

Goodwill Industries of Northern Michigan, Inc. and Affiliate

**Consolidated Financial Report
with Additional Information
September 30, 2014**

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, 2014 and 2013 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 consolidated 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 opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Northern Michigan, Inc. and Affiliate as of September 30, 2014 and 2013 and the changes in its net assets, functional expenses, 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 10, 2014

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidated Balance Sheet

	September 30, 2014	September 30, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 459,373	\$ 561,460
Receivables - Net (Note 2)	222,458	276,189
Investments (Note 3)	1,850,421	1,930,666
Inventory (Note 4)	462,821	614,426
Prepaid expenses and other current assets	130,891	124,764
Total current assets	3,125,964	3,507,505
Property and Equipment - Net (Note 5)	12,537,675	12,379,336
Other Assets	46,841	50,604
Total assets	\$ 15,710,480	\$ 15,937,445
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 236,307	\$ 178,804
Current portion of long-term debt (Note 6)	373,005	354,516
Accrued liabilities and other	606,870	591,033
Total current liabilities	1,216,182	1,124,353
Capital Lease Obligation (Note 6)	169,018	202,258
Long-term Notes Payable - Net of current portion (Note 6)	4,160,069	4,499,834
Interest Rate Swap (Notes 3 and 6)	137,125	186,273
Total liabilities	5,682,394	6,012,718
Net Assets - Unrestricted		
Undesignated	8,628,086	8,524,727
Board-designated	1,400,000	1,400,000
Total net assets	10,028,086	9,924,727
Total liabilities and net assets	\$ 15,710,480	\$ 15,937,445

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidated Statement of Activities and Changes in Net Assets

	Year Ended	
	September 30, 2014	September 30, 2013
Changes in Unrestricted Net Assets		
Revenue and support:		
Retail sales	\$ 8,390,449	\$ 7,357,616
Contributions - Donated inventory	3,091,392	2,717,721
Grants	678,171	1,020,004
Program service fees	1,035,899	1,070,309
Contributions - Other	412,916	474,595
Investment income	51,796	60,980
Miscellaneous income	150,823	196,551
Total revenue and support	13,811,446	12,897,776
Expenses:		
Program services:		
Retail operations	8,792,389	7,927,934
Housing services	1,098,803	842,203
Social enterprises	2,805,990	2,869,860
Total program services	12,697,182	11,639,997
Support services:		
Management and general	975,475	915,656
Fundraising	174,487	173,325
Total support services	1,149,962	1,088,981
Total expenses	13,847,144	12,728,978
(Decrease) Increase in Unrestricted Net Assets - Operating	(35,698)	168,798
Nonoperating Activities		
Net (loss) gain from sales of property and equipment	(8,035)	29,392
Net realized/unrealized gain on investment securities	97,944	96,080
Change in fair value of interest rate swap	49,148	64,744
Total nonoperating activities	139,057	190,216
Increase in Unrestricted Net Assets	103,359	359,014
Net Assets - Beginning of year	9,924,727	9,565,713
Net Assets - End of year	\$ 10,028,086	\$ 9,924,727

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidated Statement of Functional Expenses Year Ended September 30, 2014

	Program Services				Support Services			Total Expenses
	Retail Operations	Housing Services	Social Enterprises	Total	Management and General	Fundraising	Total	
Salaries and wages	\$ 2,427,827	\$ 481,076	\$ 1,183,578	\$ 4,092,481	\$ 594,975	\$ 117,322	\$ 712,297	\$ 4,804,778
Payroll taxes	214,778	43,345	102,049	360,172	76,221	11,036	87,257	447,429
Employee benefits	366,485	110,601	166,975	644,061	107,635	9,998	117,633	761,694
Total salaries and related benefits	3,009,090	635,022	1,452,602	5,096,714	778,831	138,356	917,187	6,013,901
Cost of goods sold	3,396,137	-	-	3,396,137	-	-	-	3,396,137
Rent	473,787	-	33	473,820	936	-	936	474,756
Interest	152,951	2,251	31,436	186,638	11,250	-	11,250	197,888
Depreciation and amortization	298,451	117,791	177,939	594,181	15,816	-	15,816	609,997
Supplies	173,625	1,357	769,240	944,222	11,228	3,352	14,580	958,802
Utilities	133,517	61,129	35,612	230,258	7,459	-	7,459	237,717
Bad debts	(134)	12,168	19,434	31,468	-	-	-	31,468
Direct client assistance	-	136,082	59,556	195,638	-	-	-	195,638
Advertising	145,358	13,114	44,764	203,236	1,917	1,170	3,087	206,323
Insurance	40,186	11,101	14,250	65,537	8,065	-	8,065	73,602
Goodwill Industries International dues	74,574	5,165	11,405	91,144	437	-	437	91,581
Garbage	75,882	2,985	4,601	83,468	1,200	-	1,200	84,668
Repairs and maintenance	211,337	42,257	56,233	309,827	25,340	1,534	26,874	336,701
Telephone	34,196	14,859	21,627	70,682	5,839	1,226	7,065	77,747
Vehicle	57,409	-	36,579	93,988	10,324	-	10,324	104,312
Professional fees	50,609	7,756	103,241	161,606	28,115	86	28,201	189,807
Miscellaneous	30,621	24,887	(77,311)	(21,803)	28,925	23,953	52,878	31,075
Travel	15,461	1,207	22,717	39,385	10,931	1,381	12,312	51,697
Meetings	1,487	130	893	2,510	8,203	3,196	11,399	13,909
Office supplies	20,057	8,420	6,582	35,059	4,007	-	4,007	39,066
Postage and shipping	182,336	344	7,183	189,863	2,612	233	2,845	192,708
Annual bond financing	15,901	-	1,879	17,780	2,904	-	2,904	20,684
Service charges	199,551	778	5,495	205,824	11,136	-	11,136	216,960
Total functional expenses	\$ 8,792,389	\$ 1,098,803	\$ 2,805,990	\$ 12,697,182	\$ 975,475	\$ 174,487	\$ 1,149,962	\$ 13,847,144

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	<u>\$ 7,927,934</u>	<u>\$ 842,203</u>	<u>\$ 2,869,860</u>	<u>\$ 11,639,997</u>	<u>\$ 915,656</u>	<u>\$ 173,325</u>	<u>\$ 1,088,981</u>	<u>\$ 12,728,978</u>

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidated Statement of Cash Flows

	Year Ended	
	September 30, 2014	September 30, 2013
Cash Flows from Operating Activities		
Increase in net assets	\$ 103,359	\$ 359,014
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	609,997	592,302
Loss (gain) from sales of property and equipment	8,035	(29,392)
Bad debt expense	31,468	31,220
Net realized/unrealized gain on investment securities	(97,944)	(96,080)
Change in fair value of interest rate swap	(49,148)	(64,744)
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	22,263	269,495
Inventory	151,605	(225,490)
Prepaid expenses and other	(6,127)	(4,805)
Accounts payable	57,503	16,388
Accrued liabilities and other	15,837	47,861
Net cash provided by operating activities	846,848	895,769
Cash Flows from Investing Activities		
Purchase of property and equipment	(787,180)	(3,764,892)
Proceeds from disposition of property and equipment	14,572	60,532
Proceeds from sales and maturities of investments	178,189	798,560
Net cash used in investing activities	(594,419)	(2,905,800)
Cash Flows from Financing Activities		
Proceeds from debt	-	2,556,087
Payments on debt	(354,516)	(665,451)
Net cash (used in) provided by financing activities	(354,516)	1,890,636
Net Decrease in Cash and Cash Equivalents	(102,087)	(119,395)
Cash and Cash Equivalents - Beginning of year	561,460	680,855
Cash and Cash Equivalents - End of year	<u>\$ 459,373</u>	<u>\$ 561,460</u>
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	<u>\$ 198,221</u>	<u>\$ 155,861</u>

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2014 and 2013

Note I - 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." All material intercompany accounts and transactions have been eliminated in consolidation.

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 the following:

Retail Operations - Goodwill utilizes its seven retail stores 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, Food Rescue, Food Service, 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, 2014 and 2013

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

Basis of Presentation - 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 inter-entity 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 \$90,323 and \$90,539 for the years ended September 30, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013.

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, 2014 and 2013

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 the 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 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, 2014 and 2013.

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, 2014 and 2013

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 in 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 \$206,323 and \$267,101 for the years ending September 30, 2014 and 2013, 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, 2014 and 2013, 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 the Organization is no longer subject to income tax examinations for years prior to September 30, 2011.

Functional Allocation of Expenses - The costs of providing 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, 2014 and 2013

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 10, 2014, which is the date the consolidated financial statements were issued.

Note 2 - Receivables

Receivables are summarized as follows at September 30:

	2014	2013
Grant awards	\$ 5,151	\$ 30,767
Program service fees and other sources	218,307	276,172
Pledges receivable	-	1,250
Subtotal	223,458	308,189
Less allowance for doubtful accounts	1,000	32,000
Receivables - Net	<u>\$ 222,458</u>	<u>\$ 276,189</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, 2014 and 2013 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, 2014 and 2013

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 or liability. 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 or liability.

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, 2014

	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, 2014
Assets - Mutual funds				
Equity securities - Large blend	\$ 314,705	\$ -	\$ -	\$ 314,705
Equity securities - Small blend	109,966	-	-	109,966
Equity securities - Mid-cap blend	138,712	-	-	138,712
Fixed income - Intermediate-term bond	801,509	-	-	801,509
Fixed income - Short-term bond	239,388	-	-	239,388
Fixed income - High-yield bond	173,728	-	-	173,728
Equity securities - World blend	72,413	-	-	72,413
Total assets	<u>\$ 1,850,421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,850,421</u>
Liabilities - Interest rate swap	<u>\$ -</u>	<u>\$ 137,125</u>	<u>\$ -</u>	<u>\$ 137,125</u>

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2014 and 2013

Note 3 - Investments and Fair Value Measurements (Continued)

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
Assets - Mutual funds				
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	<u>\$ 1,930,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,930,666</u>
Liabilities - Interest rate swap	<u>\$ -</u>	<u>\$ 186,273</u>	<u>\$ -</u>	<u>\$ 186,273</u>

The fair value of the interest rate swap at September 30, 2014 and 2013 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, 2014 or 2013.

Note 4 - Inventory

Inventory consists of the following at September 30:

	2014	2013
Donated goods	\$ 284,782	\$ 249,017
Other - Purchased goods for sale	178,039	365,409
Total inventory	<u>\$ 462,821</u>	<u>\$ 614,426</u>

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2014 and 2013

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2014	2013	Depreciable Life - Years
Land	\$ 1,735,449	\$ 1,735,449	-
Buildings	11,618,376	11,535,368	7-40
Machinery and equipment	1,209,674	1,151,842	2-10
Transportation equipment	694,949	612,083	5
Furniture and fixtures	349,955	346,244	3-5
Leasehold improvements	31,531	24,493	5-20
Construction in progress	429,335	38,182	-
Total cost	16,069,269	15,443,661	
Accumulated depreciation	3,531,594	3,064,325	
Net property and equipment	<u>\$ 12,537,675</u>	<u>\$ 12,379,336</u>	

Depreciation expense was \$606,234 for 2014 and \$588,885 for 2013.

The Organization maintains two vehicles under a capital lease for a total capitalized cost of \$229,926 as of September 30, 2014 and 2013. The associated accumulated depreciation as of September 30, 2014 and 2013 is \$61,070 and \$27,749, respectively, with an associated depreciation expense for the years ended September 30, 2014 and 2013 of \$33,321 and \$27,749, respectively.

Note 6 - Long-term Debt

Long-term debt at September 30 is as follows:

	2014	2013
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 (a 1.15 percent effective rate as of September 30, 2014); secured by a letter of credit; matures October 1, 2027	\$ 2,075,000	\$ 2,175,000
Mortgage loan payable for the Alpena retail store through a financial institution requiring monthly principal payments of \$9,914 with interest charged at 3.50 percent per annum based on a year of 360 days. Final payment will be due on May 1, 2023	879,081	965,191

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2014 and 2013

Note 6 - Long-term Debt (Continued)

	<u>2014</u>	<u>2013</u>
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	\$ 1,154,743	\$ 1,263,547
Bank note payable requiring monthly principal payments of \$3,367, bearing interest of 5.50 percent per year, due in full on August 15, 2027. The note payable is collateralized by substantially all assets	371,339	390,458
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	52,911	60,154
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>169,018</u>	<u>202,258</u>
Total	4,702,092	5,056,608
Less current portion	<u>373,005</u>	<u>354,516</u>
Long-term portion	<u>\$ 4,329,087</u>	<u>\$ 4,702,092</u>

The balance of the above debt matures as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2015	\$ 373,005
2016	381,601
2017	401,019
2018	415,583
2019	432,781
Thereafter	<u>2,698,103</u>
Total	<u>\$ 4,702,092</u>

Interest expense for the years ended September 30, 2014 and 2013 was \$197,888 and \$155,945, respectively.

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2014 and 2013

Note 6 - Long-term Debt (Continued)

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 (2.41 percent at September 30, 2014). There were no borrowings outstanding at June 30, 2014 and 2013. The line expires on May 15, 2016.

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, 2014, the outstanding swap agreement had a total principal and notional amount of \$1,566,038. 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 nonoperating activities. Net realized gain on the swap totaled \$49,148 and \$64,744 in 2014 and 2013, respectively.

Subsequent to September 30, 2014, the Company borrowed \$1,480,000 from a bank at 3.60 percent per annum. The loan, which is collateralized by the warehouse property purchased with the debt, is due in monthly installments of \$14,743 through December 2, 2024.

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2014 and 2013

Note 7 - Operating Leases

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

As of September 30, 2014, 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>
2015	\$ 403,320
2016	405,701
2017	338,812
2018	308,070
2019	335,802
Thereafter	<u>999,570</u>
Total	<u>\$ 2,791,275</u>

Total rent expense on these leases for 2014 and 2013 was \$422,211 and \$369,246, 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 2014 and 2013, Goodwill made a discretionary match at a rate of 100 percent, respectively, of the employees' percentage deferral up to a maximum of 3 percent. Goodwill contributions to the plan amounted to \$81,792 and \$68,617 for the years ended September 30, 2014 and 2013, 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, 2014 and 2013, Goodwill received management fees from GWS in the amount of \$0 and \$2,000, 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

Notes to Consolidated Financial Statements September 30, 2014 and 2013

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, 2014 and 2013 and have issued our report thereon dated December 10, 2014, which contained an unmodified opinion on those consolidated 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 entities 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 10, 2014

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidating Balance Sheet September 30, 2014 (with comparative totals for September 30, 2013)

	Goodwill Industries of Northern Michigan, Inc.	G.W. Homeless Services of Northern Michigan, Inc.	Eliminating Entries	Totals	
				2014	2013
Assets					
Current Assets					
Cash and cash equivalents	\$ 431,416	\$ 27,957	\$ -	\$ 459,373	\$ 561,460
Receivables - Net	198,015	24,443	-	222,458	276,189
Investments	1,850,421	-	-	1,850,421	1,930,666
Inventory	462,821	-	-	462,821	614,426
Intercompany receivable	271,283	-	(271,283)	-	-
Prepaid expenses and other current assets	130,891	-	-	130,891	124,764
Total current assets	3,344,847	52,400	(271,283)	3,125,964	3,507,505
Property and Equipment - Net	9,100,164	3,437,511	-	12,537,675	12,379,336
Other Assets	46,841	-	-	46,841	50,604
Total assets	\$ 12,491,852	\$ 3,489,911	\$ (271,283)	\$ 15,710,480	\$ 15,937,445
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	\$ 216,512	\$ 19,795	\$ -	\$ 236,307	\$ 178,804
Intercompany payable	-	271,283	(271,283)	-	-
Current portion of long-term debt	365,762	7,243	-	373,005	354,516
Accrued liabilities and other	555,080	51,790	-	606,870	591,033
Total current liabilities	1,137,354	350,111	(271,283)	1,216,182	1,124,353
Capital Lease Obligation	169,018	-	-	169,018	202,258
Long-term Notes Payable - Net of current portion	4,114,401	45,668	-	4,160,069	4,499,834
Interest Rate Swap	137,125	-	-	137,125	186,273
Total liabilities	5,557,898	395,779	(271,283)	5,682,394	6,012,718
Net Assets - Unrestricted					
Undesignated	5,533,954	3,094,132	-	8,628,086	8,524,727
Board-designated	1,400,000	-	-	1,400,000	1,400,000
Total net assets	6,933,954	3,094,132	-	10,028,086	9,924,727
Total liabilities and net assets	\$ 12,491,852	\$ 3,489,911	\$ (271,283)	\$ 15,710,480	\$ 15,937,445

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidating Statement of Activities and Changes in Net Assets Year Ended September 30, 2014 (with comparative totals for year ended September 30, 2013)

	Goodwill Industries of Northern Michigan, Inc.	G.W. Homeless Services of Northern Michigan, Inc.	Eliminating Entries	Totals	
				2014	2013
Changes in Unrestricted Net Assets					
Revenue and support:					
Retail sales	\$ 8,390,449	\$ -	\$ -	\$ 8,390,449	\$ 7,357,616
Contributions - Donated inventory	3,090,035	1,357	-	3,091,392	2,717,721
Grants	485,341	192,830	-	678,171	1,020,004
Program service fees	727,678	308,221	-	1,035,899	1,070,309
Contributions - Other	219,266	193,650	-	412,916	474,595
Investment income	51,796	-	-	51,796	60,980
Miscellaneous income	99,899	50,924	-	150,823	196,551
Total revenue and support	13,064,464	746,982	-	13,811,446	12,897,776
Expenses:					
Program services:					
Retail operations	8,792,389	-	-	8,792,389	7,927,934
Housing services	(63,017)	1,161,820	-	1,098,803	842,203
Social enterprises	2,805,990	-	-	2,805,990	2,869,860
Total program services	11,535,362	1,161,820	-	12,697,182	11,639,997
Support services:					
Management and general	975,475	-	-	975,475	915,656
Fundraising	174,487	-	-	174,487	173,325
Total support services	1,149,962	-	-	1,149,962	1,088,981
Total expenses	12,685,324	1,161,820	-	13,847,144	12,728,978
Increase (Decrease) in Unrestricted Net Assets - Operating	379,140	(414,838)	-	(35,698)	168,798
Nonoperating Activities					
Net (losses) gains from sales of property and equipment	(8,035)	-	-	(8,035)	29,392
Net realized/unrealized gains on investment securities	97,944	-	-	97,944	96,080
Change in fair value of interest rate swap	49,148	-	-	49,148	64,744
Total nonoperating activities	139,057	-	-	139,057	190,216
Increase (Decrease) in Net Assets	518,197	(414,838)	-	103,359	359,014
Net Assets - Beginning of year	6,415,757	3,508,970	-	9,924,727	9,565,713
Net Assets - End of year	\$ 6,933,954	\$ 3,094,132	\$ -	\$ 10,028,086	\$ 9,924,727