

GOODWILL INDUSTRIES OF CENTRAL TEXAS

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2020 and 2019

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 AUDITING STANDARDS</i>	27
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE	29
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	32
Notes to the Schedule of Expenditures of Federal Awards.....	33
Schedule of Findings and Questioned Costs	34



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, 2020 and 2019, 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, 2020 and 2019, 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

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 April 23, 2021, 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
April 23, 2021

GOODWILL INDUSTRIES OF CENTRAL TEXAS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020 AND 2019

ASSETS	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,457,626	\$ 10,825,221
Investments	224,136	400,900
Receivable, net of allowance for doubtful accounts of \$413,208 and \$94,893 at December 2020 and 2019 respectively	4,941,047	4,144,177
Inventory	2,328,806	3,192,224
Other	566,370	1,118,488
Total current assets	22,517,985	19,681,010
ASSETS LIMITED TO USE	220,687	752,800
OTHER LONG TERM ASSETS	482,991	966,917
PROPERTY AND EQUIPMENT	54,547,705	57,817,338
TOTAL ASSETS	\$ 77,769,368	\$ 79,218,065
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 3,974,649	\$ 2,983,922
Accrued liabilities and deferred revenue	6,696,803	6,127,533
Current portion of long-term debt	1,172,165	1,051,155
Total current liabilities	11,843,617	10,162,610
LONG-TERM LIABILITIES		
Other long-term liabilities	3,292,315	2,922,262
Interest rate swap	1,771,047	929,303
Long-term debt, net of current portion	21,465,463	22,245,234
Total long-term liabilities	26,528,825	26,096,799
TOTAL LIABILITIES	38,372,442	36,259,409
NET ASSETS		
Without donor restrictions:		
Undesignated	38,763,761	41,436,620
Board designated endowment funds	224,136	400,900
	38,987,897	41,837,520
With donor restrictions	409,029	1,121,136
TOTAL NET ASSETS	39,396,926	42,958,656
TOTAL LIABILITIES AND NET ASSETS	\$ 77,769,368	\$ 79,218,065

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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Assisted employment retail	\$ 60,185,426	\$ -	\$ 60,185,426
Temporary Staffing Services	12,980,332	-	12,980,332
Assisted employment - industrial	9,166,665	-	9,166,665
Education evaluation and training	5,125,684	-	5,125,684
Grants	6,348,116	-	6,348,116
Contributions	1,402,528	(358,513)	1,044,015
Other	316,522	-	316,522
Gain on fixed asset disposals	6,775,717	-	6,775,717
Satisfaction of restrictions	353,594	(353,594)	-
Total revenue	102,654,584	(712,107)	101,942,477
EXPENSES			
Program:			
Assisted employment - retail	60,522,893	-	60,522,893
Temporary Staffing Services	12,457,868	-	12,457,868
Assisted employment - industrial	8,155,042	-	8,155,042
Education evaluation and training	15,641,192	-	15,641,192
Total program	96,776,995	-	96,776,995
Management and general	8,452,137	-	8,452,137
Fundraising	275,075	-	275,075
Total expenses	105,504,207	-	105,504,207
CHANGE IN NET ASSETS	(2,849,623)	(712,107)	(3,561,730)
NET ASSETS, beginning of year	41,837,520	1,121,136	42,958,656
NET ASSETS, end of year	\$ 38,987,897	\$ 409,029	\$ 39,396,926

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Assisted employment retail	\$ 71,351,423	\$ -	\$ 71,351,423
Goodwill Temporary Services	13,670,527	-	13,670,527
Assisted employment - industrial	8,807,455	-	8,807,455
Education evaluation and training	4,077,826	-	4,077,826
Grants	5,451,660	-	5,451,660
Contributed goods	545,856	-	545,856
Contributions	1,319,980	199,382	1,519,362
Other	327,596	-	327,596
Loss on fixed asset disposals	(96,847)	-	(96,847)
Satisfaction of restrictions	1,979,384	(1,979,384)	-
Total revenue	107,434,860	(1,780,002)	105,654,858
EXPENSES			
Program:			
Assisted employment - retail	60,543,253	-	60,543,253
Temporary Staffing Services	12,441,623	-	12,441,623
Assisted employment - industrial	7,605,978	-	7,605,978
Education evaluation and training	14,453,840	-	14,453,840
Total program	95,044,694	-	95,044,694
Management and general	8,227,912	-	8,227,912
Fundraising	627,270	-	627,270
Total expenses	103,899,876	-	103,899,876
CHANGE IN NET ASSETS	3,534,984	(1,780,002)	1,754,982
NET ASSETS, beginning of year	38,302,536	2,901,138	41,203,674
NET ASSETS, end of year	\$ 41,837,520	\$ 1,121,136	\$ 42,958,656

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, 2020

	Program Services				Support Services		Total
	Assisted Employment	Temporary Staffing Services	Assisted Employment Industrial	Education, Evaluation and Training	Management and General	Fundraising	
	Retail						
Wages	\$ 21,769,482	\$ 9,704,804	\$ 4,755,073	\$ 9,320,716	\$ 3,935,730	\$ 127,404	\$ 49,613,209
Cost of Goods Sold	2,987,110						2,987,110
Payroll Taxes	2,030,940	915,995	439,399	474,885	372,582	10,861	4,244,662
Employee Benefits	3,693,653	550,692	517,701	1,290,780	502,875	37,944	6,593,645
Professional Fees	543,671	37,621	—	265,407	1,021,948	33,818	1,902,465
Supplies	2,375,265	71,481	574,186	389,448	789,594	11,091	4,211,065
Telephone & Internet	287,492	15,609	26,508	92,071	167,326	1,516	590,522
Repair and Maintenance	1,094,107	665	73,328	2,669	193,228		1,363,997
Postage and Freight	1,193,907	1,300	557,434	3,651	9,393	328	1,766,013
Rents	13,120,427	42,128	630,226	112,426			13,905,207
Utility and Trash	2,075,253		89,006	11,091	285,874		2,461,224
Printing and Publications	59,884	1,611	360	4,422	31,462	6,470	104,209
Recruitment and Advertising	795,586	104,165	3,214	75,337	91,982	334	1,070,618
Equipment Rental	1,655,858	631	214,913	25,107	269,587		2,166,096
Travel, Convention, Meetings	51,057	29,753	26,432	44,877	24,709	578	177,406
Commissions and Fees	678,145	509,554	367,297	553			1,555,549
Membership Dues	2,379	23,373	1,135	29,821	227,977	227	284,912
Interest Expense	922,415	1,078	4,998		894,244		1,822,735
Depreciation/Amortization	1,885,493		76,709	304,261	1,182,712		3,449,175
Insurance	735,140	152,473	104,457	101,973	94,859	214	1,189,116
Assistance & Training	4,765	52,952	3,619	1,627,332	9,997	6,588	1,705,253
Facilities & Overhead Allocation	1,066,166	165,770	(621,523)	1,352,314	(1,978,548)	15,821	-
Other Miscellaneous	1,494,698	76,213	310,570	112,051	324,606	21,881	2,340,019
	\$ 60,522,893	\$ 12,457,868	\$ 8,155,042	\$ 15,641,192	\$ 8,452,137	\$ 275,075	\$ 105,504,207

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, 2019

	<u>Program Services</u>				<u>Support Services</u>		Total
	Assisted Employment Retail	Temporary Staffing Services	Assisted Employment Industrial	Education, Evaluation and Training	Management and General	Fundraising	
Wages	\$ 24,894,818	\$ 10,017,171	\$ 4,703,347	\$ 9,253,608	\$ 4,118,756	\$ 244,482	\$ 53,232,182
Cost of Goods Sold	4,007,506						4,007,506
Payroll Taxes	1,933,729	741,862	367,755	472,402	285,858	15,878	3,817,484
Employee Benefits	3,264,638	464,977	434,902	1,055,842	413,520	80,253	5,714,132
Professional Fees	552,503	30,982	—	191,491	1,268,613	116,479	2,160,068
Supplies	1,475,891	13,995	628,449	271,810	250,882	11,729	2,652,756
Telephone & Internet	264,184	9,111	28,021	79,081	226,860	2,354	609,611
Repair and Maintenance	1,362,204	10	107,784	99,348	228,661		1,798,007
Postage and Freight	1,169,801	2,059	730,543	1,791	6,912	628	1,911,734
Rents	11,316,929		339,339	85,647	7,802		11,749,717
Utility and Trash	2,071,242		113,327	5,200	307,844		2,497,613
Printing and Publications	70,953	159	1,226	12,106	13,996	14,366	112,806
Recruitment and Advertising	1,403,353	64,638	300	116,600	142,333	49,909	1,777,133
Equipment Rental	586,057		230,673	33,476	292,068	(52)	1,142,222
Travel, Convention, Meetings	101,223	22,570	39,883	145,623	69,242	6,249	384,790
Commissions and Fees	422,078	562,532	327,506				1,312,116
Membership Dues	2,241	1,110	75	6,745	207,069	2,181	219,421
Interest Expense	897,320		1,379		827,370		1,726,069
Depreciation/Amortization	1,933,703	3,790	49,396	134,559	1,141,662		3,263,110
Insurance	741,734	206,613	95,827	47,726	94,270	309	1,186,479
Assistance & Training	1,814	61,576	3,942	541,030	3,810	2,298	614,470
Facilities and Overhead Allocation	718,756	178,552	(595,443)	1,695,871	(2,015,035)	17,299	—
Other Miscellaneous	1,350,576	59,916	(2,253)	203,884	335,419	62,908	2,010,450
	\$ 60,543,253	\$ 12,441,623	\$ 7,605,978	\$ 14,453,840	\$ 8,227,912	\$ 627,270	\$ 103,899,876

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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets without donor restrictions, net of release of donor restrictions	\$ (3,203,217)	\$ 1,555,600
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,449,177	3,264,713
Bad debt recoveries	132,148	21,282
Net (gain) loss on disposal of fixed assets	(6,775,717)	96,847
Change in fair value of interest rate swaps	841,744	792,977
Interest income	(8,274)	(9,050)
Net assets released from restrictions	(358,513)	(19,668)
Restricted contributions additions (reductions)		219,050
Change in operating assets and liabilities:		
Receivables	(929,018)	(265,095)
Inventory	863,418	(1,124,251)
Other assets	552,118	(597,374)
Other long term assets	483,926	89,920
Accounts payable and accrued expenses	231,836	366,131
Other long-term liabilities	370,053	669,820
Deferred revenue	1,328,162	474,797
	(3,022,157)	5,535,699
Net cash provided by (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(2,426,739)	(7,947,884)
Proceeds (Expense) from the sale of fixed assets	9,047,023	(85,204)
(Purchase)/ sale of investments	185,038	185,000
(Increase) / decrease in assets limited to use	532,113	1,872,171
	7,337,435	(5,975,917)
Net cash provided by (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt, net	3,150,000	329,621
Principal payment on debt	(3,832,873)	(1,046,033)
Net cash provided by (used in) financing activities	(682,873)	(716,412)
NET CHANGE IN CASH	3,632,405	(1,156,630)
CASH AND CASH EQUIVALENTS, beginning of year	10,825,221	11,981,851
CASH AND CASH EQUIVALENTS, end of year	\$ 14,457,626	\$ 10,825,221
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 954,222	\$ 1,726,069

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 education and training programs. GCT also operates retail stores that sell materials primarily donated by the public, performs work-related services through contracts with various entities in the Central Texas area, and provides employment to many individuals facing barriers to finding employment. GCT operates a free public charter school that provides adults 18-50 the opportunity to earn their high school diploma. The charter school also has campuses in some Texas prisons to help reduce the rate of recidivism by providing prisoners with a high school diploma that can lead to additional work opportunities upon release.

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 to individuals with disabilities and/or severe handicaps pursuant to contracts with the United States government and others. A minimum of 75% of Blue Solutions' employee base is comprised of individuals with disabilities or handicaps.

Programs consist of:

Assisted employment – retail: The collection process and sale of donations and a limited amount of new goods. Program provides employment and training, outside placement, employee counseling and career coaching, 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 and strives to place such individuals in full-time employment when possible.

Assisted employment – industrial: Program provides employment and training for individuals with disabilities or disadvantages.

Education evaluation and training: Program provides identification of work skills and aptitude, instruction in good work habits, career coaching, academic and technical skills education, employer relationships, methods of locating jobs, and job placement.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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:

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 Goods

Donated goods 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 goods 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.

GCT uses the retail inventory method to estimate the ending inventory at cost by employing a cost to retail (selling price) ratio. Cash flow from retail sales is the basis of valuation used to determine the fair value of donated goods at year end. Year-end inventory of donated goods is calculated by applying the inventory turnover rate to the value of the retail sales of donated goods for the period net of cost to bring the donated goods to market.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 percent collectible.

Investments

Investments in marketable securities with readily determinable fair values are reported at fair value. Unrealized gains and losses are included in the change in net assets.

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 purpose or time stipulations 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 grant funded property and equipment are considered income to the funding source that originally purchased the asset. Depreciation is

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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	40 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.

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, 2020 and 2019 were approximately \$927,000 and \$1,617,000 respectively.

Reclassifications

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

NOTE 3. REVENUE RECOGNITION

The Organization adopted Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers on January 1, 2019, using the modified retrospective transition approach. Results for reporting periods beginning January 1, 2019 are presented under ASC Topic 606, while prior period amounts are not adjusted and were reported in accordance with historic accounting under ASC Topic

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. REVENUE RECOGNITION (CONTINUED)

605. The adoption of this guidance did not have a significant impact on the Organization's revenue or timing of revenue recognition.

The Organization's activities are primarily supported through program service fees, donor contributions, and federal grants. Prices for program service fees are specific to distinct performance obligations and are not allocated to multiple transactions. The Organization did not have any credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components.

A description of the Organization's revenue streams accounted for under ASC 606 follows:

GCT store sales consist of the sale of donated goods and new goods, and the sale of each individual item is recorded at the point of sale, the point at which the performance obligation for each individual item sold is met. Store sales do not include sales tax, because the organization is a pass-through conduit for collecting and remitting sales taxes. E-commerce merchandise is priced as advertised online including shipping charges. Salvage revenue consists of donated goods that were not sold in retail or outlet stores and is sold on the after-retail market. Salvage is bundled, and each individual bundle has a separate performance obligation. Revenue is recorded when the bundles are purchased and picked up.

GCT facility contracts consist of services that are provided under state government, private commercial, and federal AbilityOne programs. Services include janitorial, landscape maintenance, packaging, and mail room. Services are ongoing as defined by the contracts, and performance obligations under each contract are defined in terms of various performance indicators including but not limited to hours worked and units produced. GCT invoices the customers receiving the services monthly based on the appropriate performance indicators, and records revenue as the services are performed.

GCT provides temporary employment for people with disabilities and other barriers to local area employers. These services are primarily provided through cost-reimbursable agreements with various employers. The Organization's costs in providing these services consist of the employees' wages and benefits, sales commissions, and other administrative costs. GCT recognizes revenue for its temporary staffing services over time as services are performed in an amount that reflects the consideration it expects to be entitled to in exchange for its services, which is generally calculated as hours worked multiplied by the agreed-upon hourly bill rate. The customer simultaneously receives and consumes the benefits of the services as they are provided.

GCT receives grant awards from federal, state, and local agencies to fund specific programs administered by the Organization. Such grant awards are made in accordance with compliance requirements. Federal grants are considered conditional contributions and the recognition of grant revenue is deferred until requirements stipulated under the

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. REVENUE RECOGNITION (CONTINUED)

grant agreement are met by GCT. Revenue is recognized as the related qualifying expenses are incurred as allowable by the grants.

Revenue recognition for contributions received by GCT is detailed above in Note 2 Summary of Significant Accounting Policies.

NOTE 4. RECEIVABLES

Accounts receivable at December 31 are categorized as follows:

	<u>2020</u>	<u>2019</u>
Accounts receivable	\$ 5,284,238	\$ 4,151,415
Contributions receivable	70,017	68,126
Other receivables	-	19,528
Allowance for doubtful accounts	<u>(413,208)</u>	<u>(94,893)</u>
	<u>\$ 4,941,047</u>	<u>\$ 4,144,177</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 on December 31 are due as follows:

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 39,717	\$ 68,126
One year to five years	<u>38,802</u>	<u>186,214</u>
	78,518	254,340
Less:		
Allowance for uncollectible contributions receivable	<u>(8,502)</u>	<u>(125,918)</u>
	<u>\$ 70,017</u>	<u>\$ 128,422</u>

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. INVENTORY

Inventories at December 31 are categorized as follows:

	<u>2020</u>	<u>2019</u>
Inventory of donated goods	\$ 1,396,057	\$ 1,684,872
Inventory of goods purchased for resale	932,749	1,507,352
	<u>\$ 2,328,806</u>	<u>\$ 3,192,224</u>

NOTE 6. 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. On December 31, 2020 and 2019, GCT had accrued approximately \$1,075,000 and \$1,286,000 in leave time respectively. These amounts are included in accrued liabilities in the financial statements.

NOTE 7. INVESTMENTS

Investment consists of a money market investment with Edward Jones® Investments and is categorized as follows:

	<u>2020</u>	<u>2019</u>
Mutual Funds:		
Cash and money market	\$ 1,418	\$ 400,900
Exchange traded funds	222,718	-
	<u>\$ 224,136</u>	<u>\$ 400,900</u>
 Total		
	<u>\$ 224,136</u>	<u>\$ 400,900</u>
 Net investment income is summarized as follows:		
Interest and dividends	<u>\$ 8,299</u>	<u>\$ 9,049</u>

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. 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>2020</u>	<u>2019</u>
Unrestricted	\$ 224,136	\$ 400,900
Donor restricted	-	-
Total	<u>\$ 224,136</u>	<u>\$ 400,900</u>

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

	<u>2020</u>	<u>2019</u>
Board-designated net assets, beginning of year	\$ 400,900	\$ 576,851
Fees	(25)	-
Investment income	8,299	9,049
Withdrawal	(185,038)	(185,000)
Investment appreciation/loss	-	-
Board-designated net assets, end of year	<u>\$ 224,136</u>	<u>\$ 400,900</u>

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. As of December 31, 2020, \$370,038 had been withdrawn for this purpose.

NOTE 9. 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 2020 and 2019 was approximately \$15,521,000 and \$12,196,000 respectively. The following is a schedule of future minimum lease payments for non-cancelable operating leases of more than one year:

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. LEASE COMMITMENTS (CONTINUED)

Year Ending December 31,

2021	10,524,884
2022	10,112,947
2023	9,389,421
2024	8,703,241
2025	7,959,162
Thereafter	38,352,946
	<u>\$ 85,042,601</u>

NOTE 10. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Depreciation expense for the years ended December 31, 2020 and 2019 was \$3,425,065 and \$3,238,998 respectively.

	December 31, 2019	Additions	Deletions	December 31, 2020
Building	\$ 55,668,367	\$ 2,535,115	\$ (4,181,738)	\$ 54,021,744
Land	14,771,500	-	(792,113)	13,979,387
Furniture and equipment	14,569,841	1,454,728	(3,591,252)	12,433,317
Transportation Equipment	1,873,999	-	(202,211)	1,671,788
Construction in progress	3,005,458	1,173,478	(2,682,176)	1,496,760
Accumulated depreciation	(32,071,827)	(3,425,065)	6,441,601	(29,055,291)
	<u>\$ 57,817,338</u>	<u>\$ 1,738,256</u>	<u>\$ (5,007,889)</u>	<u>\$ 54,547,705</u>

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. DEBT

	2020	2019
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.	\$ 21,778,065	\$ 22,671,698
Economic Injury Disaster Loan payable to the Small Business Administration, 2.75% per annum maturing October 2050.	150,000	-
Capital leases	872,317	811,557
Unamortized debt issuance costs	(162,754)	(186,866)
	\$ 22,637,628	\$ 23,296,389
Current portion	\$ 1,172,165	\$ 1,051,155
Long-term	21,465,463	22,245,234
	\$ 22,637,628	\$ 23,296,389
 Debt maturities:		
2021		\$ 1,176,952
2022		1,224,025
2023		1,229,844
2024		1,199,393
2025		1,106,282
Thereafter		16,863,885
Total		\$ 22,800,382
Less: Unamortized debt issuance costs		(162,754)
Total debt		\$ 22,637,628

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. DEBT (CONTINUED)

Interest:

	2020	2019
Interest expense	\$ 981,000	\$ 1,726,000
Interest paid	954,000	1,726,000
Interest swap expense	842,000	793,000

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.
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.

In response to the financial impacts of the COVID-19 pandemic and the pending discontinuation of LIBOR, the Company and Compass Mortgage Corporation amended the loan agreement in January 2021 to do the following:

- Eliminate the fixed charge coverage ratio covenant and the days' cash on hand covenant prior to 2021.
- Require 30 days cash on hand, measured quarterly, from March 31, 2021 forward
- Require a minimum fixed charge coverage ratio, measuring from January 1, 2021 forward equal to or greater than:
 - 1.10 to 1.0 at March 31, 2021
 - 1.15 to 1.0 at June 30, 2021
 - 1.20 to 1.0 at September 30, 2021
 - 1.25 to 1.0 at December 31, 2021 and thereafter, on a rolling 4-quarter basis
- Increase allowed other indebtedness to \$1.5 million plus another \$1.0 million specific to Economic Injury Disaster Loans received pursuant to the SBA's program for such loans.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. DEBT (CONTINUED)

- Allow for the substitution of an alternative benchmark interest rate upon the cessation of availability of LIBOR, with an expressed intent of approximating the rate that would have applied had LIBOR continued to be published and available.

NOTE 12. PENSION PLAN OBLIGATIONS

GCT offers a 403(b) tax-deferred retirement plan. All employees 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. Employees of the Excel Center and Goodwill Staffing Group are not eligible for matching contributions. Any employee contributions made toward the retirement plan are 100% vested. Employer contributions vest 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, 2020 and 2019 was approximately \$331,000 and \$315,000 respectively.

GCT had 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.

The employee retired and the funds were disbursed in 2020.

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, 2020 and 2019 for \$0 and \$494,152.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. INTEREST RATE SWAP

GCT entered an interest rate swap to effectively convert its variable rate loan with Compass Mortgage Corporation to a fixed rate of 3.846%, but did not designate it as a hedge, opting instead to mark it to market each reporting period and report its fair value on the statement of financial position. Changes in fair value of the interest rate swap are recognized in earnings. The fair value of the interest rate swap was \$1,771,047 and \$929,303 on December 31, 2020 and 2019 respectively and is recorded as a liability on the Consolidated Statement of Financial Position.

NOTE 14. COMMITMENTS

Letters of Credit

As of December 31, 2020, GCT had not drawn upon any letters of credit, which have been issued in the maximum amounts of \$59,344 and \$31,666 to cover security deposits for individual leased properties.

NOTE 15. 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 or transfer the liability occurs in the principal market for the asset or 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 or use of an asset, and the value based on inputs

GCT uses the fair value hierarchy 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 15. FAIR VALUE DISCLOSURES (CONTINUED)

Level 3 inputs: Unobservable inputs for the asset or liability which rely on management's own estimates for assumptions that market participants would use in pricing the asset or liability that include option pricing models, 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, 2020:

	Total	Level 1	Level 2	Level 3
<u>Assets and Liabilities</u>				
Exchange traded funds	\$ 222,718	\$ 222,718	\$ -	\$ -
Interest rate swap	\$ (1,771,047)	\$ -	\$ (1,771,047)	\$ -

The following summarizes the valuation of GCT's assets (liabilities) measured using the market approach under the fair value standard hierarchy at December 31, 2019:

	Total	Level 1	Level 2	Level 3
<u>Assets and Liabilities</u>				
Exchange traded funds	\$ -	\$ -	\$ -	\$ -
Interest rate swap	\$ (929,303)	\$ -	\$ (929,303)	\$ -

There were no significant transfers between levels 1, 2, or 3 for the year ended December 31, 2020 or 2019.

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

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 16. DONOR RESTRICTED NET ASSETS

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

	2020	2019
Restricted for Evaluation and Training Programs	\$ 60,000	\$ 111,444
Restricted for The Excel Center	251,605	147,868
Restricted Pledge Receivables	97,424	861,824
Total Donor Restricted Net Assets	\$ 409,029	\$1,121,136

NOTE 17. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

During the years ended December 31, 2020 and 2019, net assets with donor restrictions totaling \$353,594 and \$1,979,384 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors.

NOTE 18. 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 76% and 75% of revenues flowing through accounts receivable are from various agencies of the State of Texas or the Federal Government at December 31, 2020 and 2019 respectively.

NOTE 19. 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 14 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.

Retail stores were closed from April 8, 2020 through May 2, 2020 due to government mandated lockdowns and re-opened on a limited basis for several months following in accordance with municipal capacity restrictions. The store closures created approximately a

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

\$9 million loss of revenue for the organization through the end of May – a 32% decrease from the annual budget, and an estimated \$10 million impact in the full year, with volume not returning to normal amounts until near the end 2020. GCT actively explored and initiated actions to ensure the business continuity and financial stability of the organization including but not limited to:

- Furloughs / temporary reduction in workforce
- Salary reductions of all remaining support staff Senior Directors and above, with increasingly deeper percentage cuts at the higher levels. These cuts ranged from 10% for Senior Directors to 25% for the organization’s Chief Executive Officer.
- Deferral of company match to 403(b) retirement plan
- Deferral of rent at many leased locations until 2021
- Deferral of certain health and welfare premiums until 2021 as offered by Blue Cross/Blue Shield
- Temporary freeze on merit raises and pay increments at store locations typically aligned with tenure and completion of specific training programs
- Temporary freeze on the organization’s ERP upgrade project
- Temporary suspension of all monetary recognition programs related to milestone anniversaries of employment
- Temporary suspension of any company travel other than mileage to stores
- The sale of real estate at one closed store location generating approximately \$9 million of cash
- Other cost saving measures

As of December 31, 2020, 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	\$ 14,457,626
Liquid investments	224,136
Accounts receivable, net	4,941,047
Inventory	2,328,806
Sale of property under contract to close Mar 31, 2021	4,865,086
	\$ 26,816,700

In addition, the organization owns the real estate at several of its retail locations as well as its Goodwill Community Center, which includes our administrative offices. We believe we could relatively easily and quickly complete sale-leasebacks of several of these properties if necessary, to provide liquidity. If necessary and while we do not expect to need to do this, the organization could again employ many of the same techniques employed in 2020, which we estimate could mitigate roughly 50% of the lost revenue if we were forced to close stores for another extended period such as that experienced in 2020.

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20. SUBSEQUENT EVENTS

Several significant events have occurred subsequent to the date of these financial statements.

In response to the financial impacts of the COVID-19 pandemic and the pending discontinuation of LIBOR, the Company and Compass Mortgage Corporation amended the loan agreement between the parties in January 2021 to modify its financial covenants, increase allowed other indebtedness including loans pursuant to the SBA's COVID-19 relief programs, and allow for the substitution of an alternate interest reference rate at the time LIBOR is no longer published or available. See Note 11, "Debt" for a more detailed description of the specific changes.

On February 25, 2021, GCT purchased for \$5.7 million in cash the real estate and building housing one of its recently opened stores in Georgetown, Texas that was previously leased. By purchasing this property, we anticipate completely avoiding approximately \$120,000 of annual property taxes previously paid to its landlord as well as approximately \$374,000 of rent annually.

In March 2021, subsidiaries of GCT received a total of \$2,679,441 in loans pursuant to the U.S. Small Business Administration's Paycheck Protection Program, or PPP. While not guaranteed, we expect these loans to be fully forgiven in 2021 dependent on our expending the funds on forgivable items under the PPP rules, such as employee wages, utilities and rent. If not forgiven, each loan matures five years from inception.

On March 31, 2021, GCT sold the real estate and building that previously housed a store that closed in 2019. Gross proceeds of \$6.4 million, net of \$1.5 million of deposits previously received and related closing costs, resulted in net proceeds to GCT upon closing of \$4.9 million. GCT anticipates recording a gain on sale of approximately \$5 million resulting from this sale.



**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, 2020 and 2019, 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 April 23, 2021.

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*.

Weaver and Tidwell, L.L.P.
1601 South MoPac Expressway, Suite D250 | Austin, Texas 78746
Main: 512.609.1900

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
April 23, 2021



**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, 2020. 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, 2020.

The Board of Directors
Goodwill Industries of Central Texas

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
April 23, 2021

SUPPLEMENTARY INFORMATION

GOODWILL INDUSTRIES OF CENTRAL TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2020

Federal Grantor/Pass-Through Grantor Program or Cluster Title	CFDA Number	Pass through Number	(A) Expenditures Including Indirect Costs	(B) Amount in (A) Relating to Pass- Through to Subrecipients
<u>U.S. Department of Labor</u>				
Passed through Workforce Solutions- Capital Area Workforce Workforce Board				
WIOA Title I Adult Program	17.258	YOUTH2020-2025	\$ 32,079	-
WIOA Title I Adult Program	17.258	WIOA1415-1920	24,468	-
			<u>\$ 56,547</u>	<u>\$ -</u>
WIOA Title I Youth Activities	17.259	YOUTH2020-2025	\$ 200,554	\$ 8,684
WIOA Title I Youth Activities	17.259	WIOA1415-1920	1,127,844	47,300
			<u>1,328,398</u>	<u>55,984</u>
Total WIOA Cluster			1,384,945	
Passed through Goodwill Industries International, Inc				
Reintegration of Ex-Offenders				
LifeLaunch Adult Reintegration Project	17.270	PE-30788-17-60-A-24	171,611	-
Tech Hire Partnership Grants				
Goodwill Careers in Technology (Techhire)	17.268	HG-29347-16-60-A-24	17,439	-
			<u>189,050</u>	<u>-</u>
Passed through Texas Workforce Commission				
Employment Service/Wagner-Peyser Funded Activities				
Texas Talent Connection	17.207	1420WPB002	164,948	-
Total Employment Service Cluster			<u>164,948</u>	<u>-</u>
Total Department of Labor			1,738,943	55,984
<u>Department of Education</u>				
Passed through Texas Workforce Commission				
Adult Education - Basic Grants to States				
Accelerate Texas V: Integrated Education and Training	84.002A	1419AEL001	105,624	-
			<u>105,624</u>	<u>-</u>
Passed through Texas Education Agency				
Special Education - Grants to States (IDEA Part B)				
Special Education - Grants to States (IDEA Part B)	84.027A	206600012278286600	6,107	-
Special Education - Grants to States (IDEA Part B)	84.027A	216600012278276000	5,589	-
Total Special Education Cluster (IDEA)			<u>11,696</u>	<u>-</u>
Total Department of Education			117,320	-
<u>U.S. Department of Health and Human Services</u>				
Direct Funding				
Healthy Marriage Promotion and Responsible Fatherhood Grants				
Goodwill Central Texas Fatherhood Works Program	93.086		130,909	-
			<u>130,909</u>	<u>-</u>
Passed through Texas Workforce Commission				
Temporary Assistance for Needy Families (TANF) - Self Sufficiency Fund				
Temporary Assistance for Needy Families (TANF) - Self Sufficiency Fund	93.558	1419SSF002	55,857	-
			<u>55,857</u>	<u>-</u>
Total Department of Health and Human Services			186,766	-
Total Federal Assistance			<u>\$ 2,043,029</u>	<u>\$ 55,984</u>

GOODWILL INDUSTRIES OF CENTRAL TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2020

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, 2020. 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, 2020

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:

- WIOA Cluster
- 17.258 - WIA/WIOA Adult Program
- 17.259 - WIA/WIOA Youth Activities

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

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

Section 2. Financial Statement Findings

Current year – none

Prior year – none

Section 3. Federal Award Findings and Questioned Costs

None noted