

# **Goodwill Industries of Northern Michigan, Inc. and Affiliate**

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**Consolidated Financial Report  
with Additional Information  
September 30, 2012**

# **Goodwill Industries of Northern Michigan, Inc. and Affiliate**

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## Independent Auditor's Report

To the Board of Directors  
Goodwill Industries of Northern  
Michigan, Inc. and Affiliate

We have audited the accompanying consolidated balance sheet of Goodwill Industries of Northern Michigan, Inc. and Affiliate (the "Organization") as of September 30, 2012 and 2011 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Goodwill Industries of Northern Michigan, Inc. and Affiliate at September 30, 2012 and 2011 and the consolidated changes in net assets, functional expenses, and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

December 10, 2012

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidated Balance Sheet

	September 30, 2012	September 30, 2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 680,855	\$ 1,079,984
Receivables - Net (Note 2)	576,904	516,103
Investments (Note 3)	2,633,146	2,416,119
Inventory (Note 4)	388,936	345,526
Prepaid expenses and other current assets	124,803	97,116
Total current assets	4,404,644	4,454,848
<b>Property and Equipment - Net (Note 5)</b>	9,234,469	8,736,942
<b>Other Assets</b>	49,177	52,455
Total assets	<b>\$ 13,688,290</b>	<b>\$ 13,244,245</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 162,416	\$ 63,728
Current portion of long-term debt (Note 6)	540,360	97,243
Accrued liabilities and other	543,172	498,440
Total current liabilities	1,245,948	659,411
<b>Long-term Notes Payable - Net of current portion (Note 6)</b>	2,625,612	3,373,080
<b>Interest Rate Swap (Note 6)</b>	251,017	241,945
Total liabilities	4,122,577	4,274,436
<b>Net Assets - Unrestricted</b>		
Undesignated	8,165,713	7,569,809
Board-designated	1,400,000	1,400,000
Total net assets	9,565,713	8,969,809
Total liabilities and net assets	<b>\$ 13,688,290</b>	<b>\$ 13,244,245</b>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidated Statement of Activities and Changes in Net Assets

	Year Ended	
	September 30, 2012	September 30, 2011
<b>Changes in Unrestricted Net Assets</b>		
Revenue and support:		
Retail Sales	\$ 6,847,023	\$ 6,155,747
Contributions - Donated inventory	2,320,362	2,364,832
Grants	725,025	1,676,675
Program service fees	1,359,482	1,143,395
Contributions - Other	530,475	445,539
Investment income - Unrestricted	87,727	90,057
Miscellaneous income	142,585	68,235
Total revenue and support	<u>12,012,679</u>	<u>11,944,480</u>
Expenses:		
Program services:		
Retail operations	6,843,646	6,613,795
Housing services	1,055,823	997,124
Social enterprises	2,571,589	2,049,708
Total program services	<u>10,471,058</u>	<u>9,660,627</u>
Support services:		
Management and general	1,016,863	894,661
Fundraising	156,364	91,370
Total support services	<u>1,173,227</u>	<u>986,031</u>
Total expenses	<u>11,644,285</u>	<u>10,646,658</u>
<b>Increase in Unrestricted Net Assets - Operating</b>	<b>368,394</b>	<b>1,297,822</b>
<b>Nonoperating Activities</b>		
Net gains from sales of property and equipment (net of expenses on sale of \$10,799 in 2012)	13,806	524
Net realized/unrealized gain (loss) on investment securities	222,776	(107,391)
Change in fair value of interest rate swap	(9,072)	(3,927)
Impairment loss on property and equipment	-	(96,140)
Total nonoperating activities	<u>227,510</u>	<u>(206,934)</u>
<b>Increase in Unrestricted Net Assets</b>	<b>595,904</b>	<b>1,090,888</b>
<b>Net Assets - Beginning of year</b>	<b>8,969,809</b>	<b>7,878,921</b>
<b>Net Assets - End of year</b>	<b><u>\$ 9,565,713</u></b>	<b><u>\$ 8,969,809</u></b>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidated Statement of Functional Expenses Year Ended September 30, 2012

	Program Services				Support Services			Total Expenses
	Retail Operations	Housing Services	Social Enterprises	Total	Management and General	Fundraising	Total	
Salaries and wages	\$ 1,886,736	\$ 358,653	\$ 1,322,394	\$ 3,567,783	\$ 557,214	\$ 101,503	\$ 658,717	\$ 4,226,500
Payroll taxes	182,684	37,627	102,111	322,422	58,865	10,143	69,008	391,430
Employee benefits	221,777	64,662	178,452	464,891	91,847	5,875	97,722	562,613
Total salaries and related benefits	2,291,197	460,942	1,602,957	4,355,096	707,926	117,521	825,447	5,180,543
Cost of goods sold	2,598,480	-	-	2,598,480	-	-	-	2,598,480
Rent	436,704	-	2,844	439,548	-	-	-	439,548
Interest	84,606	2,828	37,219	124,653	9,661	-	9,661	134,314
Depreciation and amortization	194,171	145,664	122,290	462,125	15,072	-	15,072	477,197
Supplies	119,121	78,809	245,268	443,198	122,597	-	122,597	565,795
Utilities	112,201	53,161	29,155	194,517	5,421	-	5,421	199,938
Bad debts	1,233	-	41,837	43,070	25	-	25	43,095
Direct client assistance	-	102,862	154,776	257,638	-	-	-	257,638
Advertising	175,638	19,461	43,042	238,141	22,142	-	22,142	260,283
Insurance	43,033	13,980	13,661	70,674	5,669	-	5,669	76,343
Goodwill Industries International dues	63,452	4,852	12,598	80,902	446	-	446	81,348
Garbage	82,829	2,913	3,752	89,494	1,149	-	1,149	90,643
Repairs and maintenance	112,453	50,922	44,424	207,799	25,083	-	25,083	232,882
Telephone	20,588	14,452	21,786	56,826	6,816	-	6,816	63,642
Vehicle	70,510	-	7,170	77,680	2,617	-	2,617	80,297
Professional fees	66,710	13,072	150,178	229,960	9,440	-	9,440	239,400
Miscellaneous	13,730	70,591	(11,017)	73,304	42,980	38,843	81,823	155,127
Travel	8,964	891	26,915	36,770	7,940	-	7,940	44,710
Meetings	967	-	914	1,881	8,435	-	8,435	10,316
Office supplies	37,726	18,639	6,724	63,089	1,799	-	1,799	64,888
Postage and shipping	139,569	467	7,797	147,833	2,659	-	2,659	150,492
Annual bond financing	21,271	-	1,494	22,765	2,806	-	2,806	25,571
Service charges	148,493	1,317	5,805	155,615	16,180	-	16,180	171,795
Total functional expenses	<b>\$ 6,843,646</b>	<b>\$ 1,055,823</b>	<b>\$ 2,571,589</b>	<b>\$ 10,471,058</b>	<b>\$ 1,016,863</b>	<b>\$ 156,364</b>	<b>\$ 1,173,227</b>	<b>\$ 11,644,285</b>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidated Statement of Functional Expenses Year Ended September 30, 2011

	Program Services				Support Services			Total Expenses
	Retail Operations	Housing Services	Social Enterprises	Total	Management and General	Fundraising	Total	
Salaries and wages	\$ 1,784,506	\$ 349,142	\$ 1,080,544	\$ 3,214,192	\$ 532,312	\$ 76,558	\$ 608,870	\$ 3,823,062
Payroll taxes	169,947	34,520	81,187	285,654	54,831	7,053	61,884	347,538
Employee benefits	211,572	55,745	150,549	417,866	82,907	3,212	86,119	503,985
Total salaries and related benefits	2,166,025	439,407	1,312,280	3,917,712	670,050	86,823	756,873	4,674,585
Cost of goods sold	2,655,347	-	-	2,655,347	-	-	-	2,655,347
Rent	439,859	-	2,302	442,161	-	-	-	442,161
Interest	96,891	3,253	7,824	107,968	11,298	-	11,298	119,266
Depreciation and amortization	197,643	150,845	35,513	384,001	12,465	-	12,465	396,466
Supplies	76,799	57,087	263,015	396,901	(36,867)	-	(36,867)	360,034
Utilities	126,169	51,629	13,381	191,179	6,215	-	6,215	197,394
Bad debts	4,580	-	12,672	17,252	-	-	-	17,252
Direct client assistance	-	115,851	179,217	295,068	-	-	-	295,068
Advertising	162,533	13,223	59,884	235,640	6,581	-	6,581	242,221
Insurance	38,446	9,499	16,583	64,528	2,724	-	2,724	67,252
Goodwill Industries International dues	60,141	3,632	9,024	72,797	1,974	-	1,974	74,771
Garbage	99,465	3,059	1,724	104,248	1,113	-	1,113	105,361
Repairs and maintenance	88,630	48,713	11,935	149,278	80,096	-	80,096	229,374
Telephone	17,681	13,830	17,340	48,851	5,986	-	5,986	54,837
Vehicle	65,213	-	11,344	76,557	1,823	-	1,823	78,380
Professional fees	27,721	14,344	41,328	83,393	33,037	-	33,037	116,430
Miscellaneous	1,342	61,716	10,259	73,317	63,792	4,547	68,339	141,656
Travel	5,565	2,620	18,814	26,999	11,295	-	11,295	38,294
Meetings	1,358	81	709	2,148	5,310	-	5,310	7,458
Office supplies	15,306	5,987	8,886	30,179	1,315	-	1,315	31,494
Postage and shipping	116,876	1,120	7,472	125,468	2,418	-	2,418	127,886
Annual bond financing	21,319	-	1,344	22,663	(431)	-	(431)	22,232
Service charges	128,886	1,228	6,858	136,972	14,467	-	14,467	151,439
Total functional expenses	<b>\$ 6,613,795</b>	<b>\$ 997,124</b>	<b>\$ 2,049,708</b>	<b>\$ 9,660,627</b>	<b>\$ 894,661</b>	<b>\$ 91,370</b>	<b>\$ 986,031</b>	<b>\$ 10,646,658</b>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidated Statement of Cash Flows

	Year Ended	
	September 30, 2012	September 30, 2011
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 595,904	\$ 1,090,888
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	477,197	396,466
Gains from sales of property and equipment	(24,605)	(524)
Bad debt expense	43,095	17,252
Impairment loss on property and equipment	-	96,140
Net realized/unrealized (gain) loss on investment securities	(222,776)	107,391
Change in fair value of interest rate swap	9,072	3,927
Changes in operating assets and liabilities which (used) provided cash:		
Receivables	(103,896)	(255,393)
Inventory	(43,410)	(19,711)
Prepaid expenses and other	(27,687)	(31,317)
Accounts payable	98,688	(31,262)
Accrued liabilities and other	44,732	139,197
Net cash provided by operating activities	846,314	1,513,054
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(1,072,227)	(1,888,347)
Proceeds from disposition of property and equipment	125,386	524
Purchases of investments	-	(1,203,292)
Proceeds from sales and maturities of investments	5,749	1,226,000
Net cash used in investing activities	(941,092)	(1,865,115)
<b>Cash Flows from Financing Activities</b>		
Proceeds from debt	-	1,030,684
Payments on debt	(304,351)	(110,797)
Net cash (used in) provided by financing activities	(304,351)	919,887
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(399,129)	567,826
<b>Cash and Cash Equivalents - Beginning of year</b>	1,079,984	512,158
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 680,855</u>	<u>\$ 1,079,984</u>
<b>Supplemental Disclosure of Cash Flow Information - Cash paid for interest</b>	<u>\$ 136,309</u>	<u>\$ 120,444</u>



# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2012 and 2011

### Note I - Nature of Activities and Significant Accounting Policies

**Nature of Organization** - The consolidated financial statements of Goodwill Industries of Northern Michigan, Inc. (GWI) and commonly controlled G.W. Homeless Services of Northern Michigan, Inc. (GWH) are collectively referred to as "Goodwill." GWI and GWH are not-for-profit corporations. Goodwill's mission is to help people overcome barriers to independence.

Goodwill serves the region's communities through:

**Retail Operations** - Utilizing its four retail stores and e-commerce operations, Goodwill provides on-the-job training and employment opportunities. Revenue from the sale of donated clothing and other household goods goes directly toward growing and supporting critical community-based programs and services.

**Housing Services** - Goodwill helps rebuild the lives of families, children, and adults who have lost their homes. This includes people who are living in their cars, under bridges, or in trailers without heat or running water. The programs offered are as follows:

- The Street Outreach program assists adults who are living on the streets get referrals to community programs and services.
- The Goodwill Inn provides safe, supportive shelter to adults and families who are experiencing homelessness.
- The Transitional Housing program is offered at the Goodwill Inn to provide a safe, affordable intermediary place to stay for guests who are working toward their independence.
- Patriot Place is a veteran's transitional housing community for veterans who are experiencing homelessness.
- The Housing Support Services program provides community-based case management services to formerly homeless people with special needs to increase independence and self-sufficiency.

**Social Enterprises** - Through its programs, Social Security Income and Disability Income Appeals, Food Rescue, Paperworks Studio, and Workers-on-Wheels, Goodwill provides economic assistance, employment and job training opportunities, job placement services, and transportation to those in need.

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2012 and 2011

### Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Goodwill has presented the accompanying financial statements on a consolidated basis in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-810-65, *Reporting of Related Entities by Not-for-Profit Organizations*. Upon consolidation, all significant interentity accounts and transactions are eliminated.

Goodwill is a member of Goodwill Industries International, Inc. (GII). Members are required to remit one percent of earned unrestricted revenue to GII. Dues paid to GII totaled \$79,783 and \$73,658 for the years ended September 30, 2012 and 2011, respectively.

**Classification of Net Assets** - Net assets of Goodwill are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting Goodwill's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. As of September 30, 2012 and 2011, all net assets were classified as unrestricted. The board of directors has designated \$1,400,000 of net assets for program expansion as of September 30, 2012 and 2011.

**Cash and Cash Equivalents** - Goodwill considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Goodwill maintains deposit and savings accounts in various financial institutions in Michigan which, at times, may exceed the federal insurance limits. Management believes interest rate or other financial risk associated with these deposits is not significant.

**Receivables** - Accounts receivable are stated at the amount Goodwill expects to collect from outstanding balances and generally no collateral is required. Goodwill provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on management's assessment of the current status of individual accounts. Balances that are still outstanding after reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Changes to the valuation allowance have typically not been significant to the consolidated financial statements.

**Investments** - Investments are recorded at fair value based on quoted market prices. Gains and losses on investments are reported in the consolidated statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2012 and 2011

### Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

**Inventory** - (See contributions policy disclosure within Note 1.)

Inventory also includes other supplies that are stated at the lower of cost or market by use of the first-in, first-out (FIFO) method of valuation.

**Property and Equipment** - Property and equipment purchases, if greater than \$1,000, are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Certain property, plant, and equipment were acquired with funds from grant contracts that include the option for the grantor to require reversion of title at the end of the grant contract.

Goodwill reviews the recoverability of long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future cash flows. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets. During 2011, a building was deemed to be impaired and written down to its estimated fair value. The gross carrying value of the asset of \$432,820 exceeded its fair value, which was determined by reference to the estimated future cash inflows of \$100,000 as of September 30, 2011. The write-down was for \$96,140 in the year ended September 30, 2011. There were no asset impairments for the year ended September 30, 2012.

**Contributions** - Contributions of cash and other assets are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support.

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2012 and 2011

### Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Donated inventory items are recorded at estimated value as determined by management using a calculation based on factors such as estimated net sales, inventory turnover, and program-related costs incurred for preparing the inventory for sale. When donated inventory items are sold, they are reflected in cost of goods sold of retail operations. This method is suggested and used by the affiliates of GII nationwide and is considered generally accepted by many affiliates of GII.

**Revenue Recognition** - Retail stores recognize revenue at the point of sale. Service fees are recognized as services are rendered. Grant revenue from funding agencies is recognized over the contract terms with the funding agencies.

**Federal Income Taxes** - Goodwill is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3) and, accordingly, no provision has been made.

Accounting principles generally accepted in the United States of America require management to evaluate certain tax positions taken by Goodwill and recognize a tax liability if Goodwill has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by Goodwill and has concluded that as of September 30, 2012 and 2011, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. Goodwill is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to September 30, 2009.

**Functional Allocation of Expenses** - The costs of providing the program and support services have been reported on a functional basis in the consolidated statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

**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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2012 and 2011

### Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

**Subsequent Events** - The consolidated financial statements and related disclosures include evaluation of events up through and including December 10, 2012, which is the date the consolidated financial statements were issued.

**Reclassification** - Certain reclassifications were made to amounts in the 2011 financial statements conform to the classifications used in 2012.

### Note 2 - Receivables

Receivables are summarized as follows at September 30:

	2012	2011
Grant awards	\$ 322,258	\$ 339,901
Program service fees and other sources	287,396	181,390
Pledges receivable	1,250	4,550
Subtotal	610,904	525,841
Less allowance for doubtful accounts	34,000	9,738
Receivables - Net	<u>\$ 576,904</u>	<u>\$ 516,103</u>

### Note 3 - Investments and Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about Goodwill's assets and liabilities measured at fair value on a recurring basis at September 30, 2012 and 2011 and the valuation techniques used by Goodwill to determine those fair values.

In general, fair values determined by Level I inputs use quoted prices in active markets for identical assets or liabilities that Goodwill has the ability to access.

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2012 and 2011

### Note 3 - Investments and Fair Value Measurements (Continued)

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. Goodwill's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2012

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2012
<b>Assets - Mutual funds</b>				
Equity securities - Large blend	\$ 311,069	\$ -	\$ -	\$ 311,069
Equity securities - Small blend	122,450	-	-	122,450
Equity securities - Mid-cap blend	158,597	-	-	158,597
Fixed income - Intermediate- term bond	592,326	-	-	592,326
Fixed income - Short-term bond	941,819	-	-	941,819
Fixed income - High-yield bond	332,343	-	-	332,343
Equity securities - World blend	174,542	-	-	174,542
Total assets	<u>\$ 2,633,146</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,633,146</u>
<b>Liabilities - Interest rate swap</b>	<u>\$ -</u>	<u>\$ 251,017</u>	<u>\$ -</u>	<u>\$ 251,017</u>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2012 and 2011

### Note 3 - Investments and Fair Value Measurements (Continued)

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2011

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2011
<b>Assets - Mutual funds</b>				
Equity securities - Large blend	\$ 243,975	\$ -	\$ -	\$ 243,975
Equity securities - Small blend	93,770	-	-	93,770
Equity securities - Mid-cap blend	127,078	-	-	127,078
Fixed income - Intermediate-term bond	559,443	-	-	559,443
Fixed income - Short-term bond	931,951	-	-	931,951
Fixed income - High-yield bond	301,428	-	-	301,428
Equity securities - World blend	158,474	-	-	158,474
Total assets	<u>\$ 2,416,119</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,416,119</u>
<b>Liabilities - Interest rate swap</b>	<u>\$ -</u>	<u>\$ 241,945</u>	<u>\$ -</u>	<u>\$ 241,945</u>

The fair value of the interest rate swap liability at September 30, 2012 and 2011 was determined primarily based on Level 2 inputs. Goodwill estimates the fair value of this liability based on the current market price as provided by a third party.

Goodwill's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. There were no transfers between fair value classifications for the years ended September 30, 2012 or 2011.

### Note 4 - Inventory

Inventory consists of the following at September 30:

	2012	2011
Donated goods	\$ 212,432	\$ 214,726
Other - Purchased goods for sale	176,504	130,800
Total inventory	<u>\$ 388,936</u>	<u>\$ 345,526</u>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2012 and 2011

### Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2012	2011	Depreciable Life - Years
Land	\$ 985,449	\$ 877,400	-
Buildings	8,427,731	6,894,504	7-40
Machinery and equipment	1,010,273	929,099	2-10
Transportation equipment	271,892	238,862	5
Furniture and fixtures	227,603	165,960	3-5
Leasehold improvements	24,493	22,033	5-20
Construction in progress	<u>775,704</u>	<u>1,665,204</u>	
Total cost	11,723,145	10,793,062	
Accumulated depreciation	<u>2,488,676</u>	<u>2,056,120</u>	
Net property and equipment	<u>\$ 9,234,469</u>	<u>\$ 8,736,942</u>	

Depreciation expense was \$473,919 for 2012 and \$393,187 for 2011.

Construction in progress at September 30, 2012 relates primarily to the renovation of the newly acquired Acme retail facility. As of September 30, 2011, construction in progress related primarily to the construction of transitional housing units, which were completed in October 2011.

In October 2012, a new retail facility was purchased in Alpena, Michigan for \$825,000.



# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2012 and 2011

### Note 6 - Long-term Debt

Long-term debt at September 30 is as follows:

	<u>2012</u>	<u>2011</u>
Bond issue through Michigan Strategic Fund, requiring semiannual redemptions of \$50,000 to \$105,000, through the date of maturity, due on April 1 and October 1, with interest charged at the floating LIBOR (1.65 percent effective rate as September 30, 2012); secured by a letter of credit; matures October 1, 2027	\$ 2,275,000	\$ 2,365,000
Bank note payable, bearing interest of 2.88 percent plus LIBOR, but not less than 4 percent (effective rate of 4 percent at September 30, 2012), due in full in October 2012. The note payable is collateralized by substantially all investment assets. A total of \$409,967 of the outstanding balance was refinanced during August 2012	415,033	825,000
Bank note payable, bearing interest of 3.38 percent plus LIBOR, but not less than 4 percent (effective rate of 4 percent at September 30, 2012), due in full in October 2012. The note payable is collateralized by substantially all investment assets. The note was paid in full in September 2012	-	205,684
Bank note payable requiring monthly principal payments of \$3,367, bearing interest of 5.5 percent per year, due in full on August 15, 2027. The note payable is collateralized by substantially all assets	408,542	-
Note payable to Grand Traverse County Department of Public Works in installments of \$603 including interest at 4 percent. The note is due in December 2021 and is not collateralized	<u>67,397</u>	<u>74,639</u>
Total	3,165,972	3,470,323
Less current portion	<u>540,360</u>	<u>97,243</u>
Long-term portion	<u>\$ 2,625,612</u>	<u>\$ 3,373,080</u>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2012 and 2011

### Note 6 - Long-term Debt (Continued)

The balance of the above debt matures as follows:

Year	Amount
2013	\$ 540,360
2014	126,361
2015	137,455
2016	138,558
2017	149,831
Thereafter	<u>2,073,407</u>
Total	<u>\$ 3,165,972</u>

Interest expense for the years ended September 30, 2012 and 2011 was \$134,314 and \$119,266, respectively.

On March 6, 2012, Goodwill entered into an agreement with a bank to extend a line of credit in the amount of \$1,280,000, with one payment on all outstanding principal due on March 6, 2013. The line of credit bears interest at prime with payments due monthly. The line of credit is collateralized by marketable securities. As of September 30, 2012, there were no balances outstanding.

Under the terms of the bond agreement, Goodwill must maintain an irrevocable letter of credit to secure the payment of the principal amount of the bonds plus 45 days' accrued interest thereon. The existing letter of credit, in the amount of \$2,679,405 (original principal plus 45 days' interest at 9 percent) expires on October 15, 2017.

Goodwill has entered into an interest rate swap agreement to reduce the impact of changes in interest rates on the variable rate Michigan Strategic Fund bond. At September 30, 2012, the outstanding swap agreement had a total principal and notional amount of \$1,716,981. This agreement changes Goodwill's interest rate exposure of the bond due on October 1, 2027 to an average fixed rate of 7.14 percent. The interest rate swap is based on the difference between LIBOR plus 1.80 percent and the average fixed rate. The interest rate swap agreement matures in monthly intervals through November 1, 2017. This interest rate swap is recognized in the accompanying consolidated balance sheet at fair value. Changes in the fair value of the interest rate swap are recognized in other income (expense). Net realized losses totaling \$9,072 and \$3,927 have been recognized in 2012 and 2011, respectively.

### Note 7 - Operating Leases

Goodwill leases various buildings and equipment under operating leases expiring in February 2017.

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2012 and 2011

### Note 7 - Operating Leases (Continued)

As of September 30, 2012, future minimum lease payments required under the operating leases have an initial or remaining noncancelable lease term in excess of one year and are summarized as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2013	\$ 378,360
2014	381,702
2015	392,001
2016	385,766
2017	350,080
2018 and thereafter	<u>1,669,605</u>
Total	<u>\$ 3,557,514</u>

Total rent expense on these leases for 2012 and 2011 was \$374,339 and \$369,338, respectively.

### Note 8 - Retirement Plan

Goodwill participates in a deferred compensation retirement plan qualified under Section 401(k) of the Internal Revenue Code covering all full-time employees who have reached the age of 21 and have completed 90 days of service. Under this plan, eligible employees are permitted to contribute up to the maximum percentage allowable of their gross compensation into the retirement plan as determined by the Internal Revenue Code. During fiscal years 2012 and 2011, Goodwill made a discretionary match at a rate of 75 percent of the employees' percentage deferral up to a maximum of 3 percent. Goodwill contributions to the plan amounted to \$65,229 and \$59,719 for the years ended September 30, 2012 and 2011, respectively.

### Note 9 - Related Party Transactions

**Management Fees** - Goodwill established an agreement with GW Services of Northern Michigan, Inc. (GWS), a related party by virtue of common management, to provide services on behalf of GWS. These services include management of GWS employees and maintenance of financial records. For the years ended September 30, 2012 and 2011, Goodwill received management fees from GWS in the amount of \$37,000, and \$39,000, respectively. These management fees are included in program service fees in the accompanying consolidated statement of activities and changes in net assets.

# **Goodwill Industries of Northern Michigan, Inc. and Affiliate**

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## **Notes to Consolidated Financial Statements September 30, 2012 and 2011**

### **Note 10 - Fair Value of Financial Instruments**

A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

**Short-term Financial Instruments** - The fair values of short-term financial instruments, including cash equivalents, accounts receivable and payable, inventory, prepaid expenses, and accrued liabilities, approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments.

**Investments and Interest Rate Swap** - Investments and the interest rate swap are recorded at fair value in the accompanying consolidated financial statements. Fair value is determined based on the fair value measurement principles described in Note 3.

**Long-term Obligations** - The fair value of long-term obligations approximates the carrying amounts in the accompanying consolidated financial statements. The carrying value of the debt approximates fair value based on current borrowing rates.

## **Additional Information**

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## Independent Auditor's Report on Additional Information

To the Board of Directors  
Goodwill Industries of Northern  
Michigan, Inc. and Affiliate

We have audited the consolidated financial statements of Goodwill Industries of Northern Michigan, Inc. and Affiliate as of and for the years ended September 30, 2012 and 2011. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purpose of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Plante & Moran, PLLC*

December 10, 2012

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidating Balance Sheet

	Goodwill Industries of Northern Michigan, Inc.	G.W. Homeless Services of Northern Michigan, Inc.	Eliminating Entries	Totals	
				2012	2011
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 674,627	\$ 6,228	\$ -	\$ 680,855	\$ 1,079,984
Receivables - Net	480,868	96,036	-	576,904	516,103
Investments	2,633,146	-	-	2,633,146	2,416,119
Inventory	388,936	-	-	388,936	345,526
Prepaid expenses and other current assets	124,480	323	-	124,803	97,116
Total current assets	4,302,057	102,587	-	4,404,644	4,454,848
Property and Equipment - Net	5,550,837	3,683,632	-	9,234,469	8,736,942
Other Assets	49,177	-	-	49,177	52,455
Total assets	<b>\$ 9,902,071</b>	<b>\$ 3,786,219</b>	<b>\$ -</b>	<b>\$ 13,688,290</b>	<b>\$ 13,244,245</b>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Accounts payable	\$ 142,791	\$ 19,625	\$ -	\$ 162,416	\$ 63,728
Current portion of long-term debt	533,117	7,243	-	540,360	97,243
Accrued liabilities and other	512,169	31,003	-	543,172	498,440
Total current liabilities	1,188,077	57,871	-	1,245,948	659,411
Long-term Notes Payable - Net of current portion	2,565,458	60,154	-	2,625,612	3,373,080
Interest Rate Swap	251,017	-	-	251,017	241,945
Total liabilities	4,004,552	118,025	-	4,122,577	4,274,436
<b>Net Assets - Unrestricted</b>					
Undesignated	4,497,519	3,668,194	-	8,165,713	7,569,809
Board-designated	1,400,000	-	-	1,400,000	1,400,000
Total net assets	5,897,519	3,668,194	-	9,565,713	8,969,809
Total liabilities and net assets	<b>\$ 9,902,071</b>	<b>\$ 3,786,219</b>	<b>\$ -</b>	<b>\$ 13,688,290</b>	<b>\$ 13,244,245</b>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidating Statement of Activities and Changes in Net Assets

	Goodwill Industries of Northern Michigan, Inc.	G.W. Homeless Services of Northern Michigan, Inc.	Eliminating Entries	Totals	
				2012	2011
<b>Changes in Unrestricted Net Assets</b>					
Revenue and support:					
Retail sales	\$ 6,847,023	\$ -	\$ -	\$ 6,847,023	\$ 6,155,747
Contributions - Donated inventory	2,241,553	78,809	-	2,320,362	2,364,832
Grants	590,933	134,092	-	725,025	1,676,675
Program service fees	990,099	369,383	-	1,359,482	1,143,395
Contributions - Other	303,114	227,361	-	530,475	445,539
Investment income - Unrestricted	87,727	-	-	87,727	90,057
Miscellaneous income	117,360	25,225	-	142,585	68,235
Total revenue and support	11,177,809	834,870	-	12,012,679	11,944,480
Expenses:					
Program services:					
Retail operations	6,843,646	-	-	6,843,646	6,613,795
Housing services	6,051	1,049,772	-	1,055,823	997,124
Social enterprises	2,571,589	-	-	2,571,589	2,049,708
Total program services	9,421,286	1,049,772	-	10,471,058	9,660,627
Support services:					
Management and general	1,016,863	-	-	1,016,863	894,661
Fundraising	156,364	-	-	156,364	91,370
Total support services	1,173,227	-	-	1,173,227	986,031
Total expenses	10,594,513	1,049,772	-	11,644,285	10,646,658
<b>Increase (Decrease) in Unrestricted Net Assets - Operating</b>	583,296	(214,902)	-	368,394	1,297,822



# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidating Statement of Activities and Changes in Net Assets (Continued)

	Goodwill Industries of Northern Michigan, Inc.	G.W. Homeless Services of Northern Michigan, Inc.	Eliminating Entries	Totals	
				2012	2011
<b>Nonoperating Activities</b>					
Net gains from sales of property and equipment	\$ 13,806	\$ -	\$ -	\$ 13,806	\$ 524
Net realized/unrealized gains (loss) on investment securities	222,776	-	-	222,776	(107,391)
Change in fair value of interest rate swap	(9,072)	-	-	(9,072)	(3,927)
Impairment loss on property and equipment	-	-	-	-	(96,140)
Total nonoperating activities	227,510	-	-	227,510	(206,934)
<b>Increase (Decrease) in Net Assets</b>	810,806	(214,902)	-	595,904	1,090,888
<b>Net Assets - Beginning of year</b>	5,086,713	3,883,096	-	8,969,809	7,878,921
<b>Net Assets - End of year</b>	<b>\$ 5,897,519</b>	<b>\$ 3,668,194</b>	<b>\$ -</b>	<b>\$ 9,565,713</b>	<b>\$ 8,969,809</b>