

Goodwill Industries of Northern Michigan, Inc. and Affiliates

**Consolidated Financial Report
with Additional Information
September 30, 2016**

Goodwill Industries of Northern Michigan, Inc. and Affiliates

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Goodwill Industries of Northern Michigan, Inc. and Affiliates (Goodwill or the "Organization"), which comprise the consolidated balance sheet as of September 30, 2016 and 2015 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.

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

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 Affiliates as of September 30, 2016 and 2015 and the changes in their net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

February 15, 2017

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Consolidated Balance Sheet

	September 30, 2016	September 30, 2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 486,439	\$ 459,757
Receivables - Net (Note 2)	383,381	259,458
Investments (Note 3)	1,039,897	994,870
Inventory (Note 4)	655,569	664,617
Prepaid expenses and other current assets	141,661	146,854
Total current assets	2,706,947	2,525,556
Property and Equipment - Net (Note 5)	20,210,055	16,821,527
Escrow Deposits	303,266	-
Other Assets	141,764	44,282
Total assets	<u><u>\$ 23,362,032</u></u>	<u><u>\$ 19,391,365</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable - Carson Square	\$ 349,519	\$ 301,038
Bank line of credit (Note 6)	218,272	928,044
Current portion of long-term debt (Note 7)	4,654,515	537,024
Deferred revenue (Note 1)	22,272	-
Accrued liabilities and other	657,756	773,932
Total current liabilities	5,902,334	2,540,038
Capital Lease Obligation (Note 7)	348,665	135,778
Long-term Notes Payable - Net of current portion (Note 7)	5,646,967	6,066,480
Other Long-term Liabilities - Deferred revenue (Note 1)	568,200	-
Interest Rate Swap (Notes 3 and 7)	48,059	105,027
Total liabilities	12,514,225	8,847,323
Net Assets - Unrestricted		
Undesignated	8,936,067	8,994,042
Board designated	1,400,000	1,400,000
Noncontrolling interest - Carson Square Limited Dividend Housing Association, Limited Partnership	511,740	150,000
Total net assets	10,847,807	10,544,042
Total liabilities and net assets	<u><u>\$ 23,362,032</u></u>	<u><u>\$ 19,391,365</u></u>

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Consolidated Statement of Activities and Changes in Net Assets

	Year Ended	
	September 30, 2016	September 30, 2015
Changes in Unrestricted Net Assets		
Revenue and support:		
Retail sales	\$ 9,296,486	\$ 8,995,599
Contributions - Donated inventory	3,861,303	3,666,119
Grants	757,857	1,057,823
Program service fees	1,337,871	1,435,162
Contributions - Other	409,437	368,459
Investment income	41,546	49,020
Miscellaneous income	223,518	189,775
Total revenue and support	15,928,018	15,761,957
Expenses:		
Program services:		
Retail operations	10,749,251	10,243,691
Housing services	1,817,234	1,781,227
Food services	1,480,638	1,366,006
Jobs services	446,829	469,582
Carson Square	217,702	149,000
Total program services	14,711,654	14,009,506
Support services:		
Management and general	1,285,917	1,197,220
Fundraising	208,892	202,889
Total support services	1,494,809	1,400,109
Total expenses	16,206,463	15,409,615
(Decrease) Increase in Unrestricted Net Assets - Operating	(278,445)	352,342
Nonoperating Activities		
Net gain from sales of property and equipment	12,578	291
Net realized/unrealized gain (loss) on investment securities	52,664	(18,775)
Change in fair value of interest rate swap	56,968	32,098
Capital contribution - Carson Square	460,000	150,000
Total nonoperating activities	582,210	163,614
Increase in Unrestricted Net Assets	303,765	515,956
Net Assets - Beginning of year	10,544,042	10,028,086
Net Assets - End of year	\$ 10,847,807	\$ 10,544,042

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidated Statement of Functional Expenses Year Ended September 30, 2016

	Program Services					Supporting Services			Total Expenses	
	Retail Operations	Housing	Carson Square LDHA	Jobs	Food	Total	Management and General	Fundraising		Total
Salaries and wages	\$ 3,039,268	\$ 887,685	\$ 22,498	\$ 316,185	\$ 437,473	\$ 4,703,109	\$ 732,702	\$ 114,890	\$ 847,592	\$ 5,550,701
Payroll taxes	250,367	76,095	1,187	17,401	44,481	389,531	72,990	9,844	82,834	472,365
Employee benefits	374,715	114,742	1,487	18,065	95,750	604,759	97,953	15,922	113,875	718,634
Total salaries and related benefits	3,664,350	1,078,522	25,172	351,651	577,704	5,697,399	903,645	140,656	1,044,301	6,741,700
Cost of goods sold	3,686,981	-	-	-	638,627	4,325,608	-	-	-	4,325,608
Cost of goods sold - Purchased	568,685	-	-	-	-	568,685	-	-	-	568,685
Rent and lease expense	529,860	-	-	-	-	529,860	-	-	-	529,860
Interest	178,590	21,081	47,120	1,456	670	248,917	15,458	-	15,458	264,375
Depreciation	375,641	187,503	80,893	2,730	108,740	755,507	46,393	-	46,393	801,900
Supplies and purchases	229,921	23,062	1,767	49,438	66,861	371,049	29,700	1,630	31,330	402,379
Utilities	174,420	75,237	8,891	1,211	1,520	261,279	24,065	-	24,065	285,344
Bad debts	2,001	-	-	-	(87)	1,914	-	-	-	1,914
Direct client assistance	-	234,217	-	3,110	-	237,327	-	-	-	237,327
Advertising	147,038	14,738	-	6,266	11,511	179,553	662	3,343	4,005	183,558
Insurance	52,815	19,207	4,656	1,847	6,312	84,837	14,646	699	15,345	100,182
Dues	90,872	12,837	-	1,736	9,948	115,393	673	2,513	3,186	118,579
Garbage	90,905	5,983	-	489	230	97,607	1,830	-	1,830	99,437
Repairs and maintenance	187,929	87,608	1,358	6,193	13,537	296,625	47,009	1,893	48,902	345,527
Telephone and cable	57,704	28,643	1,965	4,290	5,358	97,960	11,008	1,251	12,259	110,219
Vehicle	46,601	6,318	-	1,195	35,763	89,877	7,649	-	7,649	97,526
Professional fees	55,701	43,127	8,412	4,879	8,741	120,860	78,074	3,103	81,177	202,037
Miscellaneous	44,164	(42,112)	37,319	7,613	(13,850)	33,134	67,913	51,959	119,872	153,006
Travel	15,680	12,940	-	975	4,595	34,190	10,403	587	10,990	45,180
Conventions and meetings	415	1,039	-	116	222	1,792	5,620	756	6,376	8,168
Office supplies	7,894	4,113	-	269	910	13,186	1,993	-	1,993	15,179
Postage	277,633	1,642	149	369	639	280,432	2,571	502	3,073	283,505
Annual bond financing	8,662	122	-	593	273	9,650	6,294	-	6,294	15,944
Service charges	254,789	1,407	-	403	2,414	259,013	10,311	-	10,311	269,324
Total functional expenses	\$ 10,749,251	\$ 1,817,234	\$ 217,702	\$ 446,829	\$ 1,480,638	\$ 14,711,654	\$ 1,285,917	\$ 208,892	\$ 1,494,809	\$ 16,206,463

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidated Statement of Functional Expenses Year Ended September 30, 2015

	Program Services						Supporting Services			Total Expenses
	Retail Operations	Housing	Carson Square LDHA	Jobs	Food	Total	Management and General	Fundraising	Total	
Salaries and wages	\$ 2,783,072	\$ 829,359	\$ -	\$ 296,238	\$ 451,052	\$ 4,359,721	\$ 614,893	\$ 118,869	\$ 733,762	\$ 5,093,483
Payroll taxes	266,741	75,212	-	25,657	42,810	410,420	79,277	12,065	91,342	501,762
Employee benefits	417,260	166,239	-	13,765	101,274	698,538	124,031	9,990	134,021	832,559
Total salaries and related benefits	3,467,073	1,070,810	-	335,660	595,136	5,468,679	818,201	140,924	959,125	6,427,804
Cost of goods sold	3,492,143	-	-	-	546,392	4,038,535	-	-	-	4,038,535
Cost of goods sold - Purchased	530,418	-	-	-	-	530,418	-	-	-	530,418
Rent and lease expense	497,394	-	-	-	-	497,394	741	-	741	498,135
Interest	180,694	18,792	-	1,683	799	201,968	14,117	-	14,117	216,085
Depreciation	367,166	188,613	-	2,815	78,426	637,020	42,208	-	42,208	679,228
Supplies and purchases	297,016	58,170	-	53,483	58,267	466,936	26,203	5,154	31,357	498,293
Utilities	178,785	79,110	-	1,383	658	259,936	25,133	-	25,133	285,069
Bad debts	1,482	59	-	-	331	1,872	283	-	283	2,155
Direct client assistance	-	205,777	-	3,601	-	209,378	273	-	273	209,651
Advertising	121,076	8,208	-	9,907	21,999	161,190	5,999	110	6,109	167,299
Insurance	40,463	25,627	-	1,416	7,271	74,777	15,912	-	15,912	90,689
Dues	85,914	10,838	-	2,436	8,958	108,146	900	906	1,806	109,952
Garbage	78,206	6,305	-	562	280	85,353	1,848	-	1,848	87,201
Repairs and maintenance	223,539	60,766	-	4,166	19,257	307,728	45,458	604	46,062	353,790
Telephone and cable	45,852	25,819	-	3,684	4,553	79,908	11,776	1,140	12,916	92,824
Vehicle	58,871	6,351	-	1,745	30,475	97,442	10,593	-	10,593	108,035
Professional fees	52,035	33,516	-	10,556	47,049	143,156	70,871	-	70,871	214,027
Miscellaneous	52,223	(37,474)	149,000	25,156	(62,435)	126,470	75,217	47,065	122,282	248,752
Travel	19,907	10,958	-	7,994	3,275	42,134	8,501	3,775	12,276	54,410
Conventions and meetings	991	544	-	857	17	2,409	3,487	2,390	5,877	8,286
Office supplies	10,205	5,076	-	1,199	1,283	17,763	2,028	-	2,028	19,791
Postage	204,314	1,904	-	234	679	207,131	2,522	821	3,343	210,474
Annual bond financing	13,686	-	-	617	292	14,595	5,148	-	5,148	19,743
Service charges	224,238	1,458	-	428	3,044	229,168	9,801	-	9,801	238,969
Total functional expenses	\$ 10,243,691	\$ 1,781,227	\$ 149,000	\$ 469,582	\$ 1,366,006	\$ 14,009,506	\$ 1,197,220	\$ 202,889	\$ 1,400,109	\$ 15,409,615

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Consolidated Statement of Cash Flows

	Year Ended	
	September 30, 2016	September 30, 2015
Cash Flows from Operating Activities		
Increase in net assets	\$ 303,765	\$ 515,956
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	797,416	675,390
Gain from sales of property and equipment	(12,578)	(291)
Bad debt expense	1,914	2,155
Amortization of debt costs	5,904	3,838
Net realized/unrealized (gain) loss on investment securities	(479,128)	18,775
Capital contribution for long-term purposes	(460,000)	(150,000)
Change in fair value of interest rate swap	(56,968)	(32,098)
Changes in operating assets and liabilities which (used) provided cash and cash equivalents:		
Receivables	(125,837)	(39,155)
Inventory	9,048	(201,796)
Prepaid expenses and other	(98,193)	(17,242)
Accounts payable	(661,291)	27,731
Accrued liabilities and other	(116,176)	167,062
Deferred revenue	590,472	-
Net cash and cash equivalents (used in) provided by operating activities	(301,652)	970,325
Cash Flows from Investing Activities		
Deposits into escrow accounts	(303,266)	-
Purchase of property and equipment	(4,185,966)	(4,008,178)
Proceeds from disposition of property and equipment	12,600	14,271
Proceeds from sales and maturities of investments	434,101	836,776
Net cash and cash equivalents used in investing activities	(4,042,531)	(3,157,131)
Cash Flows from Financing Activities		
Proceeds from debt	4,501,954	2,526,983
Payments on debt	(591,089)	(489,793)
Capital contribution	460,000	150,000
Net cash and cash equivalents provided by financing activities	4,370,865	2,187,190
Net Increase in Cash and Cash Equivalents	26,682	384
Cash and Cash Equivalents - Beginning of year	459,757	459,373
Cash and Cash Equivalents - End of year	<u>\$ 486,439</u>	<u>\$ 459,757</u>
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	<u>\$ 279,580</u>	<u>\$ 219,028</u>

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization - Goodwill Industries of Northern Michigan, Inc. and Affiliates' (Goodwill or the "Organization") 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 nine 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 - 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.
- Carson Square apartments offer permanent supportive housing to those who are homeless, victims of domestic violence, or special needs.

Jobs - Goodwill transforms lives through the power of work. Job seekers work one-on-one with Goodwill career coaches to determine their short- and long-term career goals. A plan is then established for achieving those goals, which may include hands-on training, employment preparation (such as resume building and interview coaching), job placement, and job retention skills. Goodwill's job training programs include retail and customer service, food service, and commercial cleaning.

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

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

Food - Goodwill works hard to ensure that insecure families are provided with the nutritional resources needed to perform to their fullest capacity. Hot meals, produced daily by Goodwill employees and job trainees, feed guests of the Goodwill Inn, Meals on Wheels for seniors, and individuals undergoing treatment at Addiction Treatment Services. Goodwill's Food Rescue program picks up soon-to-expire healthy food products from local grocery stores, restaurants, caterers, bakeries, etc. and distributes them to local food pantries. In the past year, 1.3 million pounds of food that otherwise would have been sent to landfills were "rescued" through this program. Through its Farm to Freezer program, Goodwill partners with local farmers to bring their produce to the public. This produce is flash frozen to preserve the nutrients and flavor of each product, allowing consumers to enjoy local fruits and vegetables any time of year.

Basis of Presentation - The accompanying consolidated financial statements include the financial statements of Goodwill Industries of Northern Michigan, Inc. (GWI), its wholly owned subsidiaries, Carson Square, LLC and Carson Square Goodwill, LLC, and G.W. Homeless Services of Northern Michigan, Inc. (GWH), an entity under common control. Carson Square Limited Dividend Housing Association Limited Partnership (Carson Square LDHALP), a variable interest entity (VIE) for which Carson Square, LLC is the primary beneficiary, has been consolidated by Carson Square, LLC and, accordingly, the assets and liabilities of Carson Square LDHALP have been included in the accompanying consolidated financial statements. Carson Square, LLC is the primary beneficiary due to having the ability and power to direct the activities of Carson Square LDHALP and the obligation to absorb the losses/benefits. The VIE had assets of \$5,889,761 and \$1,904,027 and liabilities of \$5,324,028 and \$1,700,027 at September 30, 2016 and 2015, respectively. The VIE had \$119,435 of revenue and \$217,702 of expenses for the year ended September 30, 2016. The VIE had no revenue or expense for the year ended September 30, 2015. In addition, GWI has guaranteed the debt and obligations of the general partners of Carson Square LDHALP.

In 2015, Carson Square, LLC and Carson Square Goodwill, LLC were formed. Carson Square, LLC is a general partner of Carson Square LDHALP. Carson Square Goodwill, LLC was organized as the construction development manager to oversee the development of the Carson Square apartment complex for a development fee. Carson Square, LLC and Carson Square Goodwill, LLC operate on a calendar-year basis and GWI is the sole member of both entities.

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

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

Carson Square LDHALP is organized as a limited partnership and was formed in 2015 to acquire an interest in real property located in Traverse City, Michigan and to construct and operate thereon an apartment complex (the "Project"). Carson Square LDHALP operates on a calendar-year basis. Carson Square LDHALP entered into a rental assistance agreement contract with the Michigan State Housing Development Authority (MSHDA) and the project units will be regulated as to rent charges and distributions to partners.

The Project has qualified for low-income housing tax credits pursuant to Internal Revenue Code Section 42 (Section 42), which regulates the use of the Project as to occupant eligibility and unit gross rent, among other requirements. The formal allocation of the tax credits occur upon placing the apartment complex in service, at which point the Project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the tax credits. Failure to comply with occupant eligibility and/or gross rent, or to correct noncompliance within a specified time period, could result in recapture of previously taken low-income housing tax credits plus interest. Such potential noncompliance may require an adjustment to the contributed capital by the limited partner. In addition, the Organization has executed an extended-use regulatory agreement and declaration of restrictive covenants, which requires the utilization of the Project pursuant to Section 42 for a minimum of 30 years, even if disposition of the Project by the Organization occurs.

Profits and losses from operations of the subsidiary LLCs are allocated annually between the members in accordance with the terms of the operating agreement. Gains and losses from sale, exchange, or other disposition of property shall be allocated in accordance with the operating agreements.

Carson Square LDHALP's profit and loss are allocated as listed below, other than special allocations (as defined by the partnership agreement) and certain other items which would be specifically allocated to the partners in accordance with the partnership agreement. At September 30, 2016, Carson Square LDHALP had a net loss of \$98,267. At September 30, 2015, Carson Square LDHALP did not produce any income or loss.

	<u>Profit</u>	<u>Loss</u>
General partners:		
Carson Square, LLC (managing member)	0.007 %	0.007 %
T J Acquisitions LLC	0.003	0.003
Limited partner - Great Lakes Capital Fund for Housing Limited Partnership 29	74.99	74.99
Limited partner - Great Lakes Capital Fund Michigan Community Limited Partnership XX-3	25.00	25.00

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

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

Principles of Consolidation - All significant intercompany transactions have been eliminated upon consolidation. The effect of intercompany eliminations between the VIE and the primary beneficiary are attributed to the primary beneficiary.

Affiliation with Goodwill Industries International, Inc. - 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 \$105,721 and \$97,735 for the years ended September 30, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015, which can be changed or removed by action of the board of directors at any time.

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.

Escrows and Deposits - The escrow accounts and reserves are maintained under the control of MSHDA for the benefit of the Carson Square property. The reserves are restricted to their use based on the applicable regulatory documents.

Receivables - Accounts receivable are stated at invoice amounts 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. Charges 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 Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

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 - Inventory consists of contributed goods, which are recorded at their estimated fair value as described in the contributions section of this note.

Inventory also includes other supplies that are stated at the lower of cost, on a first-in, first-out basis (FIFO) or market.

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 recognized for the years ended September 30, 2016 and 2015.

Deferred Revenue - Deferred revenue relates to the unearned portion of the developer fee related to the Carson Square project. At September 30, 2016, the deferred revenue balance was \$590,472. No deferred revenue was recorded at September 30, 2015. The deferred revenue will be recognized ratably over the useful life of the Carson Square building.

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.

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

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

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.

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 consistent with guidance provided by GII and used by GII affiliates nationwide.

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 when services are performed in accordance with contract terms with the funding agencies.

Concentration - The Carson Square LDHALP Project's sole asset is a 36-unit apartment project in Traverse City, Michigan. The Project's operations are concentrated in the real estate rental market. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, MSHDA. Such administrative directives, rules, and regulations are subject to change by an Act of Congress or an administrative change mandated by MSHDA. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Advertising Expense - Advertising expense was \$183,558 and \$167,299 for the years ended September 30, 2016 and 2015, respectively.

Federal Income Taxes - GWI and GWH are exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3) and, accordingly, no provision has been made. Carson Square, LLC was taxed as a partnership upon its creation in 2015, and there was no operating income to report for December 31, 2015. It filed an election to be taxed as a corporation effective for the year ending December 31, 2016. For the year ended September 30, 2016, there was an insignificant taxable loss and no provision. For the year ended September 30, 2015, there was no taxable income and no provision for federal income taxes has been made in the accompanying consolidated financial statements for this entity.

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

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

Carson Square Goodwill, LLC is a single-member limited liability company, is disregarded for federal income tax purposes, and any income or loss will be reported by GWI. Carson Square LDHALP is organized as a limited partnership and any income or loss will be reported by Carson Square, LLC in its corporate form. Accordingly, items of income or loss are reported by the members and partners. No provision for federal income taxes has been made in the accompanying consolidated financial statements for these entities.

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.

Reclassification - Certain reclassifications were made to amounts in the 2015 consolidated financial statements to conform to the classifications used in 2016.

Use of Estimates - The preparation of consolidated 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 consolidated 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.

Upcoming Accounting Changes - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending September 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization has not yet determined which application method it will use or the potential effects of the new standard on the consolidated financial statements, if any.

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

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

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs*. The accounting guidance requires that debt issuance costs related to a recognized debt liability be reported in the balance sheet as a direct deduction from the carrying amount of that debt liability. The updated guidance is effective on a retrospective basis for fiscal years beginning after December 15, 2015. When this standard is implemented, \$79,523 of bond issuance costs will be reclassified from other assets to be shown as a reduction of long-term debt.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending September 30, 2021, and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the consolidated financial statements has not yet been determined.

In August 2016, the Financial Accounting Standards Board issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The ASU requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending September 30, 2019 and thereafter and must be applied on a retrospective basis. The Organization is currently evaluating the impact this standard will have on the consolidated financial statements.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including February 15, 2017, which is the date the consolidated financial statements were available to be issued.

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

Note 2 - Receivables

Receivables are summarized as follows at September 30:

	2016	2015
Grant awards	\$ 90,060	\$ 6,823
Program service fees and other sources	294,321	253,635
Subtotal	384,381	260,458
Less allowance for doubtful accounts	1,000	1,000
Receivables - Net	<u>\$ 383,381</u>	<u>\$ 259,458</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 the Organization's assets and liabilities measured at fair value on a recurring basis at September 30, 2016 and 2015 and the valuation techniques used by the Organization to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Organization 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 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. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

Note 3 - Investments and Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at September 30, 2016
Assets - Mutual funds					
Equity securities (small blend)	\$ 41,361	\$ -	\$ -	\$ -	\$ 41,361
Equity securities (mid-cap blend)	62,159	-	-	-	62,159
Equity securities (large blend)	210,518	-	-	-	210,518
Equity securities (world blend)	43,440	-	-	-	43,440
Fixed income (short-term bond)	234,329	-	-	-	234,329
Fixed income (intermediate-term bond)	422,311	-	-	-	422,311
Fixed income (high-yield bond)	25,779	-	-	-	25,779
Total assets	<u>\$ 1,039,897</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,039,897</u>
Liabilities - Interest rate swap	<u>\$ -</u>	<u>\$ 48,059</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,059</u>

Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at September 30, 2015
Assets - Mutual funds					
Equity securities (small blend)	\$ 36,550	\$ -	\$ -	\$ -	\$ 36,550
Equity securities (mid-cap blend)	56,032	-	-	-	56,032
Equity securities (large blend)	185,945	-	-	-	185,945
Equity securities (world blend)	42,236	-	-	-	42,236
Fixed income (short-term bond)	172,171	-	-	-	172,171
Fixed income (intermediate-term bond)	446,714	-	-	-	446,714
Fixed income (high-yield bond)	55,222	-	-	-	55,222
Total assets	<u>\$ 994,870</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 994,870</u>
Liabilities - Interest rate swap	<u>\$ -</u>	<u>\$ 105,027</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,027</u>

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

Note 3 - Investments and Fair Value Measurements (Continued)

The fair value of the interest rate swap at September 30, 2016 and 2015 was determined primarily based on Level 2 inputs. The Organization estimates the fair value of this liability based on term and interest rate factors.

The Organization also has assets and liabilities that, under certain conditions, are subject to measurement at fair value on a nonrecurring basis. The Organization has estimated the fair values of these financial instruments based on Level 2 inputs as described above.

Short-term Financial Instruments - The fair values of short-term financial instruments, including cash equivalents, accounts receivable and payable, 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.

Note 4 - Inventory

Inventory consists of the following at September 30:

	2016	2015
Donated goods	\$ 355,933	\$ 341,210
Other - Purchased goods for sale	299,636	323,407
Total inventory	<u>\$ 655,569</u>	<u>\$ 664,617</u>

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2016	2015	Depreciable Life - Years
Land	\$ 2,430,283	\$ 2,430,283	-
Buildings	18,234,487	14,007,973	7-40
Building improvements	955,253	-	3-10
Machinery and equipment	1,602,189	1,482,710	2-10
Transportation equipment	1,086,289	707,807	5
Furniture and fixtures	616,999	469,211	3-5
Leasehold improvements	253,102	253,102	5-20
Construction in progress	-	1,675,872	-
Total cost	<u>25,178,602</u>	<u>21,026,958</u>	
Accumulated depreciation	<u>4,968,547</u>	<u>4,205,431</u>	
Net property and equipment	<u>\$ 20,210,055</u>	<u>\$ 16,821,527</u>	

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

Note 5 - Property and Equipment (Continued)

Depreciation and amortization expense was \$797,416 for 2016 and \$675,390 for 2015.

The Organization maintains five vehicles under a capital lease for a total capitalized cost of \$497,814 and \$229,926 as of September 30, 2016 and 2015. The associated accumulated depreciation as of September 30, 2016 and 2015 is \$150,076 and \$94,391, respectively, with an associated depreciation expense of \$55,685 and \$33,321 for the years ended September 30, 2016 and 2015, respectively.

Note 6 - Accounts Payable - Carson Square

At September 30, 2016 and 2015, Carson Square LDHALP accounts payable was \$218,272 and \$928,044, respectively, related to the Carson Square Project.

Note 7 - Long-term Debt

Long-term debt at September 30 is as follows:

	2016	2015
GWI 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 1.02 percent effective rate as of September 30, 2016). The loan is guaranteed by GWH, secured by a letter of credit, and matures on October 1, 2027	\$ 1,855,000	\$ 1,965,000
GWI 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. The loan is guaranteed by GWH and collateralized by the Alpena retail store building	697,462	789,838
GWI 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. The loan is guaranteed by GWH and collateralized by the Acme retail store building	924,128	1,041,595

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

Note 7 - Long-term Debt (Continued)

	<u>2016</u>	<u>2015</u>
GWI note payable through a financial institution, requiring monthly principal payments of \$3,367, bearing interest at 5.50 percent per year, due in full on August 15, 2027. The note payable is collateralized by GWI's investments	\$ 329,790	\$ 351,110
GWH note payable to Grand Traverse County Department of Public Works in installments of \$603, including interest at 4.00 percent. The note is due in December 2021 and is not collateralized	38,426	45,669
GWI vehicle capital leases, payable in monthly installments ranging from \$384 to \$1,470 (total monthly payments of \$6,069), with varying maturities through May 2023	348,665	135,778
GWI mortgage loan payable for the Charlevoix retail store through a financial institution, requiring monthly principal payments of \$3,115 with interest charged at 3.65 percent per annum based on a year of 360 days. Final payment will be due on March 6, 2025. The loan is guaranteed by GWH and is collateralized by the Charlevoix retail store building	269,989	299,026
GWI mortgage loan payable for a warehouse through a financial institution, requiring monthly principal payments of \$14,743 with interest charged at 3.60 percent per annum based on a year of 360 days. Final payment will be due on December 2, 2024. The loan is collateralized by the warehouse building	1,247,577	1,376,283
GWI mortgage loan payable for Patriot Place through a financial institution, requiring interest-only payments for the first six months. Beginning in May 2016, the note is payable in monthly principal payments of \$7,059 with interest charged at 3.73 percent per annum. The loan is collateralized by the Patriot Place property and matures in October 2020	320,062	-

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

Note 7 - Long-term Debt (Continued)

	<u>2016</u>	<u>2015</u>
Carson Square LDHALP Construction loan with maximum drawings of \$4,339,379 through a financial institution, bearing interest at LIBOR plus 3 percent (3.5 percent and 3.2 percent at September 30, 2016 and 2015, respectively), with the full amount borrowed due in full on April 8, 2017. The loan is guaranteed by GWI and is collateralized by the building	\$ 3,979,048	\$ 183,754
Carson Square LDHALP MSHDA HOME Mortgage loan for \$640,000, requiring annual principal payments equal to 50 percent of surplus funds with interest charged at 3.00 percent per annum once the apartment building is placed in service. Final payment will be due on July 8, 2065. The loan is guaranteed by GWI and is collateralized by the building	<u>640,000</u>	<u>551,229</u>
Total	10,650,147	6,739,282
Less current portion	<u>4,654,515</u>	<u>537,024</u>
Long-term portion	<u>\$ 5,995,632</u>	<u>\$ 6,202,258</u>

The long-term portion of debt above includes the capital lease obligation of \$348,665 and \$135,778 as of September 30, 2016 and 2015, respectively, and long-term notes payable of \$5,646,967 and \$6,066,480 as of September 30, 2016 and 2015, respectively.

The balance of the above debt, excluding the MSHDA HOME Mortgage loan, matures are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2017	\$ 4,654,515
2018	698,863
2019	725,226
2020	724,946
2021	667,897
Thereafter	<u>2,538,700</u>
Total	<u>\$ 10,010,147</u>

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

Note 7 - Long-term Debt (Continued)

Repayment of the MSHDA HOME Mortgage loan will be based on a cash surplus calculation annually once the apartment complex is placed in service. The entire balance of \$640,000 and \$551,229 is considered long term at September 30, 2016 and 2015, respectively.

Interest expense for the years ended September 30, 2016 and 2015 was \$264,375 and \$216,085, 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 (2.77 percent at September 30, 2016). There were no borrowings outstanding at September 30, 2016 and 2015. The line expires on October 15, 2017.

Carson Square LDHALP also entered into a MSHDA mortgage (the "mortgage") for \$798,526 in July 2015, of which \$0 was outstanding at September 30, 2016 and 2015, respectively. The mortgage will require monthly principal and interest payments, with an interest rate of 7.00 percent for 34 years and 11 months. The mortgage is subordinate to the MSHDA HOME Mortgage loan and the construction loan with the bank.

Under the terms of the Michigan Strategic Fund 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. If a drawing occurs under the letter of credit, Goodwill must repay the funds within 367 days. The existing letter of credit, in the amount of \$2,679,405 (original principal plus 45 days' interest at 9.00 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, 2016, the outstanding swap agreement had a total principal and notional amount of \$1,400,000. 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 \$56,968 and \$32,098 in 2016 and 2015, respectively.

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Notes to Consolidated Financial Statements September 30, 2016 and 2015

Note 8 - Operating Leases

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

As of September 30, 2016, future minimum lease payments required under the operating leases, which have an initial or remaining noncancelable lease term in excess of one year, are summarized as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2017	\$ 413,024
2018	355,884
2019	383,616
2020	363,691
2021	221,256
Thereafter	<u>442,512</u>
Total	<u>\$ 2,179,983</u>

Total rent expense on these leases for 2016 and 2015 was \$456,918 and \$423,242, respectively.

Note 9 - 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 2016 and 2015, Goodwill made a discretionary match at a rate of 100 percent of the employees' percentage deferral up to a maximum of 3 percent. Goodwill contributions to the plan amounted to \$76,991 and \$84,165 for the years ended September 30, 2016 and 2015, respectively.

Note 10 - Contingencies

The Organization's low-income housing tax credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility and/or unit gross rent, or to correct noncompliance within a specified time period, could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the investor limited partner.

Additional Information

Independent Auditor's Report on Additional Information

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

We have audited the consolidated financial statements of Goodwill Industries of Northern Michigan, Inc. and Affiliates as of and for the years ended September 30, 2016 and 2015 and have issued our report thereon dated February 15, 2017, which contained an unmodified opinion on those consolidated financial statements.

Our audit was 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

February 15, 2017

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Consolidating Balance Sheet September 30, 2016 (with comparative totals for September 30, 2015)

	Goodwill Industries of Northern Michigan, Inc.	G.W. Homeless Services of Northern Michigan, Inc.	Carson Square, LLC	Carson Square Goodwill, LLC	Carson Square LDHALP	Eliminating Entries	Totals	
							2016	2015
Assets								
Current Assets								
Cash and cash equivalents	\$ 402,723	\$ 9,155	\$ -	\$ -	\$ 74,561	\$ -	\$ 486,439	\$ 459,757
Receivables - Net	313,256	69,004	-	-	1,121	-	383,381	259,458
Investments	1,039,897	-	-	-	-	-	1,039,897	994,870
Inventory	655,569	-	-	-	-	-	655,569	664,617
Intercompany receivable	1,040,961	-	100	463,578	-	(1,504,639)	-	-
Prepaid expenses and other current assets	141,438	-	-	-	223	-	141,661	146,854
Total current assets	3,593,844	78,159	100	463,578	75,905	(1,504,639)	2,706,947	2,525,556
Investment in Subsidiary	463,671	-	53,993	-	-	(517,664)	-	-
Property and Equipment - Net	11,470,600	3,282,035	-	-	5,457,420	-	20,210,055	16,821,527
Escrow Deposits	-	-	-	-	303,266	-	303,266	-
Other Assets	42,763	-	-	-	99,001	-	141,764	44,282
Total assets	\$ 15,570,878	\$ 3,360,194	\$ 54,093	\$ 463,578	\$ 5,935,592	\$ (2,022,303)	\$ 23,362,032	\$ 19,391,365

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Consolidating Balance Sheet (Continued) September 30, 2016 (with comparative totals for September 30, 2015)

	Goodwill Industries of Northern Michigan, Inc.	G.W. Homeless Services of Northern Michigan, Inc.	Carson Square, LLC	Carson Square Goodwill, LLC	Carson Square LDHALP	Eliminating Entries	Totals	
							2016	2015
Liabilities and Net Assets								
Current Liabilities								
Accounts payable - Carson Square	\$ 330,226	\$ 19,293	\$ -	\$ -	\$ -	\$ -	\$ 349,519	\$ 301,038
Intercompany payable	200	986,961	54,000	-	463,478	(1,504,639)	-	-
Bank line of credit	-	-	-	-	218,272	-	218,272	928,044
Current portion of long-term debt	668,224	7,243	-	-	3,979,048	-	4,654,515	537,024
Deferred revenue	100,000	-	-	-	266	490,206	590,472	-
Accrued liabilities and other	558,545	30,416	-	-	68,795	-	657,756	773,932
Total current liabilities	1,657,195	1,043,913	54,000	-	4,729,859	(1,014,433)	6,470,534	2,540,038
Capital Lease Obligation	348,665	-	-	-	-	-	348,665	135,778
Long-term Notes Payable - Net of current portion	4,975,784	31,183	-	-	640,000	-	5,646,967	6,066,480
Interest Rate Swap	48,059	-	-	-	-	-	48,059	105,027
Total liabilities	7,029,703	1,075,096	54,000	-	5,369,859	(1,014,433)	12,514,225	8,847,323
Net Assets - Unrestricted								
Undesignated	7,141,175	2,285,098	93	463,578	565,733	(1,519,610)	8,936,067	8,994,042
Board designated	1,400,000	-	-	-	-	-	1,400,000	1,400,000
Noncontrolling interest - Carson Square Limited Dividend Housing Association Limited Partnership	-	-	-	-	-	511,740	511,740	150,000
Total net assets	8,541,175	2,285,098	93	463,578	565,733	(1,007,870)	10,847,807	10,544,042
Total liabilities and net assets	\$ 15,570,878	\$ 3,360,194	\$ 54,093	\$ 463,578	\$ 5,935,592	\$ (2,022,303)	\$ 23,362,032	\$ 19,391,365

Goodwill Industries of Northern Michigan, Inc. and Affiliates

Consolidating Statement of Activities and Changes in Net Assets Years Ended September 30, 2016 and 2015

							Totals	
	Goodwill Industries of Northern Michigan, Inc.	G.W. Homeless Services of Northern Michigan, Inc.	Carson Square, LLC	Carson Square Goodwill, LLC	Carson Square LDHALP	Eliminating Entries	2016	2015
Changes in Unrestricted Net Assets								
Retail sales	\$ 9,296,486	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,296,486	\$ 8,995,599
Contributions - Donated inventory	3,860,950	353	-	-	-	-	3,861,303	3,666,119
Grants	538,038	219,819	-	-	-	-	757,857	1,057,823
Program service fees	844,463	452,333	-	526,478	104,803	(590,206)	1,337,871	1,435,162
Contributions - Other	274,153	135,284	-	-	-	-	409,437	368,459
Investment income - Unrestricted	26,914	-	-	-	14,632	-	41,546	49,020
Miscellaneous income	177,938	45,580	-	-	-	-	223,518	189,775
Total revenue and support	15,018,942	853,369	-	526,478	119,435	(590,206)	15,928,018	15,761,957
Expenses								
Program:								
Retail operations	10,749,251	-	-	-	-	-	10,749,251	10,243,691
Housing services	641,333	1,175,901	-	-	-	-	1,817,234	1,781,227
Food services	1,508,270	(27,632)	-	-	-	-	1,480,638	1,366,006
Jobs services	447,480	(651)	-	-	-	-	446,829	469,582
Carson Square	-	-	-	100,000	217,702	(100,000)	217,702	149,000
Total program service expenses	13,346,334	1,147,618	-	100,000	217,702	(100,000)	14,711,654	14,009,506
Support services:								
Management and general	1,207,151	78,766	-	-	-	-	1,285,917	1,197,220
Fundraising	208,892	-	-	-	-	-	208,892	202,889
Total support services	1,416,043	78,766	-	-	-	-	1,494,809	1,400,109
Increase (Decrease) in Unrestricted Net Assets -								
Operating	256,565	(373,015)	-	426,478	(98,267)	(490,206)	(278,445)	352,342
Nonoperating Activities								
Net gains from sales of property and equipment	12,578	-	-	-	-	-	12,578	291
Net realized/unrealized gains (losses) on investment securities	52,688	(24)	-	-	-	-	52,664	(18,775)
Change in fair value of interest rate swap	56,968	-	-	-	-	-	56,968	32,098
Capital contribution - Carson Square	-	-	-	-	460,000.00	-	460,000	150,000
Income from subsidiaries	426,471	-	(7)	-	-	(426,464)	-	-
Total nonoperating activities	548,705	(24)	(7)	-	460,000	(426,464)	582,210	163,614
Increase (Decrease) in Net Assets	805,270	(373,039)	(7)	426,478	361,733	(916,670)	303,765	515,956
Net Assets - Beginning of year	7,735,905	2,658,137	100	37,100	204,000	(91,200)	10,544,042	10,028,086
Net Assets - End of year	\$ 8,541,175	\$ 2,285,098	\$ 93	\$ 463,578	\$ 565,733	\$ (1,007,870)	\$ 10,847,807	\$ 10,544,042