Consolidated Financial Statements and Report of Independent Certified Public Accountants

Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates

December 31, 2020 and 2019

Contents

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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, which comprise the consolidated statements of financial position as of and for the years ended December 31, 2020 and 2019, 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 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 Southeastern Wisconsin, Inc. and Affiliates as of December 31, 2020 and 2019, 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.

Grant Thornton LLP

Appleton, Wisconsin
June 1, 2021

Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,
(In thousands)

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 53,113	$ 63,698
Accounts receivable, net	33,958	11,332
Inventories and supplies	11,221	10,104
Prepaid expenses and other assets	1,506	2,070
Total current assets	99,798	87,204
Property, plant and equipment, net	118,828	130,671
Finance lease right-of-use assets, net	1,094	1,556
Operating lease right-of-use assets	89,385	86,673
Investments	708	908
Total assets	$ 309,813	$ 307,012
Liabilities and net assets		
Current liabilities		
Current maturities of long-term debt	$ 2,070	$ 1,998
Current portion of finance or capital lease liabilities	412	475
Current portion of operating lease liabilities	11,018	9,042
Accounts payable	14,811	10,043
Accrued liabilities	14,886	17,817
Contract liability	166	123
Total current liabilities	43,363	39,498
Long-term debt, less current maturities and unamortized bond issuance costs	29,865	31,918
Obligations under finance or capital leases liabilities, less current portion	789	1,094
Obligations under operating lease liabilities, less current portion	83,186	81,988
Other long-term liabilities	5,430	2,484
Total liabilities	162,633	156,982
Net assets		
Without donor restrictions	146,865	149,778
With donor restrictions	315	252
Total net assets	147,180	150,030
Total liabilities and net assets	$ 309,813	$ 307,012

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, 2020
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and support			
Retail services	$ 133,496	$ -	$ 133,496
Food and administrative services	90,403	-	90,403
Participant services	14,886	-	14,886
Other revenues	749	-	749
Total operating revenue	239,534	-	239,534
Contributions	16,815	189	17,004
Grant income	2,647	-	2,647
In-kind contributions	116,310	-	116,310
Participant programs	7,596	-	7,596
Miscellaneous income	1,068	-	1,068
Net assets released from restrictions	126	(126)	-
Total operating revenue and support and net assets released from restrictions	384,096	63	384,159
Operating expenses			
Program services	358,396	-	358,396
Management and general	24,592	-	24,592
Fundraising	251	-	251
Total operating expenses	383,239	-	383,239
Excess of operating revenue and support and net assets released from restrictions over operating expenses	857	63	920
Non-operating activities			
Impairment of property, plant and equipment	(3,857)	-	(3,857)
Gain on disposal of property, plant and equipment	87	-	87
Change in net assets	(2,913)	63	(2,850)
Net assets, beginning of year	149,778	252	150,030
Net assets, end of year	$ 146,865	$ 315	$ 147,180

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, 2019
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and support			
Retail services	$ 173,202	$ -	$ 173,202
Food and administrative services	86,685	-	86,685
Participant services	27,970	-	27,970
Other revenues	987	-	987
Total operating revenue	288,844	-	288,844
Contributions	2,551	198	2,749
In-kind contributions	124,000	-	124,000
Participant programs	8,586	-	8,586
Miscellaneous income	3,813	-	3,813
Net assets released from restrictions	197	(197)	-
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
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
Change in net assets	8,509	1	8,510
Net assets, beginning of year	141,269	251	141,520
Net assets, end of year	$ 149,778	$ 252	$ 150,030

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, 2020
(In thousands)

	Program Services	Management and General	Fundraising	Total
Salaries	$ 103,727	$ 12,269	$ 183	$ 116,179
Employee benefits	17,326	1,232	25	18,583
Payroll taxes	7,938	855	12	8,805
Total salaries and related expenses	128,991	14,356	220	143,567
In-kind supplies	115,550	-	-	115,550
Supplies and other	52,872	374	1	53,247
Rent and occupancy	28,437	606	3	29,046
Professional fees and contracted services	15,086	3,242	20	18,348
Depreciation	11,348	882	-	12,230
Finance lease amortization	510	9	-	519
Advertising	120	1,404	-	1,524
Transportation	2,879	100	-	2,979
Equipment purchases, rental and maintenance	2,162	1,339	7	3,508
Interest expense	67	2,200	-	2,267
Conferences and training	100	80	-	180
Specific assistance to individuals	317	-	-	317
Bad debt recoveries, net	(43)	-	-	(43)
Total expenses	$ 358,396	$ 24,592	$ 251	$ 383,239

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)

	Program Services	Management and General	Fundraising	Total
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
Total salaries and related expenses	147,355	18,482	268	166,105
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)
Total expenses	$ 386,213	$ 32,701	$ 645	$ 419,559

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

Goodwill Industries of Southeastern Wisconsin, Inc. and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2020 and 2019
(In thousands)

	2020	2019
Cash flows from operating activities		
Change in net assets	$ (2,850)	$ 8,510
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	12,766	13,639
Impairment of property, plant and equipment	3,857	-
Realized and unrealized gain on investments	(39)	(158)
Unrealized loss on interest rate swaps	793	769
Gain on disposal of property, plant and equipment	(87)	(77)
Change in accounts receivable allowance	(45)	(40)
Changes in operating assets and liabilities		
Accounts receivable	(22,581)	1,092
Inventories and supplies	(1,117)	(493)
Prepaid expenses and other assets	564	69
Accounts payable and accrued liabilities	(214)	(228)
Contract liability	43	(610)
Operating lease right-of-use assets and liabilities, net	462	437
Other long-term assets and liabilities	2,446	206
Net cash (used in) provided by operating activities	(6,002)	23,116
Cash flows from investing activities		
Capital expenditures	(2,237)	(4,553)
Proceeds from sale of property, plant and equipment	131	336
Purchases of investments	(54)	(86)
Net cash used in investing activities	(2,160)	(4,303)
Cash flows from financing activities		
Proceeds from line of credit	13,500	-
Repayment of line of credit	(13,500)	-
Repayment of long-term debt	(1,998)	(7,248)
Payments on finance or capital lease liabilities	(425)	(984)
Net cash used in financing activities	(2,423)	(8,232)
Net (decrease) increase in cash and cash equivalents	(10,585)	10,581
Cash and cash equivalents, beginning of year	63,698	53,117
Cash and cash equivalents, end of year	$ 53,113	$ 63,698
Supplemental disclosure of cash flow information		
Cash payments for interest	$ 1,434	$ 1,480
Non-cash transactions		
Assets acquired under finance or capital leases	$ 207	$ 842
Purchase of property and equipment financed through operating leases	12,448	5,916
Purchase of property and equipment in accounts payable	2,051	-
Donated goods and materials contributed for resale	115,551	123,343

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

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 laundry 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, 2020 and 2019, Goodwill has $315 and $252, 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.

Measure of Operations

The consolidated statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to Goodwill's ongoing mission operations. Non-operating activities are limited to other activities considered to be of a more unusual or nonrecurring nature, including impairment of property, plant and equipment and gain on disposal of property, plant and equipment.

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.

A portion of Goodwill's revenue is derived from federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when expenditures have been incurred or performance requirements have been met, in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statements of financial position. Goodwill received cost reimbursable grants of $1,097 that have not been recognized at December 31, 2020 because qualifying expenditures have not yet been incurred.

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 in miscellaneous income.

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 $285 and $330 as of December 31, 2020 and 2019, respectively.

Contributions Receivable

Contributions that are expected to be collected within one year are recorded at net realizable value. Contributions that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the estimated risk-free interest rate applicable to the years in which the amounts promised are expected to be received. All amounts outstanding are to be collected within one year, and there was no allowance for uncollectible contributions as of December 31, 2020 and 2019. Contributions receivable of $15,000 were included in accounts receivable on the consolidated statements of financial position as of December 31, 2020 and represent 45% of total accounts receivable. There were no contributions receivable as of December 31, 2019. The contribution receivable as of December 31, 2020 is from one donor and represented 88% of total contributions for the year ended December 31, 2020. There were no significant contributions from one donor for the year ended December 31, 2019.

Inventories and Supplies

Inventories primarily represent merchandise held for resale and food. 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 and equipment is capitalized at the present value of lease payments. 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 leases is included in depreciation expense.

During the year ended December 31, 2020, as a result of a change in the use of certain property, management had the property appraised by a third party. Based on the property appraisal, management determined that various land, building and building improvements reflected in property, plant and equipment related to a specific property were impaired. An impairment loss of $3,857 was recognized in the consolidated statement of activities during the year ended December 31, 2020. There was no impairment noted for the year ended December 31, 2019.

Bond Issuance Costs

Bond issuance costs represent trust fees, legal fees and other costs associated with 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 $17 and $75 for the years ended December 31, 2020 and 2019, respectively.

Revenue Recognition

Revenue is measured based on 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 Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, and related amendments. Topic 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 Topic 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.

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.

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 has elected to account for leases that have lease payments over the term of the lease of $5 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. 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 consolidated 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, 2020 and 2019, was $1,524 and $3,957, 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, 2020 and 2019, 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 2017 through 2020. Tax years open under the state of Wisconsin and state of Illinois statutes include 2016 through 2020. 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 have been amended and the organization does not plan to file for 2020 or 2019, except in Wisconsin. Tax years remain open for years in which an income tax return has not been filed.

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.

Fair Value Measurements

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 methodologies used at December 31, 2020 or 2019.

The carrying amount of cash, inventory, accounts payable and accrued expenses approximate fair value due to the short-term nature of those investments. Accounts receivable are stated at net realizable value. Long-term debt consists of bank loans. Based on Goodwill's assessment of the current financial market and corresponding risk associated with the debt, management believes the carrying amount of long-term debt approximates fair value.

Reclassifications

Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 presentation. The reclassifications did not have an impact on prior year net assets or changes in net assets.

New Accounting Pronouncements

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets,* to increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The guidance requires contributed nonfinancial assets to be presented as a separate line item on the statement of activities, apart from cash and other financial asset contributions. The guidance also requires disclosure of the types of contributed nonfinancial assets and, for each category, information about whether the assets were monetized or utilized, a description of the policies to monetize or utilize such assets, a description of donor-imposed restrictions associated with the contributions, and a description of the valuation techniques and principal market used to arrive at a fair value measure at initial recognition. The guidance will be effective for Goodwill for the year ending December 31, 2022. Organizations are required to apply the guidance on a retrospective basis, and early adoption is permitted.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides optional guidance for a limited period of time to ease the potential burden of accounting for reference rate reform. This guidance is effective for all entities as of March 12, 2020 through December 31, 2022. Goodwill is currently evaluating the impact on the consolidated financial statements.

Adopted Accounting Pronouncement

In April 2020, the FASB staff issued a question-and-answer document ("Q&A") that addresses their belief that the guidance on lease modifications in GAAP does not contemplate concessions being executed as rapidly as they were executed as a result of the major financial crisis arising from the COVID-19 pandemic. In the Q&A, the staff stated that entities may elect to not evaluate whether a concession provided by a lessor to a lessee in response to the COVID-19 pandemic is a lease modification. This election must be applied consistently to leases with similar characteristics and circumstances. The election permits entities, if certain criteria are met, to account for concessions as if they were contemplated in the existing contract or evaluate the lease concessions for lease modification accounting. If elected, abatement concessions are accounted for as negative variable rental revenue and rent deferrals are accounted for as if the lease is unchanged. Goodwill elected to utilize the relief provided by the FASB staff. This election did not have a material impact on the consolidated financial statements as of December 31, 2020, and Goodwill does not expect material impacts in future periods.

NOTE C - INVENTORIES AND SUPPLIES

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

	2020	2019
Components	$ -	$ 49
Retail merchandise	10,195	9,534
Food	1,026	521
Inventories and supplies	$ 11,221	$ 10,104

NOTE D - PROPERTY, PLANT AND EQUIPMENT

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

	2020	2019
Land	$ 31,157	$ 31,441
Land improvements	9,044	9,119
Buildings and improvements	174,908	177,778
Equipment and vehicles	56,352	54,022
Construction in process	660	-
Total property, plant and equipment	272,121	272,360
Less accumulated depreciation and amortization	(153,293)	(141,689)
Property, plant and equipment, net	$ 118,828	$ 130,671

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, 2020. The agreement expires on May 31, 2022. Borrowings under the line-of-credit agreement bear interest at a variable rate (2.15% as of December 31, 2020). There was no outstanding balance as of December 31, 2020 and 2019. The line-of-credit agreement contains certain restrictive covenants which, among other things, require Goodwill to maintain certain liquidity. Goodwill was in compliance with these covenants as of December 31, 2020 and 2019.

NOTE F - LONG-TERM DEBT

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

	2020	2019
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 (1.22% at December 31, 2020). Collateralized by certain buildings.	$ 6,536	$ 7,152
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 (1.22% at December 31, 2020). Collateralized by certain buildings.	1,634	1,788
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 (1.36% at December 31, 2020). Collateralized by certain buildings.	13,907	14,575
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 (1.28% at December 31, 2020). Collateralized by certain buildings.	10,065	10,625
Total debt	32,142	34,140
Less current maturities	(2,070)	(1,998)
Less unamortized bond issuance costs	(207)	(224)
Long-term debt, less current maturities and unamortized bond issuance costs	$ 29,865	$ 31,918

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 2020	Fair Value Liability 2019
May 2, 2022	2.20%	2.09%	$ 8,940	$ 8,170	$ (226)	$ (213)
December 1, 2024	1.85	1.74	3,500	2,719	(167)	(91)
December 1, 2024	2.51	2.39	11,160	10,065	(818)	(547)
December 1, 2025	2.69	2.56	8,139	7,463	(1,136)	(703)
					$ (2,347)	$ (1,554)

The total change in the fair value of interest rate swaps was recognized in interest expense as a loss of $793 and $769 in 2020 and 2019, respectively.

The bonds payable contain certain restrictive covenants that, among other things, require Goodwill to maintain certain liquidity. Goodwill was in compliance with these covenants as of December 31, 2020 and 2019.

Aggregate scheduled principal payments on long-term debt and amortization expense of bond issuance costs as of December 31, 2020, are as follows:

	Long-Term Debt	Bond Issuance Costs
2021	$ 2,070	$ 17
2022	2,147	17
2023	2,226	17
2024	2,231	17
2025	2,298	17
Thereafter	21,170	122
	$ 32,142	$ 207

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 services – Food revenue is recognized when allowable and reimbursable expenditures are incurred and control has transferred to the customer, which is typically when the food is consumed. Payment is due monthly;

III. Administrative services – Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by Goodwill's performance as Goodwill performs. The different promised goods or services generally provide a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. As such, revenue for these performance obligations is generally recognized as services are performed. Payment is due monthly;

IV. 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 30 days of receipt of invoice; and

V. Other revenues - Other revenues represents 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.

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

The expense components of Goodwill's leases reflected on the consolidated statements of activities were as follows at December 31:

	2020	2019
Finance lease expenses:		
Amortization of right-of-use assets	$ 519	$ 630
Interest on lease liabilities	68	45
Total finance lease expense	587	675
Operating lease expense	12,808	12,111
Total lease expense	$ 13,395	$ 12,786

Other information related to leases was as follows at December 31:

	2020	2019
Weighted-average remaining lease term (in years):		
Finance leases	3	4
Operating leases	10	11
Weighted-average discount rate:		
Finance leases	5.1%	4.5%
Operating leases	3.5%	3.5%

As of December 31, 2020, future minimum lease payments under non-cancellable leases are as follows:

	Finance Leases	Operating Leases	Total
2021	$ 462	$ 14,123	$ 14,585
2022	340	13,555	13,895
2023	296	12,854	13,150
2024	182	11,130	11,312
2025	35	10,433	10,468
Thereafter	-	49,886	49,886
Total future minimum lease payments	1,315	111,981	113,296
Less: discount	(114)	(17,777)	(17,891)
Lease liability	$ 1,201	$ 94,204	$ 95,405

Goodwill had rental agreements which expired in 2019. Total rental income was $1,162 in 2019.

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 $90,403 and $86,685 in 2020 and 2019, or 34% and 28%, respectively, of operating revenue and support related to this customer. This customer accounted for $12,359 and $5,237 or 36% and 46%, respectively, of the total accounts receivable balance as of December 31, 2020 and 2019.

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.

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 2020 and 2019, Goodwill's contributions, net of forfeitures, to the plan were $1,760 and $4,709, respectively.

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, 2020 and 2019.

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 pre-tax or post-tax basis, subject to annual IRS limitations. An asset and a liability of $708 and $908 are included on Goodwill's consolidated statements of financial position as of December 31, 2020 and 2019, 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 $19 and $18 for 2020 and 2019, respectively, from companies with which certain Goodwill directors and management staff members are associated. Goodwill's purchased services and products include approximately $1,521 and $2,888 for 2020 and 2019, 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 $108 and $100 for 2020 and 2019, respectively. Outstanding pledges from Goodwill directors and management staff members totaled $0 at December 31, 2020, and $10 at December 31, 2019.

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;

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, 2020 and 2019.

Bond and stock mutual funds - Valued based on quoted market prices as of the date of the consolidated 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, 2020 and 2019, 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, 2020, and indicates the fair value hierarchy of the valuation techniques utilized by Goodwill to determine such fair value.

	Level 1	Level 2	Level 3	Total
Assets				
Bond and stock mutual funds	$ 708	$ -	$ -	$ 708
Liabilities				
Derivative liability, net (interest rate swaps)	-	2,348	-	2,348

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.

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

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:

	2020	2019
Cash and cash equivalents	$ 53,113	$ 63,698
Accounts receivable, net	33,958	11,332
	$ 87,071	$ 75,030

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 - RISKS AND UNCERTAINTIES

The COVID-19 pandemic has impacted and could further impact Goodwill’s business and operations and the operations of its suppliers, vendors and customers. The pandemic continues to significantly impact global economic conditions and in the U.S. as federal, state and local governments react to the public health crisis with mitigation measures, creating significant uncertainties in the U.S. and global economies. The extent to which the pandemic will continue to affect Goodwill's business, operations and financial results will depend on numerous factors that it may not be able to accurately predict and which may cause the actual results to differ from the estimates and assumptions Goodwill is required to make in preparation of consolidated financial statements according to U.S. GAAP.

NOTE P - CARES ACT

As a result of the COVID-19 pandemic and pursuant to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Goodwill deferred payment of applicable employment taxes during 2020. The amount deferred as of December 31, 2020 is $4,748. Under the CARES Act, 50% of the total deferred employment tax is to be repaid on December 31, 2021, with the remaining amount due on December 31, 2022. As such, Goodwill has recorded $2,374 in accrued liabilities and $2,374 in other long-term liabilities on the statements of financial position as of December 31, 2020.

Also in connection with the CARES Act, during the year ended December 31, 2020, Goodwill recognized $2,647 related to refundable payroll tax credits for qualified wages paid to retained full-time employees. This is included in grant income on the consolidated statement of activities.

NOTE Q - SUBSEQUENT EVENTS

Goodwill evaluated its December 31, 2020, consolidated financial statements for subsequent events through June 1, 2021, 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.

Effective May 28, 2021, the line of credit was amended to extend the expiration date to May 31, 2022 and modify the debt service coverage ratio. Also on May 28, 2021, the 2012 and 2014 bond agreements were amended to modify the debt service coverage ratio.