

Goodwill Industries of Central Texas

Consolidated Financial Report

December 31, 2017

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Independent Auditor's Report

Board of Directors
Goodwill Industries of Central Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Goodwill Industries of Central Texas (the Organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Central Texas as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2016 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated May 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited 2016 consolidated financial statements for which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Austin, Texas
March 27, 2018

Goodwill Industries of Central Texas
Consolidated Statement of Financial Position
December 31, 2017

	2017	2016 Memo Only
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,740,186	\$ 6,268,170
Receivable, net of allowance for doubtful accounts of \$105,040	3,676,565	4,778,246
Inventory	1,639,421	876,911
Other	518,475	466,264
	13,574,647	12,389,591
ASSETS LIMITED TO USE	2,001,374	-
INVESTMENTS	615,231	535,569
OTHER LONG-TERM ASSETS	1,195,418	884,404
PROPERTY AND EQUIPMENT	55,038,630	58,361,907
TOTAL ASSETS	\$ 72,425,300	\$ 72,171,471
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 2,307,156	\$ 3,687,032
Accrued liabilities and deferred revenue	4,624,920	4,354,456
Current portion of long-term debt	910,400	3,693,021
	7,842,476	11,734,509
LONG-TERM LIABILITIES		
Other long-term liabilities	2,190,430	1,864,204
Interest rate swap	487,799	8,686
Long-term debt, net of current portion	23,587,853	23,542,048
	26,266,082	25,414,938
TOTAL LIABILITIES	34,108,558	37,149,447
NET ASSETS		
Unrestricted		
Undesignated	35,207,517	33,944,731
Board designated endowment funds	615,231	535,569
	35,822,748	34,480,300
Temporarily restricted	2,493,994	541,724
	38,316,742	35,022,024
TOTAL NET ASSETS	38,316,742	35,022,024
TOTAL LIABILITIES AND NET ASSETS	\$ 72,425,300	\$ 72,171,471

The Notes to Consolidated Financial Statements are an integral part of these statements.

Goodwill Industries of Central Texas
Consolidated Statement of Activities
Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>2016 Memo Only</u>
REVENUE				
Assisted employment - retail, net of cost of goods sold of \$7.0 million	\$ 53,843,547	\$ -	\$ 53,843,547	\$ 48,844,975
Goodwill temporary services	12,043,938	-	12,043,938	11,572,332
Assisted employment - industrial	7,973,955	-	7,973,955	5,957,990
Evaluation and training	2,505,761	-	2,505,761	2,770,139
Grants	5,154,286	-	5,154,286	4,072,359
Contributed goods	4,390,886	-	4,390,886	4,109,063
Contributions	772,097	2,107,054	2,879,151	1,284,143
Other	378,815	-	378,815	1,920,205
Gain on fixed asset disposals	26,550	-	26,550	51
Satisfaction of program restrictions	154,784	(154,784)	-	-
 Total revenue	 87,244,619	 1,952,270	 89,196,889	 80,531,257
EXPENSES				
Program				
Assisted employment - retail	47,031,848	-	47,031,848	44,037,629
Temporary Staffing Services	10,807,172	-	10,807,172	11,043,751
Assisted employment - industrial	6,203,039	-	6,203,039	6,132,056
Evaluation and training	12,530,782	-	12,530,782	11,748,224
 Total program	 76,572,841	 -	 76,572,841	 72,961,660
Management and general	8,797,813	-	8,797,813	7,845,883
Fundraising	531,517	-	531,517	613,848
 Total expenses	 85,902,171	 -	 85,902,171	 81,421,391
 CHANGE IN NET ASSETS	 1,342,448	 1,952,270	 3,294,718	 (890,134)
 NET ASSETS, beginning of year	 34,480,300	 541,724	 35,022,024	 35,912,158
 NET ASSETS, end of year	 <u>\$ 35,822,748</u>	 <u>\$ 2,493,994</u>	 <u>\$ 38,316,742</u>	 <u>\$ 35,022,024</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

Goodwill Industries of Central Texas
Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services				Support Services		Total	2016 Memo Only
	Assisted Employment Retail	Temporary Employment Services	Assisted Employment Industrial	Evaluation and Training	Management and General	Fundraising		
Wages	\$ 21,599,637	\$ 8,781,930	\$ 3,693,788	\$ 7,651,828	\$ 4,518,839	\$ 286,179	\$ 46,532,201	\$ 43,899,320
Payroll taxes	1,593,923	677,394	285,959	475,894	298,828	13,961	3,345,959	3,079,829
Employee benefits	2,163,377	456,668	596,235	1,034,218	318,258	9,480	4,578,236	5,609,827
Professional fees	463,757	10,825	111,182	183,884	1,219,369	16,374	2,005,391	2,223,027
Supplies	1,167,582	5,201	622,409	377,637	183,033	13,542	2,369,404	2,060,181
Telephone and internet	340,476	9,978	27,177	81,444	283,569	2,181	744,825	785,672
Repair and maintenance	491,788	-	38,228	91,943	176,100	-	798,059	852,649
Postage and freight	1,222,020	4,602	416,241	4,779	13,728	232	1,661,602	1,601,410
Rents	8,633,952	-	-	13,109	78,608	-	8,725,669	7,360,491
Utility and trash	1,843,047	-	5,099	10,496	260,803	-	2,119,445	1,924,486
Printing and publications	53,878	1,120	-	22,761	11,337	24,060	113,156	145,859
Recruitment and advertising	1,448,743	27,638	3,900	137,228	71,798	70	1,689,377	1,784,166
Transportation	588,178	2,491	297,854	47,775	267,246	360	1,203,904	966,367
Travel, convention, meetings	305,844	6,095	82,790	118,946	61,680	2,009	577,364	680,274
Commissions and fees	713,478	514,670	311,431	-	-	-	1,539,579	1,352,839
Membership dues	21,635	1,492	1,145	4,897	224,906	1,894	255,969	261,321
Interest expense	637,968	-	3,343	-	571,899	-	1,213,210	381,787
Depreciation/Amortization	1,925,894	13,328	48,251	311,081	1,435,822	734	3,735,110	3,521,913
Insurance	656,707	141,252	71,684	8,331	87,910	424	966,308	1,042,850
Assistance and training	3,524	53,276	(124,400)	681,560	23,738	9,515	647,213	850,046
Other miscellaneous	1,156,440	99,212	(289,277)	1,272,971	(1,309,658)	150,502	1,080,190	1,037,078
	<u>\$ 47,031,848</u>	<u>\$ 10,807,172</u>	<u>\$ 6,203,039</u>	<u>\$ 12,530,782</u>	<u>\$ 8,797,813</u>	<u>\$ 531,517</u>	<u>\$ 85,902,171</u>	<u>\$ 81,421,392</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

Goodwill Industries of Central Texas
Consolidated Statement of Cash Flows
Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in unrestricted net assets, net of release from temporarily restricted	\$ 1,187,664
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	3,735,111
Net gain on disposal of fixed assets	(26,551)
Change in fair value of interest rate swaps	479,113
Unrealized gain on investment	(65,746)
Net Assets Released from Restrictions	105,680
Change in operating assets and liabilities:	
Receivables	1,101,681
Inventory	(762,510)
Other assets	(52,211)
Other long term assets	(311,014)
Accounts payable and accrued expenses	(1,296,769)
Other long-term liabilities	326,226
Deferred revenue	194,637
	4,615,311

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of fixed assets	(316,953)
Proceeds from the sale of fixed assets	28,099
Increase in restricted net assets	(2,160,000)
Purchase of investments	(13,916)
	(2,462,770)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from issuance of debt, net	24,274,641
Principal payment on debt	(27,115,166)
Increase in assets limited to use	2,160,000
	(680,525)

NET CHANGE IN CASH

1,472,016

CASH AND CASH EQUIVALENTS, beginning of year

6,268,170

CASH AND CASH EQUIVALENTS, end of year

\$ 7,740,186

SUPPLEMENTAL INFORMATION

Cash paid for interest	\$ 734,097
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The Notes to Consolidated Financial Statements are an integral part of this statement.

Goodwill Industries of Central Texas

Notes to Consolidated Financial Statements

Note 1. Organization

Goodwill Industries of Central Texas (GCT) is a corporation organized under the Nonprofit Corporation Act of the State of Texas. These consolidated financial statements include the accounts of GCT and its supporting organization, Goodwill Temporary Services, Inc., dba Goodwill Staffing Group (GSG) and Blue Solutions, which is a controlled corporation.

GCT receives grants and contracts from governmental programs to conduct various training programs. GCT also operates retail stores that sell materials donated by the public, and performs work-related services through contracts with various entities in the Central Texas area. GCT operates a free public charter school that provides adults 17 - 50 the opportunity to earn their high school diploma.

GSG is a nonprofit corporation organized for the purpose of providing training and employment for people who are disabled or economically disadvantaged through temporary employment and contracts with various entities in the Central Texas area.

Blue Solutions is a nonprofit corporation organized for the purpose of providing employment for disabled and severely handicapped persons under and pursuant to contracts with the United States government and others.

Programs consist of:

Assisted employment – retail: The collection process and sale of donations. Program provides employment and training, outside placement, community service resolution, diversion of waste from the landfills, and increasing environmental awareness within GCT.

Goodwill temporary staffing services: Program provides employment through temporary jobs for people with disabilities or other barriers to employment.

Assisted employment – industrial: Program provides employment and training for disabled or disadvantaged persons.

Evaluation and training: Program provides identification of work skills and aptitude, instruction in good work habits, employer relationships and methods of locating jobs, skills training and job placement.

Note 2. Summary of Significant Accounting Policies

Financial Statement Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. GCT reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. GCT currently has no permanently restricted net assets.

Goodwill Industries of Central Texas

Notes to Consolidated Financial Statements

Unrestricted Net Assets

Unrestricted net assets result from operating revenues, unrestricted contributions, unrestricted dividend and interest income, less expense incurred in operations to raise contributions and for administrative functions.

Temporary Restricted Net Assets

Support that is restricted by the donor is recorded as an increase in temporarily restricted net assets. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Basis of Accounting

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Tuition revenue is recorded when collected.

Consolidation

As discussed in Note 1, these financial statements are consolidated to include the activities of the subsidiary entities. All intercompany balances have been eliminated for consolidation purposes.

Estimates

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

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments that are readily convertible to cash.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories consist of purchased or donated items for resale in stores.

Receivables

GCT accounts for its accounts receivable based on contract terms. Receivables are considered past due based on contractual terms. GCT provides for uncollectible accounts receivable and pledges receivable through the allowance method of accounting. Under this method, a provision for uncollectible accounts is charged to expense and the allowance account is increased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account and recoveries of previously charged off accounts are added to the account. Grants receivable are considered 100% collectible.

Goodwill Industries of Central Texas

Notes to Consolidated Financial Statements

Investments

Investments in marketable securities with readily determinable fair values are reported at fair value. Investments in equity and debt securities are reported at cost if fair value is not practical to estimate. Unrealized gains and losses are included in the change in net assets.

Donated Materials

Donated materials received by GCT from the public are recognized as contributions at the time of receipt at estimated fair value, and are included as inventory in the accompanying consolidated statement of financial position. Costs related to bringing donated materials to a salable condition are included in expenses as incurred, and the proceeds from the sale of such materials are recognized as revenue when sold.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted contributions are reported as temporarily restricted support and are then reclassified to unrestricted net assets upon satisfaction of the restriction or expiration of the time restriction.

Property and Equipment

Property and equipment acquisitions of items costing greater than \$5,000 and with more than one year useful service life are capitalized at cost, or estimated fair value for donated assets. Assets purchased to which grant funders retain title are capitalized when the cost of the individual assets purchased exceeds \$5,000 and useful service life exceeds one year. Proceeds from the sale of property and equipment are considered income to the funding source that originally purchased the asset. Depreciation is computed under the straight-line method and is based on the asset's estimated useful lives as follows:

Furniture and equipment	3 to 10 years
Building	30 to 50 years
Transportation equipment	3 to 7 years

Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

Derivative Instruments

GCT recognizes all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at their fair value. Changes in the fair value are reported in earnings. GCT's derivative instruments consist of interest rate swaps.

Income Taxes

GCT and subsidiaries are exempt from income taxes under IRS Code Section 501(c)(3). Therefore, no provision has been made for Federal income taxes in the accompanying consolidated financial statements.

Goodwill Industries of Central Texas

Notes to Consolidated Financial Statements

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2017 was approximately \$1,689,000.

Comparative Totals

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with GCT's financial statements for the year ended December 31, 2016, from which the summarized information was derived. Certain prior year amounts have been reclassified for consistency with the summarized comparative information presented herein. These reclassifications had no effect on the reported results of operations.

Note 3. Receivables

Accounts receivables at December 31, 2017, are categorized as follows:

Accounts receivable	\$ 3,684,336
Contributions receivable	90,414
Other receivables	6,855
Allowance for doubtful accounts	<u>(105,040)</u>
	<u>\$ 3,676,565</u>

Contribution receivable in greater than one year, included in other long-term assets on the consolidated statement of financial position, have not been discounted due to management's determination that any discount would not be material. Contributions receivable at December 31, 2017, are due as follows:

Less than one year	\$ 90,414
One year to five years	<u>404,418</u>
	494,832
Less	
Allowance for uncollectible contributions receivable	<u>(171,777)</u>
	<u>\$ 323,055</u>

Note 4. Compensated Absences

GCT provides its employees with leave time based on the personnel policy. Unused leave time is paid to eligible employees upon termination based on their current rate of pay and years of service. At December 31, 2017, GCT has accrued approximately \$1,207,000 in leave time. This amount is included in accrued liabilities in the financial statements.

Goodwill Industries of Central Texas

Notes to Consolidated Financial Statements

Note 5. Investments

Investments consist of mutual fund investments with Edward Jones® Investments and are categorized as follows:

Mutual Funds		
Equities	\$	413,840
Fixed income		194,130
Cash and money market		<u>7,261</u>
Total	<u>\$</u>	<u>615,231</u>
Net investment income is summarized as follows:		
Interest and dividends	<u>\$</u>	<u>21,556</u>

Note 6. Board-Designated Funds

GCT's board-designated funds consist of one fund established for operations.

Board-Designated Net Asset Composition Type by Fund as of December 31, 2017:

	Unrestricted	Temporarily Restricted	Total
Board-designated fund	<u>\$ 615,231</u>	<u>\$ -</u>	<u>\$ 615,231</u>

Changes in Board-Designated Net Assets for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Total
Board-designated net assets, beginning of year	\$ 535,569	\$ -	\$ 535,569
Fees	(7,863)	-	(7,863)
Investment income	21,556	-	21,556
Investment appreciation/loss	<u>65,969</u>	<u>-</u>	<u>65,969</u>
Board-designated net assets, end of year	<u>\$ 615,231</u>	<u>\$ -</u>	<u>\$ 615,231</u>

Goodwill Industries of Central Texas

Notes to Consolidated Financial Statements

GCT has elected to have the board-designated funds managed and held by Edward Jones® Investments. Funds are invested in accordance with GCT's investment policies and objectives. To accomplish the organization's investment objectives, based on its time horizon, risk tolerances, performance expectations and asset class preferences, an optimal portfolio has been identified. The Investment Manager is authorized to utilize portfolios with the following strategic asset allocations:

Asset Class	Lower Limit	Strategic Allocation	Upper Limit
Equities	45%	65%	75%
Large cap	25%	30%	45%
Small cap	15%	20%	25%
International	10%	15%	20%
Fixed income	20%	30%	40%
Cash and equivalents	0%	5%	10%

Investments at December 31, 2017 by Asset Class:

Asset Class	
Equities	67.3%
Fixed income	31.5%
Cash and equivalents	1.2%

Spending of board-designated funds and earnings are to be authorized at the discretion of the Board of Directors.

Note 7. Lease Commitments

GCT is obligated under various lease agreements for space and equipment. Total expense for operating leases, including base rent, common area maintenance and other reimbursements to landlords in 2017 was approximately \$8,725,000. The following is a schedule of future minimum lease payments for non-cancelable operating leases of more than one year:

Year Ending December 31,	
2018	\$ 6,580,186
2019	6,292,854
2020	5,812,136
2021	5,053,791
2022	4,520,899
	<u>\$ 28,259,866</u>

Goodwill Industries of Central Texas

Notes to Consolidated Financial Statements

Note 8. Property and Equipment

Property and equipment consists of the following:

	Beginning Balance 2017	Additions	Deletions and Adjustments	Ending Balance 2017
Buildings	\$ 37,579,029	\$ -	\$ 26,634	\$ 37,552,395
Building improvements	16,490,874	84,591	-	16,575,465
Furniture and equipment	13,586,349	184,390	(25,086)	13,795,825
Land	12,835,591	-		12,835,591
Vehicles	1,660,292	-	261,340	1,398,952
Excel equipment	644,695	-	7,281	637,414
GTS equipment	319,004	-		319,004
GTS vehicles	151,978	-	37,679	114,299
Blue Solutions equipment	131,045	47,972		179,017
Accumulated depreciation	(25,036,950)	(3,631,401)	(299,019)	(28,369,332)
	<u>\$ 58,361,907</u>	<u>\$ (3,314,448)</u>	<u>\$ 8,829</u>	<u>\$ 55,038,630</u>

Depreciation expense for the year ended December 31, 2017 was \$3,631,401.

Goodwill Industries of Central Texas

Notes to Consolidated Financial Statements

Note 9. Debt

Loan payable to Compass Mortgage Corporation in scheduled monthly principal installments, plus interest at 65% of LIBOR plus 2.10% per annum, collateralized by land and building with a carrying value of \$59,950,000 due September 2027.

		\$ 24,366,246
Capital leases		367,096
Unamortized debt issuance costs		<u>(235,089)</u>
		<u>\$ 24,498,253</u>
Current portion	\$	910,400
Long-term		<u>23,587,853</u>
		<u>\$ 24,498,253</u>
Debt maturities		
2017	\$	934,512
2018		952,525
2019		942,918
2020		986,036
2021		1,022,987
Thereafter		<u>19,894,364</u>
Total		<u>24,733,342</u>
Less: Unamortized debt issuance costs		<u>(235,089)</u>
Total debt		<u>\$ 24,498,253</u>

Interest expense for the year was approximately \$1,213,000. Interest paid was approximately \$717,000 and interest swap expense was approximately \$495,000.

Goodwill Industries of Central Texas

Notes to Consolidated Financial Statements

GCT's loan agreement with the Compass Mortgage Corporation includes various covenants, including:

1. Audited financial statements due within 180 days of the close of each fiscal year.
2. Quarterly financial statements within 45 days of each quarter.
3. Budget within 30 days after the start of each fiscal year.
4. Proper maintenance of properties.
5. Maintain a Fixed Charge Coverage Ratio greater than or equal to 1.25 beginning fiscal year end of 2017 measured on a trailing four-quarter basis.
6. Maintain at least 25 days of Days Cash on Hand beginning fiscal year end 2017 and increasing to 30 Days Cash on Hand beginning fiscal year end 2018.
7. Obtaining a written consent of the lender to pledge or mortgage any of its assets.
8. Not create, incur, permit or assume any indebtedness, other than (a) indebtedness to Compass Bank, (b) indebtedness outstanding in the closing date, which has been disclosed to and approved by the bank in writing and (c) indebtedness in an aggregate amount not to exceed \$500,000.

Note 10. Pension Plan Obligations

GCT offers a 403(b) tax deferred retirement plan. All employees, excluding The Excel Center staff, are eligible to participate on their first day of employment. For employees that are 21 years of age or older, GCT will match 50% of an employee's contributions up to 6% of their salary deferral after an employee has been employed for one year and worked 1,000 hours as of January 1 or July 1. Any employee contributions made toward the retirement plan are 100% vested. Participating employees vest employer contributions at 20% per year of service, reaching 100% after five years. The Excel Center staff participate in the Teacher Retirement System of Texas. Pension expense for the year ended December 31, 2017 was approximately \$285,000.

Note 11. Interest Rate Swap

GCT uses interest rate swaps as part of its interest rate management strategy. GCT entered into no-hedge interest rate swap transactions to effectively convert variable rate loans to a fixed rate of 3.846%. The interest rate swap, which expires December 2022, is recorded on the statement of financial position at fair value. Changes in fair value of the interest rate swap are recognized in earnings. The fair value of the interest rate swap was \$487,799 on December 31, 2017 and is recorded as a liability on the Consolidated Statement of Financial Position.

Goodwill Industries of Central Texas

Notes to Consolidated Financial Statements

Note 12. Commitments and Contingencies

GCT has a deferred compensation agreement with an employee subject to IRS Code 457(f). Under the terms of the agreement, GCT will contribute \$30,000 annually to the account maintained for the benefit of the employee less any amounts contributed annually to the 457(b) Eligible Deferred Compensation Plan. The employee shall be entitled to the 457(f) account benefit upon:

- Deferred vesting date – defined as age 63
- Disability
- Death
- Termination of employment for any reason other than reasonable cause as defined by the plan.

GCT also has a 457(b) Eligible Deferred Compensation Plan (Plan). Annual contributions are made by GCT in accordance with the Plan. Ownership of the assets remains the sole property of GCT until an employee is eligible and withdraws the funds. GCT at any time may terminate the agreement and cease contributions to the plan.

Both the 457(f) and 457(b) are subject to the claims of general creditors.

The value of this deferred compensation agreement and Plan are included in Long-Term Assets and Liabilities for \$451,734.

Additionally, in January 2018, GCT received notification from the Internal Revenue Service that it had been assessed penalties of approximately \$480,000 as a result of non-compliance with certain reporting requirements for the year ended December 31, 2014. Management has remedied the non-compliance. As a result, management expects this penalty to be abated, and a potential late filing penalty of approximately \$62,000 to be assessed. At December 31, 2017, GCT has accrued approximately \$62,000, which is included in accrued liabilities. Management has engaged tax experts to resolve the issue.

Note 13. Fair Value Disclosures

GCT measures certain assets using the guidance in FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 establishes a framework for using fair value to measure assets and liabilities, and defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, as opposed to the price that would be paid to acquire the asset, or received to assume the liability. A fair values measurement assumes that the transaction to sell the asset of transfer the liability occurs in the principal market for the asset of liability or, in the absence of a principal market, the most advantageous market.

A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale of use of an asset, and the value based on inputs GCT uses to derive fair value measurements. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs: Quoted market prices (unadjusted) for identical assets or liabilities traded in active markets.

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

Goodwill Industries of Central Texas

Notes to Consolidated Financial Statements

Level 3 inputs: Unobservable inputs for the asset or liability and rely on management's own estimates for assumptions that market participants would use in pricing the asset or liability that include option pricing model, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following summarizes the valuation of GCT's assets (liabilities) measured using the market approach under the fair value standard hierarchy at December 31, 2017:

	Level 1	Level 2	Level 3	Total
Investments	\$ 615,231	\$ -	\$ -	\$ 615,231
Interest rate swap	-	(487,799)	-	(487,799)

There were no significant transfers between levels 1, 2 or 3 for the year ended December 31, 2017.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments: Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by GCT are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by GCT are deemed to be actively traded. Equity securities are actively traded stocks that are registered with the Securities and Exchange Commission.

Interest Rate Swap: The interest rate swap is valued using observable interest rates on similar duration securities and debt-obligations as determined by a third party.

Note 14. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of:

Restricted for youth programs	\$	94,962
Restricted for future building		11,119
Restricted for evaluation and training programs		115,600
Restricted for community education		19,288
Restricted for The Excel Center		10,000
Restricted pledge receivables		2,243,024
Total temporarily restricted net assets	\$	2,493,994

Goodwill Industries of Central Texas

Notes to Consolidated Financial Statements

Note 15. Concentrations

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. GCT deposits its cash with high quality financial institutions, and management believes GCT is not exposed to significant credit risk on those amounts.

Approximately 77% of accounts receivable are due from various agencies of the State of Texas or the Federal Government.

Note 16. Subsequent Events

GCT has evaluated subsequent events as of March 27, 2018, the date the financial statements were available to be issued. GCT concluded that no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Goodwill Industries of Central Texas

We have audited 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, the consolidated financial statements of Goodwill Industries of Central Texas (the Organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated March 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Goodwill Industries of Central Texas

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Austin, Texas
March 27, 2018



**Independent Auditor's Report on Compliance for Each Major Federal Program
and Report on Internal Control over Compliance
in Accordance with the Uniform Guidance**

Board of Directors
Goodwill Industries of Central Texas

Report on Compliance for Each Major Federal Program

We have audited Goodwill Industries of Central Texas' (the Organization) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2017. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, Goodwill Industries of Central Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Austin, Texas
March 27, 2018

Supplementary Information

Goodwill Industries of Central Texas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-Through Grantor Program or Cluster Title	CFDA Number	Pass-Through Number	(a) Expenditures	(b) Amount in (a) Relating to Pass-Through to Subrecipients
<u>U.S. Department of Labor</u>				
Passed through Workforce Solutions - Capital Area Workforce Board				
WIA/WIOA Youth Activities (7350)	17.259	WIOA1415	\$ 1,124,625	\$ 39,014
WIA/WIOA Youth Activities (7340)	17.259	WIOA1415	356,303	4,669
			<u>1,480,928</u>	<u>43,683</u>
Passed through Goodwill Industries International, Inc				
Reintegration of Ex-Offenders - LifeLaunch Reentry Demonstration Project for Young Adults (7371)	17.270	YF-29325-16-60-A-24	292,028	-
Reintegration of Ex-Offenders - LifeLaunch Adult Reintegration Project (7375))	17.270	PE-30788-17-60-A-24	48,775	-
H-1B Job Training Grants - Goodwill Careers in Technology (TechHire) (7715)	17.268	HG-29347-16-60-A-24	262,035	-
			<u>602,838</u>	<u>-</u>
Direct funding				
Reintegration of Ex-Offenders - Training 2 Work 4 (7950)	17.270	PE-29373-16-60-A-48	407,100	-
			<u>2,490,866</u>	<u>43,683</u>
<u>Department of Education</u>				
Passed through Texas Workforce Commission				
Adult Education - State Grant Program -Accelerate Texas III: Integrated Education and Training(7725)	84.002	0617AEL001	20,849	-
Passed through Texas Education Agency				
Special Education - Grants to States (IDEA-Part B)	84.027	166600012278286000	16,798	-
			<u>37,647</u>	<u>-</u>
<u>U.S. Department of Health and Human Services</u>				
Passed through Texas Workforce Commission				
Temporary Assistance for Needy Families (TANF) - Foster Youth Dropout Prevention and Recovery High School Completion Pilot Program(7721)	93.558	1417TAN002	17,048	16,303
Temporary Assistance for Needy Families (TANF) - Self Sufficiency (7719)	93.558	1417SSF000	280,807	-
			<u>297,855</u>	<u>16,303</u>
<u>Corporation for National and Community Service</u>				
Social Innovation Fund - Redf (2150)	94.019	03-GCT-01	207,999	-
			<u>207,999</u>	<u>-</u>
Total federal assistance			<u>\$ 3,034,367</u>	<u>\$ 59,986</u>

The Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Goodwill Industries of Central Texas

Notes to Schedule of Expenditures of Federal Awards December 31, 2017

Note 1. Basis of Presentation

The schedule of expenditures of federal awards (the schedule) includes the grant activity of Goodwill Industries of Central Texas under programs of the federal government for the year ended December 31, 2017. The information in the schedule is presented in accordance with the requirements of Uniform Guidance.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited reimbursement. The 10% de minimis indirect cost rate was not used.

Pass-through entity identifying numbers are presented where available.

Goodwill Industries of Central Texas
 Schedule of Findings and Questioned Costs
 December 31, 2017

Section 1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered material weakness(es)?	None Noted
Noncompliance material to financial statements notes?	None

Federal Awards

Internal Controls over major programs: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered material weakness(es)?	None Noted
Type of auditor's report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Major program: WIA/WIOA Youth Activities	CFDA 17.259
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	No

Section 2. Financial Statement Findings

Current year - none
 Prior year - none

Section 3. Federal Award Findings and Questioned Costs

None noted