contributions. An allowance for uncollectible contributions receivable is provided based on management's judgment and consideration of such factors as prior collection history, type of contributions and nature of fundraising activity.

Goods and materials contributed to Goodwill for resale are recorded at estimated fair market value based on retail sales prices. Costs associated with refurbishing these goods and materials are charged to expense as incurred.

In-kind contributions and grants received for goods or services are recorded at estimated fair value at the date of donation.

Grants are received from various federal, state and local governments, governmental agencies and other not-for-profit organizations. Expenditures of government grants are for the purposes specified by the funding source.

***Cash and Cash Equivalents***

Goodwill considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Goodwill maintains its cash balances in two financial institutions, which at times may exceed federally insured limits. Goodwill has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

***Investments***

Goodwill reports investments at fair value, with net appreciation and depreciation reported in the consolidated statements of activities.

Goodwill's investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is at least reasonably possible that changes in risk in the near term could materially affect Goodwill's investment holdings.

Investments are designated and intended for the use of satisfying the liabilities of the 457(b) plan, as described in Note J.

***Accounts Receivable***

The majority of Goodwill's accounts receivable is due from agencies. Credit is extended based on an evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are due within 10 to 30 days and are stated as amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. Goodwill determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, Goodwill's previous loss history, the customer's current ability to pay its obligation to Goodwill, and the condition of the general economy and the industry as a whole. Goodwill writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Total allowances for uncollectible balances was \$330 and \$370 as of December 31, 2019 and 2018, respectively.

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

***Inventories and Supplies***

Inventories primarily represent merchandise held for resale and component packaging supplies. These inventories are valued at the lower of cost or net realizable value using the first-in, first-out method. In-kind contributions of merchandise inventory held for resale are recorded at estimated fair market value based on retail sales prices.

***Property, Plant and Equipment***

Purchases of property, plant and equipment are recorded at cost. Donated assets are capitalized at estimated fair value when received. Leased property under capital leases is capitalized at the lesser of the useful life of the leased asset or the term of the lease. Goodwill capitalizes all qualifying purchases over \$5. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets ranging as follows: land improvements from 5 to 15 years; buildings and improvements from 4 to 50 years; and equipment and vehicles from 3 to 15 years. Leased assets are depreciated using the straight-line method over the lesser of the lease term or the estimated useful lives of the assets ranging from 5 to 10 years. Amortization of assets held under finance and capital leases is included in depreciation expense.

***Bond Issuance Costs***

Bond issuance costs represent trust fees, legal fees and other costs associated with the various bond issuances, and are netted against long-term debt on the consolidated statements of financial position. These costs are amortized over the life of the bonds (11 to 25 years). Amortization expense was \$75 and \$25 for the years ended December 31, 2019 and 2018, respectively.

***Contract Liability***

Contract liability consists of funds received in advance of providing services and supplies related to certain government service contracts. The majority of the balance as of December 31, 2019 and 2018, relates to a significant contract with a branch of the U.S. government.

***Revenue Recognition***

Goodwill adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* as of January 1, 2018 using the modified retrospective method. Revenue is measured based on a consideration specified in a contract with a customer. Goodwill recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

***Leases***

Effective January 1, 2019, Goodwill adopted ASU 2016-02, *Leases (Topic 842)*, and related amendments. Accounting Standards Codification (ASC) 842 requires lessees to (i) recognize a right-of-use asset and a lease liability that is initially measured at the present value of the remaining lease payments on the consolidated balance sheets, (ii) recognize a single lease cost calculated over the lease term on a straight-line basis and (iii) classify lease related cash payments within operating and financing activities. Goodwill adopted ASC 842 utilizing the current-period adjustment method, which allows the guidance to be initially applied at the adoption date with a cumulative-effect adjustment to the opening balance of net assets. Goodwill elected the package of practical expedients, which allows Goodwill to forgo reassessing prior conclusions on lease definition, classification and initial direct costs related to existing leases as of the adoption date. Goodwill elected not to recognize short-term leases on the consolidated statements of financial position and all non-lease components, such as common area maintenance, were excluded. Variable lease payments that do not depend on a rate of index and short-term rentals are expensed as incurred.

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

Goodwill's existing lease arrangements consist of both operating leases and capital leases. There was no impact of the adoption to the opening balance of net assets. The lease liabilities at January 1, 2019 reflect remaining lease payments discounted using an incremental borrowing rate based on the remaining lease term, as an implicit rate was not determinable for any of Goodwill's existing leases. See note H for further disclosure surrounding leases.

***Cost Allocation***

The financial statements report certain expense categories that are attributable to more than one support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Expenses by function have been allocated between program services, management and general, and fundraising classifications on a functional basis in the accompanying statements of functional expenses. Such expenses include occupancy, service management, program management, depreciation, and general and administrative expenses, which are allocated on the basis of square footage occupied or used, or on the basis of the total direct cost of the benefiting program.

***Advertising***

Goodwill expenses the cost of advertising as incurred. Advertising expense for the years ended December 31, 2019 and 2018, was \$3,957 and \$4,567, respectively.

***Income Taxes***

Goodwill Industries of Southeastern Wisconsin, Inc., Goodwill Industries of Metropolitan Chicago, Inc., Goodwill Retail Services, Inc. and Goodwill Manufacturing, Inc. have received determination letters from the Internal Revenue Service (IRS) indicating that they are exempt from federal income taxes, except for taxes pertaining to unrelated business income under section 501(c)(3) of the Internal Revenue Code.

Goodwill TalentBridge, LLC has been organized as a limited liability company and, accordingly, is not subject to federal or state income taxes. All income tax attributes of the entity are passed through to its sole member, Goodwill Industries of Southeastern Wisconsin, Inc. The entity is included in the consolidated information return filed by Goodwill Industries of Southeastern Wisconsin, Inc.

The Financial Accounting Standards Board (FASB) issued guidance related to the uncertainty of income tax positions, which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and requires additional disclosure. Goodwill recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. As of December 31, 2019 and 2018, Goodwill does not believe there is any uncertainty with respect to its tax positions.

Goodwill files information returns in the U.S. federal and the states of Wisconsin and Illinois jurisdictions. Tax years open under the federal statute of limitations include 2016 through 2019. Tax years open under the state of Wisconsin and state of Illinois statutes include 2015 through 2019. Goodwill had not historically filed any unrelated business income tax returns but filed in 2018 for federal and the states of Wisconsin and Illinois jurisdictions. Due to tax reform legislation, these income tax returns will be amended and the organization does not plan to file for 2019, except in Wisconsin. Tax years remain open for years in which an income tax return has not been filed.

On December 20, 2019, tax reform legislation commonly known as the Taxpayer Certainty and Disaster Tax Relief Act (the Act) was passed; resulting in modifications to existing tax law, particularly repealing the taxation of transportation fringe benefits on exempt employers. While there were no material effects on Goodwill's financial statements as a result of the Act, management continues to evaluate the impact.

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions relating to the reporting of assets and liabilities and the 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 could differ from those estimates.

***Reclassifications***

Certain reclassifications have been made to the 2018 consolidated financial statements to conform to the 2019 presentation. The reclassifications did not have an impact on prior year net assets or changes in net assets.

**NOTE C - INVENTORIES AND SUPPLIES**

Inventories and supplies consists of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Components	\$ 49	\$ 49
Retail merchandise	9,534	8,904
Food	521	429
Laundry	-	229
	<u>          </u>	<u>          </u>
Inventories and supplies	<u>\$ 10,104</u>	<u>\$ 9,611</u>

**NOTE D - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, net consists of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 31,441	\$ 31,628
Land improvements	9,119	8,646
Buildings and improvements	177,778	175,254
Equipment and vehicles	54,022	55,018
Construction in process	-	2,160
	<u>          </u>	<u>          </u>
Total property, plant and equipment	272,360	272,706
	<u>          </u>	<u>          </u>
Less accumulated depreciation and amortization	(141,689)	(132,051)
	<u>          </u>	<u>          </u>
Property, plant and equipment, net	<u>\$ 130,671</u>	<u>\$ 140,655</u>

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE E - LINE-OF-CREDIT AGREEMENT**

Goodwill has a working capital line-of-credit agreement with a bank, secured by substantially all assets, under which it may borrow up to \$13.5 million as of December 31, 2019. The agreement expires on May 31, 2021. Borrowings under the line-of-credit agreement bear interest at a variable rate (3.44% as of December 31, 2019). There was no outstanding balance as of December 31, 2019 and 2018. The line-of-credit agreement contains certain restrictive covenants which, among other things, require Goodwill to maintain certain financial ratios. Goodwill was in compliance with these covenants as of December 31, 2019 and 2018.

**NOTE F - LONG-TERM DEBT**

Long-term debt, payable by Goodwill, consists of the following as of December 31:

	<u>2019</u>	<u>2018</u>
WHEFA Revenue Bonds, Series 2014A, due in annual installments ranging from \$540 to \$840 through May 2029. The bonds bear interest, due monthly, at variable rates (2.45% at December 31, 2019). Collateralized by certain buildings.	\$ 7,152	\$ 7,752
WHEFA Revenue Bonds, Series 2014B, due in annual installments ranging from \$135 to \$210 through May 2029. The bonds bear interest, due monthly, at variable rates (2.45% at December 31, 2019). Collateralized by certain buildings.	1,788	1,938
WHEFA Revenue Bonds, Series 2014C, due in annual installments ranging from \$570 to \$1,210 through November 2035. The bonds bear interest, due monthly, at variable rates (2.67% at December 31, 2019). Collateralized by certain buildings.	14,575	15,217
WHEFA Revenue Bonds, Series 2014D. The bonds were paid in full during 2019.	-	4,535
WHEFA Revenue Bonds, Series 2012, due in annual installments ranging from \$430 to \$640 through February 2037. The bonds bear interest, due monthly, at variable rates (2.51% at December 31, 2019). Collateralized by certain buildings.	10,625	11,160
Notes payable to bank for various equipment loans. The notes were paid in full during 2019.	-	310
Note payable to bank. The note was paid in full during 2019.	-	475
Total debt	<u>34,140</u>	<u>41,387</u>
Less current maturities	(1,998)	(3,023)
Less unamortized bond issuance costs	<u>(224)</u>	<u>(298)</u>
Long-term debt, less current maturities and unamortized bond issuance costs	<u>\$ 31,918</u>	<u>\$ 38,066</u>



**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

During 2010, Goodwill entered into a guaranty agreement whereby provisions of the agreement provide that certain entities of the consolidated group are jointly liable for the outstanding debt of Goodwill Industries of Southeastern Wisconsin, Inc.

In an effort to reduce the risk of incurring higher interest costs in periods of rising interest rates, Goodwill is party to various interest rate swap agreements. The agreements effectively convert variable-rate debt to fixed-rate debt to the extent of the notional amount of the swaps. The interest differential is reflected as an adjustment to interest expense as incurred and the fair value of the swaps are reflected on the consolidated statements of financial position in other long-term liabilities. The following is a summary of Goodwill's interest rate swaps at December 31:

Maturity date	Fixed rate	Total interest rate	Notional amount	Outstanding notional amount	Fair value liability	
					2019	2018
May 2, 2022	2.20%	0.98%	\$ 8,940	\$ 8,940	\$ (213)	\$ (117)
December 1, 2024	1.85	0.65	3,500	2,863	(91)	-
December 1, 2024	2.51	1.16	11,160	10,625	(547)	(288)
December 1, 2025	2.69	1.27	8,139	8,060	(703)	(351)
Terminated swaps in 2019					-	(28)
					<u>\$(1,554)</u>	<u>\$ (784)</u>

The total change in the fair value of interest rate swaps was recognized in interest expense as loss of \$769 in 2019 and gain of \$169 in 2018.

The bonds payable contain certain restrictive covenants that, among other things, require Goodwill to maintain certain financial ratios. Goodwill was in compliance with these covenants as of December 31, 2019 and 2018.

Aggregate scheduled principal payments on long-term debt and amortization expense of bond issuance costs as of December 31, 2019, are as follows:

	Long-term debt	Bond issuance costs
2020	\$ 1,998	\$ 17
2021	2,070	17
2022	2,147	17
2023	2,226	17
2024	2,231	17
Thereafter	23,468	139
	<u>\$ 34,140</u>	<u>\$ 224</u>

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE G - REVENUES**

***Nature of goods and services***

The following is a description of principal activities from which Goodwill generates its revenue. The products and services, as well as the nature, timing of satisfaction of performance obligations and significant payment terms are as follows:

- i. Retail revenues - Revenue and payment is recognized at the point of sale;
- ii. Food and administrative services - Revenue is recognized when allowable and reimbursable expenditures are incurred, and upon meeting the legal or contractual requirements of the funding source. Payment is due monthly;
- iii. Participant services - These types of contracts include laundry services, staffing and other services. Customers do not take control of goods and services under these contracts until it is completed. Revenue is recognized in the period service is provided or goods are shipped. Customers are invoiced upon the service being provided or shipment being made. Payment is typically due within thirty days of receipt of invoice; and
- iv. Other revenues - Other revenues represents manufacturing, recycling, and other services, none of which are individually significant. Revenue is recognized in the period service is provided or goods are shipped. Customers are invoiced upon the service being provided or shipment being made. Payment is typically due within 30 days of receipt of invoice.

***Disaggregation of revenue***

Refer to the consolidated statements of activities for the disaggregation of revenues.

***Contract liability***

Goodwill recognizes contract liabilities when the revenues earned from the contract with the U.S. Naval Supply Systems Command varies from the cash received. Contract liabilities at December 31, 2019 and 2018 were approximately \$123 and \$733, respectively. This represents performance obligations to provide services for future periods.

Goodwill has elected, as a practical expedient, not to disclose additional information about unsatisfied performance obligations for contracts with customers that have an expected duration of one year or less.

***Sales taxes collected and remitted***

Goodwill presents sales taxes collected from its customers and remitted to governmental agencies on a net basis (excluded from revenues) in its consolidated financial statements.

**NOTE H - LEASES**

Goodwill leases various operational facilities and equipment leases under non-cancelable finance and operating lease agreements. Certain leases call for escalating rental payments. At the commencement of a lease, Goodwill includes only the initial lease term unless the option to extend is reasonably certain. Goodwill does not record leases with a lease term of 12 months or less on its consolidated statements of financial position.

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

Goodwill has elected to account for leases that have lease payments over the term of the lease of \$5,000 or greater. When calculating the lease liability on a discounted basis, Goodwill applies its estimated incremental borrowing rate if an implicit rate in the lease is not readily available. Goodwill bases its incremental borrowing rate on a collateralized interest rate.

Goodwill's facility leases often contain lease and non-lease components. Goodwill has elected to account for these lease and non-lease components separately. Non-lease components for these assets are primarily comprised of maintenance costs, insurance and utilities that are passed on from the lessor in proportion to the space leased by Goodwill and are recognized in the period in which the obligation for those payments was incurred. Non-lease components are separate from lease components within Goodwill's lease agreements, such that an allocation between the components does not need to be performed. Lease cost for leases is recognized on a straight-line basis over the lease term.

In addition to rent payments, leases for retail space contain payments for real estate taxes, insurance costs, common area maintenance, and utilities that are not fixed. Goodwill accounts for these costs as variable payments and does not include such costs as a lease component.

The expense components of Goodwill's leases reflected on the consolidated statements of operations were as follows:

	December 31, 2019
Finance lease expenses:	
Amortization of right-of-use assets	\$ 630
Interest on lease liabilities	45
Total finance lease expense	<u>675</u>
Operating lease expense	<u>12,111</u>
Total lease expense	<u>\$ 12,786</u>

Other information related to leases was as follows:

	December 31, 2019
<b>Weighted-average remaining lease term (in years):</b>	
Finance leases	4
Operating leases	11
<b>Weighted-average discount rate:</b>	
Finance leases	4.5%
Operating leases	3.5%

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

As of December 31, 2019, future minimum lease payments under non-cancellable leases are as follows:

	Finance leases	Operating leases	Total
2020	\$ 533	\$ 9,042	\$ 9,575
2021	447	8,576	9,023
2022	319	7,987	8,306
2023	273	7,540	7,813
2024	145	7,619	7,764
Thereafter	-	50,266	50,266
Total future minimum lease payments	1,717	91,030	92,747
Less: discount	(148)	-	(148)
Lease liability	<u>\$ 1,569</u>	<u>\$ 91,030</u>	<u>\$ 92,599</u>

Total rental expense under non-cancellable leases was \$12,722 in 2018.

Goodwill had rental agreements which expired in 2019. Total rental income was \$1,162 and \$1,128 in 2019 and 2018, respectively.

**NOTE I - SIGNIFICANT FUNDING AGENCIES AND CUSTOMERS**

Goodwill has contracts with the U.S. Naval Supply Systems Command to provide food, laundry and administrative services. The contracts expire on September 30, 2028. Goodwill recognized revenue of \$86,685 and \$78,611 in 2019 and 2018, or 28% and 29%, respectively, of operating revenue and support related to this customer. This customer accounted for \$5,237 and \$4,599 or 46% and 38%, respectively, of the total accounts receivable balance as of December 31, 2019 and 2018.

Goodwill receives a substantial amount of funding from various federal and state agencies including the United States Department of Health and Human Services and the Wisconsin Department of Health and Family Services. Governmental grant awards are generally subject to renewal by grantor agencies on an annual basis.

A customer other than noted above accounted for \$784 and \$1,281 in 2019 and 2018, respectively, or 7% and 10%, respectively, of the total accounts receivable balance as of December 31, 2019 and 2018.

**NOTE J - EMPLOYEE BENEFIT PLANS**

Goodwill has a defined contribution plan that covers substantially all of its full-time employees. The plan covers eligible employees who have completed one year of service, as defined in the plan, and have attained the age of 21. The IRS has determined that the plan is a qualified tax-exempt plan. Goodwill contributes, on a monthly basis, 5% of the first \$25 of total eligible compensation and 8% of compensation thereafter to the plan up to the IRS annual limitations. Participant contributions are not permitted under the plan agreement. Participants become 100% vested in Goodwill's contributions after three years of vesting service, as defined in the plan. During 2019 and 2018, Goodwill's contributions, net of forfeitures, to the plan were \$4,709 and \$4,608, respectively.

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

Goodwill has a 403(b) retirement plan that permits employees to defer a portion of their compensation, subject to annual IRS limitations. There were no employer contributions to the 403(b) plan for the years ended December 31, 2019 and 2018.

Goodwill has a 457(b) tax-deferred compensation plan that is available to certain management employees. Participants may defer income into the plan on a pretax or post-tax basis, subject to annual IRS limitations. An asset and a liability of \$908 and \$690 are included on Goodwill's consolidated statements of financial position as of December 31, 2019 and 2018, respectively, within investments and other long-term liabilities.

**NOTE K - CONTINGENCIES**

Government contracts are subject to audit and adjustment by funding agencies. If government revenue is recorded for expenditures that are subsequently disallowed, Goodwill may be required to repay the questioned costs to the funding agency. Management of Goodwill is not aware of any disallowed expenditures that would have a material adverse effect on its consolidated financial statements.

Goodwill is involved in various legal proceedings, claims and administrative actions arising in the normal course of business. In the opinion of management, Goodwill's liability, if any, under any pending litigation or administrative proceeding will not materially affect its financial condition.

**NOTE L - RELATED PARTIES**

Certain members of Goodwill's board of directors are employed by various companies with which Goodwill does business.

Goodwill's operating revenue includes approximately \$18 and \$32 for 2019 and 2018, respectively, from companies with which certain Goodwill directors and management staff members are associated. Goodwill's purchased services and products include approximately \$2,888 and \$4,833 for 2019 and 2018, respectively, from companies with which certain Goodwill directors and management staff members are associated.

Contributions include donations received from Goodwill directors and management staff members, which totaled \$100 and \$77 for 2019 and 2018, respectively. Outstanding pledges from Goodwill directors and management staff members totaled \$10 at December 31, 2019, and \$4 at December 31, 2018.

**NOTE M - DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS**

The FASB accounting guidance on fair value measurement requires certain financial assets and liabilities be carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Classification of the financial asset or liability within the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The following is a summary:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The determination of where an asset or liability falls in the fair value hierarchy requires significant judgment. Goodwill evaluates its hierarchy disclosures each year and, based on various factors, it is possible that an asset or liability may be classified differently from year to year; however, Goodwill expects that changes in classifications between different levels will be rare.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes to the valuation methodologies used at December 31, 2019 and 2018.

Bond and stock mutual funds - Valued based on quoted market prices as of the date of the statement of financial position, as determined based on the market prices for the individual investments comprising each fund.

Derivative liability (interest rate swaps) - The fair value of Goodwill's interest rate swap agreements is based on estimates using standard pricing models as of the date of the consolidated statements of financial position. The fair value of the interest rate swaps is based on quotes from the counterparty of these instruments and represents the estimated amount that Goodwill would expect to receive or pay to terminate the agreements.

The carrying amount of Goodwill's financial instruments, which include trade accounts receivable, trade accounts payable and accrued liabilities, approximates their fair values at December 31, 2019 and 2018, due to their short maturities. The carrying value of long-term debt, including the current portion, approximates fair value because the interest rate approximates the current market rate of interest available to Goodwill.

The following table presents information about Goodwill's assets and liabilities measured at fair value as of December 31, 2019, and indicates the fair value hierarchy of the valuation techniques utilized by Goodwill to determine such fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Bond and stock mutual funds	\$ 908	\$ -	\$ -	\$ 908
Liabilities				
Derivative liability, net (interest rate swaps)	-	1,554	-	1,554

The following table presents information about Goodwill's assets and liabilities measured at fair value as of December 31, 2018, and indicates the fair value hierarchy of the valuation techniques utilized by Goodwill to determine such fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Bond and stock mutual funds	\$ 690	\$ -	\$ -	\$ 690
Liabilities				
Derivative liability, net (interest rate swaps)	-	784	-	784

**Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE N - LIQUIDITY AND AVAILABILITY**

To meet cash needs for general expenditures, Goodwill has net current financial assets, available within one year of the financial statement date, consisting of the following as of December 31, 2019:

Cash and cash equivalents	\$	63,698
Accounts receivable, net		<u>11,332</u>
	\$	<u><u>75,030</u></u>

Overall cash and investment amounts and performance are reviewed annually by the Audit, Risk and Compliance Committee of the Board of Directors. As more fully described in note E, Goodwill also has availability under the line of credit of \$13,500 should an unanticipated liquidity need be identified.

**NOTE O - SUBSEQUENT EVENTS**

Goodwill evaluated its December 31, 2019, consolidated financial statements for subsequent events through May 29, 2020, the date the consolidated financial statements were available to be issued. Goodwill is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements, except as disclosed below.

Subsequent to year-end, the World Health Organization declared the novel coronavirus outbreak a public health emergency. Although Goodwill did not experience a significant impact on its operations and financial results in the first quarter of fiscal year 2020, the duration and intensity of the impact of the coronavirus and the potential resulting disruption to Goodwill's operations is uncertain. At this time, Goodwill, therefore, cannot reasonably estimate the impact to its financial statements beyond the first quarter of fiscal 2020. Goodwill has experienced a reduction in operations as a result of office closures and personnel furloughs. Goodwill will continue to monitor the situation closely and assess the impact on its operations and financial results for the remainder of the year.

Effective May 29, 2020, the line of credit was amended to extend the expiration date to May 31, 2021. In addition, Goodwill drew down on its line of credit during the first quarter of 2020 as a result of the pandemic. There is no balance available on the line of credit as of May 29, 2020.