

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

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**Consolidated Financial Report  
with Additional Information  
September 30, 2013**

# **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 financial statements of Goodwill Industries of Northern Michigan, Inc. and Affiliate (Goodwill or the "Organization"), which comprise the consolidated balance sheet as of September 30, 2013 and 2012 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Northern Michigan, Inc. and Affiliate as of September 30, 2013 and 2012 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

December 9, 2013

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidated Balance Sheet

	September 30, 2013	September 30, 2012
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 561,460	\$ 680,855
Receivables - Net (Note 2)	276,189	576,904
Investments (Note 3)	1,930,666	2,633,146
Inventory (Note 4)	614,426	388,936
Prepaid expenses and other current assets	124,764	124,803
Total current assets	3,507,505	4,404,644
<b>Property and Equipment - Net (Note 5)</b>	12,379,336	9,234,469
<b>Other Assets</b>	50,604	49,177
Total assets	<b>\$ 15,937,445</b>	<b>\$ 13,688,290</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 178,804	\$ 162,416
Current portion of long-term debt (Note 6)	354,516	540,360
Accrued liabilities and other	591,033	543,172
Total current liabilities	1,124,353	1,245,948
<b>Capital Lease Obligation (Note 6)</b>	202,258	-
<b>Long-term Notes Payable - Net of current portion (Note 6)</b>	4,499,834	2,625,612
<b>Interest Rate Swap (Notes 3 and 6)</b>	186,273	251,017
Total liabilities	6,012,718	4,122,577
<b>Net Assets - Unrestricted</b>		
Undesignated	8,524,727	8,165,713
Board-designated	1,400,000	1,400,000
Total net assets	9,924,727	9,565,713
Total liabilities and net assets	<b>\$ 15,937,445</b>	<b>\$ 13,688,290</b>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidated Statement of Activities and Changes in Net Assets

	Year Ended	
	September 30, 2013	September 30, 2012
<b>Changes in Unrestricted Net Assets</b>		
Revenue and support:		
Retail sales	\$ 7,357,616	\$ 6,815,683
Contributions - Donated inventory	2,717,721	2,320,362
Grants	1,020,004	939,649
Program service fees	1,070,309	1,050,060
Contributions - Other	474,595	530,475
Investment income	60,980	87,727
Miscellaneous income	196,551	142,852
Total revenue and support	12,897,776	11,886,808
Expenses:		
Program services:		
Retail operations	7,927,934	6,802,250
Housing services	842,203	968,010
Social enterprises	2,869,860	2,697,271
Total program services	11,639,997	10,467,531
Support services:		
Management and general	915,656	863,974
Fundraising	173,325	186,909
Total support services	1,088,981	1,050,883
Total expenses	12,728,978	11,518,414
<b>Increase in Unrestricted Net Assets - Operating</b>	168,798	368,394
<b>Nonoperating Activities</b>		
Net gains from sales of property and equipment (net of expenses on sale of \$10,799 in 2012)	29,392	13,806
Net realized/unrealized gain on investment securities	96,080	222,776
Change in fair value of interest rate swap	64,744	(9,072)
Total nonoperating activities	190,216	227,510
<b>Increase in Unrestricted Net Assets</b>	359,014	595,904
<b>Net Assets - Beginning of year</b>	9,565,713	8,969,809
<b>Net Assets - End of year</b>	<b>\$ 9,924,727</b>	<b>\$ 9,565,713</b>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidated Statement of Functional Expenses Year Ended September 30, 2013

	Program Services				Support Services			Total Expenses
	Retail Operations	Housing Services	Social Enterprises	Total	Management and General	Fundraising	Total	
Salaries and wages	\$ 2,172,716	\$ 348,569	\$ 1,373,611	\$ 3,894,896	\$ 574,050	\$ 108,965	\$ 683,015	\$ 4,577,911
Payroll taxes	191,389	32,763	116,603	340,755	70,055	10,654	80,709	421,464
Employee benefits	252,399	64,395	200,642	517,436	110,467	9,575	120,042	637,478
Total salaries and related benefits	2,616,504	445,727	1,690,856	4,753,087	754,572	129,194	883,766	5,636,853
Cost of goods sold	3,070,126	-	-	3,070,126	-	-	-	3,070,126
Rent	404,785	-	2,844	407,629	390	-	390	408,019
Interest	113,481	2,541	30,610	146,632	9,313	-	9,313	155,945
Depreciation and amortization	281,357	145,812	151,963	579,132	13,170	-	13,170	592,302
Supplies	230,228	36,026	445,371	711,625	4,962	1,598	6,560	718,185
Utilities	132,200	50,370	38,261	220,831	4,861	-	4,861	225,692
Bad debts	1,332	-	29,888	31,220	-	-	-	31,220
Direct client assistance	-	76,135	139,731	215,866	-	-	-	215,866
Advertising	207,112	12,256	41,837	261,205	3,638	2,258	5,896	267,101
Insurance	37,422	10,340	16,463	64,225	4,555	-	4,555	68,780
Goodwill Industries International dues	75,264	4,852	12,457	92,573	408	-	408	92,981
Garbage	66,904	2,409	4,633	73,946	911	-	911	74,857
Repairs and maintenance	174,092	35,985	54,963	265,040	16,662	911	17,573	282,613
Telephone	28,457	14,074	22,699	65,230	6,024	1,217	7,241	72,471
Vehicle	58,190	-	36,441	94,631	7,249	-	7,249	101,880
Professional fees	31,628	13,496	122,489	167,613	32,716	263	32,979	200,592
Miscellaneous	12,261	(16,393)	(28,295)	(32,427)	23,418	27,500	50,918	18,491
Travel	26,876	551	28,620	56,047	8,152	1,338	9,490	65,537
Meetings	1,227	126	1,631	2,984	7,174	8,654	15,828	18,812
Office supplies	22,656	6,246	7,441	36,343	1,300	-	1,300	37,643
Postage and shipping	150,973	501	9,492	160,966	2,646	392	3,038	164,004
Annual bond financing	17,289	-	1,796	19,085	2,311	-	2,311	21,396
Service charges	167,570	1,149	7,669	176,388	11,224	-	11,224	187,612
Total functional expenses	<b>\$ 7,927,934</b>	<b>\$ 842,203</b>	<b>\$ 2,869,860</b>	<b>\$ 11,639,997</b>	<b>\$ 915,656</b>	<b>\$ 173,325</b>	<b>\$ 1,088,981</b>	<b>\$ 12,728,978</b>

See Notes to Consolidated Financial Statements.

# 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	\$ 1,903,225	\$ 361,635	\$ 1,305,905	\$ 3,570,765	\$ 557,214	\$ 101,503	\$ 658,717	\$ 4,229,482
Payroll taxes	164,227	35,515	112,651	312,393	66,142	10,143	76,285	388,678
Employee benefits	222,485	63,792	178,384	464,661	91,847	5,875	97,722	562,383
Total salaries and related benefits	2,289,937	460,942	1,596,940	4,347,819	715,203	117,521	832,724	5,180,543
Cost of goods sold	2,580,917	-	-	2,580,917	-	-	-	2,580,917
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	193,871	145,664	122,590	462,125	15,072	-	15,072	477,197
Supplies	122,083	78,809	364,340	565,232	14,407	3,346	17,753	582,985
Utilities	112,898	53,161	28,526	194,585	5,353	-	5,353	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	176,330	19,461	42,350	238,141	2,749	19,393	22,142	260,283
Insurance	43,033	13,980	13,661	70,674	5,669	-	5,669	76,343
Goodwill Industries International dues	64,098	4,852	11,952	80,902	446	-	446	81,348
Garbage	82,829	2,913	3,752	89,494	1,149	-	1,149	90,643
Repairs and maintenance	103,941	50,922	45,269	200,132	23,486	1,606	25,092	225,224
Telephone	20,588	14,452	21,786	56,826	5,601	1,215	6,816	63,642
Vehicle	50,353	-	27,327	77,680	2,617	-	2,617	80,297
Professional fees	66,876	13,072	150,012	229,960	9,440	-	9,440	239,400
Miscellaneous	6,307	(17,222)	(17,715)	(28,630)	18,006	39,880	57,886	29,256
Travel	8,964	891	26,915	36,770	6,987	953	7,940	44,710
Meetings	967	-	914	1,881	5,752	2,683	8,435	10,316
Office supplies	46,264	18,639	6,724	71,627	1,292	-	1,292	72,919
Postage and shipping	139,575	467	7,791	147,833	2,347	312	2,659	150,492
Annual bond financing	21,271	-	1,768	23,039	2,532	-	2,532	25,571
Service charges	148,605	1,317	5,693	155,615	16,180	-	16,180	171,795
Total functional expenses	<u>\$ 6,802,250</u>	<u>\$ 968,010</u>	<u>\$ 2,697,271</u>	<u>\$ 10,467,531</u>	<u>\$ 863,974</u>	<u>\$ 186,909</u>	<u>\$ 1,050,883</u>	<u>\$ 11,518,414</u>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidated Statement of Cash Flows

	Year Ended	
	September 30, 2013	September 30, 2012
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 359,014	\$ 595,904
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	592,302	477,197
Gains from sales of property and equipment	(29,392)	(13,806)
Bad debt expense	31,220	43,095
Net realized/unrealized gain on investment securities	(96,080)	(222,776)
Change in fair value of interest rate swap	(64,744)	9,072
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	269,495	(103,896)
Inventory	(225,490)	(43,410)
Prepaid expenses and other	(4,805)	(27,687)
Accounts payable	16,388	98,688
Accrued liabilities and other	47,861	44,732
Net cash provided by operating activities	895,769	857,113
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(3,764,892)	(1,072,227)
Proceeds from disposition of property and equipment	60,532	114,587
Proceeds from sales and maturities of investments	798,560	5,749
Net cash used in investing activities	(2,905,800)	(951,891)
<b>Cash Flows from Financing Activities</b>		
Proceeds from debt	2,556,087	-
Payments on debt	(665,451)	(304,351)
Net cash provided by (used in) financing activities	1,890,636	(304,351)
<b>Net Decrease in Cash and Cash Equivalents</b>	(119,395)	(399,129)
<b>Cash and Cash Equivalents - Beginning of year</b>	680,855	1,079,984
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 561,460</u>	<u>\$ 680,855</u>
<b>Supplemental Disclosure of Cash Flow Information - Cash paid for interest</b>	<u>\$ 141,587</u>	<u>\$ 136,309</u>



# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2013 and 2012

### Note 1 - Nature of Activities and Significant Accounting Policies

**Nature of Organization** - The consolidated financial statements include Goodwill Industries of Northern Michigan, Inc. (GWI) and commonly controlled G.W. Homeless Services of Northern Michigan, Inc. (GWH), which are collectively referred to as Goodwill or the "Organization." GWI and GWH are not-for-profit corporations. Goodwill's mission is to strengthen communities by enhancing the dignity and quality of life for people in need by overcoming barriers to opportunities through learning and the power of work.

Goodwill serves the Northern Michigan region through:

**Retail Operations** - Goodwill utilizes its six retail stores (two of which were added in 2013) and e-commerce operations to provide 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, Food Service, Paperworks Studio, and Workers-on-Wheels, Goodwill provides economic assistance, employment and job training opportunities, job placement services, and transportation to those in need. Subsequent to year end, the Paperworks Studio Program has begun the official wind down of its operations.

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2013 and 2012

### 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 1 percent of earned unrestricted revenue to GII. Dues paid to GII totaled \$92,981 and \$76,343 for the years ended September 30, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012.

**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, 2013 and 2012

### 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 government grant contracts that include the requirement that a portion of the funds received by Goodwill would have to be paid back to the grantor if the agreed-upon use of such funds were to be changed by Goodwill.

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. There were no asset impairments for the years ended September 30, 2013 and 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, 2013 and 2012

### 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.

**Advertising Expense** - Advertising expenses were \$267,101 and \$260,283 for the years ending September 30, 2013 and 2012, respectively.

**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, 2013 and 2012, 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, 2010.

**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.

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2013 and 2012

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

**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.

**Subsequent Events** - The consolidated financial statements and related disclosures include evaluation of events up through and including December 9, 2013, which is the date the consolidated financial statements were issued.

**Reclassification** - Certain reclassifications were made to amounts in the 2012 financial statements to conform to the classifications used in 2013. In particular, reimbursable government grant activity of approximately \$215,000 was reclassified from program service fee revenue to grants revenue. Additionally, approximately \$125,000 of intercompany transactions and other expenditures were reclassified to more appropriately conform to the established method of functionally allocating expenses.

### Note 2 - Receivables

Receivables are summarized as follows at September 30:

	2013	2012
Grant awards	\$ 30,767	\$ 322,258
Program service fees and other sources	276,172	287,396
Pledges receivable	1,250	1,250
Subtotal	308,189	610,904
Less allowance for doubtful accounts	32,000	34,000
Receivables - Net	<u>\$ 276,189</u>	<u>\$ 576,904</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.

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2013 and 2012

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

The following tables present information about Goodwill's assets and liabilities measured at fair value on a recurring basis at September 30, 2013 and 2012 and the valuation techniques used by Goodwill to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that Goodwill has the ability to access.

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 whereby 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, 2013

	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, 2013
<b>Assets - Mutual funds</b>				
Equity securities - Large blend	\$ 350,780	\$ -	\$ -	\$ 350,780
Equity securities - Small blend	124,182	-	-	124,182
Equity securities - Mid-cap blend	157,162	-	-	157,162
Fixed income - Intermediate-term bond	722,340	-	-	722,340
Fixed income - Short-term bond	289,211	-	-	289,211
Fixed income - High-yield bond	171,988	-	-	171,988
Equity securities - World blend	115,003	-	-	115,003
Total assets	\$ 1,930,666	\$ -	\$ -	\$ 1,930,666
<b>Liabilities - Interest rate swap</b>	\$ -	\$ 186,273	\$ -	\$ 186,273

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2013 and 2012

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

#### 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>

The fair value of the interest rate swap at September 30, 2013 and 2012 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, 2013 or 2012.

### Note 4 - Inventory

Inventory consists of the following at September 30:

	2013	2012
Donated goods	\$ 249,017	\$ 212,432
Other - Purchased goods for sale	365,409	176,504
Total inventory	<u>\$ 614,426</u>	<u>\$ 388,936</u>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2013 and 2012

### Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2013	2012	Depreciable Life - Years
Land	\$ 1,735,449	\$ 985,449	-
Buildings	11,535,368	8,427,731	7-40
Machinery and equipment	1,151,842	1,010,273	2-10
Transportation equipment	612,083	271,892	5
Furniture and fixtures	346,244	227,603	3-5
Leasehold improvements	24,493	24,493	5-20
Construction in progress	38,182	775,704	-
Total cost	15,443,661	11,723,145	
Accumulated depreciation	3,064,325	2,488,676	
Net property and equipment	<u>\$ 12,379,336</u>	<u>\$ 9,234,469</u>	

Depreciation expense was \$588,885 for 2013 and \$473,919 for 2012.

The amount of capitalized interest for the new Alpena and Acme retail stores were approximately \$11,000 and \$7,000, respectively, as of September 30, 2013. There was no capitalized interest for the year ended September 30, 2012.

The Organization maintains two vehicles under a capital lease for a total capitalized cost of \$229,926 as of September 30, 2013. The associated accumulated depreciation and depreciation expense as of and for the year ended September 30, 2013 is \$27,749. There were no assets under a capital lease as of September 30, 2012.

### Note 6 - Long-term Debt

Long-term debt at September 30 is as follows:

	2013	2012
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, 2013); secured by a letter of credit; matures October 1, 2027	\$ 2,175,000	\$ 2,275,000



# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2013 and 2012

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

	<u>2013</u>	<u>2012</u>
Mortgage loan payable for the Alpena retail store through a financial institution requiring monthly principal payments of \$9,914 with interest charged at 3.5 percent per annum based on a year of 360 days. Final payment will be due on May 1, 2023	\$ 965,191	\$ -
Mortgage loan payable for the Acme retail store through a financial institution, requiring monthly principal payments of \$12,985 with interest charged at 3.82 percent per annum based on a year of 360 days. Final payment will be due on June 24, 2023	1,263,547	-
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. The note was paid in full as of September 2013	-	415,033
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	390,458	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	60,154	67,397
Vehicle capital lease, payable in monthly installments of \$1,377 and \$1,393 (total monthly payments of \$2,770), maturing July 2019 and January 2020	<u>202,258</u>	<u>-</u>
Total	5,056,608	3,165,972
Less current portion	<u>354,516</u>	<u>540,360</u>
Long-term portion	<u>\$ 4,702,092</u>	<u>\$ 2,625,612</u>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2013 and 2012

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

The balance of the above debt matures as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2014	\$ 354,516
2015	361,911
2016	380,499
2017	389,746
2018	409,290
Thereafter	<u>3,160,646</u>
Total	<u>\$ 5,056,608</u>

Interest expense for the years ended September 30, 2013 and 2012 was \$155,945 and \$134,314, respectively.

Goodwill has an available line of credit with maximum borrowings of \$750,000. This line of credit bears interest at a variable rate equal to 2.25 percent over the independent index or LIBOR (2.43 percent at September 30, 2013). There were no borrowings outstanding at June 30, 2013 and 2012. The line expires on May 15, 2014.

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, 2013, the outstanding swap agreement had a total principal and notional amount of \$1,641,509. 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 gain (loss) on the swap totaled \$64,744 and (\$9,072) in 2013 and 2012, respectively.

### Note 7 - Operating Leases

Goodwill leases various buildings and equipment under operating leases expiring in September 2023.

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Notes to Consolidated Financial Statements September 30, 2013 and 2012

### Note 7 - Operating Leases (Continued)

As of September 30, 2013, 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>
2014	\$ 391,446
2015	393,246
2016	393,846
2017	333,560
2018	308,070
Thereafter	<u>1,335,372</u>
Total	<u>\$ 3,155,540</u>

Total rent expense on these leases for 2013 and 2012 was \$369,246 and \$374,339, 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 2013 and 2012, Goodwill made a discretionary match at a rate of 100 and 75 percent, respectively, of the employees' percentage deferral up to a maximum of 3 percent. Goodwill contributions to the plan amounted to \$68,617 and \$65,229 for the years ended September 30, 2013 and 2012, 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, 2013 and 2012, Goodwill received management fees from GWS in the amount of \$2,000, and \$37,000, 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, 2013 and 2012**

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

Goodwill holds assets and liabilities that are measured at fair value, but not on a recurring basis. The fair values of these financial instruments are determined using Level 2 inputs (as defined in Note 3).

**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.

**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, 2013 and 2012 and have issued our report thereon dated December 9, 2013, which contained an unmodified opinion on those financial statements. Our audits were performed 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 and changes in net assets 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 financial statements. The information has been subjected to the auditing procedures applied in the audits 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 9, 2013

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidating Balance Sheet September 30, 2013 (with comparative totals for September 30, 2012)

	Goodwill Industries of Northern Michigan, Inc.	G.W. Homeless Services of Northern Michigan, Inc.	Eliminating Entries	Totals	
				2013	2012
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 516,401	\$ 45,059	\$ -	\$ 561,460	\$ 680,855
Receivables - Net	216,538	59,651	-	276,189	576,904
Investments	1,930,666	-	-	1,930,666	2,633,146
Inventory	614,426	-	-	614,426	388,936
Intercompany receivable	41,265	-	(41,265)	-	-
Prepaid expenses and other current assets	124,764	-	-	124,764	124,803
<b>Total current assets</b>	<b>3,444,060</b>	<b>104,710</b>	<b>(41,265)</b>	<b>3,507,505</b>	<b>4,404,644</b>
<b>Property and Equipment - Net</b>	<b>8,840,629</b>	<b>3,538,707</b>	<b>-</b>	<b>12,379,336</b>	<b>9,234,469</b>
<b>Other Assets</b>	<b>50,604</b>	<b>-</b>	<b>-</b>	<b>50,604</b>	<b>49,177</b>
<b>Total assets</b>	<b>\$ 12,335,293</b>	<b>\$ 3,643,417</b>	<b>\$ (41,265)</b>	<b>\$ 15,937,445</b>	<b>\$ 13,688,290</b>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Accounts payable	\$ 166,196	\$ 12,608	\$ -	\$ 178,804	\$ 162,416
Intercompany payable	-	41,265	(41,265)	-	-
Current portion of long-term debt	347,273	7,243	-	354,516	540,360
Accrued liabilities and other	570,613	20,420	-	591,033	543,172
<b>Total current liabilities</b>	<b>1,084,082</b>	<b>81,536</b>	<b>(41,265)</b>	<b>1,124,353</b>	<b>1,245,948</b>
<b>Capital Lease Obligation</b>	<b>202,258</b>	<b>-</b>	<b>-</b>	<b>202,258</b>	<b>-</b>
<b>Long-term Notes Payable - Net of current portion</b>	<b>4,446,923</b>	<b>52,911</b>	<b>-</b>	<b>4,499,834</b>	<b>2,625,612</b>
<b>Interest Rate Swap</b>	<b>186,273</b>	<b>-</b>	<b>-</b>	<b>186,273</b>	<b>251,017</b>
<b>Total liabilities</b>	<b>5,919,536</b>	<b>134,447</b>	<b>(41,265)</b>	<b>6,012,718</b>	<b>4,122,577</b>
<b>Net Assets - Unrestricted</b>					
Undesignated	5,015,757	3,508,970	-	8,524,727	8,165,713
Board-designated	1,400,000	-	-	1,400,000	1,400,000
<b>Total net assets</b>	<b>6,415,757</b>	<b>3,508,970</b>	<b>-</b>	<b>9,924,727</b>	<b>9,565,713</b>
<b>Total liabilities and net assets</b>	<b>\$ 12,335,293</b>	<b>\$ 3,643,417</b>	<b>\$ (41,265)</b>	<b>\$ 15,937,445</b>	<b>\$ 13,688,290</b>

# Goodwill Industries of Northern Michigan, Inc. and Affiliate

## Consolidating Statement of Activities and Changes in Net Assets Year Ended September 30, 2013

(with comparative totals for year ended September 30, 2012)

	Goodwill Industries of Northern Michigan, Inc.	G.W. Homeless Services of Northern Michigan, Inc.	Eliminating Entries	Totals	
				2013	2012
<b>Changes in Unrestricted Net Assets</b>					
Revenue and support:					
Retail sales	\$ 7,357,616	\$ -	\$ -	\$ 7,357,616	\$ 6,815,683
Contributions - Donated inventory	2,681,695	36,026	-	2,717,721	2,320,362
Grants	928,397	91,607	-	1,020,004	939,649
Program service fees	739,516	330,793	-	1,070,309	1,050,060
Contributions - Other	256,667	217,928	-	474,595	530,475
Investment income	60,980	-	-	60,980	87,727
Miscellaneous income	160,027	36,524	-	196,551	142,852
Total revenue and support	12,184,898	712,878	-	12,897,776	11,886,808
Expenses:					
Program services:					
Retail operations	7,927,934	-	-	7,927,934	6,802,250
Housing services	(54,756)	896,959	-	842,203	968,010
Social enterprises	2,869,860	-	-	2,869,860	2,697,271
Total program services	10,743,038	896,959	-	11,639,997	10,467,531
Support services:					
Management and general	915,656	-	-	915,656	863,974
Fundraising	173,325	-	-	173,325	186,909
Total support services	1,088,981	-	-	1,088,981	1,050,883
Total expenses	11,832,019	896,959	-	12,728,978	11,518,414
<b>Increase (Decrease) in Unrestricted Net Assets - Operating</b>	352,879	(184,081)	-	168,798	368,394
<b>Nonoperating Activities</b>					
Net gains from sales of property and equipment	4,535	24,857	-	29,392	13,806
Net realized/unrealized gains on investment securities	96,080	-	-	96,080	222,776
Change in fair value of interest rate swap	64,744	-	-	64,744	(9,072)
Total nonoperating activities	165,359	24,857	-	190,216	227,510
<b>Increase (Decrease) in Net Assets</b>	518,238	(159,224)	-	359,014	595,904
<b>Net Assets - Beginning of year</b>	5,897,519	3,668,194	-	9,565,713	8,969,809
<b>Net Assets - End of year</b>	<b>\$ 6,415,757</b>	<b>\$ 3,508,970</b>	<b>\$ -</b>	<b>\$ 9,924,727</b>	<b>\$ 9,565,713</b>