

**GOODWILL CENTRAL COAST
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**GOODWILL CENTRAL COAST
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YEARS ENDED DECEMBER 31, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Goodwill Central Coast
Salinas, California

We have audited the accompanying financial statements of Goodwill Central Coast, which comprises the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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; 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.

Auditors' 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information – Schedule of Expenditures of Federal Awards

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2018 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 solely 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 Goodwill Central Coast’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 Goodwill Central Coast’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Roseville, California
June 17, 2018

**GOODWILL CENTRAL COAST
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017**

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 10,456,823	\$ -	\$ -	\$ 10,456,823
Receivables:				
Accounts, Net	830,873	-	-	830,873
Interest	3,028	-	-	3,028
Other	21,868	-	-	21,868
Total Receivables	<u>855,769</u>	<u>-</u>	<u>-</u>	<u>855,769</u>
Inventory	728,439	-	-	728,439
Prepaid Expenses and Deposits	325,908	-	-	325,908
Total Current Assets	<u>12,366,939</u>	<u>-</u>	<u>-</u>	<u>12,366,939</u>
PROPERTY AND EQUIPMENT, NET	32,045,411	777,735	-	32,823,146
OTHER ASSETS				
Investments	3,990,184	58,018	77,954	4,126,156
Endowment Funds at Community Foundations	28,016	-	-	28,016
Deposits	95,638	-	-	95,638
Total Other Assets	<u>4,113,838</u>	<u>58,018</u>	<u>77,954</u>	<u>4,249,810</u>
Total Assets	<u>\$ 48,526,188</u>	<u>\$ 835,753</u>	<u>\$ 77,954</u>	<u>\$ 49,439,895</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 750,006	\$ -	\$ -	\$ 750,006
Accrued Expenses	1,648,298	-	-	1,648,298
Deferred Revenue	27,068	-	-	27,068
Current Maturities of Bonds	757,895	-	-	757,895
Total Current Liabilities	<u>3,183,267</u>	<u>-</u>	<u>-</u>	<u>3,183,267</u>
LONG-TERM LIABILITIES				
Security Deposits	10,473	-	-	10,473
Bonds Payable, Net	17,132,488	-	-	17,132,488
Total Long-Term Liabilities	<u>17,142,961</u>	<u>-</u>	<u>-</u>	<u>17,142,961</u>
Total Liabilities	20,326,228	-	-	20,326,228
NET ASSETS	<u>28,199,960</u>	<u>835,753</u>	<u>77,954</u>	<u>29,113,667</u>
Total Liabilities and Net Assets	<u>\$ 48,526,188</u>	<u>\$ 835,753</u>	<u>\$ 77,954</u>	<u>\$ 49,439,895</u>

See accompanying Notes to Financial Statements.

**GOODWILL CENTRAL COAST
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016**

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CURRENT ASSETS				
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	<u>1,268,973</u>	<u>-</u>	<u>-</u>	<u>1,268,973</u>
Inventory	610,253	-	-	610,253
Prepaid Expenses and Deposits	266,352	-	-	266,352
Total Current Assets	<u>6,647,359</u>	<u>10,858</u>	<u>-</u>	<u>6,658,217</u>
PROPERTY AND EQUIPMENT, NET	22,949,873	817,654	-	23,767,527
OTHER ASSETS				
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	<u>3,636,320</u>	<u>33,707</u>	<u>77,954</u>	<u>3,747,981</u>
Total Assets	<u>\$ 33,233,552</u>	<u>\$ 862,219</u>	<u>\$ 77,954</u>	<u>\$ 34,173,725</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 784,769	\$ -	\$ -	\$ 784,769
Accrued Expenses	1,391,122	-	-	1,391,122
Deferred Revenue	112,396	-	-	112,396
Current Maturities of Bonds	-	-	-	-
Total Current Liabilities	<u>2,288,287</u>	<u>-</u>	<u>-</u>	<u>2,288,287</u>
LONG-TERM LIABILITIES				
Security Deposits	3,500	-	-	3,500
Bonds Payable, Net	6,871,303	-	-	6,871,303
Total Long-Term Liabilities	<u>6,874,803</u>	<u>-</u>	<u>-</u>	<u>6,874,803</u>
Total Liabilities	9,163,090	-	-	9,163,090
NET ASSETS	<u>24,070,462</u>	<u>862,219</u>	<u>77,954</u>	<u>25,010,635</u>
Total Liabilities and Net Assets	<u>\$ 33,233,552</u>	<u>\$ 862,219</u>	<u>\$ 77,954</u>	<u>\$ 34,173,725</u>

See accompanying Notes to Financial Statements.

**GOODWILL CENTRAL COAST
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Sales of Contributed Goods				
Sold in Retail Stores	\$ 21,025,278	\$ -	\$ -	\$ 21,025,278
Sold as Salvage	730,302	-	-	730,302
Sales of Purchased Goods	1,147,815	-	-	1,147,815
Workforce Development	9,224	-	-	9,224
Contributions	108,701	-	-	108,701
Grant Revenue	3,560,720	-	-	3,560,720
Interest and Dividend Income	78,757	10,070	-	88,827
Miscellaneous Income	543,735	-	-	543,735
Rental Income	1,254,459	-	-	1,254,459
Contract Labor and Training	138,943	-	-	138,943
Realized/Unrealized Gain on Investments, Net	462,526	15,092	-	477,618
Gain on Sale of Property and Equipment	4,991,139	-	-	4,991,139
Tuition Revenue	33,459	-	-	33,459
Student Supplies	16,248	-	-	16,248
Net Assets Released from Restriction	51,628	(51,628)	-	-
Total Revenues and Support	34,152,934	(26,466)	-	34,126,468
EXPENSES				
Program Services:				
Program Services	25,575,964	-	-	25,575,964
Management and General	4,436,762	-	-	4,436,762
Fundraising	10,710	-	-	10,710
Total Expenses	30,023,436	-	-	30,023,436
CHANGE IN NET ASSETS	4,129,498	(26,466)	-	4,103,032
Net Assets - Beginning of Year	24,070,462	862,219	77,954	25,010,635
NET ASSETS - END OF YEAR	<u>\$ 28,199,960</u>	<u>\$ 835,753</u>	<u>\$ 77,954</u>	<u>\$ 29,113,667</u>

See accompanying Notes to Financial Statements.

**GOODWILL CENTRAL COAST
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
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 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)	-	-
Total Revenues and Support	<u>28,412,617</u>	<u>(52,206)</u>	<u>-</u>	<u>28,360,411</u>
EXPENSES				
Program Services:				
Program Services	25,019,214	-	-	25,019,214
Management and General	3,929,705	-	-	3,929,705
Fundraising	15,549	-	-	15,549
Total Expenses	<u>28,964,468</u>	<u>-</u>	<u>-</u>	<u>28,964,468</u>
CHANGE IN NET ASSETS	(551,851)	(52,206)	-	(604,057)
Net Assets - Beginning of Year	<u>24,622,313</u>	<u>914,425</u>	<u>77,954</u>	<u>25,614,692</u>
NET ASSETS - END OF YEAR	<u><u>\$ 24,070,462</u></u>	<u><u>\$ 862,219</u></u>	<u><u>\$ 77,954</u></u>	<u><u>\$ 25,010,635</u></u>

See accompanying Notes to Financial Statements.

**GOODWILL CENTRAL COAST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017**

	Program Services	Management and General	Fundraising	Total
Salaries and Wages	\$ 13,927,762	\$ 1,868,362	\$ -	\$ 15,796,124
Employee Benefits	1,547,399	265,268	-	1,812,667
Rent - Occupancy and Equipment	1,615,278	5,481	-	1,620,759
Depreciation	1,246,313	440,942	-	1,687,255
Payroll Taxes	1,308,680	166,202	-	1,474,882
Professional and Consulting Fees	38,561	344,557	-	383,118
Workers' Compensation	1,056,611	29,815	-	1,086,426
Utilities	926,723	270,031	-	1,196,754
New Goods for Sale Purchases	759,356	-	-	759,356
Supplies	632,125	128,577	10,099	770,801
Miscellaneous	123,408	8,299	448	132,155
Specific Assistance to Organizations	436,418	-	-	436,418
Banking Fees	383,465	116,423	-	499,888
Vehicle and Transportation	376,542	19,990	-	396,532
Student/Client Instructional Support Materials	134,747	-	-	134,747
Repairs and Maintenance	364,933	199,928	-	564,861
Advertising and Marketing	203,991	24,027	-	228,018
Telephone	217,123	91,263	-	308,386
Dues and Subscriptions	3,229	169,089	163	172,481
Insurance	123,838	40,315	-	164,153
Permits and Licenses	97,171	38,171	-	135,342
Interest	-	193,438	-	193,438
Small Tools	43,617	8,647	-	52,264
Staff Development	8,674	1,937	-	10,611
Bad Debt and Collection	-	6,000	-	6,000
Total	\$ 25,575,964	\$ 4,436,762	\$ 10,710	\$ 30,023,436

See accompanying Notes to Financial Statements.

**GOODWILL CENTRAL COAST
STATEMENT OF FUNCTIONAL EXPENSES
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	153,474	50,870	53	204,397
Specific Assistance to Organizations	362,395	2,600	-	364,995
Banking Fees	390,414	71,610	-	462,024
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
Total	\$ 25,019,214	\$ 3,929,705	\$ 15,549	\$ 28,964,468

See accompanying Notes to Financial Statements.

**GOODWILL CENTRAL COAST
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 4,103,032	\$ (604,057)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,706,335	1,611,177
Bad Debt Expense	6,000	6,000
Realized/Unrealized Gain on Investments	(477,618)	(240,193)
Gain on Sale of Equipment	(4,991,139)	(10,966)
Changes in Operating Assets and Liabilities:		
Receivables	41,335	(79,201)
Inventory	(118,186)	18,470
Prepaid Expenses and Deposits	(27,788)	72,126
Accounts Payable	(34,763)	252,986
Accrued Expenses	257,176	203,250
Deferred Revenue	(85,328)	13,221
Net Cash Provided by Operating Activities	379,056	1,242,813
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Marketable Securities	64,764,906	6,877,924
Acquisition of Marketable Securities	(64,816,809)	(2,029,687)
Net Community Foundation Activity	2,897	1,252
Proceeds from Sale of Property and Equipment	5,366,413	14,950
Cash Paid for Property and Equipment	(10,752,279)	(10,037,803)
Net Cash Used by Investing Activities	(5,434,872)	(5,173,364)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from 2016 Bond Issuance	11,000,000	6,866,457
Principal Payments on Long-Term Debt	-	(4,000,000)
Net Cash Provided by Financing Activities	11,000,000	2,866,457
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,944,184	(1,064,094)
Cash and Cash Equivalents - Beginning of Year	4,512,639	5,576,733
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 10,456,823	\$ 4,512,639

See accompanying Notes to Financial Statements.

**GOODWILL CENTRAL COAST
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	<u>\$ 360,268</u>	<u>\$ 312,187</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Reclassification of Assets Held for Sale	<u>\$ -</u>	<u>\$ 365,869</u>

See accompanying Notes to Financial Statements.

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

The Organization is a nonprofit 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, 2017 and 2016.

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 FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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.

Investments

We record investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and changes in net assets and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

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 \$35,028 and \$29,028 allowance for doubtful accounts as of December 31, 2017 and 2016, 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 net realizable value using the first-in, first-out method (FIFO).

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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:

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's cosmetology program. Deferred tuition revenue will be recognized in tuition income over the period in which the programs take place.

Bond Issuance Costs

The Organization 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, 2017 and 2016, amortization of bond issuance costs totaled \$19,080 and \$155,246, respectively, and are included in interest expense in the statement of functional expenses.

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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.

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.

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$228,018 and \$243,622 were expended when incurred for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, and does not expect this to change significantly over the next twelve months.

Concentrations

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.

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management has evaluated subsequent events through June 17, 2018, the date the financial statements were available to be issued.

NOTE 2 INVENTORY

Inventory consists of the following at December 31:

	2017	2016
Donated Goods	\$ 614,251	\$ 573,583
New Goods Purchased for Resale	114,188	36,670
Total	\$ 728,439	\$ 610,253

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2017	2016
Land	\$ 6,864,270	\$ 6,848,890
Office Equipment	1,966,435	2,549,769
Plant and Store Equipment, Vehicles, and Collection Trailers	5,725,567	4,863,742
Building and Leasehold Improvements	2,928,518	2,754,219
Buildings	24,887,234	15,215,619
Construction in Progress	227,977	1,350,911
Total	42,600,001	33,583,150
Less: Accumulated Depreciation	9,776,855	9,815,623
Total Property and Equipment, Net	\$ 32,823,146	\$ 23,767,527

Depreciation expense for the years ended December 31, 2017 and 2016 amounted to \$1,687,255 and \$1,455,931, respectively, and is included in the statement of functional expenses.

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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>
Total 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 was no longer needed. 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.

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 5 FAIR VALUE MEASUREMENT OF INVESTMENTS (CONTINUED)

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.

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, 2017 and 2016.

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, 2017 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)
Equities	\$ 2,377,376	\$ 2,377,376	\$ -	\$ -
Fixed Income	1,113,034	793,634	319,400	-
Certificate of Deposit	350,295	-	350,295	-
Nontraditional	285,451	285,451	-	-
Investments, Held at the Community Foundations	<u>28,016</u>	<u>-</u>	<u>28,016</u>	<u>-</u>
Total	<u>\$ 4,154,172</u>	<u>\$ 3,456,461</u>	<u>\$ 697,711</u>	<u>\$ -</u>

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 5 FAIR VALUE MEASUREMENT OF INVESTMENTS (CONTINUED)

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)
Equities	\$ 1,931,504	\$ 1,931,504	\$ -	\$ -
Fixed Income	1,016,840	1,016,840	-	-
Certificate of Deposit	350,058	-	350,058	-
Nontraditional	304,027	304,027	-	-
Investments, Held at the Community Foundations	25,119	-	25,119	-
Total	<u>\$ 3,627,548</u>	<u>\$ 3,252,371</u>	<u>\$ 375,177</u>	<u>\$ -</u>

NOTE 6 INVESTMENTS

Investments consist of the following at December 31:

	2017		
	Cost	Fair Market Value	Unrealized Gain
Equities	\$ 1,618,468	\$ 2,377,376	\$ 758,908
Fixed Income	1,099,400	1,113,034	13,634
Certificate of Deposit	350,295	350,295	-
Nontraditional	285,157	285,451	294
Total Investments	<u>\$ 3,353,320</u>	<u>\$ 4,126,156</u>	<u>\$ 772,836</u>
	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	-
Nontraditional	271,754	304,027	32,273
Total Investments	<u>\$ 3,304,803</u>	<u>\$ 3,602,429</u>	<u>\$ 297,626</u>

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 6 INVESTMENTS (CONTINUED)

Net investment income consists of the following at December 31:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and Dividend Income	\$ 78,757	\$ 10,070	\$ -	\$ 88,827
Realized/Unrealized Gain on Investments	462,526	15,092	-	477,618
Net Investment Income	<u>\$ 541,283</u>	<u>\$ 25,162</u>	<u>\$ -</u>	<u>\$ 566,445</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and Dividend Income	\$ 150,057	\$ 5,865	\$ -	\$ 155,922
Realized/Unrealized Gain on Investments	235,799	4,394	-	240,193
Net Investment Income	<u>\$ 385,856</u>	<u>\$ 10,259</u>	<u>\$ -</u>	<u>\$ 396,115</u>

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 \$28,016 and \$25,119 at December 31, 2017 and 2016, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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, 2017 and 2016, \$905 and \$880 respectively, were distributed in fees and grants to the Organization.

Endowment funds consist of the following at December 31:

	2017	2016
Held at CFMC	\$ 22,412	\$ 19,633
Held at CFSLO	5,604	5,486
Total	\$ 28,016	\$ 25,119

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, 2017 and 2016.

NOTE 9 BONDS

2016 Bonds:

In 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 and the Organization has the ability to draw down on the total commitment amount. On January 1, 2018, the Organization was no longer able to draw on the amount and monthly principal payments will become due in accordance with the schedule below.

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, 2017 the effective interest rate was approximately 1.50%.

These bonds require the Organization to maintain specific financial and nonfinancial covenants. The Organization is not aware of any violations of these covenants as of December 31, 2017.

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 9 BONDS (CONTINUED)

Bonds outstanding consisted of the following at December 31:

	2017	2016
2016 Bonds	\$ 18,000,000	\$ 7,000,000
Less: Unamortized Bond Issuance Costs	109,617	128,697
Less: Current Maturities	757,895	-
Total Bond Liability, Net	\$ 17,132,488	\$ 6,871,303

Aggregate maturities of the bonds are as follows:

Year Ending December 31:	
2018	\$ 757,895
2019	757,895
2020	757,895
2021	757,895
2022	757,895
Thereafter	14,210,525
Total	\$ 18,000,000

NOTE 10 LETTERS OF CREDIT

At December 31, 2017 and 2016, the Organization had \$659,585 and \$1,034,070 of standby letters of credit with no amounts outstanding related to workers compensation insurance.

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 11 ENDOWMENT FUNDS

Endowment funds consist of the following as of December 31:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowments	\$ -	\$ 58,018	\$ 77,954	\$ 135,972
Board-Designated Endowments	49,132	-	-	49,132
	<u>\$ 49,132</u>	<u>\$ 58,018</u>	<u>\$ 77,954</u>	<u>\$ 185,104</u>
	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowments	\$ -	\$ 33,707	\$ 77,954	\$ 111,661
Board-Designated Endowments	49,132	-	-	49,132
	<u>\$ 49,132</u>	<u>\$ 33,707</u>	<u>\$ 77,954</u>	<u>\$ 160,793</u>

Changes in endowment funds consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance - December 31, 2015	\$ 49,132	\$ 24,103	\$ 77,954	\$ 151,189
Investment Return:				
Investment Income Realized/Unrealized	-	5,865	-	5,865
Gain (Loss)	-	4,394	-	4,394
Investment Fees	-	(655)	-	(655)
Total Investment Return	<u>-</u>	<u>9,604</u>	<u>-</u>	<u>9,604</u>
Balance - December 31, 2016	49,132	33,707	77,954	160,793
Investment Return:				
Investment Income Realized/Unrealized	-	10,070	-	10,070
Gain (Loss)	-	15,092	-	15,092
Investment Fees	-	(851)	-	(851)
Total Investment Return	<u>-</u>	<u>24,311</u>	<u>-</u>	<u>24,311</u>
Balance - December 31, 2017	<u>\$ 49,132</u>	<u>\$ 58,018</u>	<u>\$ 77,954</u>	<u>\$ 185,104</u>

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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 accounting principles generally accepted in the United States of America.

NOTE 13 PROPERTY LEASED TO OTHERS

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

Expected rental income under these operating leases is as follows:

<u>Year Ending December 31:</u>	
2018	\$ 153,874
2019	96,866
2020	97,999
2021	38,623

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 2017 and 2016 was \$1,548,128 and \$1,373,339, respectively.

Future minimum lease payments are as follows:

<u>Year Ending December 31:</u>	
2018	\$ 842,493
2019	642,284
2020	531,118
2021	434,599
2022	298,295
	<u>\$ 2,748,789</u>

**GOODWILL CENTRAL COAST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 15 RETIREMENT PLANS

The Organization has a noncontributory 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 makes matching contributions up to 3 percent of eligible compensation with \$1 for each dollar contributed. In addition, the Organization matches contributions of more than 3 percent and up to 5 percent of eligible compensation with \$0.50 for each dollar contributed. Matching contributions for the years ended December 31, 2017 and 2016 were \$98,720 and \$94,369, 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 AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Goodwill Central Coast
Salinas, California

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 financial statements of Goodwill Central Coast, which comprise the statement of financial position as of December 31, 2017, and 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, and have issued our report thereon dated June 17, 2018.

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 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 have not been 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. [2017-001].

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*.

Goodwill Central Coast's Response to Findings

Goodwill Central Coast's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Goodwill Central Coast'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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Roseville, California
June 17, 2018



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Board of Directors
Goodwill Central Coast
Salinas, California

Report on Compliance for Each Major Federal Program

We have audited Goodwill Central Coast's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Goodwill Central Coast's major federal programs for the year ended December 31, 2017. Goodwill Central Coast's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Goodwill Central Coast's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations 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 Goodwill Central Coast'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 Goodwill Central Coast's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Goodwill Central Coast 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 Goodwill Central Coast'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 Goodwill Central Coast's internal control over compliance.

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

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

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

CliftonLarsonAllen LLP

Roseville, California
June 17, 2018

**GOODWILL CENTRAL COAST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
<u>U.S. Department of Labor:</u>				
Passed through County of Monterey:				
Senior Service America	17.235	Senior Service America Inc (SSAI) Project No. 329	\$ 18,753	\$ -
Passed through County of San Luis Obispo:				
WIA Adult Program	17.258	C014 2015	129,116	-
WIA Dislocated Worker Formula Grants	17.278	C014 2015	211,067	-
Passed through County of Santa Cruz:				
WIA Dislocated Worker Formula Grants	17.278	EW53632-01, EW53632-02 EW53632-03	500,880	-
Total - WIA Cluster			<u>841,063</u>	<u>-</u>
Total U.S. Department of Labor			<u>859,816</u>	<u>-</u>
<u>U.S. Department of Health and Human Services</u>				
Passed through County of Santa Cruz:				
Temporary Assistance for Needy Families	93.558	EW43913-01,-02 17W3913, 17W2261 EW33955-01, EW43955-01	709,369	-
Passed through County of Monterey:				
Temporary Assistance for Needy Families	93.558	A-13573	1,648,626	-
Passed through County of San Luis Obispo:				
Temporary Assistance for Needy Families	93.558	C019 2016, C019 2017	163,055	-
Total - TANF Cluster			<u>2,521,050</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>2,521,050</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 3,380,866</u>	<u>\$ -</u>

GOODWILL CENTRAL COAST
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2017

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of Goodwill Central Coast (Organization) for the year ended December 31, 2017. The information in this schedule is presented in accordance with the 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).

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
YEAR ENDED DECEMBER 31, 2017**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? x yes _____ none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

1. Internal controls over major federal program:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? _____ yes x none reported
2. Type of auditors’ report issued on compliance for major programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes x no

Identification of Major Federal Program:

CFDA Number

93.558

Name of Federal Program or Cluster

Temporary Assistance for Needy Families

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as a low-risk auditee under OMB Uniform Guidance?

 x yes _____ no

**GOODWILL CENTRAL COAST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

Section II – Financial Statement Findings

2017-001 Internal Controls Surrounding Payroll

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

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.

Repeat Finding: This finding is a repeat of a finding in the prior year. Prior year finding was 2016-001.

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. The staff accountant will review an electronic copy of the report at each payroll period and document the review by initialing the report and attaching it to the payroll journal entry. This is then further reviewed and initialed by the CFO. Management initiated this process with the first payroll period in May of 2018. However, we are also running the reports and performing this review retroactively to the beginning of 2018.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).