

Goodwill Industries of Northern Michigan, Inc. and Affiliate

**Consolidated Financial Report
with Additional Information
September 30, 2011**

Goodwill Industries of Northern Michigan, Inc. and Affiliate

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Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheet of Goodwill Industries of Northern Michigan, Inc. and Affiliate as of September 30, 2011 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Goodwill Industries of Northern Michigan, Inc. and Affiliate as of September 30, 2010 were audited by other auditors, whose report dated December 29, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2011 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Goodwill Industries of Northern Michigan, Inc. and Affiliate at September 30, 2011 and the consolidated changes in net asset, functional expenses, and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011 on our consideration of Goodwill Industries of Northern Michigan, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

December 13, 2011

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidated Balance Sheet

| | September 30, 2011 | September 30, 2010 |
|--|-----------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,079,984 | \$ 512,158 |
| Receivables - Net (Note 2) | 516,103 | 277,962 |
| Investments (Note 3) | 2,416,119 | 2,546,218 |
| Inventory (Note 4) | 345,526 | 325,815 |
| Prepaid expenses and other current assets | 97,116 | 65,799 |
| Total current assets | 4,454,848 | 3,727,952 |
| Property and Equipment - Net (Note 5) | 8,736,942 | 7,337,922 |
| Other Assets | 52,455 | 55,734 |
| Total assets | \$ 13,244,245 | \$ 11,121,608 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 63,728 | \$ 94,990 |
| Current portion of long-term debt (Note 6) | 97,243 | 110,796 |
| Accrued liabilities and other | 498,440 | 359,243 |
| Total current liabilities | 659,411 | 565,029 |
| Long-term Notes Payable (Note 6) | 3,373,080 | 2,439,640 |
| Interest Rate Swap (Note 6) | 241,945 | 238,018 |
| Total liabilities | 4,274,436 | 3,242,687 |
| Net Assets - Unrestricted | | |
| Undesignated | 7,569,809 | 6,478,921 |
| Board designated | 1,400,000 | 1,400,000 |
| Total net assets | 8,969,809 | 7,878,921 |
| Total liabilities and net assets | \$ 13,244,245 | \$ 11,121,608 |

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidated Statement of Activities and Changes in Net Assets

| | Year Ended | |
|---|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 |
| Changes in Unrestricted Net Assets | | |
| Revenue and support: | | |
| Retail sales | \$ 6,155,747 | \$ 5,860,760 |
| Contributions - Donated inventory | 2,364,832 | 2,038,792 |
| Grants | 1,676,675 | 717,315 |
| Program service fees | 1,143,395 | 877,443 |
| Contributions - Other | 445,539 | 591,513 |
| Fundraising | 14,824 | 25,113 |
| Investment income - Unrestricted | 90,057 | 85,713 |
| Miscellaneous income | 53,411 | 108,470 |
| Total revenue and support | 11,944,480 | 10,305,119 |
| Net assets released from restrictions | - | 141,253 |
| Total unrestricted revenue, support, and net assets released from restrictions | 11,944,480 | 10,446,372 |
| Expenses: | | |
| Program services: | | |
| Retail operations | 6,613,795 | 5,843,282 |
| Housing services | 997,124 | 932,937 |
| Social enterprises | 2,049,708 | 1,807,511 |
| Total program services | 9,660,627 | 8,583,730 |
| Support services: | | |
| Management and general | 981,484 | 949,956 |
| Fundraising | 4,547 | 22,776 |
| Total support services | 986,031 | 972,732 |
| Total expenses | 10,646,658 | 9,556,462 |
| Increase in Unrestricted Net Assets - Operating | 1,297,822 | 889,910 |
| Nonoperating Activities | | |
| Net gains from sales of property and equipment | 524 | 100,561 |
| Net realized/unrealized (loss) gains on investment securities | (107,391) | 142,122 |
| Change in fair value of interest rate swap | (3,927) | (76,571) |
| Impairment loss on property and equipment | (96,140) | (95,763) |
| Total nonoperating activities | (206,934) | 70,349 |
| Increase in Unrestricted Net Assets | 1,090,888 | 960,259 |
| Changes in Temporarily Restricted Net Assets - Net assets released from restrictions | - | (141,253) |
| Increase in Net Assets | 1,090,888 | 819,006 |
| Net Assets - Beginning of year | 7,878,921 | 7,059,915 |
| Net Assets - End of year | \$ 8,969,809 | \$ 7,878,921 |

Goodwill Industries of Northern Michigan, Inc. and Subsidiary

Consolidated Statement of Functional Expenses Year Ended September 30, 2011

| | Program Services | | | | Support Services | | | Total Expenses |
|--|-------------------|------------------|--------------------|--------------|------------------------|-------------|------------|----------------|
| | Retail Operations | Housing Services | Social Enterprises | Total | Management and General | Fundraising | Total | |
| Salaries and wages | \$ 1,784,506 | \$ 349,142 | \$ 1,080,544 | \$ 3,214,192 | \$ 608,870 | \$ - | \$ 608,870 | \$ 3,823,062 |
| Payroll taxes | 169,947 | 34,520 | 81,187 | 285,654 | 61,884 | - | 61,884 | 347,538 |
| Employee benefits | 211,572 | 55,745 | 150,549 | 417,866 | 86,119 | - | 86,119 | 503,985 |
| Total salaries and related benefits | 2,166,025 | 439,407 | 1,312,280 | 3,917,712 | 756,873 | - | 756,873 | 4,674,585 |
| Cost of goods sold | 2,655,347 | - | - | 2,655,347 | - | - | - | 2,655,347 |
| Rent | 439,859 | - | 2,302 | 442,161 | - | - | - | 442,161 |
| Interest | 96,891 | 3,253 | 7,824 | 107,968 | 11,298 | - | 11,298 | 119,266 |
| Depreciation and amortization | 197,643 | 150,845 | 35,513 | 384,001 | 12,465 | - | 12,465 | 396,466 |
| Supplies | 76,799 | 57,087 | 249,530 | 383,416 | (36,867) | - | (36,867) | 346,549 |
| Utilities | 126,169 | 51,629 | 13,381 | 191,179 | 6,215 | - | 6,215 | 197,394 |
| Bad debts | 4,580 | - | 12,672 | 17,252 | - | - | - | 17,252 |
| Direct client assistance | - | 82,369 | 179,217 | 261,586 | - | - | - | 261,586 |
| Advertising | 162,533 | 13,223 | 59,884 | 235,640 | 6,581 | - | 6,581 | 242,221 |
| Insurance | 38,446 | 9,499 | 16,583 | 64,528 | 2,724 | - | 2,724 | 67,252 |
| Goodwill Industries International dues | 60,141 | 2,519 | 9,024 | 71,684 | 1,974 | - | 1,974 | 73,658 |
| Garbage | 99,465 | 3,059 | 1,724 | 104,248 | 1,113 | - | 1,113 | 105,361 |
| Repairs and maintenance | 88,630 | 48,713 | 11,976 | 149,319 | 80,096 | - | 80,096 | 229,415 |
| Telephone | 17,681 | 13,830 | 17,340 | 48,851 | 5,986 | - | 5,986 | 54,837 |
| Vehicle | 65,213 | - | 24,829 | 90,042 | 1,823 | - | 1,823 | 91,865 |
| Professional fees | 27,721 | 47,826 | 41,328 | 116,875 | 33,037 | - | 33,037 | 149,912 |
| Miscellaneous | 1,342 | 62,829 | 10,259 | 74,430 | 63,792 | 4,547 | 68,339 | 142,769 |
| Travel | 5,565 | 2,620 | 18,814 | 26,999 | 11,295 | - | 11,295 | 38,294 |
| Meetings | 1,358 | 81 | 709 | 2,148 | 5,310 | - | 5,310 | 7,458 |
| Office supplies | 15,306 | 5,987 | 8,845 | 30,138 | 1,315 | - | 1,315 | 31,453 |
| Postage and shipping | 116,876 | 1,120 | 7,472 | 125,468 | 2,418 | - | 2,418 | 127,886 |
| Annual bond financing | 21,319 | - | 1,344 | 22,663 | (431) | - | (431) | 22,232 |
| Grant match | - | - | - | - | - | - | - | - |
| Service charges | 128,886 | 1,228 | 6,858 | 136,972 | 14,467 | - | 14,467 | 151,439 |
| Total functional expenses | \$ 6,613,795 | \$ 997,124 | \$ 2,049,708 | \$ 9,660,627 | \$ 981,484 | \$ 4,547 | \$ 986,031 | \$ 10,646,658 |

Goodwill Industries of Northern Michigan, Inc. and Subsidiary

Consolidated Statement of Functional Expenses Year Ended September 30, 2010

| | Program Services | | | | Support Services | | | Total Expenses |
|--|----------------------|---------------------|-----------------------|---------------------|---------------------------|------------------|-------------------|---------------------|
| | Retail Operations | Housing Services | Social Enterprises | Total | Management and General | Fundraising | Total | |
| Salaries and wages | \$ 1,665,634 | \$ 330,737 | \$ 941,467 | \$ 2,937,838 | \$ 567,377 | \$ - | \$ 567,377 | \$ 3,505,215 |
| Payroll taxes | 177,541 | 34,612 | 69,262 | 281,415 | 59,261 | - | 59,261 | 340,676 |
| Employee benefits | 181,910 | 53,294 | 124,370 | 359,574 | 73,029 | - | 73,029 | 432,603 |
| Total salaries and related benefits | 2,025,085 | 418,643 | 1,135,099 | 3,578,827 | 699,667 | - | 699,667 | 4,278,494 |
| Cost of goods sold | 2,300,498 | - | - | 2,300,498 | - | - | - | 2,300,498 |
| Rent | 290,071 | - | 5,760 | 295,831 | - | - | - | 295,831 |
| Interest | 105,507 | 5,586 | 11,353 | 122,446 | 10,405 | - | 10,405 | 132,851 |
| Depreciation and amortization | 148,882 | 149,525 | 31,512 | 329,919 | 10,979 | - | 10,979 | 340,898 |
| Supplies | 57,181 | 64,148 | 196,540 | 317,869 | 13,891 | - | 13,891 | 331,760 |
| Utilities | 107,929 | 48,556 | 7,563 | 164,048 | 4,637 | - | 4,637 | 168,685 |
| Bad debts | 1,938 | - | 9,251 | 11,189 | 1,415 | - | 1,415 | 12,604 |
| Direct client assistance | - | 96,639 | 216,930 | 313,569 | - | - | - | 313,569 |
| Advertising | 148,732 | 14,102 | 36,277 | 199,111 | 3,059 | - | 3,059 | 202,170 |
| Insurance | 40,704 | 11,165 | 8,867 | 60,736 | 6,082 | - | 6,082 | 66,818 |
| Goodwill Industries International dues | 58,596 | 1,996 | 7,770 | 68,362 | 475 | - | 475 | 68,837 |
| Garbage | 85,623 | 3,615 | 1,617 | 90,855 | 1,193 | - | 1,193 | 92,048 |
| Repairs and maintenance | 88,588 | 42,402 | 16,795 | 147,785 | 25,838 | - | 25,838 | 173,623 |
| Telephone | 13,908 | 12,965 | 12,284 | 39,157 | 4,536 | - | 4,536 | 43,693 |
| Vehicle | 52,392 | - | 6,892 | 59,284 | 1,790 | - | 1,790 | 61,074 |
| Professional fees | 28,803 | 21,549 | 55,941 | 106,293 | 28,650 | - | 28,650 | 134,943 |
| Miscellaneous | 34,924 | 23,302 | 7,599 | 65,825 | 99,655 | 22,776 | 122,431 | 188,256 |
| Travel | 6,553 | 2,303 | 15,983 | 24,839 | 10,208 | - | 10,208 | 35,047 |
| Meetings | 223 | - | 585 | 808 | 7,669 | - | 7,669 | 8,477 |
| Office supplies | 24,469 | 13,913 | 4,967 | 43,349 | 3,220 | - | 3,220 | 46,569 |
| Postage and shipping | 91,498 | 1,440 | 3,905 | 96,843 | 2,146 | - | 2,146 | 98,989 |
| Annual bond financing | 18,257 | - | 2,185 | 20,442 | 2,886 | - | 2,886 | 23,328 |
| Grant match | - | - | 9,251 | 9,251 | - | - | - | 9,251 |
| Service charges | 112,921 | 1,088 | 2,585 | 116,594 | 11,555 | - | 11,555 | 128,149 |
| Total functional expenses | <u>\$ 5,843,282</u> | <u>\$ 932,937</u> | <u>\$ 1,807,511</u> | <u>\$ 8,583,730</u> | <u>\$ 949,956</u> | <u>\$ 22,776</u> | <u>\$ 972,732</u> | <u>\$ 9,556,462</u> |

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidated Statement of Cash Flows

| | Year Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 |
| Cash Flows from Operating Activities | | |
| Increase in net assets | \$ 1,090,888 | \$ 819,006 |
| Adjustments to reconcile increase in net assets to net cash from operating activities: | | |
| Depreciation and amortization | 396,466 | 340,898 |
| Net gains from sales of property and equipment | (524) | (100,561) |
| Bad debt expense | 17,252 | 12,604 |
| Impairment loss on property and equipment | 96,140 | 95,763 |
| Net unrealized loss (gain) on investment securities | 201,254 | (97,290) |
| Net realized gain on investment securities | (93,863) | (44,832) |
| Change in fair value of interest rate swap | 3,927 | 76,571 |
| Changes in operating assets and liabilities which provided (used) cash: | | |
| Receivables | (255,393) | 33,244 |
| Inventory | (19,711) | (76,802) |
| Prepaid expenses and other | (31,317) | (2,647) |
| Accounts payable | (31,262) | 23,989 |
| Accrued liabilities and other | 139,197 | 3,967 |
| Net cash provided by operating activities | 1,513,054 | 1,083,910 |
| Cash Flows from Investing Activities | | |
| Purchase of property and equipment | (1,888,347) | (387,839) |
| Proceeds from disposition of property and equipment | 524 | 262,981 |
| Purchases of investments | (1,203,292) | (1,239,077) |
| Proceeds from sales and maturities of investments | 1,226,000 | 338,822 |
| Net cash used in investing activities | (1,865,115) | (1,025,113) |
| Cash Flows from Financing Activities | | |
| Proceeds from debt | 1,030,684 | - |
| Payments on debt | (110,797) | (124,818) |
| Net cash provided by (used in) financing activities | 919,887 | (124,818) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 567,826 | (66,021) |
| Cash and Cash Equivalents - Beginning of year | 512,158 | 578,179 |
| Cash and Cash Equivalents - End of year | \$ 1,079,984 | \$ 512,158 |
| Supplemental Disclosure of Cash Flow Information - Cash paid for interest | \$ 120,444 | \$ 133,311 |

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2011 and 2010

Note I - Nature of Activities and Significant Accounting Policies

Nature of Organization - 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". GWI and GWH are not-for-profit corporations. Goodwill's mission is to help people overcome barriers to independence.

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.

Housing Services - Goodwill helps rebuild the lives of families, children, and adults who have lost their homes. This includes people who are living in their cars, under bridges, or in trailers without heat or running water. The programs offered are as follows:

- The Street Outreach program assists adults who are living on the streets get referrals to community programs and services.
- The Goodwill Inn provides safe, supportive shelter to homeless adults and families.
- 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.
- The Housing Support Services program provides community-based case management services to formerly homeless people with special needs to increase independence and self-sufficiency.

Social Enterprises - Through its programs, Social Security Income and Disability Income Appeals, Food Rescue, Paperworks Studio, and Workers-on-Wheels, Goodwill provides basic needs, housing support, case management, transportation, and job placement services.

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

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2011 and 2010

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

Goodwill is a member of Goodwill Industries International, Inc. (GII). Members are required to remit one percent of earned unrestricted revenue to GII. Dues paid to GII totaled \$73,658 and \$68,837 for the years ended September 30, 2011 and 2010, 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, 2011 and 2010 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, 2011 and 2010.

Cash and Cash Equivalents - Goodwill considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Goodwill maintains deposit and savings accounts in various financial institutions in Michigan which, at times, may exceed the federal insurance limits. Management believes interest rate or other financial risk associated with these deposits is not significant.

Receivables - Accounts receivable are stated at the amount Goodwill expects to collect from outstanding balances and generally no collateral is required. Goodwill provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on management's assessment of the current status of individual accounts. Balances that are still outstanding after reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Changes to the valuation allowance have typically not been significant to the consolidated financial statements.

Investments - Investments are recorded at fair value based on quoted market prices. Gains and losses on investments are reported in the consolidated statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

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.

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2011 and 2010

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

Inventory - 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. This method is suggested and used by the affiliates of GII nationwide and is considered generally accepted by many affiliates of GII.

Inventory also includes other supplies that are stated at the lower of cost or market by use of the first-in, first-out (FIFO) method of valuation.

Property and Equipment - Property and equipment purchases, if greater than \$1,000, are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Certain property, plant, and equipment were acquired with funds from grant contracts that include the option for the grantor to require reversion of title at the end of the grant contract.

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. During 2011 and 2010, a building was deemed to be impaired and written down to its estimated fair value. The gross carrying value of the assets of \$432,820 exceeded their fair value, which was determined by reference to the estimated future cash inflows, by \$332,820 and \$236,680 as of September 30, 2011 and 2010, respectively. The write-downs were \$96,140 and \$95,763 during the years ended September 30, 2011 and 2010, respectively.

Contributions - Contributions of cash and other assets are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support.

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2011 and 2010

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

Donated inventory items are recorded at estimated value as determined by management using a calculation based on factors such as estimated net sales, inventory turnover, and program-related costs incurred for preparing the inventory for sale. When donated inventory items are sold, they are reflected in cost of goods sold of retail operations. This method is suggested and used by the affiliates of GII nationwide and is considered generally accepted by many affiliates of GII.

Revenue Recognition - Retail stores recognize revenue at the point of sale. Service fees are recognized as services are rendered. Grant revenue from funding agencies is recognized over the contract terms with the funding agencies.

Federal Income Taxes - Goodwill is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3), and accordingly, no provision has been made.

Accounting principles generally accepted in the United States of America require management to evaluate certain tax positions taken by Goodwill and recognize a tax liability if the organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by Goodwill and has concluded that as of September 30, 2011, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. Goodwill is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to September 30, 2008.

Functional Allocation of Expenses - The costs of providing the program and support services have been reported on a functional basis in the consolidated statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2011 and 2010

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

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including December 13, 2011, which is the date the consolidated financial statements were available to be issued.

Reclassification - Certain reclassifications were made to amounts in the 2010 consolidated financial statements to conform to the classifications used in 2011, in particular to reclassify certain accounts from program services fees to the grant revenue classification and from fundraising to contributions - other.

Note 2 - Receivables

Receivables are summarized as follows at September 30:

| | 2011 | 2010 |
|--|------------|------------|
| Grant awards | \$ 339,901 | \$ 122,404 |
| Program service fees and other sources | 181,390 | 169,718 |
| Pledges receivable | 4,550 | - |
| Subtotal | 525,841 | 292,122 |
| Less allowance for doubtful accounts | 9,738 | 14,160 |
| Receivables - Net | \$ 516,103 | \$ 277,962 |

Note 3 - Investments and Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about Goodwill's assets and liabilities measured at fair value on a recurring basis at September 30, 2011 and 2010 and the valuation techniques used by Goodwill to determine those fair values.

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

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2011 and 2010

Note 3 - Investments and Fair Value Measurements (Continued)

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. Goodwill's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2011

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at September 30, 2011 |
|---|--|--|--|-------------------------------------|
| Assets - Mutual funds | | | | |
| Equity securities - Large blend | \$ 243,975 | \$ - | \$ - | \$ 243,975 |
| Equity securities - Small blend | 93,770 | - | - | 93,770 |
| Equity securities - Mid-cap blend | 127,078 | - | - | 127,078 |
| Fixed income - Intermediate term bond | 559,443 | - | - | 559,443 |
| Fixed income - Short-term bond | 931,951 | - | - | 931,951 |
| Fixed income - High-yield bond | 301,428 | - | - | 301,428 |
| Equity securities - World blend | 158,474 | - | - | 158,474 |
| Total assets | <u>\$ 2,416,119</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,416,119</u> |
| Liabilities - Interest rate swap | <u>\$ -</u> | <u>\$ 241,945</u> | <u>\$ -</u> | <u>\$ 241,945</u> |

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2011 and 2010

Note 3 - Investments and Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2010

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at September 30, 2010 |
|---|--|--|--|-------------------------------------|
| Assets - Mutual funds | | | | |
| Equity securities - Large blend | \$ 190,590 | \$ - | \$ - | \$ 190,590 |
| Equity securities - Small blend | 61,098 | - | - | 61,098 |
| Equity securities - Mid-cap blend | 56,369 | - | - | 56,369 |
| Fixed income - Intermediate term bond | 725,451 | - | - | 725,451 |
| Fixed income - Short-term bond | 897,287 | - | - | 897,287 |
| Fixed income - High-yield bond | 351,397 | - | - | 351,397 |
| Equity securities - World blend | 264,026 | - | - | 264,026 |
| Total assets | <u>\$ 2,546,218</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,546,218</u> |
| Liabilities - Interest rate swap | <u>\$ -</u> | <u>\$ 238,018</u> | <u>\$ -</u> | <u>\$ 238,018</u> |

The fair value of the interest rate swap liability at September 30, 2011 was determined primarily based on Level 2 inputs. Goodwill estimates the fair value of this liability based on the current market price as provided by a third party.

Goodwill's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. There were no transfers between fair value classifications for the years ended September 30, 2011 or 2010.

Note 4 - Inventory

Inventory consists of the following at September 30:

| | 2011 | 2010 |
|-----------------|-------------------|-------------------|
| Donated goods | \$ 214,726 | \$ 187,393 |
| Other | 130,800 | 138,422 |
| Total inventory | <u>\$ 345,526</u> | <u>\$ 325,815</u> |

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2011 and 2010

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

| | 2011 | 2010 | Depreciable Life - Years |
|----------------------------|---------------------|---------------------|-----------------------------|
| Land | \$ 877,400 | \$ 943,550 | - |
| Buildings | 6,894,504 | 6,923,284 | 7-40 |
| Machinery and equipment | 929,099 | 844,951 | 2-10 |
| Transportation equipment | 238,862 | 114,905 | 5 |
| Furniture and fixtures | 165,960 | 166,335 | 3-5 |
| Leasehold improvements | 22,033 | - | 5-20 |
| Construction in progress | 1,665,204 | 21,641 | |
| Total cost | 10,793,062 | 9,014,666 | |
| Accumulated depreciation | 2,056,120 | 1,676,744 | |
| Net property and equipment | <u>\$ 8,736,942</u> | <u>\$ 7,337,922</u> | |

Depreciation expense was \$393,187 for 2011 and \$337,620 for 2010.

Construction in progress at September 30, 2011 and 2010 relates primarily to the construction of transitional housing units which were completed in October 2011.

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2011 and 2010

Note 6 - Long-term Debt

Long-term debt at September 30 is as follows:

| | 2011 | 2010 |
|--|--------------|--------------|
| 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 charged at the floating LIBOR (2.60% effective rate as September 30, 2011); secured by a letter of credit; matures October 1, 2027 | \$ 2,365,000 | \$ 2,455,000 |
| Bank note payable, bearing interest of 2.88 percent plus LIBOR, but not less than 4 percent (effective rate of 4 percent at September 30, 2011), due in full in October 2012. The note payable is collateralized by substantially all investment assets | 825,000 | - |
| Bank note payable, bearing interest of 3.38 percent plus LIBOR, but not less than 4 percent (effective rate of 4 percent at September 30, 2011), due in full in October 2012. The note payable is collateralized by substantially all investment assets | 205,684 | - |
| Mortgage loan payable in monthly installments of \$3,326, including interest at 6.816 percent. The note is collateralized by real estate. A balloon payment is due on August 6, 2012. This loan was paid during 2011. | - | 13,554 |
| Note payable to Grand Traverse County DPW in installments of \$603 including interest at 4 percent. The note is due in December 2021 | 74,639 | 81,882 |
| Total | 3,470,323 | 2,550,436 |
| Less current portion | 97,243 | 110,796 |
| Long-term portion | \$ 3,373,080 | \$ 2,439,640 |

The balance of the above debt matures as follows:

| | |
|------------|--------------|
| 2012 | \$ 97,243 |
| 2013 | 1,137,926 |
| 2014 | 107,243 |
| 2015 | 117,243 |
| 2016 | 117,243 |
| Thereafter | 1,893,425 |
| Total | \$ 3,470,323 |

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2011 and 2010

Note 6 - Long-term Debt (Continued)

Interest expense for the years ended September 30, 2011 and 2010 was \$119,266 and \$132,851, respectively.

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, 2011, the outstanding swap agreement had a total principal and notional amount of \$1,784,906. 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 December 21, 2015. This interest rate swap is recognized in the accompanying consolidated balance sheet at fair value. Changes in the fair value of the interest rate swap are recognized in other income (expense). Net realized losses totaling \$3,927 and \$76,571 have been recognized in 2011 and 2010, respectively.

Note 7 - Operating Leases

Goodwill leases various buildings and equipment under operating leases.

As of September 30, 2011, future minimum lease payments required under the operating leases have an initial or remaining noncancelable lease term in excess of one year and are summarized as follows:

| | | |
|---------------------|----|------------------|
| 2012 | \$ | 361,211 |
| 2013 | | 358,836 |
| 2014 | | 384,206 |
| 2015 | | 375,477 |
| 2016 | | 369,242 |
| 2017 and thereafter | | <u>1,976,964</u> |
| Total | \$ | <u>3,825,936</u> |

Total rent expense on these leases for 2011 and 2010 was \$369,338 and \$295,831, respectively.

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Notes to Consolidated Financial Statements September 30, 2011 and 2010

Note 8 - Retirement Plan

Goodwill participates in a deferred compensation retirement plan qualified under Section 401(k) of the Internal Revenue Code covering all full-time employees who have reached the age of 21 and have completed 90 days of service. Under this plan, eligible employees are permitted to contribute up to the maximum percentage allowable of their gross compensation into the retirement plan as determined by the Internal Revenue Code. During fiscal years 2011 and 2010, Goodwill made a discretionary match at a rate of 75 percent of the employees' percentage deferral up to a maximum of 3 percent. Goodwill contributions to the plan amounted to \$59,719 and \$58,877 for the years ended September 30, 2011 and 2010, respectively.

Note 9 - Related Party Transactions

Management Fees - Goodwill established an agreement with GW Services of Northern Michigan, Inc. (GWS), a related party by virtue of common management, to provide services on behalf of GWS. These services include management of GWS employees and maintenance of financial records. For the years ended September 30, 2011 and 2010, Goodwill received management fees from GWS in the amount of \$39,000. These management fees are included in program service fees in the accompanying consolidated statement of activities.

Note 10 - Fair Value of Financial Instruments

A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

Short-term Financial Instruments - The fair values of short-term financial instruments, including cash equivalents, trade accounts receivable and payable, joint venture and other receivables, estimated earned revenue on uncompleted contracts in excess of billings, and billings on uncompleted contracts in excess of estimated earned revenue and accrued liabilities approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments.

Investments - Investments are recorded at fair value in the accompanying consolidated financial statements. Fair value is determined based on the fair value measurement principles described in Note 3.

Long-term Obligations - The fair value of long-term obligations approximates the carrying amounts in the accompanying consolidated financial statements. The carrying value of the debt approximates fair value based on current borrowing rates.

Additional Information

Independent Auditor's Report on Additional Information

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

We have audited the consolidated financial statements of Goodwill Industries of Northern Michigan, Inc. and Affiliate as of September 30, 2011. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in the accompanying schedules is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the basic consolidated financial statements. The consolidating information has been subjected to the procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

The 2010 consolidated financial statements and additional information of Goodwill Industries of Northern Michigan, Inc. and Subsidiary were audited by other accountants, whose report dated December 29, 2010 stated that they were not aware of any material modifications that should be made to those consolidated financial statements or additional information in order for them to be in conformity with generally accepted accounting principles.

Plante & Moran, PLLC

December 13, 2011

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidating Balance Sheet September 30, 2011 and 2010

| | Goodwill Industries of Northern Michigan, Inc. | G.W. Homeless Services of Northern Michigan, Inc. | Eliminating Entries | Totals | |
|--|--|---|---------------------|----------------------|----------------------|
| | | | | 2011 | 2010 |
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 1,066,963 | \$ 13,021 | \$ - | \$ 1,079,984 | \$ 512,158 |
| Receivables - Net | 447,088 | 69,015 | - | 516,103 | 277,962 |
| Investments | 2,416,119 | - | - | 2,416,119 | 2,546,218 |
| Inventory | 345,526 | - | - | 345,526 | 325,815 |
| Intercompany receivable | - | 102,592 | (102,592) | - | - |
| Prepaid expenses and other current assets | 97,116 | - | - | 97,116 | 65,799 |
| Total current assets | 4,372,812 | 184,628 | (102,592) | 4,454,848 | 3,727,952 |
| Property and Equipment - Net | 4,925,160 | 3,811,782 | - | 8,736,942 | 7,337,922 |
| Other Assets | 52,455 | - | - | 52,455 | 55,734 |
| Total assets | \$ 9,350,427 | \$ 3,996,410 | \$ (102,592) | \$ 13,244,245 | \$ 11,121,608 |
| Liabilities and Net Assets | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | \$ 52,040 | \$ 11,688 | \$ - | \$ 63,728 | \$ 94,990 |
| Intercompany payable | 102,592 | - | (102,592) | - | - |
| Current portion of long-term debt | 90,000 | 7,243 | - | 97,243 | 110,796 |
| Accrued liabilities and other | 444,424 | 26,987 | - | 471,411 | 359,243 |
| Total current liabilities | 689,056 | 45,918 | (102,592) | 632,382 | 565,029 |
| Long-term Notes Payable | 3,305,684 | 67,396 | - | 3,373,080 | 2,439,640 |
| Interest Rate Swap | 241,945 | - | - | 241,945 | 238,018 |
| Total liabilities | 4,236,685 | 113,314 | (102,592) | 4,247,407 | 3,242,687 |
| Net Assets - Unrestricted | | | | | |
| Undesignated | 3,686,713 | 3,883,096 | - | 7,569,809 | 6,478,921 |
| Board-designated | 1,400,000 | - | - | 1,400,000 | 1,400,000 |
| Total net assets | 5,113,742 | 3,883,096 | - | 8,996,838 | 7,878,921 |
| Total liabilities and net assets - unrestricted | \$ 9,350,427 | \$ 3,996,410 | \$ (102,592) | \$ 13,244,245 | \$ 11,121,608 |

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidating Statement of Activities and Changes in Net Assets Years Ended September 30, 2011 and 2010

| | Goodwill Industries of Northern Michigan, Inc. | G.W. Homeless Services of Northern Michigan, Inc. | Eliminating Entries | Totals | |
|--|--|---|---------------------|-------------------|-------------------|
| | | | | 2011 | 2010 |
| Changes in Unrestricted Net Assets | | | | | |
| Revenue and support: | | | | | |
| Retail sales | \$ 6,155,747 | \$ - | \$ - | \$ 6,155,747 | \$ 5,860,760 |
| Contributions - Donated inventory | 2,307,963 | 56,869 | - | 2,364,832 | 2,038,792 |
| Grants | 1,573,687 | 102,988 | - | 1,676,675 | 717,315 |
| Program service fees | 734,937 | 408,458 | - | 1,143,395 | 877,443 |
| Contributions - Other | 275,623 | 169,916 | - | 445,539 | 391,513 |
| Fundraising | - | 14,824 | - | 14,824 | 225,113 |
| Investment income - Unrestricted | 90,057 | - | - | 90,057 | 85,713 |
| Miscellaneous income | 32,696 | 20,715 | - | 53,411 | 108,470 |
| Total revenue and support | 11,170,710 | 773,770 | - | 11,944,480 | 10,305,119 |
| Net assets released from restrictions | - | - | - | - | 141,253 |
| Total revenue, support, and net assets released from restrictions | 11,170,710 | 773,770 | - | 11,944,480 | 10,446,372 |
| Expenses: | | | | | |
| Program services: | | | | | |
| Retail operations | 6,613,795 | - | - | 6,613,795 | 5,843,282 |
| Housing services | - | 997,124 | - | 997,124 | 932,937 |
| Social enterprises | 2,049,708 | - | - | 2,049,708 | 1,807,511 |
| Total program services | 8,663,503 | 997,124 | - | 9,660,627 | 8,583,730 |
| Support services: | | | | | |
| Management and general | 981,484 | - | - | 981,484 | 949,956 |
| Fundraising | 4,547 | - | - | 4,547 | 22,776 |
| Total support services | 970,001 | - | - | 970,001 | 972,732 |
| Total expenses | 9,649,534 | 997,124 | - | 10,646,658 | 9,556,462 |
| Increase (Decrease) in Unrestricted Net Assets - Operating | 1,548,205 | (223,354) | - | 1,324,851 | 889,910 |

Goodwill Industries of Northern Michigan, Inc. and Affiliate

Consolidating Statement of Activities and Changes in Net Assets (Continued) Years Ended September 30, 2011 and 2010

| | Goodwill Industries of Northern Michigan, Inc. | G.W. Homeless Services of Northern Michigan, Inc. | Eliminating Entries | Totals | |
|---|--|---|---------------------|---------------------|---------------------|
| | | | | 2011 | 2010 |
| Nonoperating Activities | | | | | |
| Net gains from sales of property and equipment | \$ - | \$ 524 | \$ - | \$ 524 | \$ 100,561 |
| Net realized/unrealized (loss) gains on investment securities | (107,391) | - | - | (107,391) | 142,122 |
| Change in fair value of interest rate swap | (3,927) | - | - | (3,927) | (76,571) |
| Impairment loss on property and equipment | (96,140) | - | - | (96,140) | (95,763) |
| Total nonoperating activities | (207,458) | 524 | - | (206,934) | 70,349 |
| Increase (Decrease) in Unrestricted Net Assets | 1,340,747 | (222,830) | - | 1,117,917 | 960,259 |
| Changes in Temporarily Restricted Net Assets - | | | | | |
| Net assets released from restrictions | - | - | - | - | (141,253) |
| Increase (Decrease) in Net Assets | 1,340,747 | (222,830) | - | 1,117,917 | 819,006 |
| Net Assets - Beginning of year | 3,772,995 | 4,105,926 | - | 7,878,921 | 7,059,915 |
| Net Assets - End of year | \$ 5,113,742 | \$ 3,883,096 | \$ - | \$ 8,996,838 | \$ 7,878,921 |