Goodwill Industries of Greater Grand Rapids, Inc. and Goodwill Industries of Grand Rapids Foundation, Inc.

Years Ended December 31, 2016 and 2015

Consolidated Financial Statements and Supplementary Information

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GOODWILL INDUSTRIES OF GREATER GRAND RAPIDS, INC. AND GOODWILL INDUSTRIES OF GRAND RAPIDS FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

March 9, 2017

Board of Directors
Goodwill Industries of Greater Grand Rapids, Inc.
and Goodwill Industries of Grand Rapids Foundation, Inc.
Grandville, Michigan

We have audited the accompanying consolidated financial statements of ***Goodwill Industries of Greater Grand Rapids, Inc.*** and ***Goodwill Industries of Grand Rapids Foundation, Inc.*** (Michigan not-for-profit corporations) (collectively the "Organization") which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

Independent Auditors' 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 auditor 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 Organization'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 Organization'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 consolidated financial position of ***Goodwill Industries of Greater Grand Rapids, Inc.*** and ***Goodwill Industries of Grand Rapids Foundation, Inc.*** as of December 31, 2016 and 2015, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the 2016 basic 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 2016 basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2016 basic 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 2016 basic consolidated financial statements or to the 2016 basic 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 2016 basic consolidated financial statements as a whole.

Rehmann Robson LLC

GOODWILL INDUSTRIES OF GREATER GRAND RAPIDS, INC.
AND GOODWILL INDUSTRIES OF GRAND RAPIDS FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
ASSETS	**2016**	**2015**
Current assets		
Cash and cash equivalents	$ 693,819	$ 342,155
Receivables:		
Accounts receivable - less allowance for doubtful accounts of $2,500	829,580	520,792
Grants receivable	99,930	91,807
Contributions receivable	60,992	72,495
Inventories	674,614	674,732
Prepaid expenses and other assets	614,347	529,928
Total current assets	**2,973,282**	**2,231,909**
Noncurrent assets		
Investments held by the Foundation	2,429,801	2,603,404
Property and equipment, net	4,781,327	12,356,999
Total noncurrent assets	**7,211,128**	**14,960,403**
Total assets	**$ 10,184,410**	**$ 17,192,312**
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 579,959	$ 695,290
Short-term bank borrowings	500,000	600,000
Current portion of long-term debt	-	458,333
Current portion of deferred gain on sale	122,857	-
Accrued compensation	915,299	798,127
Other liabilities	161,379	158,805
Total current liabilities	**2,279,494**	**2,710,555**
Noncurrent liabilities		
Deferred gain on sale, net of current portion	1,104,162	-
Long-term debt, net of current portion	-	6,371,667
Interest rate swap liability	-	305,075
Total noncurrent liabilities	**1,104,162**	**6,676,742**
Total liabilities	**3,383,656**	**9,387,297**
Commitments and contingencies (Notes 9 and 11)		
Net assets		
Unrestricted	6,731,852	7,724,610
Temporarily restricted	68,902	80,405
Total net assets	**6,800,754**	**7,805,015**
Total liabilities and net assets	**$ 10,184,410**	**$ 17,192,312**

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

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
Support, revenue and gains			
Support:			
United Way	$ 23,017	$ 121,984	$ 145,001
Contributions	334,917	-	334,917
Donated goods	7,358,469	-	7,358,469
Net assets released from restrictions	133,487	(133,487)	-
Total support	**7,849,890**	**(11,503)**	**7,838,387**
Revenue and gains:			
Grants	864,027	-	864,027
Store and salvage sales	23,737,708	-	23,737,708
Food service sales	955,178	-	955,178
Fees for services	1,145,001	-	1,145,001
Contract revenue	1,108,287	-	1,108,287
Rents	3,000	-	3,000
Interest income	2,105	-	2,105
Dividends	47,273	-	47,273
Realized and unrealized gain on investments	119,354	-	119,354
Gain on sale leaseback of assets	55,200	-	55,200
Miscellaneous income	227,196	-	227,196
Total revenue and gains	**28,264,329**	**-**	**28,264,329**
Total support, revenue and gains	**36,114,219**	**(11,503)**	**36,102,716**
Expenses			
Program services:			
Workforce development	4,382,401	-	4,382,401
Donated goods operations and other expenses	26,719,641	-	26,719,641
Other businesses	1,927,826	-	1,927,826
Total program services	**33,029,868**	**-**	**33,029,868**
Supporting services:			
Management and general	3,799,613	-	3,799,613
Fundraising	277,496	-	277,496
Total supporting services	**4,077,109**	**-**	**4,077,109**
Total expenses	**37,106,977**	**-**	**37,106,977**
Change in net assets	**(992,758)**	**(11,503)**	**(1,004,261)**
Net assets, beginning of year	7,724,610	80,405	7,805,015
Net assets, end of year	**$ 6,731,852**	**$ 68,902**	**$ 6,800,754**

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

GOODWILL INDUSTRIES OF GREATER GRAND RAPIDS, INC.
AND GOODWILL INDUSTRIES OF GRAND RAPIDS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
Support, revenue and losses			
Support:			
United Way	$ 21,679	$ 145,000	$ 166,679
Contributions	363,414	7,910	371,324
Donated goods	7,099,977	-	7,099,977
Net assets released from restrictions	135,947	(135,947)	-
Total support	**7,621,017**	**16,963**	**7,637,980**
Revenue and losses:			
Grants	781,818	-	781,818
Store and salvage sales	23,098,346	-	23,098,346
Food service sales	929,238	-	929,238
Fees for services	1,113,545	-	1,113,545
Contract revenue	870,415	-	870,415
Rents	6,000	-	6,000
Interest income	1,029	-	1,029
Dividends	72,375	-	72,375
Realized and unrealized loss on investments	(78,619)	-	(78,619)
Loss on disposal of property and equipment	(235,328)	-	(235,328)
Miscellaneous income	158,275	-	158,275
Total revenue and losses	**26,717,094**	**-**	**26,717,094**
Total support, revenue and losses	**34,338,111**	**16,963**	**34,355,074**
Expenses			
Program services:			
Workforce development	4,705,095	-	4,705,095
Donated goods operations and other sources	25,052,479	-	25,052,479
Other businesses	1,729,075	-	1,729,075
Total program services	**31,486,649**	**-**	**31,486,649**
Supporting services:			
Management and general	3,918,478	-	3,918,478
Fundraising	175,045	-	175,045
Total supporting services	**4,093,523**	**-**	**4,093,523**
Total expenses	**35,580,172**	**-**	**35,580,172**
Change in net assets	**(1,242,061)**	**16,963**	**(1,225,098)**
Net assets, beginning of year	8,966,671	63,442	9,030,113
Net assets, end of year	**$ 7,724,610**	**$ 80,405**	**$ 7,805,015**

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

GOODWILL INDUSTRIES OF GREATER GRAND RAPIDS, INC.
AND GOODWILL INDUSTRIES OF GRAND RAPIDS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services			
	Workforce Development	Donated Goods Operations	Other Businesses	Total
Salaries and fringe benefits				
Salaries and wages	$ 2,726,462	$ 8,912,359	$ 1,237,162	$ 12,875,983
Taxes and fringe benefits	692,382	1,935,287	231,340	2,859,009
Total salaries and fringe benefits	**3,418,844**	**10,847,646**	**1,468,502**	**15,734,992**
Resale and other programs - cost of goods sold	-	8,757,074	318,900	9,075,974
Occupancy	212,993	4,079,042	56,443	4,348,478
Shipping and postage	1,220	446,366	3,100	450,686
Advertising and public relations	7,536	245,777	-	253,313
Professional fees	13,744	223,404	(43,949)	193,199
Communication	64,944	92,202	8,255	165,401
Bank service fees	-	348,504	8,053	356,557
Software process fees	56,068	28,308	918	85,294
Participant support	113,117	15,013	-	128,130
Equipment	37,072	229,215	11,420	277,707
Resale supplies	-	346,598	21,007	367,605
Travel	82,406	35,430	1,562	119,398
Other supplies	34,719	136,435	17,454	188,608
Dues and subscriptions	22,504	135,211	8,727	166,442
Printing and publication	20,526	45,173	1,885	67,584
Transportation	1,264	152,427	10,730	164,421
Meetings and professional education	39,503	5,349	55	44,907
Miscellaneous	120,500	893	-	121,393
Interest	-	-	-	-
Total expenses before depreciation	**4,246,960**	**26,170,067**	**1,893,062**	**32,310,089**
Depreciation	135,441	549,574	34,764	719,779
Total expenses	**$ 4,382,401**	**$ 26,719,641**	**$ 1,927,826**	**$ 33,029,868**

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

Supporting Services			
Management and General	Fundraising	Total	Total Expenses
$ 1,975,741	$ 76,002	$ 2,051,743	$ 14,927,726
421,713	12,539	434,252	3,293,261
2,397,454	**88,541**	**2,485,995**	**18,220,987**
-	-	-	9,075,974
238,763	124	238,887	4,587,365
4,975	135	5,110	455,796
61,041	115,388	176,429	429,742
175,860	66,319	242,179	435,378
33,594	548	34,142	199,543
54,466	132	54,598	411,155
241,170	-	241,170	326,464
-	-	-	128,130
65,369	-	65,369	343,076
1,739	-	1,739	369,344
33,158	2,633	35,791	155,189
39,375	59	39,434	228,042
20,271	-	20,271	186,713
33,875	2,837	36,712	104,296
19,026	533	19,559	183,980
39,361	247	39,608	84,515
104,142	-	104,142	225,535
112,686	-	112,686	112,686
3,676,325	**277,496**	**3,953,821**	**36,263,910**
123,288	-	123,288	843,067
$ 3,799,613	**$ 277,496**	**$ 4,077,109**	**$ 37,106,977**

GOODWILL INDUSTRIES OF GREATER GRAND RAPIDS, INC.
AND GOODWILL INDUSTRIES OF GRAND RAPIDS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services			
	Workforce Development	Donated Goods Operations	Other Businesses	Total
Salaries and fringe benefits				
Salaries and wages	$ 2,994,275	$ 8,190,148	$ 1,020,249	$ 12,204,672
Taxes and fringe benefits	763,902	1,745,943	189,464	2,699,309
Total salaries and fringe benefits	**3,758,177**	**9,936,091**	**1,209,713**	**14,903,981**
Resale and other programs - cost of goods sold	-	8,700,281	343,629	9,043,910
Occupancy	288,989	3,378,789	55,138	3,722,916
Shipping and postage	963	441,605	34	442,602
Advertising and public relations	7,683	207,956	500	216,139
Professional fees	30,956	211,847	6,151	248,954
Communication	85,220	146,430	12,094	243,744
Bank service fees	-	305,810	7,698	313,508
Software process fees	40,821	32,693	2,049	75,563
Participant support	124,980	5,916	-	130,896
Equipment	20,251	252,931	5,616	278,798
Retail supplies	-	300,851	22,490	323,341
Travel	89,691	25,934	2,957	118,582
Other supplies	30,198	121,111	11,396	162,705
Dues and subscriptions	18,542	131,452	7,766	157,760
Printing and publication	16,086	29,181	3,087	48,354
Transportation	1,720	180,729	10,847	193,296
Meetings and professional education	61,973	12,201	-	74,174
Miscellaneous	103,940	2,312	1,837	108,089
Interest	-	-	-	-
Total expenses before depreciation	**4,680,190**	**24,424,120**	**1,703,002**	**30,807,312**
Depreciation	24,905	628,359	26,073	679,337
Total expenses	**$ 4,705,095**	**$ 25,052,479**	**$ 1,729,075**	**$ 31,486,649**

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

Supporting Services			
Management and General	Fundraising	Total	Total Expenses
$ 1,938,806	$ 74,320	$ 2,013,126	$ 14,217,798
467,600	12,203	479,803	3,179,112
2,406,406	**86,523**	**2,492,929**	**17,396,910**
-	-	-	9,043,910
246,244	91	246,335	3,969,251
2,431	-	2,431	445,033
58,654	83,089	141,743	357,882
129,089	-	129,089	378,043
109,537	687	110,224	353,968
47,652	798	48,450	361,958
252,482	-	252,482	328,045
-	-	-	130,896
34,662	-	34,662	313,460
1,905	-	1,905	325,246
33,676	546	34,222	152,804
31,666	1,402	33,068	195,773
16,179	-	16,179	173,939
61,242	1,069	62,311	110,665
19,201	492	19,693	212,989
25,834	348	26,182	100,356
46,099	-	46,099	154,188
246,286	-	246,286	246,286
3,769,245	**175,045**	**3,944,290**	**34,751,602**
149,233	-	149,233	828,570
$ 3,918,478	**$ 175,045**	**$ 4,093,523**	**$ 35,580,172**

GOODWILL INDUSTRIES OF GREATER GRAND RAPIDS, INC.
AND GOODWILL INDUSTRIES OF GRAND RAPIDS FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31	
	2016	2015
Cash flows from operating activities		
Change in net assets	$ (1,004,261)	$ (1,225,098)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	843,067	828,570
Gain on sale leaseback of assets	(55,200)	-
Realized and unrealized (gain) loss on investments	(119,354)	78,619
Change in market value of interest rate swap	-	(142,343)
Amortization of bond issuance costs	-	94,414
Loss on disposal of property and equipment	-	235,328
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	(308,788)	(174,062)
Grants receivable	(8,123)	(12,007)
Contributions receivable	11,503	22,580
Inventories	118	128,962
Prepaid expenses and other assets	(84,419)	(35,303)
Accounts payable	(115,331)	189,412
Accrued compensation	117,172	(63,924)
Other liabilities	2,574	112,671
Net cash (used in) provided by operating activities	**(721,042)**	**37,819**
Cash flows from investing activities		
Purchases of property and equipment	(650,051)	(1,921,589)
Proceeds from sale of property and equipment, net of direct costs	8,664,875	-
Proceeds from sales of investments	998,458	1,100,121
Purchases of investments	(705,501)	(1,165,162)
Net cash provided by (used in) investing activities	**8,307,781**	**(1,986,630)**
Cash flows from financing activities		
Short-term bank (repayments) borrowings	(100,000)	600,000
Principal payments on long-term debt	(6,830,000)	(360,000)
Payment for interest rate swap	(305,075)	-
Proceeds from issuance of long-term debt	-	1,000,000
Net cash (used in) provided by financing activities	**(7,235,075)**	**1,240,000**
Net increase (decrease) in cash and cash equivalents	**351,664**	**(708,811)**
Cash and cash equivalents, beginning of year	342,155	1,050,966
Cash and cash equivalents, end of year	**$ 693,819**	**$ 342,155**
Supplemental disclosure of cash flows information		
Cash paid for interest	**$ 125,936**	**$ 229,454**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization and Mission

The accompanying consolidated financial statements present the consolidated financial position, change in net assets and cash flows of ***Goodwill Industries of Greater Grand Rapids, Inc***. ("Goodwill"), and the ***Goodwill Industries of Grand Rapids Foundation, Inc***. (the "Foundation"), (collectively the "Organization").

The mission of Goodwill is to assist people with disabilities, or other barriers to employment, to realize their full potential and to become self-reliant, contributing members of society. The mission will be achieved by providing excellent, innovative employment services that respond to community needs through a professional organization that treats people with dignity and respect. Goodwill provides evaluation, rehabilitation, training, and job-placement programs for persons with handicaps or other barriers to employment. Goodwill also provides employability technical training services, as well as employment and training opportunities through donated goods operations throughout the central and western parts of Michigan.

The mission of the Foundation is to solicit and receive gifts and bequests, to invest funds transferred from Goodwill on its behalf, and to make expenditures exclusively to or for the benefit of Goodwill. Since Goodwill maintains the authority to approve the appointment of the Board of Directors of the Foundation and has an economic interest in it, the financial statements of the Foundation have been consolidated with those of Goodwill. However, the Foundation is a separate organization and is not subject to creditor obligations of Goodwill. All inter-organization transactions have been eliminated in consolidation.

The significant accounting policies of the Organization are described below.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. Significant estimates include, but are not limited to, valuation of inventory and allocation of certain expenses among programs.

Basis of Presentation

The Organization has classified information regarding its financial position and activities according to three classes of net assets depending on the existence or absence of donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are not subject to donor-imposed restrictions. Temporarily restricted net assets result from donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain purpose requirements. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. The Organization had no permanently restricted net assets at December 31, 2016 and 2015.

Fair Value Measurement

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3).

For a further discussion of Fair Value Measurements, refer to Note 2 to the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, institutional money market funds and cash on hand. For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Organization maintains demand deposits in one bank, which is insured by the Federal Deposit Insurance Corporation. At times throughout the year, the cash balances may exceed insured limits. Management believes the Organization is not exposed to any significant interest rate or other financial risk on these deposits.

Accounts Receivable

The Organization extends credit in the normal course of business to government agencies and companies in various industries in the Greater Grand Rapids area. Ongoing credit evaluations of customers' financial condition are conducted and, generally, no collateral is required. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Grants Receivable

Grants receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with grantor agencies with outstanding balances and current relationships with them, it has concluded that realization of losses on balances outstanding at year-end will be immaterial and that no allowances are required.

Inventories

Inventories of used goods donated by the public are valued at a percentage of salable value in a manner designated by Goodwill International, Inc. Inventories of new goods purchased are stated at the lower of cost or market. Cost is determined by a specific valuation method.

There is a significant amount of work in bringing donated goods to salable value, and the Organization records inventory only for goods brought to their points of sale. Donated merchandise that has not reached its point of sale has not been valued and is therefore not included in inventory.

Prepaid Expenses
Payments to vendors for services that will benefit periods beyond the Organization's fiscal year end are recorded as prepaid expenses.

Investments Held by the Foundation
Investments held by the Foundation consist of mutual funds. Such investments are carried at fair value, based on quoted market prices. Investments received as donations are initially recorded at fair value on the date of receipt. Realized gains and losses on the sale of investments are determined based on the first-in, first-out method. Unrealized gains and losses are included in revenue and gains on the consolidated statement of activities.

Such investments have been classified on the consolidated statements of financial position as noncurrent based upon management's intent to hold these investments for greater than one year.

Bond Issuance Costs
Certain costs incurred with respect to the issuance of the Series 2008 Revenue and Refunding Revenue bonds were capitalized and being amortized over the life of the related debt. Amortization expense related to bond issuance costs amounted to $94,414 for the year ended December 31, 2015. Management paid the outstanding bonds through the issuance of a term note on January 4, 2016. As such, the estimated remaining useful life of the bond issuance costs was determined to be 0 years as of December 31, 2015, and the remaining unamortized balance was written off during the fiscal year.

Property and Equipment and Depreciation
Purchased property and equipment is stated at cost. Donated property and equipment is recorded at fair value at the date of donation. Donations are reported as unrestricted support unless the donor has restricted the use of the donated asset to a specific purpose. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these assets to determine whether carrying values have been impaired.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years.

Earned Grants and Contracts, Retail Sales and Deferred Gain on Sale Leaseback
A portion of the Organization's funding is received through exchange contracts in which the Organization and grantor agency each receive and sacrifice approximately equal value. Such grant revenue is recognized as earned when actual expenditures are incurred which meet the specific terms of each grant. Earned grants and contracts and fees for service revenue is recognized at the time the service is provided. Revenues from sales of goods through store and salvage sales are recognized upon purchase by the customer. Deferred gain on sale leaseback consists of unrecognized income arising from a sale leaseback transaction. The gain is recognized ratably over the term of the lease.

Promises to Give, Public Support and Contribution Revenue
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are received. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction has been satisfied or expires, temporarily restricted net assets are classified to unrestricted net assets. Donated goods require a significant amount of work to bring those goods to their points of sale. Donated goods support is recorded at the estimated salable value when these goods reach their points of sale.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense amounted to $429,742 and $357,882 for the years ended December 31, 2016 and 2015, respectively.

Income Taxes

Both Goodwill and the Foundation qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are exempt from similar state and local taxes. Although the Organization was granted an income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated business taxable income.” Such income, pursuant to the Internal Revenue Code and related regulations, includes investment income, such as interest received from sources other than directly from contributions. The Organization has been classified as not a private foundation.

The Organization has evaluated its income tax filing positions for fiscal years 2014 through 2016, the years which remain subject to examination as of December 31, 2016. The Organization concluded that there are no significant uncertain tax positions requiring recognition in the Organization’s consolidated financial statements. The Organization does not expect the total amount of unrecognized tax benefits (“UTB”) (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Organization does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2016 or 2015, and is not aware of any claims for such amounts by federal or state income tax authorities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited as detailed in the consolidated statements of functional expenses. Dedicated program support expenses consist of clerical functions associated with several different programs.

Reclassification

Certain amounts as reported in the 2015 consolidated financial statements have been reclassified to conform with the 2016 presentation.

Subsequent Events

In preparing these consolidated financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2016, the most recent consolidated statement of financial position presented herein, through March 9, 2017, the date these consolidated financial statements were available to be issued. No such significant events or transactions were identified, other than the matter disclosed in Note 5.

2. FAIR VALUE MEASUREMENTS

The Organization utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investments and the interest rate swap liability are recorded at fair value on a recurring basis.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value. For financial assets and liabilities recorded at fair value, the description includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Investments
Investment securities are recorded based on the fair value of trading on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. The Organization considers its investment securities to be Level 1 assets.

Interest Rate Swap Liability
The fair value of the interest rate swap is based on a valuation model which considers current interest rates and the present values of future fixed cash flows combined with expected floating cash flows determined by reference to forward rates considering the spot market and construction of a yield curve using observable market data. The Organization considers the interest rate swap liability to be a Level 2 liability (see Note 7).

The Organization groups its investments and interest rate swap liability at fair value into three levels (termed the fair value hierarchy), based on the markets in which the assets and liability are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability.

The preceding methods described may produce a fair value calculation that may not be reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables set forth by level, within the fair value hierarchy, the Organization's assets and liability measured at fair value on a recurring basis:

December 31, 2016	Level 1	Level 2	Level 3	Total
Investment				
Mutual funds:				
Fixed Income:				
Intermediate term bond	$ 659,503	$ -	$ -	$ 659,503
High yield bond	114,750		-	114,750
Equity:				
Large blend	1,082,674	-	-	1,082,674
Large growth	229,124	-	-	229,124
Mid cap growth	100,865	-	-	100,865
Mid cap value	42,881	-	-	42,881
Small growth	57,059	-	-	57,059
Alternative investment:				
Large blend	71,445	-	-	71,445
Small value	71,500	-	-	71,500
Total investments	**$ 2,429,801**	**$ -**	**$ -**	**$ 2,429,801**

December 31, 2015	Level 1	Level 2	Level 3	Total
Investment				
Mutual funds:				
Fixed income:				
Index bond	$ 642,330	$ -	$ -	$ 642,330
High yield bond	24,319	-	-	24,319
Equity:				
Large growth	872,252	-	-	872,252
Mid cap growth	190,666			190,666
International	438,353	-	-	438,353
Emerging markets	223,683	-	-	223,683
Commodity funds	120,167	-	-	120,167
Real estate funds	91,634	-	-	91,634
Total investments	**$ 2,603,404**	**$ -**	**$ -**	**$ 2,603,404**
Interest rate swap liability	**$ -**	**$ (305,075)**	**$ -**	**$ (305,075)**

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable represent unconditional promises to give that are received from donors. Contributions receivable of $60,992 and $72,495 as of December 31, 2016 and 2015, respectively, are expected to be collected within one year.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following assets as of December 31:

	2016	2015
Land	$ 515,421	$ 3,294,713
Construction in progress	-	599
Buildings	5,762,690	12,108,813
Equipment	3,342,696	3,273,557
Leasehold improvements	2,479,498	1,956,750
Total	12,100,305	20,634,432
Less accumulated depreciation	7,318,978	8,277,433
Property and equipment, net	**$ 4,781,327**	**$ 12,356,999**

See Note 8 for additional disclosures of sale leaseback transactions.

5. DEBT (SUBSEQUENT EVENT)

The Organization’s short-term bank borrowings consist of outstanding draws on a $1,000,000 line of credit with interest charged at LIBOR rate plus 175 basis points (1.75%) (effective rate of 2.52% at December 31, 2016). The line of credit matured on January 1, 2017, and is collateralized by all assets. Subsequent to December 31, 2016, the line of credit agreement was amended to mature on December 29, 2017, with an effective date of January 1, 2017.

On January 4, 2016, the Organization entered into a three-year term loan in the amount of $7,300,000. Proceeds of the term loan were used to pay off the Revenue and Refunding Revenue Bonds, Series 2008, the related interest rate swap liability, and the Organization's existing $600,000 line of credit. The term note was paid off during 2016 with proceeds from the sale leaseback transactions. See Note 8 for additional disclosures of sale leaseback transactions.

Long-term debt consists of the following obligation at December 31, 2015:

Revenue and refunding bonds, series 2008, repaid in 2016.	$ 5,830,000
Note payable to bank, repaid in 2016.	1,000,000
Total	6,830,000
Less current portion	458,333
Long-term debt, net of current portion	**$ 6,371,667**

Interest expense was $112,686 and $228,338 for the years ended December 31, 2016 and 2015, respectively.

6. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consist of unconditional promises to give and contribution revenue which represents funding granted for future time periods.

7. INTEREST RATE SWAP

An interest rate swap was used to manage interest rate risks associated with the Organization's debt. The Organization entered into an interest rate swap agreement on February 1, 2008, with a notional amount of $5,830,000, which expired in November 2016 when the related term loan was paid off. The notional amount reduced as principal payments were made on the term loan to the bank. The swap agreement was not designated as a hedge under generally accepted accounting principles. Accordingly, the swap agreement was recorded at fair value as a liability with the change in valuation included as a reduction to interest expense for 2015 of $142,343.

8. DEFERRED GAIN ON SALE

During 2016, the Organization sold five buildings and certain equipment with a net book value of approximately $7,376,000 for $9,118,000 and subsequently entered into a lease agreement for each property with the respective buyers. Direct costs incurred in connection with these transactions approximated $460,000. See Note 9 for additional disclosures on the lease commitment.

The gain on sale of the property of $1,282,219 is recognized in proportion to the gross rent expensed over the lease term. During the year, $55,200 of gain on sale was recognized. As of December 31, 2016, the remaining deferred gain on sale was $1,227,019.

Scheduled amortization of the gain on sale for the five years succeeding September 30, 2016, and thereafter are summarized as follows:

Year	Amount	Subtotal
2017		$ 122,857
2018	$ 123,298	
2019	125,040	
2020	125,040	
2021	128,122	
Thereafter	602,662	
		1,104,162
Total		**$ 1,227,019**

9. LEASES

The Organization leases facilities and equipment under agreements expiring at various dates through 2026. All of these non-cancelable leases have been classified as operating leases. Rental expense for all operating leases was $2,706,245 and $2,217,068 for the years ended December 31, 2016 and 2015, respectively.

The following is a schedule by years of future minimum annual lease payments required under these operating leases with initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2016:

Year	Amount
2017	$ 3,433,993
2018	3,183,114
2019	3,033,310
2020	2,809,723
2021	2,853,490
Thereafter	10,989,035
Total	**$ 26,302,665**

10. RETIREMENT PLAN

The Organization maintains a deferred compensation plan for all employees who qualify under Internal Revenue Code Section 401(k). Substantially all employees who have completed one year of service and are at least 21 years of age are eligible to participate in the plan. Contributions to the plan are made matching dollar for dollar for the first 3 percent and fifty cents on a dollar for the next 2 percent. Employer contributions to the retirement plan were $178,083 and $198,818 for the years ended December 31, 2016 and 2015, respectively.

The Organization has established an additional deferred compensation plan with one executive. The plan stipulates that in the initial year, the plan will be credited $30,000. For each year served by the executive under the current contract period and the approved extension period, the plan will be credited an additional $10,000. The contract period was through December 31, 2015, and was extended through December 31, 2018.

As of December 31, 2016, the obligation under this plan was $70,000 and is included in accrued compensation on the consolidated statement of financial position. The related expense is allocated to wages in the workforce development, donated goods operations, and management and general departments.

11. CONTINGENCIES

Under the terms of certain contracts and Federal and State grants, periodic audits are required and certain costs may be questioned as not representing appropriate expenditures under the terms of the contracts and grants. Such audits could lead to reimbursement to the contracting and grantor agencies. Organization management believes disallowances, if any, would be minimal.

12. NEW ACCOUNTING STANDARD - ASU 2016-02, LEASES (TOPIC 842)

The Financial Accounting Standards Board (FASB) has issued ASU 2016-02, *Leases (Topic 842)*, which will be effective for the Organization for the year ending December 31, 2020. This standard changes how leases are recorded in two primary ways. First, leases longer than one year will be reported on the statement of financial position. Second, lease types are being redefined into three categories: Short-term, Financing and Operating.

Any leases longer than one year, regardless of type, will be recorded on the statement of financial position. They will appear as assets for leased "right-to-use" buildings, equipment and more, with offsetting liabilities for the lease obligations. Financing leases will be recorded in the statement of activities similar to current capital leases, while operating leases will be recorded in the statement of activities on a straight-line basis, similar to current operating leases. Management is evaluating the impact of this standard on the Organization.

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SUPPLEMENTARY INFORMATION

GOODWILL INDUSTRIES OF GREATER GRAND RAPIDS, INC.
AND GOODWILL INDUSTRIES OF GRAND RAPIDS FOUNDATION, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS	Goodwill	Foundation	Total
Current assets			
Cash and cash equivalents	$ 264,601	$ 429,218	$ 693,819
Receivables:			
Accounts receivable - less allowance for doubtful accounts of $2,500	829,580		829,580
Grants receivable	99,930	-	99,930
Contributions receivable	60,992	-	60,992
Inventories	674,614	-	674,614
Prepaid expenses and other assets	614,347	-	614,347
Total current assets	**2,544,064**	**429,218**	**2,973,282**
Noncurrent assets			
Investments held by the Foundation	-	2,429,801	2,429,801
Property and equipment, net	4,781,327	-	4,781,327
Total noncurrent assets	**4,781,327**	**2,429,801**	**7,211,128**
Total assets	**$ 7,325,391**	**$ 2,859,019**	**$ 10,184,410**
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable	$ 579,959	$ -	$ 579,959
Short-term bank borrowings	500,000	-	500,000
Current portion of deferred gain on sale	122,857		122,857
Accrued compensation	915,299	-	915,299
Other liabilities	161,379	-	161,379
Total current liabilities	**2,279,494**	**-**	**2,279,494**
Noncurrent liabilities			
Deferred gain on sale, net of current portion	1,104,162	-	1,104,162
Total liabilities	**3,383,656**	**-**	**3,383,656**
Net assets			
Unrestricted	3,872,833	2,859,019	6,731,852
Temporarily restricted	68,902	-	68,902
Total net assets	**3,941,735**	**2,859,019**	**6,800,754**
Total liabilities and net assets	**$ 7,325,391**	**$ 2,859,019**	**$ 10,184,410**

See independent auditors' report on supplementary information.

GOODWILL INDUSTRIES OF GREATER GRAND RAPIDS, INC.
AND GOODWILL INDUSTRIES OF GRAND RAPIDS FOUNDATION, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Goodwill		
	Unrestricted	Temporarily Restricted	Total
Support, revenue and gains			
Support:			
United Way	$ 23,017	$ 121,984	$ 145,001
Contributions	325,317	-	325,317
Donated goods	7,358,469	-	7,358,469
Net assets released from restrictions	133,487	(133,487)	-
Total support	**7,840,290**	**(11,503)**	**7,828,787**
Revenues and gains:			
Grants	864,027	-	864,027
Store and salvage sales	23,737,708	-	23,737,708
Food service sales	955,178	-	955,178
Fees for services	1,145,001	-	1,145,001
Contract revenue	1,108,287	-	1,108,287
Rents	3,000	-	3,000
Interest income	-	-	-
Dividends	-	-	-
Realized and unrealized gain (loss) on investments	-	-	-
Gain on sale leaseback of assets	55,200	-	55,200
Miscellaneous income	227,196	-	227,196
Total revenue and gains	**28,095,597**	**-**	**28,095,597**
Total support, revenue and gains	**35,935,887**	**(11,503)**	**35,924,384**
Expenses			
Program services:			
Workforce development	4,382,401	-	4,382,401
Donated goods operations and other sources	26,719,641	-	26,719,641
Other businesses	1,927,826	-	1,927,826
Total program services	**33,029,868**	**-**	**33,029,868**
Supporting services:			
Management and general	3,781,735	-	3,781,735
Fundraising	277,496	-	277,496
Total supporting services	**4,059,231**	**-**	**4,059,231**
Total expenses	**37,089,099**	**-**	**37,089,099**
Change in net assets	**(1,153,212)**	**(11,503)**	**(1,164,715)**
Net assets, beginning of year	5,026,045	80,405	5,106,450
Net assets, end of year	**$ 3,872,833**	**$ 68,902**	**$ 3,941,735**

See independent auditors' report on supplementary information.

Foundation	Consolidated Totals		
Unrestricted	Unrestricted	Temporarily Restricted	Total
$ -	$ 23,017	$ 121,984	$ 145,001
9,600	334,917	-	334,917
-	7,358,469	-	7,358,469
-	133,487	(133,487)	-
9,600	**7,849,890**	**(11,503)**	**7,838,387**
-	864,027	-	864,027
-	23,737,708	-	23,737,708
-	955,178	-	955,178
-	1,145,001	-	1,145,001
-	1,108,287	-	1,108,287
-	3,000	-	3,000
2,105	2,105	-	2,105
47,273	47,273	-	47,273
119,354	119,354	-	119,354
-	55,200	-	55,200
-	227,196	-	227,196
168,732	**28,264,329**	**-**	**28,264,329**
178,332	**36,114,219**	**(11,503)**	**36,102,716**
-	4,382,401	-	4,382,401
-	26,719,641	-	26,719,641
-	1,927,826	-	1,927,826
-	**33,029,868**	**-**	**33,029,868**
17,878	3,799,613	-	3,799,613
-	277,496	-	277,496
17,878	**4,077,109**	**-**	**4,077,109**
17,878	**37,106,977**	**-**	**37,106,977**
160,454	**(992,758)**	**(11,503)**	**(1,004,261)**
2,698,565	7,724,610	80,405	7,805,015
$ 2,859,019	**$ 6,731,852**	**$ 68,902**	**$ 6,800,754**

GOODWILL INDUSTRIES OF GREATER GRAND RAPIDS, INC.
AND GOODWILL INDUSTRIES OF GRAND RAPIDS FOUNDATION, INC.

CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Goodwill	Foundation	Total
Cash flows from operating activities			
Change in net assets	$ (1,164,715)	$ 160,454	$ (1,004,261)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Realized and unrealized gain on investments	-	(119,354)	(119,354)
Depreciation	843,067	-	843,067
Change in market value of interest rate swap	(305,075)	-	(305,075)
Gain on sale leaseback of assets	(55,200)	-	(55,200)
Changes in operating assets and liabilities which (used) provided cash:			
Accounts receivable	(308,788)	-	(308,788)
Grants receivable	(8,123)	-	(8,123)
Contributions receivable	11,503	-	11,503
Inventories	118	-	118
Prepaid expenses and other assets	(84,419)	-	(84,419)
Accounts payable	(115,331)	-	(115,331)
Accrued compensation	117,172	-	117,172
Other liabilities	2,574	-	2,574
Net cash (used in) provided by operating activities	**(1,067,217)**	**41,100**	**(1,026,117)**
Cash flows from investing activities			
Purchases of property and equipment	(650,051)	-	(650,051)
Proceeds from sale of property and equipment	8,664,875	-	8,664,875
Proceeds from sales of investments	-	998,458	998,458
Purchases of investments	-	(705,501)	(705,501)
Net cash provided by investing activities	**8,014,824**	**292,957**	**8,307,781**
Cash flows from financing activities			
Short-term bank repayments	(100,000)	-	(100,000)
Principal payments on long-term debt	(6,830,000)	-	(6,830,000)
Net cash used in financing activities	**(6,930,000)**	**-**	**(6,930,000)**
Net increase in cash and cash equivalents	**17,607**	**334,057**	**351,664**
Cash and cash equivalents, beginning of year	246,994	95,161	342,155
Cash and cash equivalents, end of year	**$ 264,601**	**$ 429,218**	**$ 693,819**

See independent auditors' report on supplementary information.