

GOODWILL INDUSTRIES OF CENTRAL TEXAS

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2018 and 2017

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	6
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements	9
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	24
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE	26
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	29
Notes to the Schedule of Expenditures of Federal Awards.....	30
Schedule of Findings and Questioned Costs	31

Independent Auditor's Report

To the Board of Directors
Goodwill Industries of Central Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Goodwill Industries of Central Texas (the Organization) and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, statements of functional expenses and cash flows for the years then ended, and the related notes to the consolidated 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 audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Goodwill Industries of Central Texas and its subsidiaries as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The Board of Directors
Goodwill Industries of Central Texas

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization adopted ASU 2016-14 in fiscal year 2018. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary 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 28, 2019, 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 28, 2019

GOODWILL INDUSTRIES OF CENTRAL TEXAS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,981,851	\$ 7,740,186
Investments	576,851	-
Receivable, net of allowance for doubtful accounts of \$108,498 and \$105,040 at December 2018 and 2017 respectively	3,900,364	3,676,565
Inventory	1,416,793	1,639,421
Other	521,114	518,475
Total current assets	18,396,973	13,574,647
ASSETS LIMITED TO USE	2,624,971	2,001,374
INVESTMENTS	-	615,231
OTHER LONG TERM ASSETS	1,056,838	1,195,418
PROPERTY AND EQUIPMENT	53,121,696	55,038,630
TOTAL ASSETS	\$ 75,200,478	\$ 72,425,300
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 2,617,791	\$ 2,307,697
Accrued liabilities and deferred revenue	5,652,736	4,624,378
Current portion of long-term debt	998,138	910,401
Total current liabilities	9,268,665	7,842,476
LONG-TERM LIABILITIES		
Other long-term liabilities	2,252,442	2,190,430
Interest rate swap	136,326	487,800
Long-term debt, net of current portion	22,990,550	23,587,852
Total long-term liabilities	25,379,318	26,266,082
TOTAL LIABILITIES	34,647,983	34,108,558
NET ASSETS		
Without donor restrictions:		
Undesignated	37,074,506	35,207,517
Board designated endowment funds	576,851	615,231
	37,651,357	35,822,748
With donor restrictions	2,901,138	2,493,994
TOTAL NET ASSETS	40,552,495	38,316,742
TOTAL LIABILITIES AND NET ASSETS	\$ 75,200,478	\$ 72,425,300

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

GOODWILL INDUSTRIES OF CENTRAL TEXAS
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Assisted employment - retail, net of cost of goods sold of \$8.2 million	\$ 55,775,802	\$ -	\$ 55,775,802
Goodwill Temporary Services	12,345,760	-	12,345,760
Assisted employment - industrial	8,342,253	-	8,342,253
Evaluation and training	2,787,768	-	2,787,768
Grants	6,097,114	-	6,097,114
Contributed goods	4,451,495	-	4,451,495
Contributions	737,818	844,634	1,582,452
Other	368,329	-	368,329
Loss on fixed asset disposals	(74,537)	-	(74,537)
Satisfaction of program restrictions	437,490	(437,490)	-
Total revenue	91,269,292	407,144	91,676,436
EXPENSES			
Program:			
Assisted employment - retail	48,834,290	-	48,834,290
Temporary Staffing Services	11,103,754	-	11,103,754
Assisted employment - industrial	6,867,089	-	6,867,089
Evaluation and training	13,023,130	-	13,023,130
Total program	79,828,263	-	79,828,263
Management and general	8,834,017	-	8,834,017
Fundraising	778,403	-	778,403
Total expenses	89,440,683	-	89,440,683
CHANGE IN NET ASSETS	1,828,609	407,144	2,235,753
NET ASSETS, beginning of year	35,822,748	2,493,994	38,316,742
NET ASSETS, end of year	\$ 37,651,357	\$ 2,901,138	\$ 40,552,495

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

GOODWILL INDUSTRIES OF CENTRAL TEXAS
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Assisted employment - retail, net of cost of goods sold of \$7 million	\$ 53,843,547	\$ -	\$ 53,843,547
Goodwill Temporary Services	12,043,938	-	12,043,938
Assisted employment - industrial	7,973,955	-	7,973,955
Evaluation and training	2,505,761	-	2,505,761
Grants	5,154,286	-	5,154,286
Contributed Goods	4,390,886	-	4,390,886
Contributions	772,097	2,107,054	2,879,151
Other	378,815	-	378,815
Gain on fixed asset disposals	26,550	-	26,550
Satisfaction of program restrictions	154,784	(154,784)	-
Total revenue	87,244,619	1,952,270	89,196,889
EXPENSES			
Program:			
Assisted employment - retail	47,224,304	-	47,224,304
Temporary Staffing Services	11,077,988	-	11,077,988
Assisted employment - industrial	6,224,264	-	6,224,264
Evaluation and training	12,259,966	-	12,259,966
Total program	76,786,522	-	76,786,522
Management and general	8,538,803	-	8,538,803
Fundraising	576,846	-	576,846
Total expenses	85,902,171	-	85,902,171
CHANGE IN NET ASSETS	1,342,448	1,952,270	3,294,718
NET ASSETS, beginning of year	34,480,300	541,724	35,022,024
NET ASSETS, end of year	\$ 35,822,748	\$ 2,493,994	\$ 38,316,742

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

GOODWILL INDUSTRIES OF CENTRAL TEXAS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR YEAR ENDED DECEMBER 31, 2018

	Program Services				Support Services		Total
	Assisted Employment Retail	Temporary Staffing Services	Assisted Employment Industrial	Evaluation and Training	Management and General	Fundraising	
		\$	\$	\$	\$	\$	
Wages	22,804,619	9,107,962	4,326,514	8,648,169	4,854,232	419,764	50,161,260
Payroll Taxes	1,722,755	706,618	314,008	459,981	291,492	11,728	3,506,582
Employee Benefits	2,293,438	340,970	234,738	741,374	381,774	13,091	4,005,385
Professional Fees	455,483	33,761	80,109	252,606	1,192,894	87,981	2,102,834
Supplies	1,311,115	7,896	598,686	266,575	220,440	6,077	2,410,789
Telephone & Internet	283,154	12,539	29,289	79,125	207,198	2,219	613,524
Repair and Maintenance	1,314,882	79	86,003	95,306	254,444	—	1,750,714
Postage and Freight	1,170,139	2,038	688,557	1,009	6,905	1,153	1,869,801
Rents	9,305,551	—	53,719	11,640	2,632	—	9,373,542
Utility and Trash	1,877,970	—	22,673	—	329,097	—	2,229,740
Printing and Publications	75,013	2,058	2,778	18,002	6,525	25,151	129,527
Recruitment and Advertising	1,440,213	56,060	(2,506)	107,982	97,233	1,441	1,700,423
Equipment Rental	519,013	697	202,897	13,633	318,000	902	1,055,142
Travel, Convention, Meetings	73,078	10,034	33,742	119,801	52,081	2,269	291,005
Commissions and Fees	391,922	508,201	322,328	—	—	—	1,222,451
Membership Dues	19,848	3,508	(545)	5,248	224,255	4,397	256,711
Interest Expense	274,664	—	(268)	—	328,502	—	602,898
Depreciation/Amortization	1,871,593	19,961	44,940	245,045	1,195,604	117	3,377,260
Insurance	690,050	161,329	86,292	54,750	100,999	668	1,094,088
Assistance & Training	3,449	25,136	432	702,237	7,019	(139)	738,134
Other Miscellaneous	936,341	104,907	(257,297)	1,200,647	(1,237,309)	201,584	948,873
	\$ 48,834,290	\$ 11,103,754	\$ 6,867,089	\$ 13,023,130	\$ 8,834,017	\$ 778,403	\$ 89,440,683

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

GOODWILL INDUSTRIES OF CENTRAL TEXAS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR YEAR ENDED DECEMBER 31, 2017

	Program Services				Support Services		Total
	Assisted Employment Retail	Temporary	Assisted	Evaluation and Training	Management and General Fundraising		
		Staffing Services	Employment Industrial		Management and General	Fundraising	
Wages	\$21,749,794	\$8,951,596	\$3,974,847	\$7,882,220	\$ 4,335,161	\$ 286,360	\$ 47,179,978
Payroll Taxes	1,687,397	728,338	295,690	487,359	305,247	14,917	3,518,948
Employee Benefits	2,094,091	446,095	180,745	707,446	339,214	11,674	3,779,265
Professional Fees	463,788	19,026	111,742	175,683	1,218,629	16,524	2,005,392
Supplies	1,167,742	5,511	622,990	377,327	180,724	15,111	2,369,405
Telephone & Internet	341,778	14,116	28,602	77,306	280,843	2,181	744,826
Repair and Maintenance	729,360	-	79,322	91,952	176,985	—	1,077,619
Postage and Freight	1,222,192	4,602	416,260	4,779	13,375	393	1,661,601
Rents	8,633,952	-	66,084	13,109	12,524	—	8,725,669
Utility and Trash	1,843,100	-	11,740	10,496	254,109	—	2,119,445
Printing and Publications	53,878	4,353	-	19,528	8,877	26,520	113,156
Recruitment and Advertising	1,448,743	49,567	3,900	115,299	71,798	70	1,689,377
Equipmental Rental	588,254	3,769	297,854	46,497	267,170	360	1,203,904
Travel, Convention, Meetings	77,346	7,616	42,429	117,416	50,621	2,376	297,804
Commissions and Fees	713,478	514,670	311,431	—	—	—	1,539,579
Membership Dues	21,635	2,745	1,145	3,644	224,906	1,894	255,969
Interest Expense	637,968	—	3,343	—	571,899	—	1,213,210
Depreciation/Amortization	1,926,022	22,302	59,483	302,107	1,424,462	734	3,735,110
Insurance	657,893	140,517	72,599	9,066	85,798	434	966,307
Assistance & Training	4,146	53,540	300	556,209	2,395	9,514	626,104
Other Miscellaneous	1,161,747	109,625	(356,242)	1,262,523	(1,285,934)	187,784	1,079,503
	\$ 47,224,304	\$ 11,077,988	\$ 6,224,264	\$ 12,259,966	\$ 8,538,803	\$ 576,846	\$ 85,902,171

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

GOODWILL INDUSTRIES OF CENTRAL TEXAS
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets without donor restrictions, net of release of donor restrictions	\$ 1,391,119	\$ 1,187,664
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,384,837	3,735,111
Net (gain) loss on disposal of fixed assets	74,537	(26,551)
Change in fair value of interest rate swaps	(351,474)	479,113
Unrealized gain on investment	-	(65,746)
Net assets released from restrictions	221,037	105,680
Change in operating assets and liabilities:		
Receivables	(223,799)	1,101,681
Inventory	222,628	(762,510)
Other assets	(2,639)	(52,211)
Other long term assets	138,580	(311,014)
Accounts payable and accrued expenses	1,510,994	(1,296,769)
Other long-term liabilities	62,012	326,226
Deferred revenue	(172,543)	194,637
	6,255,289	4,615,311
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(1,546,063)	(316,953)
Proceeds from the sale of fixed assets	27,735	28,099
Increase in net assets with donor restrictions	(957,592)	(2,160,000)
Purchase of investments	38,380	(13,916)
	(2,437,540)	(2,462,770)
Net cash used by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt, net	417,662	24,274,641
Principal payment on debt	(951,338)	(27,115,166)
Increase in assets limited to use	957,592	2,160,000
	423,916	(680,525)
Net cash provided by financing activities		
NET CHANGE IN CASH	4,241,665	1,472,016
CASH AND CASH EQUIVALENTS, beginning of year	7,740,186	6,268,170
CASH AND CASH EQUIVALENTS, end of year	\$ 11,981,851	\$ 7,740,186
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 954,372	\$ 734,097

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 restitution, 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. GCT currently has no net assets permanently restricted by donors.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets Without Donor Restrictions

Net assets without donor restrictions result from operating revenues, unrestricted contributions, unrestricted dividend and interest income, less expenses incurred in operations to raise contributions and for administrative functions.

Donor Restricted Net Assets

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

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Grants	Time and effort
Occupancy	Square Footage
Depreciation	Square Footage

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Receivables

GCT accounts for its accounts receivables 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 percent collectible.

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.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and / or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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.

Assets Limited to Use

Assets limited to use are assets set aside for future use based on time or purpose restrictions by donors. These assets are released for use when the donor restrictions are met.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2018 and 2017 were approximately \$1,600,000 and \$1,689,000.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. GCT has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. RECEIVABLES

Accounts receivables at December 31 are categorized as follows:

	<u>2018</u>	<u>2017</u>
Accounts receivable	\$ 3,939,754	\$ 3,684,336
Contributions receivable	64,442	90,414
Other receivables	4,666	6,855
Allowance for doubtful accounts	<u>(108,498)</u>	<u>(105,040)</u>
	<u>\$ 3,900,364</u>	<u>\$ 3,676,565</u>

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

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 64,442	\$ 90,414
One year to five years	<u>226,070</u>	<u>404,418</u>
	290,512	494,832
Less:		
Allowance for uncollectible contributions receivable	<u>(97,378)</u>	<u>(171,777)</u>
	<u>\$ 193,134</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, 2018 and 2017 GCT had accrued approximately \$1,120,000 and \$1,207,000 in leave time respectively. These amounts are 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, cash, and money market investments with Edward Jones® Investments and are categorized as follows:

	<u>2018</u>	<u>2017</u>
Mutual Funds:		
Equities	\$ -	\$ 413,840
Fixed income	-	194,130
Cash and money market	<u>576,851</u>	<u>7,261</u>
 Total	 <u>\$ 576,851</u>	 <u>\$ 615,231</u>
 Net investment income is summarized as follows:		
Interest and dividends	<u>\$ 7,635</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:

	<u>Unrestricted</u>	<u>Donor Restricted</u>	<u>Total</u>
Board-designated fund 2018	\$ 576,851	\$ -	\$ 576,851
Board-designated fund 2017	615,231	-	\$ 615,231

Changes in board-designated net assets for the year ended December 31:

	<u>2018</u>	<u>2017</u>
Board-designated net assets, beginning of year	\$ 615,231	\$ 535,569
Fees	(7,745)	(7,863)
Investment income	7,635	21,556
Investment appreciation/loss	<u>(38,270)</u>	<u>65,969</u>
Board-designated net assets, end of year	<u>\$ 576,851</u>	<u>\$ 615,231</u>

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. BOARD-DESIGNATED FUNDS (CONTINUED)

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 by Asset Class:

Asset Class	2018	2017
Equities	0.0%	67.3%
Fixed income	0.0%	31.5%
Cash and equivalents	100.0%	1.2%

Spending of board-designated funds and earnings are to be authorized at the discretion of the Board of Directors. In 2018 the governing board of GTC authorized liquidation of equity and bond positions in the fund to help finance the build out of the Goodwill Career and Technical Academy while waiting to collect on pledges made to the capital campaign.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 2018 and 2017 was approximately \$9,374,000 and \$8,725,000 respectively. The following is a schedule of future minimum lease payments for non-cancelable operating leases of more than one year:

Year Ending December 31,

2019	\$ 8,260,903
2020	8,306,275
2021	7,496,448
2022	6,934,268
2023	6,426,381
Thereafter	45,115,061
	<u>\$ 82,539,336</u>

NOTE 8. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2017	Additions	Deletions	December 31, 2018
Buildings	\$ 37,552,396	\$ -	\$ -	\$ 37,552,396
Building improvements	16,566,715	243,005	206,363	16,603,357
Furniture and equipment	13,795,824	592,885	1,293,414	13,095,295
Land	12,835,591			12,835,591
Vehicles	1,398,952	237,006	2,760	1,633,198
Construction in progress	8,750	463,830		472,580
Excel equipment	637,414	8,480	-	645,894
GTS equipment	319,004			319,004
GTS vehicles	114,299		-	114,299
Blue Solutions equipment	56,182	-		56,182
Blue Solutions vehicles	122,835			122,835
Accumulated depreciation	<u>(28,369,332)</u>	<u>(3,348,661)</u>	<u>(1,389,058)</u>	<u>(30,328,935)</u>
	<u>\$ 55,038,630</u>	<u>\$ (1,803,455)</u>	<u>\$ 113,479</u>	<u>\$ 53,121,696</u>

Depreciation expense for the year ended December 31, 2018 and 2017 was \$3,348,661 and \$3,631,401 respectively.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. DEBT

	2018	2017
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.	\$ 23,535,793	\$ 24,366,246
Capital leases	663,873	367,096
Unamortized debt issuance costs	(210,978)	(235,089)
	\$ 23,988,689	\$ 24,498,253
Current portion	\$ 998,138	\$ 910,400
Long-term	22,990,550	23,587,853
	\$ 23,988,689	\$ 24,498,253
 Debt maturities:		
2019		\$ 1,022,250
2020		1,015,491
2021		1,061,559
2022		1,101,586
2023		1,097,715
Thereafter		18,901,065
Total		\$ 24,199,666
Less: Unamortized debt issuance costs		(210,978)
Total debt		\$ 23,988,688

Interest expense for 2018 was approximately \$954,000. Interest paid in 2018 was approximately \$954,000 and interest swap expense in 2018 was approximately (\$351,000). Interest expense for 2017 was approximately \$1,213,000. Interest paid in 2017 was approximately \$717,000 and interest swap expense in 2017 was approximately \$495,000.

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 2018 measured on a trailing four-quarter basis.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. DEBT (CONTINUED)

6. Maintain at least 30 days of Days Cash on Hand.
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 \$1,000,000.

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 years ended December 31, 2018 and 2017 was approximately \$246,000 and \$285,000 respectively.

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 \$136,326 and \$487,799 on December 31, 2018 and 2017 respectively, and is recorded as a liability on the Consolidated Statement of Financial Position.

NOTE 12. COMMITMENTS

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:

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

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. COMMITMENTS (CONTINUED)

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 as of December 31, 2018 and 2017 for \$481,172 and \$451,734.

NOTE 13. CONTINGENCIES

Letters of Credit

As of December 31, 2018, GCT had not drawn upon any letters of credit, which have been issued in the maximum amounts of \$100,000 and \$28,000 to cover security deposits for two individual leased properties.

NOTE 14. 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

NOTE 14. FAIR VALUE DISCLOSURES (CONTINUED)

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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate swap	\$ -	(136,326)	-	\$ (136,326)

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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, 2018 or 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. There were no mutual funds or equity securities as of December 31, 2018.

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.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. DONOR RESTRICTED NET ASSETS

Donor restricted net assets as of December 31, consist of:

	2018	2017
Restricted for Future Building	\$ 9,075	\$ 11,119
Restricted for Youth Programs	-	94,962
Restricted for Evaluation and Training Programs	93,900	115,601
Restricted for Community Education	18,288	19,288
Restricted for The Excel Center	26,212	10,000
Restricted Pledge Receivables	2,753,663	2,243,024
Total Donor Restricted Net Assets	<u>\$ 2,901,138</u>	<u>\$ 2,493,994</u>

NOTE 16. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

During the years ended December 31, 2018 and 2017, net assets with donor restrictions totaling \$437,490 and \$154,784 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors.

NOTE 17. 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 74% and 77% of revenues flowing through accounts receivable are from various agencies of the State of Texas or the Federal Government at December 31, 2018 and 2017 respectively.

NOTE 18. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

GCT regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. GCT has various sources of liquidity at its disposal, including cash, cash equivalents and letters of credit. See Note 13 for information about GCT's letters of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, GCT considers all expenditures related to its ongoing activities of evaluation and training, assisted employment, and temporary employment as well as the conduct of services undertaken to support those activities to be general expenditures.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

In addition to financial assets available to meet general expenditures over the next 12 months, GCT operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of GCT's cash and shows positive cash generated by operations for 2017 and 2018.

As of December 31, 2018, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	\$ 11,981,851
Liquid investments	576,851
Accounts receivable, net	3,900,364
Inventory	1,416,793
	<u>\$ 17,875,859</u>

NOTE 19. SUBSEQUENT EVENTS

GCT closed on land for a new retail location for \$1,900,000 on March 1, 2019.

**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***

To the 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, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated March 28, 2019.

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*.

The Board of Directors
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 28, 2019

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

To the 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, 2018. 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, 2018.

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 28, 2019

SUPPLEMENTARY INFORMATION

GOODWILL INDUSTRIES OF CENTRAL TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

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				
WIOA Title I Youth (7340)	17.259	WIOA1415	\$ 1,114,574	\$ 40,174
WIOA Title I Youth (7350)	17.259	WIOA1415-1920	332,445	7,409
			<u>1,447,019</u>	<u>47,583</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	429,158	-
LifeLaunch Adult Reintegration Project (7375))	17.270	PE-30788-17-60-A-24	342,870	-
H-1 B Job Training Grants - Goodwill Careers in Technology (Techhire) (7715)	17.268	HG-29347-16-60-A-24	228,956	-
			<u>1,000,984</u>	<u>-</u>
Direct Funding:				
Reintegration of Ex-Offenders - Training 2 Work 4 (7950)	17.270	PE-29373-16-60-A-48	455,272	-
Total U.S. Department of Labor			<u>2,903,275</u>	<u>47,583</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	251,088	-
				<u>-</u>
Passed through Texas Education Agency				
Special Education - Grants to States (IDEA-B Formula)	84.027	166600012278286000	24,094	-
Total Department of Education			<u>275,182</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	125,807	94,584
Temporary Assistance for Needy Families (TANF) - Self Sufficiency (7719)	93.558	1417SSF000	14,390	-
Total Department of Health and Human Services			<u>140,197</u>	<u>94,584</u>
Total Federal Assistance			<u>\$ 3,318,654</u>	<u>\$ 142,167</u>

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2018

NOTE 1. BASIS OF PRESENTATION

The schedule of expenditures of federal awards (the schedule) includes the grant activity of GCT under programs of the federal government for the year ended December 31, 2018. The information in this 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 Uniform Guidance, wherein certain types of expenditures are not allowable or are limited reimbursement. The 10% de minimis indirect cost rate was used.

Pass-through entity identifying numbers are presented where available.

Goodwill Industries of Central Texas

Schedule of Findings and Questioned Costs

December 31, 2018

Section 1. Summary of Auditor's Results

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

An unmodified opinion was issued on compliance for major programs.

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, or State of Texas Uniform Grant Management Standards? _____ Yes X No

Identification of major federal programs:

- 17.270 - Reintegration of Ex-Offenders - LifeLaunch Reentry Demonstration Project for Young Adults
- 17.270 - Reintegration of Ex-Offenders - LifeLaunch Reentry Reintegration Project
- 17.270 - Reintegration of Ex-Offenders - Training 2 Work 4
- 84.002 - Adult Education - State Grant Program - Accelerate Texas III: Integrated Education and Training

Dollar threshold use to distinguish between type A and type B programs? \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

Section 2. Financial Statement Findings

Current year – none

Prior year – none

Section 3. Federal Award Findings and Questioned Costs

None noted