

**GOODWILL CENTRAL COAST  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**Goodwill Central Coast  
Financial Statements  
Table of Contents**

	<u>Page</u>
Independent Auditor's Report	2
Statement of Financial Position, 2016	4
Statement of Financial Position, 2015	6
Statement of Activities and Changes in Net Assets, 2016	8
Statement of Activities and Changes in Net Assets, 2015	9
Statement of Functional Expenses, 2016	10
Statement of Functional Expenses, 2015	11
Statements of Cash Flows	12
Notes to the Financial Statements	14
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>	30
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance, and Report on the Schedule of Expenditures of Federal Awards in accordance with the Uniform Guidance	32
Schedule of Expenditures of Federal Awards	34
Notes to the Schedule of Expenditures of Federal Awards	35
Schedule of Findings and Questioned Costs	36
Summary Schedule of Prior Audit Findings	38



**CliftonLarsonAllen**

CliftonLarsonAllen LLP  
CLAconnect.com

## **Independent Auditor's Report**

To the Board of Directors  
**Goodwill Central Coast**  
Santa Cruz, California

We have audited the accompanying financial statements of Goodwill Central Coast, which comprise the statement of financial position as of December 31, 2016, the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and government auditing standards; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Central Coast as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

The 2015 financial statements were audited by GALLINA LLP, whose practice became part of CliftonLarsonAllen LLP as of January 1, 2017, and whose report dated August 23, 2016, expressed an unmodified opinion on those statements.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2017 on our consideration of Goodwill Central Coast'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 Goodwill Central Coast's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Roseville, California  
June 22, 2017

**Goodwill Central Coast**  
**Statement of Financial Position**  
**December 31, 2016**

<b>Assets</b>				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Current assets:</u>				
Cash and cash equivalents	\$ 4,501,781	\$ 10,858	\$ -	\$ 4,512,639
Receivables:				
Accounts, net	825,058	-	-	825,058
Interest	3,893	-	-	3,893
Other	74,153	-	-	74,153
Assets held for sale	365,869	-	-	365,869
Total receivables	1,268,973	-	-	1,268,973
Inventory	610,253	-	-	610,253
Prepaid expenses and deposits	266,352	-	-	266,352
Total current assets	6,647,359	10,858	-	6,658,217
<u>Property and equipment, net</u>	22,949,873	817,654	-	23,767,527
<u>Other assets:</u>				
Investments	3,490,768	33,707	77,954	3,602,429
Endowment funds				
at Community Foundations	25,119	-	-	25,119
Deposits	120,433	-	-	120,433
Total other assets	3,636,320	33,707	77,954	3,747,981
Total assets	\$ 33,233,552	\$ 862,219	\$ 77,954	\$ 34,173,725

See accompanying notes.

**Goodwill Central Coast**  
**Statement of Financial Position**  
**December 31, 2016**

**Liabilities and Net Assets**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Current liabilities:</u>				
Accounts payable	\$ 784,769	\$ -	\$ -	\$ 784,769
Accrued expenses	1,391,122	-	-	1,391,122
Deferred revenue	112,396	-	-	112,396
Total current liabilities	2,288,287	-	-	2,288,287
<u>Long-term liabilities:</u>				
Security deposits	3,500	-	-	3,500
Bonds payable, net	6,871,303	-	-	6,871,303
Total long-term liabilities	6,874,803	-	-	6,874,803
Total liabilities	9,163,090	-	-	9,163,090
<u>Net assets</u>	24,070,462	862,219	77,954	25,010,635
Total liabilities and net assets	\$ 33,233,552	\$ 862,219	\$ 77,954	\$ 34,173,725

See accompanying notes.

**Goodwill Central Coast  
Statement of Financial Position  
December 31, 2015**

<b>Assets</b>				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Current assets:</u>				
Cash and cash equivalents	\$ 5,576,733	\$ -	\$ -	\$ 5,576,733
Receivables:				
Accounts, net	780,740	-	-	780,740
Interest	20,220	-	-	20,220
Other	28,943	-	-	28,943
Total receivables	829,903	-	-	829,903
Inventory	628,723	-	-	628,723
Prepaid expenses and deposits	213,233	-	-	213,233
Total current assets	7,248,592	-	-	7,248,592
<u>Property and equipment, net</u>	14,665,186	890,322	-	15,555,508
<u>Other assets:</u>				
Investments	8,110,662	24,103	77,954	8,212,719
Endowment funds				
at Community Foundations	24,125	-	-	24,125
Deposits	245,678	-	-	245,678
Total other assets	8,380,465	24,103	77,954	8,482,522
Total assets	\$ 30,294,243	\$ 914,425	\$ 77,954	\$ 31,286,622

See accompanying notes.

**Goodwill Central Coast  
Statement of Financial Position  
December 31, 2015**

**Liabilities and Net Assets**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Current liabilities:</u>				
Accounts payable	\$ 531,783	\$ -	\$ -	\$ 531,783
Accrued expenses	1,187,872	-	-	1,187,872
Deferred revenue	99,175	-	-	99,175
Current maturities of bonds	95,000	-	-	95,000
Total current liabilities	1,913,830	-	-	1,913,830
<u>Long-term liabilities:</u>				
Security deposits	3,500	-	-	3,500
Bonds payable, net	3,754,600	-	-	3,754,600
Total long-term liabilities	3,758,100	-	-	3,758,100
Total liabilities	5,671,930	-	-	5,671,930
<u>Net assets</u>	24,622,313	914,425	77,954	25,614,692
Total liabilities and net assets	\$ 30,294,243	\$ 914,425	\$ 77,954	\$ 31,286,622

See accompanying notes.



**Goodwill Central Coast**  
**Statement of Activities and Changes in Net Assets**  
**for the year ended December 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Revenues and support:</u>				
Sales of contributed goods				
sold in retail stores	\$ 19,835,392	\$ -	\$ -	\$ 19,835,392
Sold as salvage	587,038	-	-	587,038
Sales of purchased goods	1,064,520	-	-	1,064,520
Workforce development	10,195	-	-	10,195
Contributions	174,226	-	-	174,226
Grant revenue	4,216,174	-	-	4,216,174
Interest and dividend income	150,057	5,865	-	155,922
Miscellaneous income	516,078	-	-	516,078
Rental income	1,134,403	-	-	1,134,403
Contract labor and training	196,547	-	-	196,547
Realized/unrealized gain (loss)				
on investments, net	235,799	4,394	-	240,193
Gain on sale of equipment	10,966	-	-	10,966
Tuition revenue	119,807	-	-	119,807
Student supplies	98,950	-	-	98,950
Net assets released				
from restriction	62,465	(62,465)	-	-
	<u>28,412,617</u>	<u>(52,206)</u>	<u>-</u>	<u>28,360,411</u>
<u>Expenses:</u>				
Program services:				
Program services	25,019,214	-	-	25,019,214
Management and general	3,929,705	-	-	3,929,705
Fundraising	15,549	-	-	15,549
	<u>28,964,468</u>	<u>-</u>	<u>-</u>	<u>28,964,468</u>
Change in net assets	(551,851)	(52,206)	-	(604,057)
<u>Net assets, December 31, 2015</u>	<u>24,622,313</u>	<u>914,425</u>	<u>77,954</u>	<u>25,614,692</u>
<u>Net assets, December 31, 2016</u>	<u>\$ 24,070,462</u>	<u>\$ 862,219</u>	<u>\$ 77,954</u>	<u>\$ 25,010,635</u>

See accompanying notes.

**Goodwill Central Coast**  
**Statement of Activities and Changes in Net Assets**  
**for the year ended December 31, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Revenues and support:</u>				
Sales of contributed goods sold				
in retail stores	\$ 18,780,285	\$ -	\$ -	\$ 18,780,285
Sold as salvage	847,761	-	-	847,761
Sales of purchased goods	1,159,793	-	-	1,159,793
Workforce development	11,346			11,346
Contributions	6,960	-	-	6,960
Grant revenue	3,803,880	-	-	3,803,880
Interest and dividend income	228,796	7,185	-	235,981
Miscellaneous income	429,458	-	-	429,458
Rental income	1,211,951	-	-	1,211,951
Contract labor and training	190,196	-	-	190,196
Realized/unrealized gain (loss)				
on investments	(98,424)	956	-	(97,468)
Gain on sale of equipment	7,825	-	-	7,825
Tuition revenue	264,881	-	-	264,881
Student supplies	138,298	-	-	138,298
Net assets released				
from restriction	10,858	(10,858)	-	-
	<u>26,993,864</u>	<u>(2,717)</u>	<u>-</u>	<u>26,991,147</u>
<u>Expenses:</u>				
Program services:				
Program services	23,479,499	-	-	23,479,499
Management and general	2,509,224	-	-	2,509,224
Fundraising	50,253	-	-	50,253
	<u>26,038,976</u>	<u>-</u>	<u>-</u>	<u>26,038,976</u>
Change in net assets	954,888	(2,717)	-	952,171
<u>Net assets, December 31, 2014</u>	<u>23,667,425</u>	<u>917,142</u>	<u>77,954</u>	<u>24,662,521</u>
<u>Net assets, December 31, 2015</u>	<u>\$ 24,622,313</u>	<u>\$ 914,425</u>	<u>\$ 77,954</u>	<u>\$ 25,614,692</u>

See accompanying notes.

**Goodwill Central Coast  
Statement of Functional Expenses  
for the year ended December 31, 2016**

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 13,796,640	\$ 1,465,584	\$ -	\$ 15,262,224
Employee benefits	1,514,152	208,974	-	1,723,126
Rent - occupancy and equipment	1,394,021	71,929	-	1,465,950
Depreciation	1,005,608	450,323	-	1,455,931
Payroll taxes	1,228,813	122,122	-	1,350,935
Professional and consulting fees	48,656	375,832	5,177	429,665
Workers' compensation	1,107,933	34,416	-	1,142,349
Utilities	799,444	214,035	-	1,013,479
New goods for sale purchases	749,585	-	-	749,585
Supplies	704,408	143,886	10,319	858,613
Miscellaneous	906,283	125,080	53	1,031,416
Vehicle and transportation	349,117	6,771	-	355,888
Student/client instructional support materials	362,473	-	-	362,473
Building repairs and maintenance	347,147	109,889	-	457,036
Advertising and marketing	205,426	38,196	-	243,622
Telephone	224,640	75,770	-	300,410
Dues and subscriptions	4,019	167,868	-	171,887
Insurance	107,406	54,880	-	162,286
Permits and licenses	104,598	39,764	-	144,362
Interest	-	206,601	-	206,601
Small tools	42,725	4,990	-	47,715
Staff development	16,120	6,795	-	22,915
Bad debt and collection	-	6,000	-	6,000
	<u>\$ 25,019,214</u>	<u>\$ 3,929,705</u>	<u>\$ 15,549</u>	<u>\$ 28,964,468</u>

See accompanying notes.

**Goodwill Central Coast  
Statement of Functional Expenses  
for the year ended December 31, 2015**

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 11,823,909	\$ 991,301	\$ 35,100	\$ 12,850,310
Employee benefits	1,645,289	172,941	4,188	1,822,418
Rent - occupancy and equipment	1,221,663	3,439	32	1,225,134
Depreciation	1,008,832	303,052	-	1,311,884
Payroll taxes	1,029,848	99,534	3,298	1,132,680
Professional and consulting fees	344,669	303,393	3,164	651,226
Workers' compensation	1,149,994	20,915	573	1,171,482
Utilities	881,778	39,025	-	920,803
New goods for sale purchases	770,499	-	-	770,499
Supplies	710,503	99,841	548	810,892
Miscellaneous	830,131	145,627	2,971	978,729
Vehicle and transportation	390,266	6,593	-	396,859
Student/client instructional support materials	439,988	-	-	439,988
Building repairs and maintenance	339,433	9,697	-	349,130
Advertising and marketing	328,068	16,469	-	344,537
Telephone	242,902	25,374	175	268,451
Dues and subscriptions	2,755	159,548	-	162,303
Insurance	112,180	22,507	-	134,687
Permits and licenses	85,004	3,633	-	88,637
Interest	-	64,910	-	64,910
Small tools	96,755	4,900	204	101,859
Staff development	25,033	10,525	-	35,558
Bad debt and collection	-	6,000	-	6,000
	<u>\$ 23,479,499</u>	<u>\$ 2,509,224</u>	<u>\$ 50,253</u>	<u>\$ 26,038,976</u>

See accompanying notes.

**Goodwill Central Coast  
Statements of Cash Flows  
for the years ended December 31, 2016 and 2015**

	2016	2015
<u>Cash flows from operating activities:</u>		
Change in net assets	\$ (604,057)	\$ 952,171
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	1,455,931	1,311,884
Amortization	155,246	6,840
Bad debt expense	6,000	-
Realized/unrealized (gain) loss on investments	(240,193)	(12,913)
Gain on sale of equipment	(10,966)	(7,825)
Noncash revenue for donated equipment	-	(98,693)
Changes in operating assets and liabilities:		
Receivables	(79,201)	155,689
Inventory	18,470	1,106
Prepaid expenses and deposits	72,126	76,353
Accounts payable	252,986	165,882
Accrued expenses	203,250	133,886
Deferred revenue	13,221	(19,064)
	<u>1,242,813</u>	<u>2,665,316</u>
<u>Cash flows from investing activities:</u>		
Proceeds from sale of marketable securities	6,877,924	5,550,775
Acquisition of marketable securities	(2,029,687)	(5,733,019)
Net Community Foundation activity	1,252	191
Proceeds from sale of equipment	14,950	5,550
Cash paid for property and equipment	(10,037,803)	(1,860,644)
	<u>(5,173,364)</u>	<u>(2,037,147)</u>
<u>Cash flows from financing activities:</u>		
Proceeds from 2016 bond issuance	6,866,457	-
Principal payments on long-term debt	(4,000,000)	(95,000)
	<u>2,866,457</u>	<u>(95,000)</u>
Net cash provided (used) by financing activities		
	<u>(1,064,094)</u>	<u>533,169</u>
Net increase (decrease) in cash and cash equivalents		
<u>Cash and cash equivalents, beginning of year</u>	<u>5,576,733</u>	<u>5,043,564</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 4,512,639</u>	<u>\$ 5,576,733</u>

See accompanying notes.

**Goodwill Central Coast**  
**Statements of Cash Flows, continued**  
**for the years ended December 31, 2016 and 2015**

**Supplemental Disclosure of Cash Flow Information**

	2016	2015
Cash paid for interest	\$ 312,187	\$ 64,910

**Schedule of Noncash Investing and Financing Activities**

	2016	2015
Reclassification of assets held for sale	\$ 365,869	\$ -
Acquisition of property and equipment	\$ 10,037,803	\$ 1,959,337
Less donated assets received	-	98,693
Cash paid for property equipment	\$ 10,037,803	\$ 1,860,644

See accompanying notes.

**Goodwill Central Coast**  
**Notes to the Financial Statements**  
**December 31, 2016 and 2015**

**Note 1: Summary of Significant Accounting Policies:**

This summary of significant accounting policies of Goodwill Central Coast (the Organization) is presented to assist in the understanding of the Organization's financial statements. The policies reflect industry practices and conform to accounting principles generally accepted in the United States of America.

Organization's Activities:

The Organization is a not-for-profit public benefit corporation organized for the purpose of providing gainful employment and vocational rehabilitation services for disabled and disadvantaged individuals with barriers to employment. The major sources of revenue consist of contract work, grants, sales of donated clothing and furniture, cash donations, and sales of donated scrap.

Financial Statement Presentation:

The Organization follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Organizations*. ASC 958 establishes standards for financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally-imposed restrictions. Descriptions of the three net asset categories are as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations. This includes certain amounts designated by the Board for endowment and other purposes.
- *Temporarily restricted net assets* – Net Assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.
- *Permanently restricted net assets* – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or a part of the income earned on related investments for general or specific purposes.

Permanently restricted net assets were \$77,954 as of December 31, 2016 and 2015.

Recognition of Donor Restrictions:

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 1: Summary of Significant Accounting Policies, continued:**

Use of Estimates:

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

Accounting Method:

The financial statements of the Organization have been prepared using the accrual method of accounting wherein income is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash and cash equivalents.

Receivables:

Receivables are carried at the original invoice amount and are written off to expense in the period in which they are determined to be uncollectible. Management determines the uncollectibility of accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Recoveries of receivables previously written off are recorded when received. Management's evaluation resulted in \$29,028 and \$22,597 allowance for doubtful accounts as of December 31, 2016 and 2015, respectively.

Inventory:

Inventory consists of donated goods and new goods purchased for resale. Donated good inventory cost is calculated by the Organization based on actual sales of donated goods. New mattress inventory is valued at the lower of cost or market using the first-in, first-out method (FIFO).



**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 1: Summary of Significant Accounting Policies, continued:**

Property and Equipment:

The Organization records property and equipment at cost or at the estimated fair value at the date of gift, if donated. All donated assets are reported as unrestricted support unless donors' stipulations specify how the assets must be used. The Organization reports expirations of donor restrictions when the acquired assets are placed in service and reclassifies temporarily restricted net assets to unrestricted net assets at that time. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000. Normal repairs and maintenance are expensed as incurred whereas significant improvements, which materially increase the value or extend useful life, are capitalized and depreciated over the remaining useful life of the related assets. Depreciation is provided on the straight-line method over the estimated useful life of the assets. Estimated useful lives are as follows:

	Life
Office equipment	3-5 years
Plant and store equipment, vehicles, and collection trailers	5-10 years
Building and leasehold improvements	10-20 years
Buildings	40 years

Deferred Revenue:

Deferred revenue consists of advance payments for tuition for the Organization cosmetology program. Deferred tuition revenue will be recognized in tuition income over the period in which the programs take place.

Bond Issuance Costs:

The Company has adopted the accounting guidance in the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-03. This requires entities to present debt issuance costs (bond issuance costs) as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs as a direct reduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The adoption of this standard had no effect on previously reported net assets. For the years ended December 31, 2016 and 2015, amortization of bond issuance costs totaled \$155,246 and \$6,840, respectively.

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 1: Summary of Significant Accounting Policies, continued:**

Endowment Funds:

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination of whether appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policy of the Organization

*Investment Policy:*

The Organization has adopted investment and spending policies for endowment assets that attempt to achieve a growth in principal that will support a continuing stream of funding to the Organization from its endowment and avoid a high degree of risk and ensure endowment funds will operate in perpetuity. To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current earnings (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based and fixed income investments to achieve its long-term objectives with prudent risk constraints.

*Spending Policy:*

The Organization has implemented a policy to allow the endowment fund to grow to \$500,000 through capital appreciation and/or additional gifts before any distributions for expenditures are approved. After reaching \$500,000, each year 5% of the fund, as measured by the value on December 31, will be transferred to the operating account to be used for general purposes.

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 1: Summary of Significant Accounting Policies, continued:**

Endowment Funds, continued:

*Asset Allocation Limitations:*

It shall be the policy of the fund to invest the assets in accordance with the maximum and minimum range for each asset category.

Donated Goods:

Contributions of donated goods are recorded at their fair market value at the date of gift, if determinable. Individuals with disabilities and other barriers to employment process the merchandise before it is available to be placed at a point of sale. The fair value of the donated goods inventory is calculated using the estimated resale value less the cost of collections, transportation and processing of the goods, and is used to determine the cost of the goods sold.

Functional Expenses:

The costs of providing program services and other activities have been presented on functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising:

Advertising costs of \$243,622 and \$344,537 were expended when incurred for the years ended December 31, 2016 and 2015 respectively.

Income Taxes:

Under applicable laws and regulations, the Organization has been determined to be exempt from federal and California income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code and the related California Revenue and Taxation Code. Accordingly, no provision for income taxes has been recorded in these financial statements.

Uncertain Tax Positions:

Accounting guidance issued by the Financial Accounting Standards Board (FASB) prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Organization did not have unrecognized tax benefits as of December 31, 2016 and 2015, and does not expect this to change significantly over the next twelve months.

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 1: Summary of Significant Accounting Policies, continued:**

Concentration:

*Credit Risk:*

Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash, investments, and accounts receivable.

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. 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.

Reclassifications:

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. The reclassifications had no impact on previously reported net assets or changes in net assets.

Recent Accounting Pronouncements:

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). This new guidance primarily differs from current U.S. GAAP by adding a requirement for lessees to recognize lease assets and lease liabilities in their balance sheets for those leases classified as operating leases. For entities that are not public business entities, ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2019, with earlier application permitted. The amendments in this Update require lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Organization is currently evaluating the impact on its financial statements of adopting the ASU.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which amends portions of the existing accounting standards for Not-for-Profit entities. ASU 2016-14 simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. ASU 2016-14 will be effective for the Organization for periods beginning after December 15, 2017, although early adoption is permitted. The amendments in this ASU are applied retrospectively to each prior period presented, though the Organization may omit certain information and disclosures for any periods presented before the period of adoption. The Organization is currently evaluating the impact of adopting the new standard on its financial statements.

Subsequent Events:

Management has evaluated subsequent events through June 22, 2017, the date the financial statements were available to be issued. Disclosures regarding subsequent events are included in Notes 4, 9, and 10.

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 2: Inventory:**

Inventory consists of the following at December 31:

	2016	2015
Donated goods	\$ 573,583	\$ 586,469
New goods purchased for resale	36,670	42,254
	<u>\$ 610,253</u>	<u>\$ 628,723</u>

**Note 3: Property and Equipment:**

Property and equipment consisted of the following at December 31:

	2016	2015
Land	\$ 6,848,890	\$ 4,591,891
Office equipment	2,549,769	2,273,474
Plant and store equipment, vehicles, and collection trailers	4,863,742	4,230,795
Building and leasehold improvements	2,754,219	969,252
Buildings	15,215,619	13,194,539
Construction in progress	1,350,911	144,466
	<u>33,583,150</u>	<u>25,404,417</u>
Total		
Less accumulated depreciation	<u>9,815,623</u>	<u>9,848,909</u>
Property and equipment, net	<u>\$ 23,767,527</u>	<u>\$ 15,555,508</u>

Depreciation expense for the years ended December 31, 2016 and 2015 amounted to \$1,455,931 and \$1,311,884, respectively, and is included in the statement of functional expenses.

The Organization had contractual commitments remaining at December 31, 2016, of approximately \$7,000,000 for the construction of the new administrative building in Salinas, California.

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 4: Assets Held for Sale:**

Assets held for sale consisted of the following at December 31, 2016:

Land	\$ 222,091
Buildings and improvements	1,463,351
Less accumulated depreciation	<u>(1,319,573)</u>
Assets held for sale	<u>\$ 365,869</u>

As a result of the Organization's decision in 2016 to relocate their corporate headquarters to a building owned by the Organization in Salinas, California, the land, building and related improvements in Santa Cruz, California are no longer needed. In December 2016 the Organization committed to selling the building and related assets and classified them as assets held for sale. In June 2017 the Organization sold the property for \$5,450,000.

**Note 5: Fair Value Measurement of Investments:**

The Organization measures its assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

The Fair Value Measurements Topic of the Financial Accounting Standards Board Codification establishes a framework for measuring fair value under generally accepted accounting principles. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the Fair Value Measurements Topic are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value of measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 5: Fair Value Measurement of Investments, continued:**

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Fair value for Level 1 is based upon quoted market prices. Inputs are obtained from various sources including market participants, dealers, brokers, and financial institutions.

Fair value for Level 2 is based upon investment strategies of the Community Foundation.

Assets measured at fair value on a recurring basis at December 31, 2016 were as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 3,602,429	\$ 3,602,429	\$ -	\$ -
Investments, held at the Community Foundations	25,119	-	25,119	-
<b>Total</b>	<b>\$ 3,627,548</b>	<b>\$ 3,602,429</b>	<b>\$ 25,119</b>	<b>\$ -</b>

Assets measured at fair value on a recurring basis at December 31, 2015 were as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 8,212,719	\$ 8,212,719	\$ -	\$ -
Investments, held at the Community Foundations	24,125	-	24,125	-
<b>Total</b>	<b>\$ 8,236,844</b>	<b>\$ 8,212,719</b>	<b>\$ 24,125</b>	<b>\$ -</b>

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 6: Investments:**

Investments consist of the following at December 31:

	2016		
	Cost	Fair Market Value	Unrealized Gain (Loss)
Equities	\$ 1,615,696	\$ 1,931,504	\$ 315,808
Fixed income	1,067,295	1,016,840	(50,455)
Certificate of deposit	350,058	350,058	-
Non-traditional	271,754	304,027	32,273
<b>Total investments</b>	<b>\$ 3,304,803</b>	<b>\$ 3,602,429</b>	<b>\$ 297,626</b>
	2015		
	Cost	Fair Market Value	Unrealized Gain (Loss)
Equities	\$ 2,752,996	\$ 3,247,223	\$ 494,227
Fixed income	4,625,829	4,555,063	(70,766)
Non-traditional	353,155	332,442	(20,713)
Other	82,858	77,991	(4,867)
<b>Total investments</b>	<b>\$ 7,814,838</b>	<b>\$ 8,212,719</b>	<b>\$ 397,881</b>



**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 6: Investments, continued:**

Net investment income consists of the following at December 31:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividend income	\$ 150,057	\$ 5,865	\$ -	\$ 155,922
Realized/unrealized gain on investments	235,799	4,394	-	240,193
Net investment income	\$ 385,856	\$ 10,259	\$ -	\$ 396,115
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	\$ 228,796	\$ 7,185	\$ -	\$ 235,981
Realized/unrealized gain (loss) on investments	(98,424)	956	-	(97,468)
Net investment income	\$ 130,372	\$ 8,141	\$ -	\$ 138,513

**Note 7: Endowment Funds at Community Foundations:**

The Community Foundation for Monterey County (CFMC) and the Community Foundation for San Luis Obispo (CFSLO) holds funds for the Organization in the amount of \$25,119 and \$24,125 at December 31, 2016 and 2015, respectively. The Organization has granted variance power to CFMC and CFSLO. In the event of the dissolution of the Organization or in the event it shall no longer be an organization described in section 170 (c) of the Internal Revenue Code of 1954, as amended. CFMC and CFSLO shall continue to hold the funds and shall not distribute the income therefrom to such organizations as in their opinion most nearly serve the purposes and objectives of the Organization. All funds held are subject to the power of the CFMC and CFSLO to modify any restrictions or conditions on the distribution of funds or any specified charitable purpose or to specified organizations, if in their sole judgment such restrictions becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area served by them.

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 7: Endowment Funds at Community Foundations, continued:**

The earnings payout of the funds are evaluated at least annually by CFMC and CFSLP, in light of total return from investments, fees, expenses, and the effects of inflation, the annual payout is typically between 5% and 7% of the fair market value of the fund at year end. For the years ending December 31, 2016 and 2015, \$880 and \$881 respectively, were distributed in fees and grants to the Organization.

Endowment funds consist of the following at December 31:

	2016	2015
Held at CFMC	\$ 19,633	\$ 18,382
Held at CFSLO	5,486	5,743
Total	\$ 25,119	\$ 24,125

**Note 8: Temporarily Restricted Net Assets:**

Donated land and building are held as a temporarily restricted asset for a period of 30 years commencing November 1997. The grantor imposes certain limitations on the use of the land and building and other covenants. The Organization was in compliance with the covenants under the grantor for the years ended December 31, 2016 and 2015.

**Note 9: Bonds:**

2008 Bonds:

In 2008, the Organization entered into a loan agreement with the California Statewide Communities Development Authority and issued \$4,500,000 in variable rate demand revenue bonds (2008 bonds).

The bonds bear interest at variable rates as determined by Wells Fargo Institutional Securities, LLC, and are payable quarterly. The bonds variable interest rate could not exceed the maximum rate allowed of 10%. Annual principal payments are due beginning in February 2011 and continuing through 2038. The bonds could be redeemed on a quarterly interest payment date as long as the bank receives proper advance notice and a redemption request letter, signed by both the borrower and Wells Fargo Bank, N.A. These bonds required the Organization to maintain specific financial and non-financial covenants. The Organization was not aware of any violations of these covenants as of December 31, 2015.

The outstanding principal balance on these bonds at December 31, 2015 was \$4,000,000. In November 2016 the outstanding principal and interest balance on the 2008 bonds was fully repaid using proceeds from the 2016 bonds further described below.

2016 Bonds:

On September 2016, the Organization issued the 2016 California Municipal Finance Authority Bonds (2016 bonds) for the purpose of refunding the outstanding 2008 bonds and to finance the acquisition, renovation, and equipping of the Salinas building purchased during 2016. The 2016 bonds have a total commitment amount of \$18,000,000. During 2016, \$7,000,000, was drawn by the Organization. Through December 31, 2017 only interest payments are due

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 9: Bonds, continued:**

2016 Bonds, continued:

and the Organization has the ability to draw down on the total commitment amount. On January 1, 2018 the Organization will no longer be able to draw on the amount and monthly principal payments will become due in accordance with the schedule below. Subsequent to December 31, 2016 through June 22, 2017, the date the financial statements were available to be issued, the Organization drew down an additional \$6,600,000 on the bonds. The total principal outstanding at June 22, 2017 was \$13,600,000.

The bond bears interest at a variable rate calculated as the sum of 70% of the Daily LIBOR Rate plus the "Applicable Spread" and are payable monthly. At December 31, 2016 the effective interest rate was approximately 1.50%.

These bonds require the Organization to maintain specific financial and non-financial covenants. The Organization is not aware of any violations of these covenants as of December 31, 2016.

Bonds outstanding consisted of the following at December 31:

	2016	2015
2008 Bonds	\$ -	\$ 4,000,000
2016 Bonds	7,000,000	-
	7,000,000	4,000,000
Less unamortized bond issuance costs	(128,697)	(150,400)
Less current maturities	-	(95,000)
	\$ 6,871,303	\$ 3,754,600
Total bond liability, net	\$ 6,871,303	\$ 3,754,600

Aggregate maturities of the bonds are as follows:

<u>Year Ending December 31:</u>	
2017	\$ -
2018	294,737
2019	294,737
2020	294,737
2021	294,737
Thereafter	5,821,052
	\$ 7,000,000

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 10: Letters of Credit:**

At December 31, 2016 and 2015, the Organization had \$1,034,070 and \$374,485 of standby letters of credit with no amounts outstanding related to workers compensation insurance. In January 2017 a letter of credit of \$374,485 was canceled.

**Note 11: Endowment Funds:**

Endowment funds consist of the following as of December 31:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 33,707	\$ 77,954	\$ 111,661
Board-designated endowments	49,132	-	-	49,132
	\$ 49,132	\$ 33,707	\$ 77,954	\$ 160,793
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 24,103	\$ 77,954	\$ 102,057
Board-designated endowments	49,132	-	-	49,132
	\$ 49,132	\$ 24,103	\$ 77,954	\$ 151,189

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 11: Endowment Funds, continued:**

Changes in endowment funds consists of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of December 31, 2014	\$ 49,132	\$ 26,820	\$ 77,954	\$ 153,906
Investment return:				
Investment income	-	7,185	-	7,185
Realized/unrealized gain (loss)	-	956	-	956
Investment fees	-	(10,858)	-	(10,858)
Total investment return	-	(2,717)	-	(2,717)
Balance as of December 31, 2015	49,132	24,103	77,954	151,189
Investment return:				
Investment income	-	5,865	-	5,865
Realized/unrealized gain	-	4,394	-	4,394
Investment fees	-	(655)	-	(655)
Total investment return	-	9,604	-	9,604
Balance as of December 31, 2016	\$ 49,132	\$ 33,707	\$ 77,954	\$ 160,793

**Note 12: Donated Services:**

The value of donated services is not reflected in the accompanying financial statements since the criteria for recognition of those services have not been met under generally accepted accounting principles in the United States.

**Note 13: Property Leased to Others:**

The Organization receives rental income under long term leases agreements on property held by the Organization.

Expected rental income under these operating leases is as follows:

Year Ending December 31:

2017	\$ 110,207
2018	63,627
2019	22,360
2020	23,020
2021	400

**Goodwill Central Coast**  
**Notes to the Financial Statements, continued**  
**December 31, 2016 and 2015**

**Note 14: Operating Leases:**

The Organization leases various locations under operating lease agreements. The monthly lease payments for most locations are subject to adjustments for the changes in the Bay Area Consumer Price Index and to adjustments for increases in common area maintenance expenses. Total rental expense for 2016 and 2015 was \$1,373,340 and \$1,147,544, respectively.

Future minimum lease payments are as follows:

Year Ending December 31:

2017	\$ 1,144,253
2018	788,906
2019	611,046
2020	522,483
2021	427,448

**Note 15: Retirement Plans:**

The Organization has a non-contributory salary reduction plan for eligible employees under the provisions of Internal Revenue Code Section 403(b).

The Organization also sponsors a contributory plan for eligible employees under the provisions of Internal Revenue Code Section 403(b). The Organization matches 50% of each participant's deferred compensation up to a maximum of 3% of the participant's salary. Matching contributions for the years ended December 31, 2016 and 2015 were \$94,369 and \$98,574, respectively.

**Note 16: Contingencies:**

The Organization is occasionally involved in litigation matters that arise in the ordinary course of business. There are no pending significant legal proceedings to which the Organization is a party for which management believes the ultimate outcome would have a material adverse effect on the Organization's financial position.

**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 Central Coast**  
Santa Cruz, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Goodwill Central Coast, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, functional expenses and cash flows, and the related notes to the financial statements, and have issued our report thereon dated June 22, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Goodwill Central Coast'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Goodwill Central Coast's internal control. Accordingly, we do not express an opinion on the effectiveness of Goodwill Central Coast'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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questions costs as 2016-01 that we consider to be a significant deficiency.

## **Compliance and Other Matters**


As part of obtaining reasonable assurance about whether Goodwill Central Coast'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.

## **Organization's Response to Findings**

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly we express no opinion on it.

## **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.



**CliftonLarsonAllen LLP**

Roseville, California  
June 22, 2017





**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Board of Directors  
**Goodwill Central Coast**  
Santa Cruz, California

**Report on Compliance for Each Major Federal Program**

We have audited Goodwill Central Coast (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, 2016. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of federal awards.

**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 audit 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, 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, 2016.

## 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding 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 during the audit for the year ended December 31, 2016. However, material weaknesses may exist that have not been identified.

*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.

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.



**CliftonLarsonAllen LLP**

Roseville, California  
June 22, 2017

**Goodwill Central Coast  
Schedule of Expenditures of Federal Awards  
for the year ended December 31, 2016**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Federal Expenditures	Passed through to Subrecipients
<b>U.S. Department of Labor:</b>			
Pass-Through:			
County of Monterey -			
Senior Service America	17.235	\$ 243,108	\$ -
County of San Luis Obispo -			
WIA Adult Program	17.258	362,818	-
County of Santa Cruz -			
WIA Dislocated Worker Formula Grants	17.278	474,061	-
County of San Luis Obispo -			
WIA Dislocated Worker Formula Grants	17.278	423,543	-
Subtotal CFDA 17.278		897,604	-
Total - WIA Cluster			
		1,260,422	-
<b>Total U.S. Department of Labor</b>		<b>\$ 1,503,530</b>	<b>\$ -</b>
<b>U.S. Department of Health and Human Services</b>			
Pass-Through:			
County of Santa Cruz:			
Temporary Assistance for Needy Families	93.558	\$ 799,747	\$ -
County of Monterey:			
Temporary Assistance for Needy Families	93.558	1,642,834	-
County of San Luis Obispo:			
Temporary Assistance for Needy Families	93.558	94,720	-
Subtotal CFDA 93.558		2,537,301	-
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 2,537,301</b>	<b>\$ -</b>
<b>Total Expenditures of Federal Awards</b>		<b>\$ 4,040,831</b>	<b>\$ -</b>

**Goodwill Central Coast**  
**Notes to Schedule of Expenditures of Federal Awards**  
**for the year ended December 31, 2016**

**Note 1: Summary of Significant Accounting Policies:**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Organization. The Organization reporting entity is defined in Note 1 to the financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

**Note 2: Basis of Accounting:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Organization and is presented in accordance with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of the OMB Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**Note 3: Relationship to Financial Statements:**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the financial statements. Federal award revenue is reported principally in the Organization's financial statements as grant revenue.

**Note 4: Pass-Through Entities' Identifying Number:**

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the Organization determined that no identifying number is assigned for the program or the Organization was unable to obtain an identifying number from the pass-through entity.

**Note 5: Indirect Cost Rate:**

The Organization elected to use the 10% de minimis indirect cost rate as covered in 2 CFR §200.414. Uniform Guidance, §200.510(6), requires the Organization to disclose whether or not it elected to use the 10% de minimis cost rate that §200.414(f) allows for nonfederal entities that have never received a negotiated cost rate.

**Goodwill Central Coast  
Schedule of Findings and Questioned Costs  
for the year ended December 31, 2016**

**Section 1**

Summary of Auditor's Results

Financial Statements

- |  |            |
|--|------------|
| 1. Type of auditor's report issued:  | Unmodified |
| 2. Internal control over financial reporting:                                    |            |
| a. Material weaknesses identified?   | No         |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes        |
| 3. Noncompliance material to financial statements noted?                         | No         |

Federal Awards

- |  |            |
|--|------------|
| 1. Internal controls over major program:   |            |
| a. Material weaknesses identified?   | No         |
| b. Significant deficiencies identified not considered to be material weaknesses?                         | No         |
| 2. Type of auditor's report issued on compliance for major program:                                      | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with OMB Uniform Guidance | No         |

4. Identification of major program:

CFDA Number  
93.558

Name of Federal Program  
Temporary Assistance for Needy Families

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Uniform Guidance       | No        |

**Goodwill Central Coast**  
**Schedule of Findings and Questioned Costs, continued**  
**for the year ended December 31, 2016**

**Section 2**

Financial Statement Findings

**Finding: 2016-01 - Internal Controls Surrounding Payroll**

Criteria: In order to have proper segregation of duties surrounding payroll the person who is responsible for processing and submitting payroll should not have the ability to make changes to employee information. If it is not cost-effective to implement this change then a compensating control should be adopted whereby a person separate from the payroll process independently performs an after-the-fact review of a payroll change report or submitted payroll register.

Condition: The employee responsible for processing and submitting payroll has the ability to make changes to employee information. There is no after-the-fact review of a payroll change report or submitted payroll register being performed by someone separate from the payroll process.

Effect: There is an opportunity for an employee to make unauthorized changes to employee information.

Cause: Personnel responsible for overseeing the payroll process were not aware of certain employee privileges within the current system in place.

Recommendation: Management should implement a policy whereby someone who is not involved in the payroll process, review and approve a payroll change report after each payroll is submitted. This review should be documented accordingly.

Views of responsible officials and planned corrective actions: Management has begun an after-the-fact review of the 'payroll change report' by our Staff Accountant. This employee is an additional employee whose function was not staffed in 2016. The staff accountant will review an electronic copy of the report at each payroll period and document the review via email to the Vice President of Finance. Management initiated this process with the first payroll period in June of 2017.

**Section 3**

Federal Award Findings and Questioned Costs

None reported

**Goodwill Central Coast  
Summary Schedule of Prior Audit Findings  
for the year ended December 31, 2016**

No prior audit findings were reported.