Goodwill Industries of Central Texas

Consolidated Financial Statements
and Single Audit Reports and Schedules

December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Goodwill Industries of Central Texas
Austin, Texas

Opinion

We have audited the accompanying consolidated financial statements of Goodwill Industries of Central Texas (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Central Texas as of December 31, 2022 and 2021, 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.

Basis of Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Goodwill Industries of Central Texas and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Goodwill Industries of Central Texas's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Goodwill Industries of Central Texas's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Goodwill Industries of Central Texas's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization adopted ASU 2016-02, Leases (Topic 842). Our opinion is not modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2023, 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 the effectiveness of the Organization's 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.

Armanino LLP

ArmaninoLLP
Dallas, Texas

May 9, 2023

Goodwill Industries of Central Texas
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 12,265,787	$ 22,757,381
Investments	9,650,987	10,539,755
Receivables, net	9,298,888	4,781,414
Inventory	3,387,234	2,868,772
Prepaid and other assets	1,179,553	879,878
Total current assets	35,782,449	41,827,200
Other assets	545,798	634,709
Right of use assets - operating leases	58,176,540	-
Right of use assets - financing leases	1,307,476	-
Interest rate swap asset	5,714,743	-
Property and equipment, net	71,446,360	67,571,287
Total other assets	137,190,917	68,205,996
Total assets	$ 172,973,366	$ 110,033,196
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 6,665,202	$ 5,961,163
Accrued liabilities and deferred revenue	4,728,232	4,352,957
Paycheck Protection Program loans	2,091,773	2,679,441
Current portion of long-term debt	1,267,201	1,552,545
Current portion of operating lease liability	10,095,066	-
Current portion of financing lease liability	486,298	-
Total current liabilities	25,333,772	14,546,106
Deferred rent liability	-	3,484,754
Other liabilities	-	576,441
Operating lease liability, net of current portion	52,325,332	-
Financing lease liability, net of current portion	985,730	-
Interest rate swap liability	-	452,501
Long-term debt, net of current portion	39,299,895	41,272,921
Total liabilities	117,944,729	60,332,723
Net assets		
Without donor restrictions	53,121,324	48,431,631
With donor restrictions	1,907,313	1,268,842
Total net assets	55,028,637	49,700,473
Total liabilities and net assets	$ 172,973,366	$ 110,033,196

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

Goodwill Industries of Central Texas
Consolidated Statement of Activities
For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains (losses), and other support			
Assisted employment - retail	$ 90,150,004	$ -	$ 90,150,004
Contributed goods	77,987,771	-	77,987,771
Temporary staffing services	23,637,788	-	23,637,788
Assisted employment - industrial	9,739,265	-	9,739,265
Education evaluation and training	960,518	8,074,334	9,034,852
Federal grants from governmental agencies	6,896,911	-	6,896,911
Other grants	2,684,355	-	2,684,355
Contributions	1,383,484	277,000	1,660,484
Change in value on interest rate swap	6,167,244	-	6,167,244
Other revenue	580,106	-	580,106
Realized and unrealized losses on investments	(914,605)	-	(914,605)
Loss on fixed assets disposals	(76,781)	-	(76,781)
Gain on forgiveness of PPP loan	364,538	-	364,538
Net assets released from restrictions	7,712,863	(7,712,863)	-
Total revenues, gains (losses), and other support	227,273,461	638,471	227,911,932
Functional expenses			
Program services			
Assisted employment - retail	152,529,431	-	152,529,431
Temporary staffing services	18,444,908	-	18,444,908
Assisted employment - industrial	12,210,657	-	12,210,657
Education, evaluation and training	22,659,633	-	22,659,633
Total program services	205,844,629	-	205,844,629
Support services			
Management and general	16,220,474	-	16,220,474
Fundraising	518,665	-	518,665
Total support services	16,739,139	-	16,739,139
Total functional expenses	222,583,768	-	222,583,768
Change in net assets	4,689,693	638,471	5,328,164
Net assets, beginning of year	48,431,631	1,268,842	49,700,473
Net assets, end of year	$ 53,121,324	$ 1,907,313	$ 55,028,637

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

Goodwill Industries of Central Texas
Consolidated Statement of Activities
For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Assisted employment - retail	$ 84,374,070	$ -	$ 84,374,070
Contributed goods	70,962,660	-	70,962,660
Temporary staffing services	19,793,324	-	19,793,324
Assisted employment - industrial	9,714,204	-	9,714,204
Education evaluation and training	80,252	6,938,496	7,018,748
Federal grants from governmental agencies	3,197,118	-	3,197,118
Other grants	2,498,555	-	2,498,555
Contributions	3,451,549	79,050	3,530,599
Change in value on interest rate swap	328,546	-	328,546
Other revenue	620,822	-	620,822
Realized and unrealized losses on investments	(30,679)	-	(30,679)
Gain on fixed assets disposals	4,981,841	-	4,981,841
Net assets released from restrictions	6,157,733	(6,157,733)	-
Total revenues, gains, and other support	206,129,995	859,813	206,989,808
Functional expenses			
Program services			
Assisted employment - retail	141,328,663	-	141,328,663
Temporary staffing services	18,729,398	-	18,729,398
Assisted employment - industrial	8,073,968	-	8,073,968
Education, evaluation and training	17,332,602	-	17,332,602
Total program services	185,464,631	-	185,464,631
Support services			
Management and general	10,777,524	-	10,777,524
Fundraising	444,106	-	444,106
Total support services	11,221,630	-	11,221,630
Total functional expenses	196,686,261	-	196,686,261
Change in net assets	9,443,734	859,813	10,303,547
Net assets, beginning of year	38,987,897	409,029	39,396,926
Net assets, end of year	$ 48,431,631	$ 1,268,842	$ 49,700,473

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

Goodwill Industries of Central Texas
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program Services				Support Services		
	Assisted Employment - Retail	Temporary Staffing Services	Assisted Employment - Industrial	Education, Evaluation And Training	Management and General	Fundraising	Total
Salaries and wages	$ 33,595,350	$ 17,043,744	$ 5,631,134	$ 13,092,776	$ 7,235,739	$ 259,151	$ 76,857,894
Cost of goods sold - new goods	3,482,926	-	-	-	-	-	3,482,926
Cost of goods sold - donated goods	77,787,054	-	-	-	-	-	77,787,054
Payroll taxes	2,499,992	375,276	1,448,708	631,328	411,718	19,474	5,386,496
Employee benefits	4,201,249	223,318	1,097,413	1,959,477	694,533	52,588	8,228,578
Professional fees	934,815	85,734	(67,277)	780,293	815,292	69,404	2,618,261
Professional fees -ERP Implementation	-	-	-	-	1,800,465	-	1,800,465
Supplies	1,627,542	48,660	697,891	932,590	1,811,274	46,472	5,164,429
Telephone and internet	211,608	15,252	46,834	157,494	75,798	1,831	508,817
Repairs and maintenance	1,857,310	8,668	216,031	6,956	384,733	-	2,473,698
Postage and freight	1,656,245	15,073	781,134	4,075	13,421	234	2,470,182
Rents	13,373,877	77,937	1,034,043	42,040	28,379	-	14,556,276
Utility and trash	2,714,362	12,954	81,663	12,929	399,751	-	3,221,659
Printing and publication	68,054	69	455	2,212	18,181	24,465	113,436
Recruitment and advertising	592,292	140,746	15,430	122,887	684,559	-	1,555,914
Equipment rental	469,719	-	212,867	12,347	196,567	-	891,500
Travel, convention, and meetings	197,373	23,692	65,769	262,433	178,582	17,675	745,524
Commissions and fees	639,818	13,059	1,279,294	50,000	-	-	1,982,171
Membership dues	6,336	8,743	368	2,615	248,385	2,070	268,517
Interest expense	32,563	-	6,791	175	1,055,024	-	1,094,553
Depreciation and amortization	2,115,035	9,488	109,405	259,053	1,422,563	-	3,915,544
Insurance	1,051,299	98,829	417,659	203,347	207,300	1,442	1,979,876
Assistance and training	11,664	24,462	22,756	2,600,887	9,656	3,100	2,672,525
Facilities and overhead allocation	1,496,556	131,706	(979,789)	1,202,722	(1,864,144)	12,949	-
Other miscellaneous expenses	1,906,392	87,498	92,078	320,997	392,698	7,810	2,807,473
	$ 152,529,431	$ 18,444,908	$ 12,210,657	$ 22,659,633	$ 16,220,474	$ 518,665	$ 222,583,768

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

Goodwill Industries of Central Texas
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program Services				Support Services		
	Assisted Employment - Retail	Temporary Staffing Services	Assisted Employment - Industrial	Education, Evaluation and Training	Management and General	Fundraising	Total
Salaries and wages	$ 28,502,606	$ 14,709,169	$ 5,060,652	$ 10,274,272	$ 5,622,015	$ 244,476	$ 64,413,190
Cost of goods sold - new goods	3,531,246	-	-	-	-	-	3,531,246
Cost of goods sold - donated goods	70,331,213	-	-	-	-	-	70,331,213
Payroll taxes	2,133,310	1,175,793	364,406	448,960	414,972	19,870	4,557,311
Employee benefits	3,627,841	907,968	491,833	1,488,287	627,763	35,889	7,179,581
Professional fees	607,185	83,338	36,571	817,903	1,124,864	9,208	2,679,069
Supplies	2,758,807	115,360	571,383	826,432	1,169,854	29,476	5,471,312
Telephone and internet	266,641	16,909	31,406	82,598	148,415	884	546,853
Repairs and maintenance	1,876,142	11,390	131,659	5,797	273,016	-	2,298,004
Postage and freight	1,559,833	1,146	742,381	1,333	6,794	77	2,311,564
Rents	13,484,627	95,012	622,943	16,216	5,072	-	14,223,870
Utility and trash	3,056,314	7,988	50,702	3,055	359,298	-	3,477,357
Printing and publication	52,621	990	-	5,740	4,577	14,671	78,599
Recruitment and advertising	622,634	169,905	602	195,876	86,400	100	1,075,517
Equipment rental	2,054,354	705	198,816	52,189	297,528	-	2,603,592
Travel, convention, and meetings	183,193	54,345	43,757	74,030	62,480	3,782	421,587
Commissions and fees	685,730	866,869	370,969	-	-	-	1,923,568
Membership dues	4,774	3,788	244	12,725	228,704	645	250,880
Interest expense	440,658	4,655	3,998	-	434,593	-	883,904
Depreciation and amortization	1,816,661	8,696	69,153	293,508	1,267,040	-	3,455,058
Insurance	909,581	308,568	164,202	129,594	150,444	1,066	1,663,455
Assistance and training	9,635	59,020	4,577	842,256	10,837	-	926,325
Facilities and overhead allocation	1,069,127	159,255	(733,057)	1,245,603	(1,756,641)	15,713	-
Other miscellaneous expenses	1,743,930	(31,471)	(153,229)	516,228	239,499	68,249	2,383,206
	$ 141,328,663	$ 18,729,398	$ 8,073,968	$ 17,332,602	$ 10,777,524	$ 444,106	$ 196,686,261

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

Goodwill Industries of Central Texas
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	$ 5,328,164	$ 10,303,547
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	3,403,161	3,220,794
Bad debt recoveries	-	(70,749)
Loss (gain) on disposal of fixed assets	76,781	(4,981,841)
Change in fair value of interest rate swap	(6,167,244)	(328,546)
Net unrealized losses on investments	914,605	30,679
Amortization of debt issuance costs	72,342	234,264
Amortization of right-of-use assets	11,257,759	-
Gain on extinguishment of debt	(364,538)	-
Imputed interest on finance leases	44,688	-
Changes in operating assets and liabilities		
Receivables, net	(4,517,474)	230,382
Inventory	(518,462)	(539,966)
Prepaid and other assets	(299,675)	(313,508)
Other assets	88,911	(28,318)
Accounts payable	704,039	1,071,001
Accrued liabilities and deferred revenue	375,275	-
Deferred rent liability	-	642,317
Other liabilities	-	126,563
Deferred revenue	-	(1,428,333)
Operating lease liabilities	(10,741,203)	-
Net cash provided by (used in) operating activities	(342,871)	8,168,286
Cash flows from investing activities		
Purchases of property and equipment	(8,300,538)	(10,769,666)
Proceeds from the sale of property and equipment	-	6,365,086
Proceeds from sales of investments	2,359,301	224,969
Purchases of investments	(2,385,138)	(10,571,267)
Net cash used in investing activities	(8,326,375)	(14,750,878)
Cash flows from financing activities		
Proceeds from issuance of debt, net	-	13,954,653
Principal payments on debt	(1,463,281)	(713,229)
Payment of debt issuance costs	-	(145,805)
Proceeds from Paycheck Protection Program Loan	-	2,679,441
Payment of option for interest rate swap	-	(990,000)
Payments on finance leases	(359,067)	-
Net cash provided by (used in) financing activities	(1,822,348)	14,785,060
Net increase (decrease) in cash and cash equivalents	(10,491,594)	8,202,468
Cash and cash equivalents, beginning of year	22,757,381	14,554,913
Cash and cash equivalents, end of year	$ 12,265,787	$ 22,757,381

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

Goodwill Industries of Central Texas
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,094,553	$ 883,905
Supplemental schedule of noncash investing and financing activities		
Property and equipment purchased through capital leases	$ -	$ 502,690
Property and equipment purchased with debt	$ -	$ 6,355,262
Debt issuance costs paid through refinance	$ -	$ 692,304
Debt extinguished through refinance	$ -	$ 21,447,780
Operating right-of-use assets through the adoption of ASC842	$ 68,049,908	$ -
Operating lease liabilities through the adoption of ASC842	$ 73,112,056	$ -
Financing right-of-use assets through the adoption of ASC842	$ 1,746,344	$ -
Financing lease liabilities through the adoption of ASC842	$ 1,925,860	$ -
Reduction of right-of-use assets due to lease incentives	$ 5,241,664	$ -

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

1. NATURE OF OPERATIONS

Goodwill Industries of Central Texas (the "Organization") is a nonprofit organized under the Nonprofit Corporation Act of the State of Texas and designated as a 501(c)(3) nonprofit organization by the Internal Revenue Service. These consolidated financial statements include the accounts of the Organization and its 100% owned supporting organizations, Goodwill Temporary Services, Inc., dba Goodwill Staffing Group (GSG) and Blue Solutions, which is a controlled corporation, each of which are also 501(c)(3) nonprofit organizations.

The Organization receives grants and contracts from governmental programs to conduct various education and training programs. The Organization 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. The Organization operates a free public charter school that provides adults up to 50 years old 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 an opportunity to earn a high school diploma that can lead to additional work opportunities upon release.

GSG is a 501(c)(3) nonprofit corporation organized for the purpose of providing training and employment to people who are disabled or economically disadvantaged through temporary employment and contracts with various entities.

Blue Solutions is a 501(c)(3) nonprofit corporation organized for the purpose of providing employment to individuals with disabilities or severe disabilities pursuant to contracts with the United States government and others. A minimum of 75% of Blue Solutions' employee base is comprised of individuals with severe disabilities.

The Organization's programs consist of:

Assisted employment - retail: This program includes collection, processing, and sale of donations and a limited amount of new goods. The 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 the Organization.

Goodwill temporary staffing services: This 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: This program provides employment and training for individuals with disabilities or disadvantages.

Education evaluation and training: This 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and consolidated financial statement presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* - represent resources available for the support of the Organization's operations that are not subject to donor-imposed restrictions.
- *Net assets with donor restrictions* - represent funds that are subject to donor restrictions which either expire with the passage of time, will be fulfilled for the intended purpose pursuant to those provisions, or are perpetual in nature.

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 for the Charter School is recorded as revenue when earned.

Principles of consolidation

Under the provisions of Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 810-10, *Consolidations,* the consolidated financial statements include the activities of the subsidiary entities. All inter-organizational and inter-company transactions and balances have been eliminated in consolidation.

Receivables

- Accounts receivable - The Organization accounts for its accounts receivable based on contract terms. Receivables are considered past due based on contractual terms. The Organization provides for uncollectible accounts 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables (continued)

- Contributions receivable - Contributions receivable are recognized as revenue when unconditionally promised. The Organization provides for uncollectible contributions 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 contributions receivable. All amounts considered uncollectible are charged against the allowance account and recoveries of previously charged off contributions receivable are added to the account. 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.

Investments

Investments are reported at fair value. Investments in mutual funds with readily determinable fair values are reported at fair value based upon quoted market prices. Cash held for investment is reported in investments on the consolidated statements of financial position.

Gains and losses that result from market fluctuations are recognized in the consolidated statements of activities in the period in which they occur. Dividend and interest income is recognized when earned.

Fair value measurements

The Organization applies U.S. GAAP authoritative guidance for *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. U.S. GAAP describes three levels of inputs that may be used to measure fair value:

- *Level 1* - Quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- *Level 2* - Significant other observable inputs (other than Level 1 prices) such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

- *Level 3* - Unobservable inputs that are supported by little or no market activity, are significant to the fair value of the assets or liabilities and reflect management's assumptions and best estimates based on available data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Donated goods received by the Organization 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 statements 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.

The Organization 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.

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 and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Furniture and equipment	3-10 years
Buildings and improvements	40 years
Transportation equipment	3-7 years

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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. Significant estimates included in the consolidated financial statements relate primarily to the useful lives applied in asset depreciation, estimates of year-end inventory values, recoverability of accounts receivable, as well as the functional allocation of expenses.

Functional allocation of expenses

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain expenses have been allocated among program services and supporting services benefited. Certain salaries, wages and benefits are allocated based on estimates of time and effort. Rent expense and depreciation are allocated based on the estimated usage of square footage by various departments.

Contributions

Contributions received are recorded at fair value as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and / or nature of any donor-imposed restrictions. 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 consolidated statements of activities as net assets released from restrictions.

Conditional promises to give are not included in contributions or contributions receivable until such time as the barriers and right of release/return have been overcome. The Organization receives federal and state contracts and grants which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with the underlying grant or contract. The Organization has received cost-reimbursable grants of approximately $6,800,000 and $5,700,000 that had not been recognized at December 31, 2022 and 2021 because qualifying expenditures had not been incurred.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 material 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 are as follows:

- Store sales consist of the sale of donated goods and, to a lesser extent, new goods. 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.
- 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. The Organization invoices the customers receiving the services monthly based on the appropriate performance indicators, and records revenue as the services are performed.
- The Organization 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. The Organization 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.
- The Organization 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 grant agreements are met by the Organization. Revenue is recognized as the related qualifying expenses are incurred as allowable by grants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative instruments

The Organization recognizes all derivatives as either assets or liabilities in the consolidated statements of financial position and measures those instruments at their fair value. Changes in the fair value are reported in earnings. The Organization's only derivative instrument consist of an interest rate swap to fix the interest rate on its outstanding floating-rate debt.

Income taxes

The Organization is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986 (IRC), as amended, and as a public charity described in Section 50l(c)(3) of the IRC. However, income generated from activities unrelated to the Organization's exempt purpose are subject to tax under the IRC Section 511.

The Organization has concluded that it does not have any unrecognized tax benefits or obligations resulting from current or prior period tax positions. The Organization including its underlying subsidiaries, does not have any outstanding interest or penalties, and none have been recorded in the accompanying consolidated statements of activities for the years ended December 31, 2022 and 2021. The Organization does not have any significant uncertain tax positions for which a reserve would be considered necessary. However, the conclusions regarding accounting for uncertainty in income taxes are subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws regulations and interpretations thereof.

Advertising costs

Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2022 and 2021 were approximately $1,218,000 and $895,000, respectively.

New accounting pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification (ASC) 842, Leases, "ASC 842") to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosure are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the standard effective January 1, 2022 and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. The Organization used the implicit rate when it is readily determinable. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840, Leases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting pronouncements (continued)

As a result of the adoption of the new lease accounting guidance, the Organization recognized on January 1, 2022 an operating lease liability of $63,349,298 and right-of-use asset of $59,197,891.

The standard had a material impact on the Organization's consolidated statements of financial position, but did not have a material impact on the consolidated statements of activities, and the consolidated statements of cash flows. The most significant impact was the statement of financial position recognition of ROU assets and financing lease liabilities for operating leases.

Reclassifications

Certain amounts presented in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. Such reclassifications had no net effect on total assets, liabilities, net assets, changes in net assets, or cash flows from the amounts previously presented.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash, cash equivalents, investments, a line of credit and letters of credit. As of December 31, 2022, the Organization had not drawn upon its line of credit or three letters of credit which have been issued in the maximum amounts of $10,000,000. The Organization also has board designated investments that can be drawn on for liquidity purposes if needed.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization 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.

As of December 31, 2022 and 2021, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

	2022	2021
Cash and cash equivalents	$ 12,265,787	$ 22,757,381
Investments	9,650,987	10,539,755
Receivables, net	9,298,888	4,781,414
	31,215,662	38,078,550
Board designated investments	(450,307)	(531,066)
Net assets with donor restrictions	(1,852,006)	(1,027,294)
	$ 28,913,349	$ 36,520,190

4. RECEIVABLES

Receivables consisted of the following:

	2022	2021
Accounts receivable	$ 9,736,345	$ 4,882,325
Less: allowance for doubtful accounts	(491,264)	(164,259)
	9,245,081	4,718,066
Contributions receivable	55,307	241,548
Less: allowance for doubtful accounts	(1,500)	(178,200)
	53,807	63,348
	$ 9,298,888	$ 4,781,414

5. INVENTORY

Inventories consisted of the following:

	2022	2021
Inventory of donated goods	$ 2,228,222	$ 2,027,505
Inventory of goods purchased for resale	1,159,012	841,267
	$ 3,387,234	$ 2,868,772

6. INVESTMENTS

Investments consisted of:

	2022	2021
Unrestricted investments	$ 9,200,680	$ 10,008,689
Board designated investments	450,307	531,066
	$ 9,650,987	$ 10,539,755

7. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2022:

	Level 1	Level 2	Level 3	Fair Value
Fixed income	$ 150,511	$ 3,455,096	$ -	$ 3,605,607
Equities	5,087,610	-	-	5,087,610
	5,238,121	3,455,096	-	8,693,217
Interest rate swap asset	-	5,714,743	-	5,714,743
	$ 5,238,121	$ 9,169,839	$ -	$ 14,407,960

The following table sets forth by level, within the fair value hierarchy, the Organization's assets and liabilities at fair value as of December 31, 2021:

	Level 1	Level 2	Level 3	Fair Value
Assets				
Fixed income	$ 122,489	$ 4,162,303	$ -	$ 4,284,792
Equities	2,400,948	-	-	2,400,948
	$ 2,523,437	$ 4,162,303	$ -	$ 6,685,740
Liabilities				
Interest rate swap liability	$ -	$ 452,501	$ -	$ 452,501

8. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2022	2021
Land	$ 16,949,815	$ 16,949,815
Buildings and improvements	62,591,507	61,911,145
Furniture and equipment	17,043,158	12,536,969
Transportation equipment	1,409,637	2,701,260
Construction in progress	6,537,222	4,061,034
	104,531,339	98,160,223
Accumulated depreciation	(33,084,979)	(30,588,936)
	$ 71,446,360	$ 67,571,287

8. PROPERTY AND EQUIPMENT (continued)

Depreciation expense for the years ended December 31, 2022 and 2021 was $3,403,161 and $3,220,791, respectively.

9. COMPENSATED ABSENCES

The Organization 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, 2022 and 2021, the Organization had accrued approximately $1,562,000 and $1,231,000 in leave time, respectively. These amounts are included in accrued liabilities in the consolidated statements of financial position.

10. LEASES

The Organization has entered in operating and financing leases which expire on various dates through 2034. Rent expense totaled $15,447,776 and $16,827,462, respectively, for the years ended December 31, 2022 and 2021.

The following summarized the weighted average remaining lease term and discount rate as of December 31, 2022:

	Operating Leases	Financing Leases
Weighted average remaining lease term	12 years	6 years
Weighted average discount rate	1.45 %	3.56 %

A summary of future minimum lease payments required under the above leases as follows:

Year ending December 31,	Finance Leases	Operating Leases	Total
2023	$ 486,298	$ 10,095,066	$ 10,581,364
2024	407,931	9,289,739	9,697,670
2025	296,998	8,452,973	8,749,971
2026	261,439	7,368,001	7,629,440
2027	94,225	6,774,181	6,868,406
Thereafter	22,764	24,543,542	24,566,306
	1,569,655	66,523,502	68,093,157
Less: present value discount	(97,627)	(4,103,104)	(4,200,731)
	$ 1,472,028	$ 62,420,398	$ 63,892,426

10. LEASES (continued)

The following summarizes the line items in the statements of activities which include the components of lease expense for the year ended December 31, 2022:

Operating lease expense included in program services and management and general expenses on the consolidated statement of income	$ 10,798,284
Finance lease costs:	
Amortization of lease assets included in depreciation and amortization expenses	$ 299,962
Interest on lease liabilities included in interest expense	44,688
	$ 344,650

11. LONG-TERM DEBT

Long-term debt consisted of the following:

	2022	2021
On December 15, 2021, the Organization obtained a tax-exempt loan in the original principal amount of $42,450,000, which was ultimately assigned to a bank. Interest on the unpaid principal balance of the note is computed at a per annum rate equal to 87.4% of the benchmark (initially Daily Simple SOFR) plus the applicable margin, with said interest rate to be adjusted daily while such benchmark is Daily Simple SOFR to account for any changes in the Daily Simple SOFR (effective rate of 4.30% and 1.94%, respectively, at December 31, 2022 and 2021). The loan matures on December 15, 2046, but is callable by the bank after twelve years. Through the use of an interest rate swap, interest has been effectively fixed at 2.42% for the initial twelve year term of the loan.	$ 41,209,848	$ 42,450,000
Economic Injury Disaster Loan payable to the Small Business Administration, 2.75% per annum maturing October 2050.	150,000	150,000
Capital leases	-	1,090,557
	41,359,848	43,690,557
Less unamortized debt issuance costs	(792,752)	(865,091)
	40,567,096	42,825,466
Current portion	(1,267,201)	(1,552,545)
	$ 39,299,895	$ 41,272,921

On December 15, 2021, the Organization obtained a taxable line of credit for $37,550,000 to be drawn for construction and the purchase of property. Advances on this loan will have 25-year maturities with interest being calculated on the unpaid principal each day principal is outstanding with interest computed at a per annum rate equal to the Benchmark (initially Daily Simple SOFR) plus the Applicable Margin, with said interest rate to be adjusted daily while such Benchmark is Daily Simple SOFR to account for any changes in the Daily Simple SOFR. As of December 31, 2022 and 2021, the Organization had not drawn on these funds. Any availability not drawn by December 15, 2026 will expire.

11. LONG-TERM DEBT (continued)

On December 15, 2021, the Organization obtained a revolving line of credit that may be drawn up to $10,000,000 to fund working capital or other short-term needs. Interest on any outstanding principal is computed on a per annum rate equal to the Benchmark (initially AMERIBOR Term-30) plus 1.45% per annum, adjusted monthly with a floor of 0.50% per annum. Interest only shall be due and payable monthly until maturity at December 31, 2023, at which time any remaining principal and interest are due. As of December 31, 2022 and 2021, there were no draws on this note.

Future maturities of long-term debt are as follows:

Year ending December 31,	
2023	$ 1,267,201
2024	1,296,730
2025	1,332,621
2026	1,366,624
2027	1,401,494
Thereafter	34,695,178
	41,359,848
Less: unamortized debt issuance costs	(792,752)
	$ 40,567,096

As part of the debt agreements, there are certain debt covenant requirements the Organization must meet. As of December 31, 2022 and 2021, management evaluated debt covenants and determined the Organization to be in compliance.

12. INTEREST RATE SWAP

The Organization entered into an interest rate swap on September 29, 2017, to effectively convert its variable rate loan then outstanding to a fixed rate of 3.85%. Changes in fair value of the interest rate swap are recognized on the consolidated statements of activities. The swap was terminated on December 15, 2021, with a payment of $990,000, which resulted in a $76,694 gain on extinguishment of debt.

The Organization entered into an interest rate swap on December 15, 2021, to effectively convert its new variable rate tax-exempt loan to a fixed rate of 2.42% for the first twelve years of its term. Changes in fair value of the interest rate swap are recognized on the consolidated statements of activities. The fair value of the interest rate swap, as recorded on the consolidated statements of financial position, was an asset of $5,714,743 and a liability of $452,501, respectively as of December 31, 2022 and 2021.

13. LETTERS OF CREDIT

As of December 31, 2022 and 2021, the Organization had not drawn upon its three letters of credit, which has been issued in the maximum amounts ranging from approximately $31,000 to $100,000, to cover security deposits for individual leased properties.

14. PAYCHECK PROTECTION PROGRAM LOANS

During 2021, the Organization received loan proceeds of $2,679,441 from two promissory notes issued under the Paycheck Protection Program (PPP) which was established through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and is administered by the United States Small Business Administration. The term of the loans was five years and the annual interest rate was 1.00%. Payments of principal and interest were deferred for the first ten months plus 24 weeks of the loans. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations.

The loans were originally accounted for as financial liabilities in accordance with applicable accounting guidance, with extinguishment of the debt to take place when the Organization is legally released as the primary obligor. In July 2022, the Organization qualified for forgiveness of $359,594 in loan proceeds plus $4,944 in accrued interest. Therefore, the Organization recorded a gain on forgiveness of the PPP loan in the accompanying consolidated statement of activities during the year ended December 31, 2022. As of December 31, 2022, $2,091,773 was outstanding on the remaining PPP loan.

Subsequent to year end, the Organization qualified for full forgiveness of the remaining PPP loan. See Note 20 for additional information.

15. PENSION PLAN OBLIGATIONS

The Organization 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, the Organization 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 Charter School and GSG 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 Charter School staff participate in the Teacher Retirement System of Texas. Pension expense for the years ended December 31, 2022 and 2021 was approximately $271,000 and $252,000, respectively.

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

15. PENSION PLAN OBLIGATIONS (continued)

The 457(b) plan is subject to the claims of general creditors.

The value of this deferred compensation agreement was $0 as of December 31, 2022 and 2021. The plan had no participants at those dates.

16. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2022	2021
Evaluation and training programs	$ 150,536	$ 81,337
Charter School	1,605,834	945,957
Other purpose restricted net assets	95,636	-
Time restricted contributions receivable	55,307	241,548
	$ 1,907,313	$ 1,268,842

17. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets with donor restrictions released from restriction during the year were as follows:

	2022	2021
Evaluation and training programs	$ 99,513	$ 68,323
Charter School	7,414,457	5,986,985
Expiration of time restrictions	186,241	102,425
Other	12,652	-
	$ 7,712,863	$ 6,157,733

18. BOARD-DESIGNATED FUNDS

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

Changes in board-designated net assets during the year were as follows:

	2022	2021
Board-designated net assets, beginning of year	$ 531,066	$ 224,136
Investment loss, net	(80,759)	(63,133)
Replenishment	-	370,063
	$ 450,307	$ 531,066

Spending of board-designated funds and earnings are to be authorized at the discretion of the Board of Directors. In 2018, the Board of Directors 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, 2021, all of the funds had been repaid.

19. RISKS AND CONCENTRATIONS

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. The Organization deposits its cash and cash equivalents with high credit quality financial institutions. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Approximately 53% and 71% of accounts receivable are from various agencies of the State of Texas or the Federal Government at December 31, 2022 and 2021, respectively.

20. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 9, 2023, the date the consolidated financial statements were available to be issued. In February 2023, the SBA notified the Organization that it was approved for forgiveness of the entire original principal amount of $2,311,500 plus $45,588 in interest, for its remaining PPP loan. The SBA paid these amounts to the lender in March 2023, fully retiring the debt. There were no other events that required recognition or disclosure in the consolidated financial statements.

SINGLE AUDIT REPORTS AND SCHEDULES

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
Austin, Texas

We have audited, in accordance with the 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 statements of financial position as of December 31, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated May 9, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 consolidated financial statements. 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*.

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Armanino LLP

Armanino LLP
Dallas, Texas

May 9, 2023

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Goodwill Industries of Central Texas
Austin, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Goodwill Industries of Central Texas (the "Organization")'s compliance with the types of compliance requirements identified as subject to audit in the 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, 2022. 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.

In our opinion, the Organization 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, 2022.

Basis for Opinion on Each Major Federal Program

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 Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Armanino LLP

ArmaninoLLP
Dallas, Texas

May 9, 2023

Goodwill Industries of Central Texas
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Number	Total Federal Expenditures	Passed Through to Subrecipients
Expenditures of Federal Awards				
U.S. Department of Labor				
Passed through Workforce Solutions - Capital Area Workforce Board				
WIOA Title I Youth Activities	17.259	YOUTH2020-2025	$ 1,826,122	$ 96,307
Passed through Texas Workforce Commission				
Employment Service/Wagner-Peyser Funded Activities				
Texas Talent Connection	17.207	1422WPB002	41,544	-
Veteran's Workforce Outreach	17.278		66,432	-
Total Passed through Texas Workforce Commission			107,976	-
Total U.S. Department of Labor			1,934,098	96,307
U.S. Department of Education				
Passed through Texas Workforce Commission				
Adult Education - Basic Grants to States				
Accelerate Texas V: Integrated Education and Training	84.002	1421AEL001	71,514	-
Passed through Texas Education Agency				
Special Education - Grants to States (IDEA Part B)	84.027	216600012278276000	53,308	-
ESSER III	84.425U	21528043227827	637,449	-
Total Passed through Texas Education Agency			690,757	-
Total U.S. Department of Education			762,271	-
U.S. Department of Health and Human Services				
Direct awards				
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086		1,281,340	-
Total U.S. Department of Health and Human Services			1,281,340	-
U.S. Department of Treasury				
Passed through Texas Department of Housing and Community Affairs				
Emergency Rental Assistance Round 1 Program				
Housing Stability Services and Other Financial Assistance	21.023	20210000016	2,431,255	-
Emergency Rental Assistance Round 2 Program				
Housing Stability Services and Other Financial Assistance	21.023	20220000028	487,947	-
Total U.S. Department of Treasury			2,919,202	-
Total Expenditures of Federal Awards			$ 6,896,911	$ 96,307

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Goodwill Industries of Central Texas
Notes to Schedule of Expenditures of Federal Awards
December 31, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Goodwill Industries of Central Texas (the "Organization") under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements*, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

3. INDIRECT COST RATE

The Organization has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Goodwill Industries of Central Texas
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

Name of Federal Program or Cluster	Assistance Listing Number
Emergency Rental Assistance	21.023

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	Yes

Goodwill Industries of Central Texas
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2022

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Goodwill Industries of Central Texas
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2022

There were no prior year findings.