

**Goodwill Industries of
Northern Michigan, Inc.
and Subsidiary**

**Consolidated Financial Statements
and
Supplementary Information**

**For the Years Ended
September 30, 2010 and 2009**



**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

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INDEPENDENT AUDITORS' REPORT

December 29, 2010

Board of Directors
Goodwill Industries of Northern
Michigan, Inc. and Subsidiary
Traverse City, Michigan

We have audited the accompanying consolidated statements of financial position of *Goodwill Industries of Northern Michigan, Inc. and Subsidiary* ("Goodwill") as of September 30, 2010 and 2009, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of Goodwill's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of *Goodwill Industries of Northern Michigan, Inc. and Subsidiary* as of September 30, 2010 and 2009, and their consolidated changes in net assets and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30	
ASSETS	2010	2009
Current assets		
Cash and cash equivalents	\$ 512,158	\$ 578,179
Investment securities	2,546,218	1,503,841
Accounts receivable, net	277,962	316,410
Pledges receivable, net	-	7,400
Inventories	325,815	249,013
Prepaid expenses and other	65,799	63,152
Total current assets	3,727,952	2,717,995
Property and equipment, net	7,393,656	7,604,898
Total assets	\$ 11,121,608	\$ 10,322,893
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 94,990	\$ 71,001
Accrued expenses	358,368	327,193
Deferred revenue	875	28,083
Current portion of long-term debt	110,796	124,810
Total current liabilities	565,029	551,087
Long-term debt, net of current portion	2,439,640	2,550,444
Interest rate swap	238,018	161,447
Total liabilities	3,242,687	3,262,978
Net assets		
Unrestricted net assets		
Undesignated net assets	6,478,921	5,518,662
Board designated net assets	1,400,000	1,400,000
Total unrestricted net assets	7,878,921	6,918,662
Temporarily restricted net assets	-	141,253
Total net assets	7,878,921	7,059,915
Total liabilities and net assets	\$ 11,121,608	\$ 10,322,893

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

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support			
Retail sales	\$ 5,860,760	\$ -	\$ 5,860,760
Program service fees	846,670	-	846,670
Fundraising	225,113	-	225,113
Grants	748,088	-	748,088
Contributions - donated goods	2,038,792	-	2,038,792
Contributions - other	391,513	-	391,513
Interest	85,713	-	85,713
Miscellaneous	108,470	-	108,470
Net assets released from restrictions	141,253	(141,253)	-
Total revenues and other support	10,446,372	(141,253)	10,305,119
Operating expenses			
Program services			
Retail operations	5,843,282	-	5,843,282
Client services	1,592,446	-	1,592,446
Recycling	15,926	-	15,926
Food services	199,139	-	199,139
Homeless shelter	932,937	-	932,937
Total program services	8,583,730	-	8,583,730
Supporting services			
Management and general	949,956	-	949,956
Fundraising	22,776	-	22,776
Total supporting services	972,732	-	972,732
Total operating expenses	9,556,462	-	9,556,462
Revenues and other support in excess of operating expenses	889,910	(141,253)	748,657
Nonoperating activities			
Gain on sale of property and equipment	100,561	-	100,561
Net realized/unrealized gains on investment securities	142,122	-	142,122
Change in fair value of interest rate swap	(76,571)	-	(76,571)
Impairment loss on property and equipment	(95,763)	-	(95,763)
Change in net assets	960,259	(141,253)	819,006
Net assets, beginning of year	6,918,662	141,253	7,059,915
Net assets, end of year	\$ 7,878,921	\$ -	\$ 7,878,921

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

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support			
Retail sales	\$ 5,581,275	\$ -	\$ 5,581,275
Program service fees	897,522	-	897,522
Fundraising	42,029	-	42,029
Grants	611,530	159,270	770,800
Contributions - donated goods	1,898,162	-	1,898,162
Contributions - other	270,771	-	270,771
Interest	46,842	-	46,842
Miscellaneous	128,630	-	128,630
Net assets released from restrictions	115,802	(115,802)	-
Total revenues and other support	9,592,563	43,468	9,636,031
Expenses			
Program services			
Retail operations	5,436,206	-	5,436,206
Client services	1,353,745	-	1,353,745
Recycling	30,572	-	30,572
Food services	221,715	-	221,715
Homeless shelter	991,352	-	991,352
Total program services	8,033,590	-	8,033,590
Supporting services			
Management and general	847,193	-	847,193
Fundraising	18,716	-	18,716
Total supporting services	865,909	-	865,909
Total operating expenses	8,899,499	-	8,899,499
Revenues and other support in excess of operating expenses	693,064	43,468	736,532
Nonoperating activities			
Loss on sale of property and equipment	(13,816)	-	(13,816)
Net realized/unrealized gains on investment securities	205,465	-	205,465
Change in fair value of interest rate swap	(109,108)	-	(109,108)
Impairment loss on property and equipment	(140,917)	-	(140,917)
Change in net assets	634,688	43,468	678,156
Net assets, beginning of year	6,283,974	97,785	6,381,759
Net assets, end of year	\$ 6,918,662	\$ 141,253	\$ 7,059,915

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

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2010

	Program Services				
	Retail Operations	Client Services	Recycling	Food Services	Homeless Shelter
Salaries	\$ 1,665,634	\$ 792,594	\$ 12,364	\$ 136,509	\$ 330,737
Payroll taxes	177,541	56,164	9	13,089	34,612
Employee benefits	181,910	100,599	-	23,771	53,294
Total salaries and related benefits	2,025,085	949,357	12,373	173,369	418,643
Cost of goods sold	2,300,498	-	-	-	-
Rent and lease expense	290,071	5,760	-	-	-
Interest	105,507	11,353	-	-	5,586
Depreciation	148,882	30,632	-	880	149,525
Supplies and purchases	57,181	185,666	384	10,490	64,148
Utilities	107,929	7,563	-	-	48,556
Bad debts	1,938	9,251	-	-	-
Direct client assistance	-	216,930	-	-	96,639
Advertising	148,732	33,181	2,076	1,020	14,102
Insurance	40,704	6,506	-	2,361	11,165
GII dues	58,596	5,316	634	1,820	1,996
Garbage	85,623	548	-	1,069	3,615
Repairs and maintenance	88,588	12,772	63	3,960	42,402
Telephone and cable	13,908	11,312	-	972	12,965
Vehicle	52,392	5,751	-	1,141	-
Professional fees	28,803	54,981	161	799	21,549
Miscellaneous	34,924	6,695	105	799	23,302
Travel	6,553	15,983	-	-	2,303
Conventions and meetings	223	585	-	-	-
Administrative	-	-	-	-	-
Office supplies	24,469	4,822	16	129	13,913
Postage	91,498	3,862	10	33	1,440
Annual bond financing	18,257	2,185	-	-	-
Grant match	-	9,251	-	-	-
Service charges	112,921	2,184	104	297	1,088
Total functional expenses	<u>\$ 5,843,282</u>	<u>\$ 1,592,446</u>	<u>\$ 15,926</u>	<u>\$ 199,139</u>	<u>\$ 932,937</u>

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

<u>Total</u>	<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
\$ 2,937,838	\$ 567,377	\$ -	\$ 567,377	\$ 3,505,215
281,415	59,261	-	59,261	340,676
359,574	73,029	-	73,029	432,603
3,578,827	699,667	-	699,667	4,278,494
2,300,498	-	-	-	2,300,498
295,831	-	-	-	295,831
122,446	10,405	-	10,405	132,851
329,919	10,979	-	10,979	340,898
317,869	13,891	-	13,891	331,760
164,048	4,637	-	4,637	168,685
11,189	1,415	-	1,415	12,604
313,569	-	-	-	313,569
199,111	3,059	-	3,059	202,170
60,736	6,082	-	6,082	66,818
68,362	475	-	475	68,837
90,855	1,193	-	1,193	92,048
147,785	25,838	-	25,838	173,623
39,157	4,536	-	4,536	43,693
59,284	1,790	-	1,790	61,074
106,293	28,650	-	28,650	134,943
65,825	59,655	22,776	82,431	148,256
24,839	10,208	-	10,208	35,047
808	7,669	-	7,669	8,477
-	40,000	-	40,000	40,000
43,349	3,220	-	3,220	46,569
96,843	2,146	-	2,146	98,989
20,442	2,886	-	2,886	23,328
9,251	-	-	-	9,251
116,594	11,555	-	11,555	128,149
\$ 8,583,730	\$ 949,956	\$ 22,776	\$ 972,732	\$ 9,556,462

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

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2009

	Program Services				
	Retail Operations	Client Services	Recycling	Food Services	Homeless Shelter
Salaries	\$ 1,635,594	\$ 681,539	\$ 13,442	\$ 133,754	\$ 351,879
Payroll taxes	158,996	60,446	333	13,221	35,185
Employee benefits	178,877	74,052	834	20,518	44,950
Total salaries and related benefits	1,973,467	816,037	14,609	167,493	432,014
Cost of goods sold	2,075,287	-	-	-	-
Rent and lease expense	279,779	-	-	-	-
Interest	110,644	11,613	3,156	-	8,616
Depreciation	123,630	16,507	2,404	26	146,963
Supplies and purchases	75,318	71,599	3,429	25,621	94,648
Utilities	113,221	11,627	1,523	-	48,236
Bad debts	1,825	21,170	-	-	-
Direct client assistance	-	277,337	-	-	162,014
Advertising	149,775	29,307	1,875	1,226	15,097
Insurance	46,501	8,556	747	2,292	11,352
GII Dues	55,221	6,290	392	1,610	2,313
Garbage	77,940	110	1,227	1,016	3,252
Repairs and maintenance	91,335	5,500	831	4,061	33,191
Telephone and cable	13,483	8,105	53	866	11,623
Vehicle	43,937	29,948	-	113	-
Professional fees	29,961	18,914	136	665	8,840
Miscellaneous	6,139	12,239	131	16,246	(1,499)
Travel	4,760	6,345	-	-	1,147
Conventions and meetings	329	801	-	-	715
Administrative	-	-	-	-	-
Office supplies	11,715	3,532	-	197	10,975
Postage	53,532	2,492	3	51	1,386
Annual bond financing	18,063	-	-	-	-
Grant match	-	(7,167)	-	-	-
Grant expenses	-	1,184	-	-	-
Service charges	80,344	1,699	56	232	469
Total functional expenses	<u>\$ 5,436,206</u>	<u>\$ 1,353,745</u>	<u>\$ 30,572</u>	<u>\$ 221,715</u>	<u>\$ 991,352</u>

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

<u>Total</u>	<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
\$ 2,816,208	\$ 510,064	\$ -	\$ 510,064	\$ 3,326,272
268,181	65,827	-	65,827	334,008
319,231	74,496	-	74,496	393,727
3,403,620	650,387	-	650,387	4,054,007
2,075,287	-	-	-	2,075,287
279,779	-	-	-	279,779
134,029	10,775	-	10,775	144,804
289,530	11,340	-	11,340	300,870
270,615	7,761	-	7,761	278,376
174,607	5,200	-	5,200	179,807
22,995	6,246	-	6,246	29,241
439,351	-	-	-	439,351
197,280	3,113	18,716	21,829	219,109
69,448	6,094	-	6,094	75,542
65,826	1,806	-	1,806	67,632
83,545	458	-	458	84,003
134,918	10,301	-	10,301	145,219
34,130	4,073	-	4,073	38,203
73,998	1,720	-	1,720	75,718
58,516	24,232	-	24,232	82,748
33,256	16,365	-	16,365	49,621
12,252	7,305	-	7,305	19,557
1,845	3,182	-	3,182	5,027
-	56,467	-	56,467	56,467
26,419	6,535	-	6,535	32,954
57,464	2,686	-	2,686	60,150
18,063	3,332	-	3,332	21,395
(7,167)	-	-	-	(7,167)
1,184	-	-	-	1,184
82,800	7,815	-	7,815	90,615
\$ 8,033,590	\$ 847,193	\$ 18,716	\$ 865,909	\$ 8,899,499

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

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30	
	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 819,006	\$ 678,156
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	340,898	300,870
Net unrealized gain on investment securities	(97,290)	(196,272)
Net realized gain on sale of investment securities	(44,832)	(9,193)
Provision for bad debts	12,604	29,836
Change in fair value of interest rate swap	76,571	109,108
(Gain) loss on sale of property and equipment	(100,561)	13,816
Loss on impairment of property and equipment	95,763	140,917
Changes in operating assets and liabilities which provided (used) cash		
Accounts receivable	25,844	5,634
Pledges receivable	7,400	13,426
Inventories	(76,802)	(88,511)
Prepaid expenses and other	(2,647)	20,842
Accounts payable	23,989	(58,447)
Accrued expenses	31,175	19,466
Deferred revenue	(27,208)	(69,702)
Net cash provided by operating activities	1,083,910	909,946
Cash flows from investing activities		
Purchases of property and equipment	(387,839)	(260,172)
Proceeds from sale of property and equipment	262,981	16,842
Proceeds from sales of investment securities	338,822	256,324
Purchases of investment securities	(1,239,077)	(1,554,700)
Net cash used in investing activities	(1,025,113)	(1,541,706)
Cash flows used in financing activities		
Repayment of long-term debt	(124,818)	(136,218)
Net decrease in cash and cash equivalents	(66,021)	(767,978)
Cash and cash equivalents, beginning of year	578,179	1,346,157
Cash and cash equivalents, end of year	\$ 512,158	\$ 578,179

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

GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Consolidation

The consolidated financial statements of Goodwill Industries of Northern Michigan, Inc. (“GWI”) and G.W. Homeless Services of Northern Michigan, Inc. (“GWH”) are collectively referred to as (“Goodwill”).

Goodwill’s mission is to help people overcome barriers to independence. GWI and GWH are not-for-profit corporations that provide employment, training and vocational opportunities, support services and shelter for the homeless, disabled and otherwise disadvantaged individuals living in northern lower Michigan.

Goodwill serves the region’s communities through:

Retail Operations	Utilizing its four retail stores and E Commerce operations Goodwill provides on-the-job training and employment opportunities. Revenue from the sale of donated clothing and other household goods goes directly toward growing and supporting critical community-based programs and services.
Client Services	Through its programs, Social Security Income and Disability Income Appeals, Food Rescue, Street Outreach, Paperworks Studio and Workers-on-Wheels, Goodwill provides basic needs, housing support, case management, transportation and job placement services.
Recycling	Goodwill’s recycling program models sustainability and stewardship while creating on-the-job training and employment opportunities.
Food Services	Goodwill operates a commercial kitchen to provide meals for the Goodwill Inn homeless shelter and, in conjunction with Northwest Michigan Community Action Agency, Meals-on-Wheels.
Homeless Shelter	Goodwill provides temporary shelter, basic needs, family strengthening and life rebuilding services to homeless individuals and families.

GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill is a member of Goodwill Industries International, Inc. (“GII”). Members are required to remit 1% of earned unrestricted revenue to GII. Dues paid to GII totaled \$67,632 and \$55,983 for the years ended September 30, 2010 and 2009, respectively.

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 certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Significant estimates include, but are not limited to, the valuation of donated goods inventory, the carrying value of impaired property, and the fair value of investments and the interest rate swap liability.

Basis of Presentation

Goodwill reports information regarding its consolidated 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. Goodwill had no permanently restricted net assets as of September 30, 2010 and 2009.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and savings accounts held in banks and cash on hand. Goodwill maintains deposit and savings accounts in various financial institutions in Michigan which, at times, may exceed the federally insurance limits. Management believes interest rate or other financial risk associated with these deposits is not significant.

Accounts Receivable

Social security income and disability appeals (“SSDI”) accounts receivable (Note 6) are stated at the amount Goodwill expects to collect from outstanding balances and generally no collateral is required. Goodwill provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on management’s assessment of the current status of individual accounts. Balances that are still outstanding after reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes to the valuation allowance have typically not been material to the consolidated financial statements. No valuation allowance has been recorded for other categories of accounts receivable.

GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

Donated goods for resale are recorded as contributions at their estimated fair value at the date of donation. This merchandise requires the addition of program-related expenses/processes before it reaches its point of sale. For the years ended September 30, 2010 and 2009, Goodwill recognized contributed merchandise with a fair value of \$2,038,792 and \$1,898,162, respectively, as contributions revenue.

Pledges

Pledges are recognized as revenue when the donor makes a promise to give to Goodwill that is, in substance, unconditional, and collection is reasonably assured.

Inventories

Donated inventory items are recorded at fair value as determined by management using a calculation based on factors such as net sales, inventory turnover and program-related costs incurred for preparing the inventory for sale. This method is suggested and used by the affiliates of GII nationwide and is considered generally accepted by many affiliates of GII.

Other inventory consists of new products purchased for sale in Goodwill retail locations which are recorded at lower of cost or market on a first in first out method.

Investment Securities

Investment securities are reported at their fair values as determined by quoted market prices. Realized gains and losses on sales of investments are determined using the average cost method. Unrealized investment gains and losses are included in the change in unrestricted net assets.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements

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 a sale or transfer based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on the prioritizing information within a fair value hierarchy that gives the highest priority to quoted price in active markets and the lowest priority to unobservable data, such as the reporting entity's own data. Goodwill may choose to measure eligible items at fair value at specified election dates. The fair value option (i) may be applied instrument by instrument, with certain exceptions, allowing Goodwill to record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principles, (ii) is irrevocable (unless a new election date occurs), and (iii) is applied only to entire instruments and not to portions of instruments. At September 30, 2010, Goodwill has not elected the fair value option for any financial assets or liabilities.

For assets and liabilities recorded at fair value, it is Goodwill's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those financial instruments for which there is an active market. In cases where the market for a financial asset or liability is not active, Goodwill includes appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when developing fair value measurements. Fair value measurements for assets and liabilities for which limited or no observable market data exists are, accordingly, based primarily upon estimates often calculated based on the economic and competitive environment, the characteristics of the asset or liability, and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique and changes in underlying assumptions used, including discount rates and estimate of future cash flow, which could significantly affect the result of current or future values. For a further discussion of fair value measurement, refer to note 5.

Property and Equipment and Depreciation

Property and equipment are stated at cost or, in cases of donated assets, at estimated fair value on the date of gift, less accumulated depreciation. Land is stated at cost. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

Management annually reviews these assets to determine whether carrying values have been impaired. Management determined a building owned by Goodwill was impaired and, accordingly, recorded an impairment loss of \$95,763 and \$140,917 during the years ended September 30, 2010 and 2009, respectively.

GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition

Retail sales of goods are generally recognized when customers take possession of the merchandise, usually at the point of sale. Service fees are recognized as services are rendered. Grant revenues from funding agencies are recognized over the contract terms with the funding agencies.

Uncertain Tax Positions

In July 2006, the FASB issued a new standard related to Accounting for *Uncertainty in Income Taxes*, now codified as ASC Topic 740. ASC Topic 740 seeks to reduce the significant diversity in practice associated with financial statement recognition and measurement in accounting for income taxes and prescribes the recognition threshold and measurement attribute for disclosures of tax positions previously taken or expected to be taken on an income tax return. Not-for-profit entities are also within the scope of ASC Topic 740. An entity must consider whether it has engaged in activities that jeopardize its current tax exempt status with the Internal Revenue Service. Furthermore, an entity must determine whether it has any unrelated business income, which may be subject to federal and state income taxes. Goodwill adopted the provisions of ASC Topic 740 effective October 1, 2009, and, accordingly, analyzed its filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. Goodwill has also elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continues to reflect any charges for such, to the extent they arise, as a component of its management and general expenses. The adoption of ASC Topic 740 had no significant impact on Goodwill's consolidated financial statements.

Income Taxes

Goodwill is generally exempt from federal income tax pursuant to sections 501(c)(3) and 501(c)(2) of the Internal Revenue Code, respectively, except that certain activities could potentially be subject to tax on unrelated business income. No income taxes are reported in the accompanying consolidated financial statements.

Goodwill has evaluated the provisions of ASC Topic 740, *Accounting for Uncertainty in Income Taxes*. The evaluation was performed for the years 2007 through 2010, the years which remain subject to examination by major tax jurisdictions as of September 30, 2010. Goodwill concluded that there are no significant uncertain tax positions requiring recognition in accompanying consolidated financial statements. Goodwill 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 increase or decrease in the next twelve months. Goodwill does not have any amounts accrued for interest and penalties related to UTBs at September 30, 2010, and it is not aware of any claims for such amounts by federal or state income tax authorities.

GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Functional Expenses

Goodwill allocates certain operating expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated using various statistical bases.

Subsequent Events

In preparing the accompanying consolidated financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to September 30, 2010, the most recent consolidated statement of financial position presented herein, through December 29, 2010, the date these consolidated financial statements were available to be issued. No significant such events or transactions were identified.

Reclassifications

Certain amounts as reported in the 2009 consolidated financial statements have been reclassified to conform with the 2010 presentation.

2. SUPPLEMENTAL CASH FLOWS INFORMATION

Cash paid for interest amounted to \$241,051 and \$242,318 during the years ended September 30, 2010 and 2009, respectively.

3. RELATED PARTY TRANSACTIONS

Goodwill established an agreement with GW Services of Northern Michigan, Inc. ("GWS"), a related party (by virtue of common management) to provide management services on behalf of GWS. These services include management of GWS employees and maintenance of financial records. In return for these services, Goodwill received management fees from GWS in the amount of \$39,000 and \$37,000 for the years ended September 30, 2010 and 2009, respectively. These management fees are included in program service fees in the accompanying consolidated statements of activities.

4. INVESTMENT SECURITIES

All of Goodwill's investments are held through an outside financial manager. The financial manager is authorized to execute investment transactions to attempt to achieve the investment objectives established by Goodwill.

Investments are stated at fair value and consist of mutual funds. Fair values are summarized as follows at September 30:

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2010	2009
Investments at fair value		
Mutual funds		
Vanguard Short Term Investment Grade Fund	\$ 713,787	\$ 121,571
Vanguard Intermediate Term Investment Grade Fund	463,145	104,258
Vanguard High Yield Corporate Fund	351,397	126,479
Franklin Templeton Global Fund	264,026	-
Pimco Total Return Fund-Institutional	262,306	-
Vanguard Short-Term Bond Index	183,500	125,897
Vanguard 500 Index Fund	124,151	325,021
Vanguard Total International Stock Fund	66,439	362,862
Vanguard Small-Cap Index Fund	61,098	233,656
Vanguard Mid Cap Index Fund	56,369	104,097
 Total	 \$ 2,546,218	 \$ 1,503,841

5. FAIR VALUE

Goodwill utilizes fair value measurements to record fair value adjustments to its donated inventory, investments and interest rate swap, and to determine fair value disclosures. These assets and liabilities are recorded at fair value on a recurring basis.

Fair Value Hierarchy

The Financial Accounting Standards Board Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy under FASB ASC Topic 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Goodwill has the ability to access.

GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at September 30, 2010.

Mutual funds: Shares held in mutual funds are valued at the net asset value ("NAV") of shares held by Goodwill at year end. The NAV is based on the value of the underlying assets owned by Goodwill, minus its liabilities then divided by the number of shares outstanding.

Inventory: Goodwill receives donated goods which are recorded at fair value which is determined by a calculation which values donated materials using a method which estimates inventory based on factors such as net sales, inventory turnover and program-related costs incurred for preparing the inventory for sale.

Interest rate swap: The Goodwill's interest rate swap liability is stated at the current market price of the swap at September 30, 2010, as provided by a third party.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Goodwill 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.

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table sets forth by level, within the fair value hierarchy, Goodwill assets and liabilities at fair value on a recurring basis as of September 30, 2010 and 2009.

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Large blend	\$ 190,590	\$ -	\$ -	\$ 190,590
Small blend	61,098	-	-	61,098
Mid-Cap blend	56,369	-	-	56,369
Intermediate term	725,451	-	-	725,451
Short-term bond	897,287	-	-	897,287
High yield bond	351,397	-	-	351,397
World blend	264,026	-	-	264,026
Total investments at fair value	2,546,218	-	-	2,546,218
Donated inventory, at fair value	-	-	187,393	187,393
Total assets at fair value	\$ 2,546,218	\$ -	\$ 187,393	\$ 2,733,611
Interest rate swap liability, at fair value	\$ -	\$ -	\$ 238,018	\$ 238,018

The following table sets forth a summary of changes in the fair value of Goodwill's Level 3 donated inventory for the year ended September 30, 2010:

Balance, beginning of year	\$174,271
Donations and sales, net	13,122
Balance, end of year	\$187,393

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth a summary of changes in the fair value of Goodwill's Level 3 interest rate swap liability for the year ended September 30, 2010:

Balance, beginning of year	\$161,447
Unrealized losses relating to changes in value relating to instruments still held at the reporting date	<u>76,571</u>
Balance, end of year	<u><u>\$238,018</u></u>

	September 30, 2009			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Large blend	\$ 225,829	\$ -	\$ -	\$ 225,829
Small blend	126,479	-	-	126,479
Mid-Cap blend	125,897	-	-	125,897
Intermediate term	325,021	-	-	325,021
Short-term bond	466,960	-	-	466,960
High yield bond	<u>233,655</u>	<u>-</u>	<u>-</u>	<u>233,655</u>
Total investments at fair value	<u>1,503,841</u>	<u>-</u>	<u>-</u>	<u>1,503,841</u>
Donated inventory, at fair value	<u>-</u>	<u>-</u>	<u>174,271</u>	<u>174,271</u>
Total assets at fair value	<u>\$ 1,503,841</u>	<u>\$ -</u>	<u>\$ 174,271</u>	<u>\$ 1,678,112</u>
Interest rate swap liability, at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 161,447</u>	<u>\$ 161,447</u>

The following table sets forth a summary of changes in the fair value of Goodwill's Level 3 donated inventory for the year ended September 30, 2009:

Balance, beginning of year	\$134,349
Donations and sales, net	<u>39,922</u>
Balance, end of year	<u><u>\$174,271</u></u>

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth a summary of changes in the fair value of Goodwill's Level 3 interest rate swap liability for the year ended September 30, 2009:

Balance, beginning of year	\$52,339
Unrealized losses relating to changes in value relating to instruments still held at the reporting date	<u>109,108</u>
Balance, end of year	<u>\$161,447</u>

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

Goodwill has a building which is considered impaired and has been written down to fair value of \$199,000 and \$330,000 as of September 30, 2010 and 2009, respectively, based on a recent appraisal and comparable sales information. This property is considered a Level 2 asset.

6. ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows at September 30:

	<u>2010</u>	<u>2009</u>
Grant awards	\$ 122,404	\$141,816
Program service fees and other sources	139,058	140,094
SSDI receivable	<u>30,660</u>	<u>57,160</u>
Subtotal	292,122	339,070
Less allowance for doubtful accounts-SSDI	<u>14,160</u>	<u>22,660</u>
Accounts receivable, net	<u>\$ 277,962</u>	<u>\$316,410</u>

7. PLEDGES RECEIVABLE (INCLUDING RELATED PARTIES)

Pledges receivable are summarized as follows at September 30:

	<u>2010</u>	<u>2009</u>
Pledges receivable	\$ 1,795	\$ 13,195
Less allowance for uncollectible pledges	<u>1,795</u>	<u>4,000</u>
Total pledges receivable		9,195
Less present value discount	<u>-</u>	<u>1,795</u>
Pledges receivable, net	<u>\$ -</u>	<u>\$ 7,400</u>

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Gross pledges receivable are expected to be collected as follows:

Less than one year	\$ 1,795	\$ 10,945
One to five years	<u> -</u>	<u> 2,250</u>
Total	<u>\$ 1,795</u>	<u>\$ 13,195</u>

Pledges to be collected in more than a year have been discounted to present value using a discount rate of 3.77%.

Included in the pledges receivable balances are amounts due from Goodwill board members in the amount of \$3,895 as of September 30, 2009.

8. INVENTORIES

Inventories consist of the following amounts at September 30:

	<u>2010</u>	<u>2009</u>
Donated goods	\$ 187,393	\$ 174,271
Other	<u>138,422</u>	<u>74,742</u>
Total inventories	<u>\$ 325,815</u>	<u>\$ 249,013</u>

9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following at September 30:

	<u>2010</u>	<u>2009</u>
Land	\$ 943,550	\$ 1,155,589
Buildings and improvements	6,923,284	6,870,594
Machinery and equipment	844,951	613,825
Furniture and fixtures	166,335	166,335
Vehicles	114,905	100,701
Bond cost	65,569	65,569
Construction in progress and assets not yet placed in service	<u>21,641</u>	<u>26,342</u>
Total cost	9,080,235	8,998,955
Less accumulated depreciation	<u>1,686,579</u>	<u>1,394,057</u>
Property and equipment, net	<u>\$ 7,393,656</u>	<u>\$ 7,604,898</u>

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Construction in progress at September 30, 2010 relates to a construction of transitional housing which is expected to be completed during 2011 at a cost of approximately \$1.5 million.

10. LONG-TERM DEBT AND INTEREST RATE SWAP

Long-term debt consists of the following obligations at September 30:

	2010	2009
Bond issue through Michigan Strategic Fund, requiring semi-annual redemptions of \$45,000 to \$105,000 through date of maturity due on April 1 and October 1, with interest charge at the floating LIBOR rate (3.07% effective rate at September 30, 2010); secured by a letter of credit; matures October 1, 2027.	\$2,455,000	\$2,535,000
Real estate mortgage payable to a bank, requiring monthly installments of \$3,326 including interest charged at 6.816%; secured by real estate; a balloon payment is due August 6, 2012.	13,556	51,130
Note payable to Grand Traverse County DPW, requiring monthly payments of \$403 with interest charged at 4%; matures December 2021.	54,829	59,667
Note payable to Grand Traverse County DPW, requiring monthly payments of \$200 with interest charged at 4%; matures December 2021.	<u>27,051</u>	<u>29,457</u>
Total long-term debt	2,550,436	2,675,254
Less current portion	<u>110,796</u>	<u>124,810</u>
Long-term debt, net of current portion	<u>\$ 2,439,640</u>	<u>\$ 2,550,444</u>

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Scheduled principal maturities of long-term debt for each of the five years succeeding September 30, 2010, and thereafter are summarized as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 110,796
2012	97,243
2013	107,243
2014	107,243
2015	107,243
Thereafter	<u>2,020,668</u>
Total	<u>\$ 2,550,436</u>

On October 1, 2007, Goodwill entered into a 20 year forward-looking basis interest rate swap agreement for an original amount of \$2,000,000 (notional amount of \$1,852,830 at September 30, 2010). The intention of the swap was to effectively change the variable interest rate on variable rate Michigan Strategic Fund debt to a fixed rate. The effective date of the swap agreement is November 1, 2007; the stated maturity date is October 1, 2017.

The swap was issued at market terms so that it had no fair value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of each subsequent year which, because of changes in the forecasted levels of the prime interest rate, resulted in a liability for the fair value of the future net payments forecasted under the swap.

11. TEMPORARILY RESTRICTED AND BOARD DESIGNATED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of September 30, 2009:

Food Rescue	\$ 76,787
Housing First	24,966
Holiday Needs	15,000
Cooler purchase	19,500
Contribution for 2010 operations	<u>5,000</u>
Total temporarily restricted net assets	<u>\$ 141,253</u>

The Board of Directors has designated \$1,400,000 of unrestricted net assets for program expansion as of September 30, 2010 and 2009.

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. RETIREMENT PLAN

Goodwill maintains a deferred compensation 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 2010 and 2009, Goodwill made a discretionary match at a rate of 75% of the employee's percentage deferral up to a maximum of 3%. Goodwill contributions to the plan amounted to \$56,597 and \$62,501 for the years ended September 30, 2010 and 2009, respectively.

13. LEASE COMMITMENTS

Goodwill leases a building from an unrelated third party under an operating agreement that requires monthly rental payments of \$4,973 through February 2012. Commencing March of 2012, monthly rental payments increase by 3% to \$5,098 through February 2017.

Goodwill leases a building from an unrelated third party under a 15 year lease which commenced October 1, 2008. This lease requires monthly payments of \$14,013 for the first five years, \$16,127 for the next 5 years and \$18,438 for the last five years.

Goodwill leases a building from an unrelated third party under a 10 year lease which commenced in September 2010. This lease requires monthly payments of \$9,545.

Goodwill entered into a 6 year truck lease which commenced on February 2, 2009 and expires on February 28, 2015. This lease requires monthly payments of \$1,247.

Total lease expense amounted to \$295,831 and \$279,779 for the years ended September 30, 2010 and 2009, respectively.

As of September 30, 2010 future minimum lease payments required under the operating leases that have an initial or remaining non-cancellable lease term in excess of one year are summarized as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 357,336
2012	358,211
2013	358,836
2014	384,206
2015	375,477
Thereafter	<u>2,346,206</u>
Total	<u>\$4,180,272</u>

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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

December 29, 2010

Board of Directors
Goodwill Industries of Northern
Michigan, Inc. and Subsidiary
Traverse City, Michigan

Our report on our audits of the consolidated financial statements of **Goodwill Industries of Northern Michigan, Inc. and Subsidiary** appears on page 1. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information as of and for the years ended September 30, 2010 and 2009 on pages 24 to 29 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, accordingly, we express no opinion on it.



**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2010

	<u>Goodwill Industries of Northern Michigan, Inc.</u>	<u>GW Homeless Services of Northern Michigan, Inc.</u>	<u>Consolidating Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 486,007	\$ 26,151	\$ 512,158
Investment securities	2,546,218	-	2,546,218
Accounts receivable, net	254,108	261,898	516,006
Inventories	325,815	-	325,815
Prepaid expenses and other	65,315	484	65,799
Total current assets	3,677,463	288,533	3,965,996
Property and equipment, net	3,435,954	3,957,702	7,393,656
Total assets	\$ 7,113,417	\$ 4,246,235	\$ 11,359,652
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable	\$ 315,767	\$ 17,267	\$ 333,034
Accrued expenses	330,762	27,606	358,368
Deferred revenue	875	-	875
Current portion of long-term debt	90,000	20,796	110,796
Total current liabilities	737,404	65,669	803,073
Long-term debt, net of current portion	2,365,000	74,640	2,439,640
Interest rate swap	238,018	-	238,018
Total liabilities	3,340,422	140,309	3,480,731
Net assets			
Unrestricted net assets			
Undesignated net assets	2,372,995	4,105,926	6,478,921
Board designated net assets	1,400,000	-	1,400,000
Total unrestricted net assets	3,772,995	4,105,926	7,878,921
Temporarily restricted net assets	-	-	-
Total net assets	3,772,995	4,105,926	7,878,921
Total liabilities and net assets	\$ 7,113,417	\$ 4,246,235	\$ 11,359,652

<u>Inter-entity Eliminations</u>	<u>Consolidated Total</u>
\$ -	\$ 512,158
-	2,546,218
(238,044)	277,962
-	325,815
-	65,799
(238,044)	3,727,952
-	7,393,656
<u>\$ (238,044)</u>	<u>\$ 11,121,608</u>
\$ (238,044)	\$ 94,990
-	358,368
-	875
-	110,796
(238,044)	565,029
-	2,439,640
-	238,018
(238,044)	3,242,687
-	6,478,921
-	1,400,000
-	7,878,921
-	-
-	7,878,921
<u>\$ (238,044)</u>	<u>\$ 11,121,608</u>

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2009

	<u>Goodwill Industries of Northern Michigan, Inc.</u>	<u>GW Homeless Services of Northern Michigan, Inc.</u>	<u>Consolidating Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 562,509	\$ 15,670	\$ 578,179
Investment securities	1,503,841	-	1,503,841
Accounts receivable, net	248,495	74,684	323,179
Pledges receivable, net	-	7,400	7,400
Inventories	249,013	-	249,013
Prepaid expenses and other	60,678	2,474	63,152
Total current assets	2,624,536	100,228	2,724,764
Property and equipment, net	3,366,284	4,238,614	7,604,898
Total assets	\$ 5,990,820	\$ 4,338,842	\$ 10,329,662
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable	\$ 61,582	\$ 16,188	\$ 77,770
Accrued expenses	305,247	21,946	327,193
Deferred revenue	28,083	-	28,083
Current portion of long-term debt	80,000	44,810	124,810
Total current liabilities	474,912	82,944	557,856
Long-term debt, net of current portion	2,455,000	95,444	2,550,444
Interest rate swap	161,447	-	161,447
Total liabilities	3,091,359	178,388	3,269,747
Net assets			
Unrestricted net assets			
Undesignated net assets	1,358,208	4,160,454	5,518,662
Board designated net assets	1,400,000	-	1,400,000
Total unrestricted net assets	2,758,208	4,160,454	6,918,662
Temporarily restricted net assets	141,253	-	141,253
Total net assets	2,899,461	4,160,454	7,059,915
Total liabilities and net assets	\$ 5,990,820	\$ 4,338,842	\$ 10,329,662

<u>Inter-entity Eliminations</u>	<u>Consolidating Total</u>
\$ -	\$ 578,179
-	1,503,841
(6,769)	316,410
-	7,400
-	249,013
-	63,152
(6,769)	2,717,995
-	7,604,898
<u>\$ (6,769)</u>	<u>\$ 10,322,893</u>
\$ (6,769)	\$ 71,001
-	327,193
-	28,083
-	124,810
(6,769)	551,087
-	2,550,444
-	161,447
(6,769)	3,262,978
-	5,518,662
-	1,400,000
-	6,918,662
-	141,253
-	7,059,915
<u>\$ (6,769)</u>	<u>\$ 10,322,893</u>

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2010

	Goodwill Industries of Northern Michigan, Inc.	GW Homeless Services of Northern Michigan, Inc.	Consolidating Total	Inter-entity Eliminations	Consolidated Total
Revenues and other support					
Retail sales	\$ 5,860,760	\$ -	\$ 5,860,760	\$ -	\$ 5,860,760
Program service fees	649,477	197,193	846,670	-	846,670
Fundraising	-	225,113	225,113	-	225,113
Grants	624,338	123,750	748,088	-	748,088
Contributions - donated goods	1,982,565	56,227	2,038,792	-	2,038,792
Contributions - other	196,838	194,675	391,513	-	391,513
Interest	85,713	-	85,713	-	85,713
Miscellaneous	84,150	24,320	108,470	-	108,470
Total revenues and other support	9,483,841	821,278	10,305,119	-	10,305,119
Operating expenses					
Program services					
Retail operations	5,843,282	-	5,843,282	-	5,843,282
Client services	1,592,446	-	1,592,446	-	1,592,446
Recycling	15,926	-	15,926	-	15,926
Food services	199,139	-	199,139	-	199,139
Homeless Shelter	-	932,937	932,937	-	932,937
Total program services	7,650,793	932,937	8,583,730	-	8,583,730
Supporting services					
Management and general	906,526	43,430	949,956	-	949,956
Fundraising	22,776	-	22,776	-	22,776
Total supporting services	929,302	43,430	972,732	-	972,732
Total operating expenses	8,580,095	976,367	9,556,462	-	9,556,462
Revenues and other support in excess of (less than)					
operating expenses	903,746	(155,089)	748,657	-	748,657
Nonoperating activities					
Gain on sale of property and equipment	-	100,561	100,561	-	100,561
Net realized/unrealized gains on investment securities	142,122	-	142,122	-	142,122
Change in fair value of interest rate swap	(76,571)	-	(76,571)	-	(76,571)
Impairment loss on property and equipment	(95,763)	-	(95,763)	-	(95,763)
Increase (decrease) in net assets	873,534	(54,528)	819,006	-	819,006
Net assets, beginning of year	2,899,461	4,160,454	7,059,915	-	7,059,915
Net assets, end of year	\$ 3,772,995	\$ 4,105,926	\$ 7,878,921	\$ -	\$ 7,878,921

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2009

	Goodwill Industries of Northern Michigan, Inc.	GW Homeless Services of Northern Michigan, Inc.	Consolidating Total	Inter-entity Eliminations	Consolidated Total
Revenues and other support					
Retail sales	\$ 5,581,275	\$ -	\$ 5,581,275	\$ -	\$ 5,581,275
Program service fees	676,350	221,172	897,522	-	897,522
Fundraising	-	42,029	42,029	-	42,029
Grants	513,652	97,878	611,530	-	611,530
Contributions - donated goods	1,812,413	85,749	1,898,162	-	1,898,162
Contributions - other	186,319	479,951	666,270	(236,229)	430,041
Interest	46,759	83	46,842	-	46,842
Miscellaneous	112,382	16,248	128,630	-	128,630
Total revenues and other support	8,929,150	943,110	9,872,260	(236,229)	9,636,031
Operating expenses					
Program services					
Retail operations	5,436,206	-	5,436,206	-	5,436,206
Client services	1,353,745	-	1,353,745	-	1,353,745
Recycling	30,572	-	30,572	-	30,572
Food services	221,715	-	221,715	-	221,715
Homeless shelter	236,229	991,352	1,227,581	(236,229)	991,352
Total program services	7,278,467	991,352	8,269,819	(236,229)	8,033,590
Supporting services					
Management and general	783,376	63,817	847,193	-	847,193
Fundraising	18,716	-	18,716	-	18,716
Total supporting services	802,092	63,817	865,909	-	865,909
Total operating expenses	8,080,559	1,055,169	9,135,728	(236,229)	8,899,499
Revenues and other support in excess of operating expenses	848,591	(112,059)	736,532	-	736,532
Nonoperating activities					
Loss on sale of property and equipment	(1,006)	(12,810)	(13,816)	-	(13,816)
Net realized/unrealized gains on investment securities	205,465	-	205,465	-	205,465
Change in fair value of interest rate swap	(109,108)	-	(109,108)	-	(109,108)
Impairment loss on property and equipment	(140,917)	-	(140,917)	-	(140,917)
Increase (decrease) in net assets	803,025	(124,869)	678,156	-	678,156
Net assets, beginning of year	2,096,436	4,285,323	6,381,759	-	6,381,759
Net assets, end of year	\$ 2,899,461	\$ 4,160,454	\$ 7,059,915	\$ -	\$ 7,059,915

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2010

	Program Services				
	Goodwill Industries of Northern Michigan, Inc.				GW Homeless Services of Northern Michigan, Inc.
	Retail Operations	Client Services	Recycling	Food Services	Homeless Shelter
Salaries	\$ 1,665,634	\$ 792,594	\$ 12,364	\$ 136,509	\$ 330,737
Payroll taxes	177,541	56,164	9	13,089	34,612
Employee benefits	181,910	100,599	-	23,771	53,294
Total salaries and related benefits	2,025,085	949,357	12,373	173,369	418,643
Cost of goods sold	2,300,498	-	-	-	-
Rent and lease expense	290,071	5,760	-	-	-
Interest	105,507	11,353	-	-	5,586
Depreciation	148,882	30,632	-	880	149,525
Supplies and purchases	57,181	185,666	384	10,490	64,148
Utilities	107,929	7,563	-	-	48,556
Bad debts	1,938	9,251	-	-	-
Direct client assistance	-	216,930	-	-	96,639
Advertising	148,732	33,181	2,076	1,020	14,102
Insurance	40,704	6,506	-	2,361	11,165
GII Dues	58,596	5,316	634	1,820	1,996
Garbage	85,623	548	-	1,069	3,615
Repairs and maintenance	88,588	12,772	63	3,960	42,402
Telephone and cable	13,908	11,312	-	972	12,965
Vehicle	52,392	5,751	-	1,141	-
Professional fees	28,803	54,981	161	799	21,549
Miscellaneous	34,924	6,695	105	799	23,302
Travel	6,553	15,983	-	-	2,303
Conventions and meetings	223	585	-	-	-
Administrative	-	-	-	-	-
Office supplies	24,469	4,822	16	129	13,913
Postage	91,498	3,862	10	33	1,440
Annual bond financing	18,257	2,185	-	-	-
Grant match	-	9,251	-	-	-
Service charges	112,921	2,184	104	297	1,088
Total functional expenses	\$ 5,843,282	\$ 1,592,446	\$ 15,926	\$ 199,139	\$ 932,937

Supporting Services					
Inter-entity Eliminations	Total Homeless Shelter	Goodwill Industries of Northern Michigan, Inc. Management and General	GW Homeless Services of Northern Michigan, Inc. Managemet and General	Total Management and General	Goodwill Industries of Northern Michigan, Inc. Fundraising
\$ -	\$ 330,737	\$ 567,377	\$ -	\$ 567,377	\$ -
-	34,612	59,261	-	59,261	-
-	53,294	73,029	-	73,029	-
-	418,643	699,667	-	699,667	-
-	-	-	-	-	-
-	-	-	-	-	-
-	5,586	10,405	-	10,405	-
-	149,525	10,979	-	10,979	-
-	64,148	13,891	-	13,891	-
-	48,556	4,637	-	4,637	-
-	-	(2,000)	3,415	1,415	-
-	96,639	-	-	-	-
-	14,102	3,059	-	3,059	-
-	11,165	6,082	-	6,082	-
-	1,996	475	-	475	-
-	3,615	1,193	-	1,193	-
-	42,402	25,838	-	25,838	-
-	12,965	4,536	-	4,536	-
-	-	1,790	-	1,790	-
-	21,549	28,650	-	28,650	-
-	23,302	59,655	-	59,655	22,776
-	2,303	10,208	-	10,208	-
-	-	7,669	-	7,669	-
-	-	-	40,000	40,000	-
-	13,913	3,220	-	3,220	-
-	1,440	2,143	3	2,146	-
-	-	2,886	-	2,886	-
-	-	-	-	-	-
-	1,088	11,543	12	11,555	-
\$ -	\$ 932,937	\$ 906,526	\$ 43,430	\$ 949,956	\$ 22,776

**GOODWILL INDUSTRIES OF NORTHERN MICHIGAN, INC.
AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2009

	Program Services					GW Homeless Services of Northern Michigan, Inc.
	Goodwill Industries of Northern Michigan, Inc.					
	Retail Operations	Client Services	Recycling	Food Services	Homeless Shelter	
Salaries	\$ 1,635,594	\$ 681,539	\$ 13,442	\$ 133,754	\$ -	\$ 351,879
Payroll taxes	158,996	60,446	333	13,221	-	35,185
Employee benefits	178,877	74,052	834	20,518	-	44,950
Total salaries and related benefits	1,973,467	816,037	14,609	167,493	-	432,014
Cost of goods sold	2,075,287	-	-	-	-	-
Rent and lease expense	279,779	-	-	-	-	-
Interest	110,644	11,613	3,156	-	-	8,616
Depreciation	123,630	16,507	2,404	26	-	146,963
Supplies and purchases	75,318	71,599	3,429	25,621	-	94,648
Utilities	113,221	11,627	1,523	-	-	48,236
Bad debts	1,825	21,170	-	-	-	-
Direct client assistance	-	277,337	-	-	-	162,014
Advertising	149,775	29,307	1,875	1,226	-	15,097
Insurance	46,501	8,556	747	2,292	-	11,352
GII Dues	55,221	6,290	392	1,610	-	2,313
Garbage	77,940	110	1,227	1,016	-	3,252
Repairs and maintenance	91,335	5,500	831	4,061	-	33,191
Telephone and cable	13,483	8,105	53	866	-	11,623
Vehicle	43,937	29,948	-	113	-	-
Professional fees	29,961	18,914	136	665	-	8,840
Miscellaneous	6,139	12,239	131	16,246	-	(1,499)
Travel	4,760	6,345	-	-	-	1,147
Conventions and meetings	329	801	-	-	-	715
Administrative	-	-	-	-	236,229	-
Office supplies	11,715	3,532	-	197	-	10,975
Postage	53,532	1,184	3	51	-	1,386
Annual bond financing	18,063	2,492	-	-	-	-
Grant Match	-	(7,167)	-	-	-	-
Service charges	80,344	1,699	56	232	-	469
Total functional expenses	\$ 5,436,206	\$ 1,353,745	\$ 30,572	\$ 221,715	\$ 236,229	\$ 991,352

Supporting Services					
Inter-entity Eliminations	Total Homeless Shelter	Goodwill Industries of Northern Michigan, Inc. Management and General	GW Homeless Services of Northern Michigan, Inc. Managemet and General	Total Management and General	GW Homeless Services of Northern Michigan, Inc. Fundraising
\$ -	\$ 351,879	\$ 510,064	\$ -	\$ 510,064	\$ -
-	35,185	65,827	-	65,827	-
-	44,950	74,496	-	74,496	-
-	432,014	650,387	-	650,387	-
-	-	-	-	-	-
-	-	-	-	-	-
-	8,616	10,775	-	10,775	-
-	146,963	11,340	-	11,340	-
-	94,648	7,761	-	7,761	-
-	48,236	5,200	-	5,200	-
-	-	-	6,246	6,246	-
-	162,014	-	-	-	-
-	15,097	3,113	-	3,113	18,716
-	11,352	6,094	-	6,094	-
-	2,313	1,806	-	1,806	-
-	3,252	458	-	458	-
-	33,191	10,301	-	10,301	-
-	11,623	4,073	-	4,073	-
-	-	1,720	-	1,720	-
-	8,840	24,232	-	24,232	-
-	(1,499)	16,365	-	16,365	-
-	1,147	7,305	-	7,305	-
-	715	3,182	-	3,182	-
(236,229)	-	-	56,467	56,467	-
-	10,975	6,041	494	6,535	-
-	1,386	2,666	20	2,686	-
-	-	3,332	-	3,332	-
-	-	-	-	-	-
-	469	7,225	590	7,815	-
\$ (236,229)	\$ 991,352	\$ 783,376	\$ 63,817	\$ 847,193	\$ 18,716