

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2022 and 2021



WIPFLI

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements (the "financial statements") of Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries (the "Organization"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries as of December 31, 2022 and 2021, 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 ("GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Change in Accounting Principles

As discussed in Note 18, Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries changed its accounting for donated goods inventory (contributions of nonfinancial assets), prompted by Financial Accounting Standards Board Accounting Standard Update No. 2020-07 - Not-For-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets. This accounting principle is further described in Note 1. The change in accounting principle is reflected as an increase in contributions of nonfinancial assets and cost of sales on the statement of activities.

As discussed in Note 1 and Note 14, Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries applied the amendments in Accounting Standard Update No. 2016-02 - Leases. The change in accounting principle is reflected on a modified prospective basis and prior period results were not restated. Our opinion is not modified with respect to these matters.

Change in Estimate

As discussed in Note 18, Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries has elected to change the methodology for estimating the value of donated goods inventory. The methodology is further described in Note 1. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries' ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Industries of North Central Wisconsin, Inc. and Subsidiaries's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Wipfli LLP

Green Bay, Wisconsin
April 27, 2023

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Financial Position

<i>As of December 31,</i>	2022	2021
Current assets:		
Cash and cash equivalents	\$ 19,224,627	\$ 10,880,708
Accounts receivable customers - Net	277,805	274,594
Accounts receivable grants and other	791,695	836,656
Inventories	8,589,090	17,737,926
Prepaid expenses and other	679,804	612,976
Total current assets	29,563,021	30,342,860
Property and equipment - Net	46,042,131	47,100,787
Other assets:		
Right of use asset - operating type	8,267,405	0
Deferred compensation	1,097,741	1,336,328
Investments	27,758,606	32,651,999
Interest in Community Foundation	1,386,690	1,660,313
Restricted cash	922,582	1,147,297
Total other assets	39,433,024	36,795,937
Total assets	\$ 115,038,176	\$ 114,239,584

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Financial Position (Continued)

<i>As of December 31,</i>	2022	2021
Current liabilities:		
Right of use obligation - operating type - current	983,556	0
Current maturities of long-term debt	\$ 2,022,000	\$ 2,022,000
Accounts payable	2,852,299	2,746,885
Refundable advance liability	0	6,400,000
Accrued and other liabilities:		
Payroll and related	1,574,028	1,794,833
Other accruals	1,824,135	1,786,576
Total current liabilities	9,256,018	14,750,294
Long-term liabilities:		
Right of use obligation - operating type - long-term	7,306,769	0
Long-term debt - Net	12,006,723	14,010,826
Deferred compensation	1,097,741	1,336,328
Total long-term liabilities	20,411,233	15,347,154
Total liabilities	29,667,251	30,097,448
Net assets:		
Without donor restrictions	84,501,636	83,512,109
With donor restrictions:		
Perpetual in nature	231,748	231,748
Time-restricted for future periods	637,541	398,279
Net assets with donor restrictions	869,289	630,027
Total net assets	85,370,925	84,142,136
Total liabilities and net assets	\$ 115,038,176	\$ 114,239,584

See accompanying notes to consolidated financial statements.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Activities

<i>Year Ended December 31, 2022</i>	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Public support:			
Government and other grants	\$ 7,132,879	\$ 0	\$ 7,132,879
In kind contributions	36,609,878	0	36,609,878
Contributions	372,358	672,175	1,044,533
Total public support	44,115,115	672,175	44,787,290
Revenue:			
Retail training center operations	62,436,884	0	62,436,884
Mission programming services	2,021,922	0	2,021,922
Rental income	267,604	0	267,604
Miscellaneous revenue	174,516	0	174,516
Total revenue	64,900,926	0	64,900,926
Net assets released from donor restrictions	356,224	(356,224)	0
Total public support and revenue	109,372,265	315,951	109,688,216
Expenses:			
Program services	88,709,495	0	88,709,495
Management and general	4,546,329	0	4,546,329
Fund-raising	54,823	0	54,823
Total expenses	93,310,647	0	93,310,647
Excess (deficiency) of public support and revenue over expenses	16,061,618	315,951	16,377,569
Other nonoperating activities:			
Realized investment loss	(1,196,614)	0	(1,196,614)
Unrealized investment loss, net of investment fees	(4,302,931)	0	(4,302,931)
Interest, dividends, and accrued income	737,593	0	737,593
Change in interest in Community Foundations	(196,934)	(76,689)	(273,623)
Loss on disposal of property and equipment	(735)	0	(735)
Total other nonoperating activities	(4,959,621)	(76,689)	(5,036,310)
Changes in net assets	11,101,997	239,262	11,341,259
Net assets at beginning, prior to prospective effect of change in accounting estimate	83,512,109	630,027	84,142,136
Prospective effect of change in accounting estimate	(10,112,470)	0	(10,112,470)
Net assets at beginning, after prospective effect of change in accounting estimate	73,399,639	630,027	74,029,666
Net assets at end	\$ 84,501,636	\$ 869,289	\$ 85,370,925

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Activities (Continued)

<i>Year Ended December 31, 2021 (Restated)</i>	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Public support:			
Government and other grants	\$ 557,583	\$ 0	\$ 557,583
In kind contributions	34,854,177	0	34,854,177
Contributions	1,081,975	275,153	1,357,128
Total public support	36,493,735	275,153	36,768,888
Revenue:			
Retail training center operations	61,394,310	0	61,394,310
Mission programming services	2,091,414	0	2,091,414
Rental income	214,917	0	214,917
Miscellaneous revenue	164,577	0	164,577
Total revenue	63,865,218	0	63,865,218
Net assets released from donor restrictions	294,871	(294,871)	0
Total public support and revenue	100,653,824	(19,718)	100,634,106
Expenses:			
Program services	79,290,296	0	79,290,296
Management and general	4,615,162	0	4,615,162
Fund-raising	8,245	0	8,245
Total expenses	83,913,703	0	83,913,703
Excess of public support and revenue over expenses	16,740,121	(19,718)	16,720,403
Other nonoperating activities:			
Interest, dividends and accrued income	376,229	0	376,229
Realized Investment Gain	184,482	0	184,482
Unrealized Investment Gain, net of investment fees	799,320	0	799,320
Change in interest in Community Foundations	146,653	37,486	184,139
Loss on disposal of property and equipment	(15,036)	0	(15,036)
Total other nonoperating activities	1,491,648	37,486	1,529,134
Changes in net assets	18,231,769	17,768	18,249,537
Net assets at beginning	65,280,340	612,259	65,892,599
Net assets at end	\$ 83,512,109	\$ 630,027	\$ 84,142,136

See accompanying notes to consolidated financial statements.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Functional Expenses

<i>Year Ended December 31, 2022</i>	Retail Training Centers	Other Mission Programming	Fund-raising	Management and General	Total
Expenses:					
Salaries	\$ 23,473,510	\$ 3,383,364	\$ 0	\$ 2,439,393	\$ 29,296,267
Payroll taxes and benefits	6,233,968	895,470	7,479	654,622	7,791,539
Cost of sales	39,296,663	0	0	0	39,296,663
Professional fees and contracted services	1,583,124	139,578	497	278,919	2,002,118
Supplies and equipment repair	2,122,110	173,208	8,205	172,968	2,476,491
Software	976,926	108,547	0	120,608	1,206,081
Occupancy	4,998,613	80,789	300	194,030	5,273,732
Services	163,455	32,958	0	42,582	238,995
Advertising	621,648	22,581	0	16,838	661,067
Transportation and travel	924,834	129,340	0	99,227	1,153,401
Community support	5,669	663,642	0	0	669,311
Other expense	293,641	67,031	35,847	80,757	477,276
Depreciation	2,267,757	51,069	2,495	446,385	2,767,706
Totals	\$ 82,961,918	\$ 5,747,577	\$ 54,823	\$ 4,546,329	\$ 93,310,647

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Functional Expenses (Continued)

<i>Year Ended December 31, 2021(Restated)</i>	Retail Training Centers	Other Mission Programming	Fund-raising	Management and General	Total
Expenses:					
Salaries	\$ 20,888,636	\$ 2,969,712	\$ 0	\$ 2,636,254	\$ 26,494,602
Payroll taxes and benefits	5,652,936	809,789	0	469,184	6,931,909
Cost of sales	35,194,121	0	0	0	35,194,121
Professional fees and contracted services	1,350,914	74,499	877	477,131	1,903,421
Supplies and equipment repair	2,118,918	90,857	7,133	37,403	2,254,311
Software	597,611	102,621	0	40,207	740,439
Occupancy	4,569,206	96,808	0	158,004	4,824,018
Services	142,513	25,378	0	44,422	212,313
Advertising	407,981	15,993	0	12,363	436,337
Transportation and travel	762,390	105,859	0	90,229	958,478
Community support	47,831	632,629	0	0	680,460
Other expense	182,939	52,346	0	205,800	441,085
Depreciation	2,354,481	43,328	235	444,165	2,842,209
Totals	\$ 74,270,477	\$ 5,019,819	\$ 8,245	\$ 4,615,162	\$ 83,913,703

See accompanying notes to consolidated financial statements.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

<i>Years Ended December 31,</i>	2022	2021
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 11,341,259	\$ 18,249,537
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	2,767,706	2,842,209
Amortization of debt issuance costs classified as interest expense	17,897	17,897
Amortization of right-of-use asset	989,851	0
Loss on disposal of property and equipment	735	15,036
Loss (gain) on investments	5,499,545	(983,802)
Bad debt expense (recovery)	(20,110)	27,529
Change in interest in Community Foundations	273,623	(184,139)
Operating type lease payments	(966,931)	0
Changes in operating assets and liabilities:		
Accounts receivable - net	61,860	284,322
Refundable advance liability	(6,400,000)	6,400,000
Inventories	(963,634)	(2,682,631)
Prepaid expenses and other	(66,828)	(270,007)
Accounts payable	105,414	(176,894)
Accrued and other liabilities	(183,246)	(52,239)
Total adjustments	1,115,882	5,237,281
Net cash flows from operating activities	12,457,141	23,486,818

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

<i>Years Ended December 31,</i>	2022	2021
Cash flows from investing activities:		
Capital expenditures for property and equipment	(1,709,785)	(1,893,716)
Contributions to interest in Community Foundations	0	(18,848)
Proceeds from sale of property and equipment	0	2,110
Proceeds from investments	(606,152)	(368,197)
Purchase of investments	0	(31,300,000)
Net cash flows from investing activities	(2,315,937)	(33,578,651)
Cash flows from financing activities		
Principal payments on long-term debt	(2,022,000)	(1,853,500)
Change in cash and cash equivalents	8,119,204	(11,945,333)
Cash and cash equivalents at beginning of year	12,028,005	23,973,338
Cash and cash equivalents at end of year	\$ 20,147,209	\$ 12,028,005
Supplemental cash flow information:		
Cash paid for interest	\$ 329,435	\$ 340,365
Other information:		
Operating type lease payments	\$ 1,113,185	\$ -
Noncash financing and investing activities		
Change in assets held on behalf of employees in the deferred compensation plan	\$ (238,587)	\$ 36,407
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 19,224,627	\$ 10,880,708
Restricted cash	922,582	1,147,297
Total cash and cash equivalents	\$ 20,147,209	\$ 12,028,005

See accompanying notes to consolidated financial statements.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Organization Activity

The consolidated financial statements (the "financial statements") include the accounts of Goodwill Industries of North Central Wisconsin, Inc. ("Goodwill"), Money Management Education Associates (MMEA), Goodwill Industries Development Corporation (GIDC), and NCW Landholdings LLC (NCW LLC), collectively referred to as "Goodwill NCW". These Organizations exist to "elevate people by eliminating barriers to employment." Goodwill NCW provides pathways for people who are under-served, underrepresented and/or disadvantaged who have a goal of building job skills that lead to sustained employment and improved financial stability.

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

GIDC and NCW LLC exist to hold title to certain real estate and to further the work done by the Organization. NCW LLC was formed in 2022.

Basis of Consolidation

Goodwill NCW, MMEA, and GIDC have common board members and management and NCW LLC is a single member LLC of which Goodwill NCW is the sole member and all organizations listed here are, therefore, consolidated. All significant intercompany accounts and transactions have been eliminated in preparing the consolidated financial statements. Collectively, the consolidated entities are referred to as the "Organization."

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates

The preparation of the accompanying financial statements in accordance with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates. See Note 18 for discussion of revision to a significant estimate during 2022.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Measure of Operations

The consolidated statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing services. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Net Assets

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

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

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash primarily includes cash and cash equivalents funds held in trust for clients receiving financial services.

Reclassifications

Certain amounts as previously reported in the 2021 financial statements have been reclassified to conform to the 2022 presentation. Such reclassifications, which consisted of expenditure reclassifications on the statements of functional expenses and revenue reclassifications on the statements of activities, have no effect on reported amounts of net assets or change in net assets.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

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

Inventories

Goodwill NCW receives a substantial amount of donated goods during the year. It is not practical to determine the fair value of goods donated during the course of the year. Instead, Goodwill NCW applies an estimation methodology depending on whether the inventory is still held in the warehouse/stockroom or has been prepared for sale and placed on the sales floor. As further discussed in Note 18, Goodwill NCW changed its estimation methodology for both categories of inventory on a prospective basis. A description of the previous and current estimation methodology is as follows:

Inventory Held in Warehouse/Stockroom

Previously, donated inventory held in the warehouse/stockroom was valued by applying an average sales value per container depending on the category. A sell-through rate was then applied to get an average by category. Currently, donated inventory in warehouse and stockrooms is valued using an average sales value reduced by an estimated cost of sales.

Inventory Located on the Sales Floor

Previously, donated inventory located on the sales floor was valued by calculating an average of one-month's worth of donated sales using the last three months of donated sales. Currently, donated inventory located on the sales floor is valued by using an average sales value reduced by an estimate cost of sales along with an inventory turn.

Approximately 91% and 97% of inventories were composed of donated goods at December 31, 2022 and 2021, respectively.

Goodwill NCW also purchases new goods and other supplies needed for retail operations which are valued at the lower of cost or net realizable value.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Beneficial Interest in Assets Held by Community Foundation

The Organization has placed funds with various Community Foundations. The fund agreements clearly specify that these funds are to benefit the Organization and as such, GAAP requires those assets to continue to be reported on the Organization's financial statements, but to also be reported as an agency fund liability on the financial statements of the Community Foundations. The Organization has granted variance power to the Community Foundations as required by the fund agreements. This variance power essentially allows the Community Foundation's Board of Directors to override any conditions or restrictions that might be placed on the funds if Community Foundation feel such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community, however unlikely. The fair value of funds held by Community Foundations is reported in the consolidated statements of financial position, with distributions and changes in fair value recognized in the consolidated statements of activities.

Property, Equipment and Depreciation

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

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment and intangible assets if any, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset and its fair value are less than the carrying amount of that asset. The Organization has not recognized any impairment of long lived assets during 2022 and 2021.

Leases

The Organization is a lessee in multiple, noncancelable operating leases. If the contract provides the Organization the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right of Use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU assets are also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred. Subsequent to the lease commencement date, ROU assets are adjusted based on changes in the ROU liability and any impairment considerations. ROU assets for finance leases and operating leases with payments that fluctuate over the lease term are amortized on a straight-line basis.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Leases (Continued)

Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

The discount rate used is the implicit rate in the lease contract, if it is readily determinable, or the Organization's incremental borrowing rate. The Organizations' incremental borrowing rate is based on the information available at the commencement date for all leases.

The Organization has elected to use a risk-free rate for a term similar to the underlying lease's remaining lease term as the discount rate if the implicit rate in the lease contract is not readily determinable.

For all underlying classes of assets, the Organization has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Organization is reasonably certain to exercise. Leases containing termination clauses in which either party may terminate the lease without cause and the notice period is less than 12 months are deemed short-term leases with lease costs included in short-term lease expense. The Organization recognizes short-term lease cost on a straight-line basis over the lease term.

The Organization made an accounting policy election for equipment leases to not separate the lease components of a contract and its associated non-lease components. For all other underlying classes of leases, the Organization separate lease and nonlease components to determine the lease payment.

Deferred Compensation

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

Investments

The Organization's investments, including funds in the deferred compensation plan, are invested in marketable securities with readily determinable fair values and debt securities at their fair values in the consolidated statements of financial position. Quoted market prices in active markets are used as the basis of measurement. Unrealized gains and losses result from changes in the fair value of the investments based on market activity and are included in the accompanying consolidated statements of activities, net of investment expenses if applicable. Realized gains and losses result in the sales price of investments being higher or lower than the original cost, and are recorded based on specific identification of the liquidated investment.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized. See Note 5 for further information.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Fair Value Measurements

Fair value is the price that would be received when an asset is sold or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. A three-tier hierarchy prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Debt Issuance Costs

Long-term debt is presented net of debt issuance costs on the consolidated statements of financial position and the amortization of debt issuance costs is presented as interest expense on the consolidated statements of activities. See Note 10 for more information.

Revenue Recognition

Retail Training Center Operations

Retail training center operations revenue streams include retail, outlet, E-Commerce and Post Retail Sales. Revenue for all streams are reported at the amount that reflects the consideration to which Goodwill NCW expects to be entitled in exchange for providing goods to the customer. The control of goods sold is transferred to the customer at the point of sale for retail and outlet and at time of shipment for E-Commerce and post retail sales customers.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Retail Training Center Operations (Continued)

Retail and consumer products provide customers with several distinct opportunities that are considered performance obligations:

- Goodwill NCW's sales policy provides a right of return to the customer, which begins at the point of sale and expires at the end of the return period (14 days for the retail training centers and outlet stores and from to 30 days for E-Commerce). Retail allows for in-store credit and E-Commerce allows for a return of funds.
- Goodwill NCW provides a customer loyalty program that entitles a customer to earn rewards dollars that may be redeemed for future purchases at no, or reduced cost. Rewards dollars expire 60 days after they are earned.
- Goodwill NCW allows customers to purchase gift certificates on a stand-alone selling price basis. Customers can then purchase goods in retail locations as if the gift certificate was cash.

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

Mission Programming Services

In addition to mission integrated retail training centers, Goodwill NCW offers various mission programming services to individuals with barriers in the community. These services are provided to individuals authorized by the customer in exchange for fees, primarily from managed care organizations, self-directed managed care options, other organizations under third-party reimbursement arrangements, or from families under private pay arrangements.

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

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Mission Programming Services (Continued)

Goodwill NCW also provides counseling services related to budgeting, bankruptcy, debt, student loan, and housing counseling services. Goodwill NCW enters into contracts with individuals using standard rates and revenue is recognized at the time the service is provided.

Goodwill NCW also provides representative payee and bill paying services to customers. Goodwill NCW enters into a contract with individuals, who are seeking such services, and pricing terms are established by federal agency standard rates per month. Revenue is recognized at the end of each month for services based on the monthly fee as the performance obligation is satisfied.

Goodwill NCW performs light assembly jobs for other organizations in the community to provide skill building for individuals with barriers. Revenue is reported at the amount that reflects consideration to which Goodwill NCW expects to be entitled in exchange for providing the services to the customer. Revenue is recognized at the time that the performance obligation is satisfied, which occurs as the service is performed over time

In-Kind Contributions

The Organization has recorded in-kind contributions for donated inventory in the statement of activities in accordance with financial accounting standards which requires only contributions of services received that create or enhance a nonfinancial asset or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. Donated inventory that has been converted into sales is recorded as revenue based on an estimate of net donated goods sales revenue reduced by estimated cost of sales. Donated inventory that is waiting to be sold is valued based on the policy described in the "Inventories" policy.

Contribution Revenue

Contributions, including promises to give, are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received. Contributions may also contain donor restrictions and are recognized when received if they are unconditional. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. If a donor restriction is met in the year the contribution was made, it is reported as a contribution without donor restrictions.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Grant Revenue

Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award.

Grant Awards That Are Contributions - Grants awards that are contributions are evaluated for conditions and recognized as revenue when conditions in the award are satisfied. Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reported as a refundable advance liability.

Grant Awards That Are Exchange Transactions - Exchange transactions are those in which the resource provider or grantor receives a commensurate value in exchange for goods or services transferred. Revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability. The Organization does not have any grants that are considered exchange transactions.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses provide an analysis of expenses by nature and function. Direct costs necessary for the Organization's operations are charged to the program or activity. Other costs are attributable to more than one support function and therefore require an allocation between program services and general management on a reasonable basis that is consistently applied. Software and some other expenses are based on headcount and some occupancy costs are allocated based on square footage.

Advertising

Advertising costs are expensed to operations when incurred.

Income Taxes

Goodwill NCW, MMEA, and GIDC are nonprofit organizations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The entities are also exempt from state income taxes on related income. NCW LLC is considered a disregarded entity for tax purposes. The activities of NCW LLC are included in the IRS Form 990 for Goodwill NCW.

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

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Change in Accounting Principles

As of January 1, 2022, the Organization adopted the provisions of Financial Accounting Standards Board Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-Financial Assets* (Topic 958). The amendment in this update require entities to present contributed nonfinancial assets as a separate line item in the statement of activities, expand disclosures on the various contributed nonfinancial assets recognized, including disaggregated category types, the valuation techniques and inputs used to arrive at fair value, and the policy for either monetizing or utilizing contributed nonfinancial assets. The ASU has been applied retrospectively to all periods presented with an impact on the 2021 financial statements as further described in Note 18.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). ASU No. 2016-02 is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases on the balance sheet. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. The Organization adopted this guidance for the year ended December 31, 2022, with modified retrospective application to January 1, 2022, through a cumulative-effect adjustment. The Organization has elected the package of practical expedients permitted in ASC Topic 842.

Accordingly, the Organization accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether the classification of the leases would be different in accordance with ASC Topic 842, or (c) whether any unamortized initial direct costs before transition adjustments (as of January 1, 2022) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. Similarly, the Organization did not reassess service contracts evaluated for lease treatment under ASC Topic 840 for embedded leases under ASC Topic 842. As a result of the adoption of the new lease accounting guidance, the Organization recognized the following right-of-use (ROU) assets and lease liabilities as of January 1, 2022:

Right of use asset - operating type leases	\$ 9,257,259
Lease obligation - operating type leases	\$ 9,257,259

This standard did not have a material impact on the Organization's net assets or cash flows from operations and had an immaterial impact on its operating results. The most significant impact was the recognition of the ROU assets and lease obligations for operating leases.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Accounts receivable balances at December 31, included the following:

	2022	2021	2020
Accounts receivable from contracts with customers	\$ 314,805	\$ 336,594	\$ 277,667
Less - Allowance for doubtful accounts	37,000	62,000	35,000
Accounts receivable from contracts with customers - net	\$ 277,805	\$ 274,594	\$ 242,667

The Organization did not have any contract assets as of December 31, 2022, 2021, or 2020.

Beginning and ending balances as well as the annual activity in contract liabilities during the years ended December 31, were as follows:

	2022	2021
Contract liabilities beginning of year	\$ 299,123	\$ 315,654
Change in contract liability	(26,075)	(16,531)
Contract liabilities end of year	\$ 273,048	\$ 299,123

The change in contract liabilities is a factor of the usage of Good Points earned balances, an increase in estimated customer returns, and gift certificate usage periods expiring.

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

	2022	2021
Retail training center revenues recognized point in time	\$ 62,436,884	\$ 61,394,310
Mission programming services recognized over time	1,521,169	1,595,628
Mission programming services recognized point in time	500,753	495,786
Total revenue from contracts with customers	\$ 64,458,806	\$ 63,485,724

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Retail training center operations revenue is recognized at a point in time. This is because control does not transfer to the customer until the point of sale or when shipment occurs in the case of e-commerce sales and post retail sales. As discussed in Note 1, certain variable consideration and customer rights are reported as contract liabilities and recognized in revenue when the Organization is entitled to the revenue recognition, usually at the expiration of a certain amount of time. Mission programming services recognized at a point in time reflect the fact that the Organization cannot reasonably expect to collect payment until the service is completed. Missing programming services recognized over time reflect the fact that the customer is simultaneously consuming and receiving the benefits of the services. The Organization uses the output method to measure value transferred to the customer using a per unit pricing structure, whereby the Organization is entitled to payment based on the units of output.

The Organization had no major customers during 2022 and 2021.

Note 3: Liquidity and Availability of Financial Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are comprised of the following at December 31:

	2022	2021
Cash and cash equivalents	\$ 19,224,627	\$ 10,880,708
Accounts receivable	1,069,500	1,111,250
Investments	27,758,606	32,651,999
Subtotal liquid financial resources	48,052,733	44,643,957
Less:		
Contributions from donor with purpose restrictions	(356,956)	(37,890)
Contributions from donor with time restrictions	(210,378)	(213,494)
Net financial resources available for general expenditures	\$ 47,485,399	\$ 44,392,573

The Organization regularly monitors the availability of resources required to meet its operating, debt service (see Note 10), and capital needs. The Organization also has a line of credit available to meet short-term needs (see Note 9 for more information).

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: Beneficial Interest in Assets Held by Community Foundation

As of December 31, 2022 and 2021, funds with a fair value totaling \$1,386,690 and \$1,660,313, respectively, are being held for the use and future benefit of Goodwill NCW at community foundations.

In a prior year, Goodwill NCW transferred funds to each community foundation; accordingly, the value of these funds is included in the accompanying consolidated statements of financial position. In addition, donor-restricted endowments were established for the benefit of Goodwill NCW. All changes in the value of the funds transferred by Goodwill NCW are considered changes in net assets without donor restrictions. All changes in the value of the donor-restricted endowment funds are recorded as net assets with donor restrictions in accordance with the standards applicable to endowments as described in Note 6. The accompanying consolidated financial statements include an decrease of \$(273,623) in 2022 and an increase of \$184,139 in 2021 in interest in Community Foundations.

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

Note 5: Investments

Goodwill NCW has established an investment portfolio to support the mission of 'elevating people by eliminating barriers to employment. The additional investment objectives are to fund strategic investments and provide long-term growth to support the mission while maintaining a diversified portfolio that seeks to reduce significant risk of loss.

Investments, stated at fair value, consisted of the following at December 31:

	2022	2021
Money market	\$ 1,295,081	\$ 399,460
Mutual funds	3,216,930	2,371,818
Fixed income securities	3,752,841	4,594,120
Equity securities	19,493,754	25,286,601
Total	\$ 27,758,606	\$ 32,651,999

Assets invested as part of the deferred compensation plan consisted of the following at December 31:

	2022	2021
Cash equivalents	\$ 181,793	\$ 222,381
Mutual funds	673,352	824,567
Fixed income securities	242,596	289,380
Totals	\$ 1,097,741	\$ 1,336,328

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5: Investments (Continued)

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Because of the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Note 6: Endowment Funds

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

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

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

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

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

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Endowment Funds (Continued)

Changes in endowment funds were as follows:

	With Donor Restrictions - Accumulated Gains	With Donor Restrictions - Original Gift	With Donor Restrictions Total
Endowment at January 1, 2021	\$ 109,410	\$ 212,900	\$ 322,310
Contributions	0	18,848	18,848
Net appreciation	37,486	0	37,486
Endowment at December 31, 2021	146,896	231,748	378,644
Contributions	0	0	0
Net depreciation	(76,689)	0	(76,689)
Endowment at December 31, 2022	\$ 70,207	\$ 231,748	\$ 301,955

There were no endowments that were without donor restrictions as of December 31, 2022 and 2021.

Note 7: Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value:

- Cash equivalents are measured at cost, which approximates fair value.
- Equity securities are valued at quoted market prices and mutual funds.
- Fixed income securities are valued using quotes from pricing vendors based on recent trading activity and other observable market data.
- Interest in community foundations fair value measurement is based upon the market value of the underlying assets, consisting mainly of equity securities and fixed income securities, which are valued based upon either quoted market prices or based upon recent trading activity and other observable market data.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value Measurements (Continued)

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

As of December 31, 2022	Total Assets at Fair Value	Recurring Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Money market	\$ 1,295,081	\$ 0	\$ 1,295,081	\$ 0
Equity securities	19,493,754	19,493,754	0	0
Fixed income securities	3,752,841	0	3,752,841	0
Mutual funds	3,216,930	3,216,930	0	0
Subtotal investments	27,758,606	22,710,684	5,047,922	0
Deferred compensation:				
Cash and cash equivalents	181,793	0	181,793	0
Total equity mutual funds	673,352	673,352	0	0
Total fixed income funds	242,596	242,596	0	0
Subtotal deferred compensation	1,097,741	915,948	181,793	0
Interest in Community Foundations	1,386,690	0	0	1,386,690
Totals	\$ 30,243,037	\$ 23,626,632	\$ 5,229,715	\$ 1,386,690

There were no liabilities measured on a recurring basis and there were no assets or liabilities measured on a nonrecurring basis during 2022 or 2021. During 2022 and 2021, \$0 and \$18,848 of contributions were made to the interest in the Community Foundations.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value Measurements (Continued)

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

As of December 31, 2021	Total Assets at Fair Value	Recurring Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Money market	\$ 399,460	\$ 0	\$ 399,460	\$ 0
Equity securities	25,286,601	25,286,601	0	0
Fixed income securities	4,594,120	0	4,594,120	0
Mutual funds	2,371,818	2,371,818	0	0
Subtotal investments	32,651,999	27,658,419	4,993,580	0
Deferred compensation:				
Cash and cash equivalents	222,381	0	222,381	0
Total equity mutual funds	824,567	824,567	0	0
Total fixed income funds	289,380	289,380	0	0
Subtotal deferred compensation	1,336,328	1,113,947	222,381	0
Interest in Community Foundations	1,660,313	0	0	1,660,313
Totals	\$ 35,648,640	\$ 28,772,366	\$ 5,215,961	\$ 1,660,313

Note 8: Property and Equipment

A summary of property and equipment is as follows as of December 31, 2022 and 2021:

	2022	2021
Land and land improvements	\$ 19,931,890	\$ 19,813,784
Buildings and improvements	51,092,925	50,672,017
Furniture and equipment	18,495,660	17,706,551
Construction in progress	116,704	235,094
Total property and equipment	89,637,179	88,427,446
Less - accumulated depreciation	43,595,048	41,326,659
Totals	\$ 46,042,131	\$ 47,100,787

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8: Property and Equipment (Continued)

Construction in progress as of December 31, 2022 and 2021, consists of costs for remodeling and updating of equipment and current locations.

Note 9: Line of Credit

The Organization maintains a line of credit in the amount of \$5,000,000 with interest at daily LIBOR plus 1.5%. The effective rate at December 31, 2022, was 5.83%. The line of credit matures July 2023. There were no draws on the line of credit as of December 31, 2022 and 2021.

Note 10: Note Payable

The Organization has the following note payable as of December 31, 2022 and 2021:

	2022	2021
Wisconsin Health and Educational Facilities Authority (WHEFA) Revenue Bonds, Series 2019, dated December 20, 2019, payable in monthly installments of \$168,500 plus interest at 2.16% secured by land and buildings, matures December 2029.	\$ 14,154,000	\$ 16,176,000
Less - Current maturities	2,022,000	2,022,000
Long-term portion	12,132,000	14,154,000
Less - Debt issuance costs - Net	125,277	143,174
Long-term portion - Net	\$ 12,006,723	\$ 14,010,826

Unamortized bond issuance costs related to issuance of long-term debt are amortized and reported as interest expense over the life of the related debt using the straight-line method, which approximates the effective method. Net deferred financing costs were \$125,277 and \$143,174 as of December 31, 2022 and 2021, respectively, with accumulated amortization of \$53,692 and \$35,795, respectively. Amortization expense classified as interest expense was \$17,897 during 2022 and 2021.

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

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10: Note Payable (Continued)

Scheduled principal payments on long-term debt at December 31, 2022, including current maturities, are summarized as follows:

2023	\$	2,022,000
2024		2,022,000
2025		2,022,000
2026		2,022,000
2027		2,022,000
Thereafter		4,044,000
<hr/>		
Total	\$	14,154,000

Note 11: Refundable Advance Liability

At December 31, 2021 the Organization had a refundable advance liability outstanding of \$6,400,000. This amount resulted from the issuance of a Paycheck Protection Program award as a result of legislation passed to assist organizations in navigating the Coronavirus pandemic. The Organization has determined that this is a conditional grant award and has applied the policy as described in Note 1, which says that conditional contributions and grants shall be reported as a refundable advance liability until the conditions are substantially met.

As of May 16, 2022, the loan was forgiven in full by the SBA and the Organization recognized grant revenue on the consolidated statement of activities.

Note 12: Net Assets with Donor Restrictions

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

	2022		2021
Contributions - Time restricted	\$ 210,378	\$	213,494
Contributions - Restricted for purpose - mission programming	356,956		37,890
Accumulated investment earnings - Time restricted	70,207		146,895
Donor-restricted endowment - Perpetual in nature	231,748		231,748
<hr/>			
Totals	\$ 869,289	\$	630,027

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12: Net Assets with Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31:

	2022	2021
Contributions utilized in the time period for which they were restricted	\$ 356,224	\$ 294,871

Note 13: Operating Leases

At December 31, 2021, the Organization held operating leases that were reclassified as ROU assets - operating type leases upon implementation of ASC 842 effective January 1, 2022. At December 31, 2021, the Organization leased facilities under noncancelable operating leases. The Organization was required to pay all operating expenses, maintenance costs, repairs, and insurance on the leased facilities. In addition, the Organization rented various equipment. Rental expense for all leases totaled \$1,214,510 for the year ended December 31, 2021.

Future minimum payments, by year and in the aggregate, under the noncancelable operating leases with initial or remaining terms in excess of one year consist of the following for the year ended December 31, 2021:

2022	\$ 1,133,881	
2023	1,128,503	
2024	1,079,197	
2025	1,023,103	
2026	966,657	
Thereafter	4,573,378	
Total	\$ 9,904,719	

Included in the lease expense and future minimum payments above is a long-term land lease. The lease was determined to be an operating lease and included the following terms:

- If the Organization fails to purchase the property, title to all buildings, structures, and other permanent improvements shall vest in and become the property of the lessor.
- The initial purchase price is increased by 2% each year until the asset is purchased.

The Organization purchased the property subsequent to fiscal year end as described in Note 20.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 14: Leases under ASC 842

The Organization leases warehouse space, donation express space, equipment, and land, which are accounted for under Financial Accounting Standards Board (FASB) ASC Topic 842. The majority of leases entered into include one or more options to renew. The renewal terms can extend the lease term from one to five years. The exercise of lease renewal options is at the sole discretion of the Organization. Renewal option periods are included in the measurement of the ROU assets and lease liabilities when the exercise is reasonably certain to occur. The depreciable life of assets is limited by the expected lease term, unless there is a transfer of title or purchase, option reasonably certain of exercise.

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Payments due under the lease contracts include fixed payments plus variable payments for some of the Organization's leases. The office space leases require the Organization to make variable payments for its proportionate share of the building's property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine the lease liability and are recognized as variable costs when incurred.

Components of lease expense, which were included in rent, repairs and maintenance, property and other taxes, equipment rental, and vehicle expense on the consolidated statement of functional expenses, were as follows for the year ended December 31:

	2022
Operating lease cost	\$ 1,136,105
Variable lease cost	13,188
Total lease cost	\$ 1,149,293

Maturities of lease liabilities are as follows at December 31, 2022:

	Operating Leases
2023	\$ 1,116,105
2024	1,040,194
2025	1,021,455
2026	968,357
2027	876,426
Thereafter	5,671,740
Total minimum lease payments	10,694,277
Less - Imputed interest	(2,403,952)
Present value of future minimum lease payments	8,290,325
Less - Current maturities	(983,556)
Long-term obligations under operating lease	\$ 7,306,769

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 14: Leases under ASC 842 (Continued)

The weighted-average of the remaining lease terms and weighted average discount rates are as follow for the year ended December 31:

	2022
Weighted-average remaining lease-term - Operating-type leases	25.84 yrs
Weighted-average discount rate - Operating-type leases	1.76%

Note 15: Retirement Plan

The Organization has a defined contribution pension plan covering eligible employees. The plan provides for a discretionary matching contribution by the Organization equal to 100% of the employee's total contribution with the maximum contribution of up to 6% of the employee's total compensation. Pension expense totaled \$613,566 and \$567,520 for the years ended December 31, 2022 and 2021, respectively.

The Organization has a deferred compensation plan available for its officers and may make discretionary matching contributions to the plan. There was no matching contribution made for the years ended December 31, 2022 and 2021.

Note 16: Self-Funded Health Insurance

The Organization sponsors self-funded health insurance covering employees and their dependents. The health insurance expense is based upon actual claims paid, administration fees, and provisions for unpaid and unreported claims at year-end. Employer-paid health insurance expense was approximately \$4.1 million and \$3.6 million for the years ended December 31, 2022 and 2021, respectively.

A third-party administrator has been retained to process all benefit claims. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonable estimated. These losses include an estimate of claims that have been incurred but not reported.

The Organization's exposure is limited with a stop-loss insurance policy for claims in excess of \$100,000 per insured and 125% of expected claims in the aggregate (aggregate exposure of \$5.8 million in 2022). As of December 31, 2022 and 2021, the obligation for self-funded insurance claims incurred, but not reported was \$524,860 and \$497,928, respectively, and is recorded in other liabilities on the consolidated statements of financial position.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 17: Concentration of Credit Risk

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

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

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

Note 18: Change in Accounting Estimate and Change in Accounting Principle

Change in Accounting Estimate

During 2022, the Organization changed its estimate methodology for valuing donated goods inventory to align with ASU 2020-07. Donated goods inventory on hand at the end of the year falls in two categories: inventory held in containers and inventory located on the sales floor at retail locations.

Inventory Held in Warehouse/Stockrooms

Previously, donated inventory held in the warehouse/stockroom was valued by applying an average sales value per container depending on the category. A sell-through rate was then applied to get an average by category. Currently, donated inventory in warehouse and stockrooms is valued using an average sales value reduced by an estimated cost of sales.

Inventory Located on the Sales Floor

Previously, donated inventory located on the sales floor was valued by calculating an average of one-month's worth of donated sales using the last three months of donated sales. Currently, donated inventory located on the sales floor is valued by using an average sales value reduced by an estimate cost of sales along with an inventory turn.

The total impact of the change in estimate for donated goods inventory was a decrease in value at December 31, 2022 of \$(10,112,470), which is recorded as a prospective adjustment in the current statement of activities below the change in net assets.

Goodwill Industries of North Central Wisconsin, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 18: Change in Accounting Estimate and Change in Accounting Principle (Continued)

Change in Accounting Principle

During 2022, the Organization applied the requirements of FASB ASU 2020-07, which require organizations to present separately, from other revenues, contributions of nonfinancial assets. As a result of applying this standard, the Organization changed its accounting for contributions of nonfinancial assets. Previously, contributions of nonfinancial assets were only reflected in sales revenue. Currently, contributions of nonfinancial assets are valued by calculating net donated goods sales and reducing by a mark-down for estimated cost of sales and are reflected as in kind contributions on the statements of activities. The effect of this change was to increase nonfinancial in kind contributions and associated cost of sales on the statements of activities by \$35,883,229 in 2022 and \$31,980,664 in 2021.

Note 19: Contributed Nonfinancial Assets

Throughout the year the community donates clothing and household items to advance the mission of the Organization. These items are monetized to provide skill building for sustained employment and improved financial stability to individuals with barriers to employment. From time to time an immaterial amount of these donations may be used in operations, instead of being sold.

These donations are reflected as in-kind contribution revenue in the accompanying consolidated statements of activities. Contributions of nonfinancial assets are valued according to the policy described in Note 1. These valuation methodologies take into account the fair value of the items in the thrift market.

Note 20: Subsequent Events

The Organization has evaluated subsequent events through April 27, 2023, which is the date the financial statements were available to be issued.

On February 24, 2023, the Organization purchased a parcel of land for approximately \$1,850,000. This parcel of land is currently reported as an ROU operating type asset at December 31, 2022, and is discussed further in Note 13. In addition, the line of credit as discussed in Note 9 was extended subsequent to year end with a revised maturity date of July 1, 2024.