

Goodwill Central Coast
Financial Statements
for the years ended December 31, 2014 and 2013

**Goodwill Central Coast
Financial Statements
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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, 2014, 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.

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 audit. We conducted our audit 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, 2014, 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 Circular A-133, 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 24, 2015 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.

Adjustments to Prior Period Financial Statements

The financial statements of Goodwill Central Coast as of December 31, 2013, were audited by other auditors whose opinion dated August 16, 2014, on those statements was unmodified. As discussed in Note 16, the Organization has restated the financial statements for the year ended December 31, 2013 during the current year to correct an overstatement in unrestricted net assets and related understatement of temporarily restricted net assets, in accordance with accounting principles generally accepted in the United States of America. The financial statements for the year ended December 31, 2013 were reported by the other auditors, prior to the restatement for the purpose of the financial statements as of December 31, 2014.

Goodwill Central Coast
Statement of Financial Position
December 31, 2014

Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Current assets:</u>				
Cash and cash equivalents	\$ 5,043,564	\$ -	\$ -	\$ 5,043,564
Receivables:				
Accounts, net	950,633	-	-	950,633
Interest	13,252	-	-	13,252
Employee	2,380	-	-	2,380
Other	19,327	-	-	19,327
Total receivables	985,592	-	-	985,592
Inventory	629,829	-	-	629,829
Prepaid expenses and deposits	444,833	-	-	444,833
Total current assets	7,103,818	-	-	7,103,818
<u>Property and equipment, net</u>	14,014,071	890,322	-	14,904,393
<u>Other assets:</u>				
Investments	7,912,979	26,820	77,954	8,017,753
Endowment funds at Community Foundations	25,512	-	-	25,512
Deferred bond issuance costs	157,240	-	-	157,240
Deposits	90,431	-	-	90,431
Total other assets	8,186,162	26,820	77,954	8,290,936
Total assets	\$ 29,304,051	\$ 917,142	\$ 77,954	\$ 30,299,147

See accompanying notes.

Goodwill Central Coast
Statement of Financial Position
December 31, 2014

Liabilities and Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Current liabilities:</u>				
Accounts payable	\$ 365,902	\$ -	\$ -	\$ 365,902
Current maturities of bonds	95,000	-	-	95,000
Accrued expenses	1,053,985	-	-	1,053,985
Deferred revenue	118,239	-	-	118,239
Total current liabilities	1,633,126	-	-	1,633,126
<u>Long-term liabilities:</u>				
Security deposits	3,500	-	-	3,500
Bonds payable, net of current maturities	4,000,000	-	-	4,000,000
Total long-term liabilities	4,003,500	-	-	4,003,500
Total liabilities	5,636,626	-	-	5,636,626
<u>Net assets:</u>	23,667,425	917,142	77,954	24,662,521
Total liabilities and net assets	\$ 29,304,051	\$ 917,142	\$ 77,954	\$ 30,299,147

See accompanying notes.

Goodwill Central Coast
Statement of Financial Position, restated
December 31, 2013

Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Restated Total
<u>Current assets:</u>				
Cash and cash equivalents	\$ 3,014,182	\$ -	\$ -	\$ 3,014,182
Receivables:				
Accounts, net	746,291	-	-	746,291
Interest	13,369	-	-	-
Employee	737	-	-	-
Other	77	-	-	-
Total receivables	760,474	-	-	746,291
Inventory	603,373	-	-	603,373
Prepaid expenses and deposits	371,314	-	-	371,314
Total current assets	4,749,343	-	-	4,749,343
<u>Property and equipment, net</u>	13,942,134	890,322	-	14,832,456
<u>Other assets:</u>				
Investments	7,726,775	20,752	77,954	7,825,481
Endowment funds at Community Foundations	25,225	-	-	25,225
Deferred bond issuance costs	164,080	-	-	164,080
Deposits	61,495	-	-	61,495
Total other assets	7,977,575	20,752	77,954	8,076,281
Total assets	\$ 26,669,052	\$ 911,074	\$ 77,954	\$ 27,658,080

See accompanying notes.

Goodwill Central Coast
Statement of Financial Position, restated
December 31, 2013

Liabilities and Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Restated Total
<u>Current liabilities:</u>				
Accounts payable	\$ 334,385	\$ -	\$ -	\$ 334,385
Current maturities of bonds	90,000	-	-	90,000
Accrued expenses	954,661	-	-	954,661
Deferred revenue	84,592	-	-	84,592
Total current liabilities	1,463,638	-	-	1,463,638
<u>Long-term liabilities:</u>				
Security deposits	3,500	-	-	3,500
Bonds payable, net of current maturities	4,095,000	-	-	4,095,000
Total long-term liabilities	4,098,500	-	-	4,098,500
Total liabilities	5,562,138	-	-	5,562,138
<u>Net assets, restated</u>	21,106,914	911,074	77,954	22,095,942
Total liabilities and net assets, restated	\$ 26,669,052	\$ 911,074	\$ 77,954	\$ 27,658,080

See accompanying notes.

Goodwill Central Coast
Statement of Activities and Changes in Net Assets
for the year ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Revenues and support:</u>				
Sales of contributed goods				
sold in retail stores	\$ 10,859,188	\$ -	\$ -	\$ 10,859,188
Sold as salvage	1,286,769	-	-	1,286,769
Sales of purchased goods	1,098,622	-	-	1,098,622
Workforce development	10,235	-	-	10,235
Donated goods	6,844,134	-	-	6,844,134
Contributions	484,179	-	-	484,179
Grant revenue	3,561,164	-	-	3,561,164
Interest and dividend income	238,245	6,536	-	244,781
Miscellaneous income	181,312	-	-	181,312
Rental Income	1,199,122	-	-	1,199,122
Contract labor and training	152,064	-	-	152,064
Realized/unrealized gain				
on investments	96,827	411	-	97,238
Gain on sale of property				
and equipment	240,674	-	-	240,674
Tuition revenue	223,970	-	-	223,970
Student supplies	111,456	-	-	111,456
Net assets released				
from restriction	879	(879)	-	-
	<hr/>			
Total revenues	26,588,840	6,068	-	26,594,908
and support	<hr/>			
<u>Expenses:</u>				
Program services:				
Program services	21,606,009	-	-	21,606,009
Management and general	2,388,525	-	-	2,388,525
Fundraising	33,795	-	-	33,795
	<hr/>			
Total expenses	24,028,329	-	-	24,028,329
	<hr/>			
Change in net assets	2,560,511	6,068	-	2,566,579
	<hr/>			
<u>Net assets,</u>				
December 31, 2013, restated	21,106,914	911,074	77,954	22,095,942
	<hr/>			
<u>Net assets, December 31, 2014</u>	\$ 23,667,425	\$ 917,142	\$ 77,954	\$ 24,662,521
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See accompanying notes.

Goodwill Central Coast
Statement of Activities and Changes in Net Assets, restated
for the year ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Restated Total
<u>Revenues and support:</u>				
Sales of contributed goods sold				
in retail stores	\$ 10,100,661	\$ -	\$ -	\$ 10,100,661
Sold as salvage	1,417,812	-	-	1,417,812
Sales of purchased goods	685,124	-	-	685,124
Donated goods	6,619,918	-	-	6,619,918
Contributions	123,487	-	-	123,487
Grant revenue	3,112,576	-	-	3,112,576
Interest and dividend income	221,941	3,178	-	225,119
Miscellaneous income	131,768	-	-	131,768
Rental Income	1,355,372	-	-	1,355,372
Contract labor and training	165,983	-	-	165,983
Realized/unrealized gain on investments	322,243	9,635	-	331,878
Gain on sale of property and equipment	9,922	-	-	9,922
Tuition revenue	267,383	-	-	267,383
Student supplies	109,669	-	-	109,669
Net assets released from restriction	-	-	-	-
	<hr/>			
Total revenues and support	24,643,859	12,813	-	24,656,672
	<hr/>			
<u>Expenses:</u>				
Program services:				
Program services	19,605,467	-	-	19,605,467
Management and general	2,030,715	-	-	2,030,715
Fundraising	73,924	-	-	73,924
	<hr/>			
Total Expenses	21,710,106	-	-	21,710,106
	<hr/>			
Change in net assets	2,933,753	12,813	-	2,946,566
	<hr/>			
<u>Net assets,</u>				
December 31, 2012, restated	18,173,161	898,261	77,954	19,149,376
	<hr/>			
<u>Net assets,</u>				
December 31, 2013, restated	\$ 21,106,914	\$ 911,074	\$ 77,954	\$ 22,095,942
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See accompanying notes.

Goodwill Central Coast
Statement of Functional Expenses
for the year ended December 31, 2014

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 11,037,605	\$ 1,068,149	\$ 26,763	\$ 12,132,517
Employee benefits	1,403,052	132,666	3,839	1,539,557
Rent - occupancy and equipment	1,366,916	5,203	-	1,372,119
Depreciation	935,491	217,536	-	1,153,027
Payroll taxes	968,737	87,455	2,460	1,058,652
Professional and consulting fees	768,462	270,380	-	1,038,842
Workers' compensation	890,182	14,419	286	904,887
Utilities	706,315	35,429	61	741,805
New goods for sale purchases	726,722	-	-	726,722
Supplies	601,638	74,559	-	676,197
Miscellaneous	376,639	178,194	136	554,969
Vehicle and transportation	380,521	4,818	-	385,339
Student/client instructional support materials	384,387	-	-	384,387
Building repairs and maintenances	330,799	6,193	-	336,992
Advertising and marketing	241,814	8,728	250	250,792
Telephone	209,973	16,496	-	226,469
Dues and subscriptions	3,261	157,550	-	160,811
Insurance	120,547	17,276	-	137,823
Permits and licenses	94,505	4,618	-	99,123
Interest	-	65,045	-	65,045
Small tools	48,244	2,816	-	51,060
Staff development	10,199	14,995	-	25,194
Bad debt and collection	-	6,000	-	6,000
	<u>\$ 21,606,009</u>	<u>\$ 2,388,525</u>	<u>\$ 33,795</u>	<u>\$ 24,028,329</u>

See accompanying notes.

Goodwill Central Coast
Statement of Functional Expenses
for the year ended December 31, 2013

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 9,925,590	\$ 1,028,806	\$ 36,591	\$ 10,990,987
Employee benefits	1,314,735	91,045	393	1,406,173
Rent - occupancy and equipment	1,158,474	3,382	1	1,161,857
Professional and consulting fees	827,054	239,683	2,848	1,069,585
Depreciation	890,388	78,165	-	968,553
Payroll taxes	828,455	81,468	3,177	913,100
Utilities	638,225	39,192	-	677,417
Supplies	566,516	75,610	9,467	651,593
New goods for sale purchases	588,088	-	-	588,088
Workers' compensation	555,302	11,949	319	567,570
Student/client instructional support materials	526,812	-	-	526,812
Miscellaneous	393,341	81,134	64	474,539
Vehicle and transportation	352,779	3,893	-	356,672
Advertising and marketing	295,775	14,043	21,054	330,872
Building repairs and maintenances	312,868	13,286	-	326,154
Telephone	162,965	8,256	7	171,228
Dues and subscriptions	3,383	152,257	-	155,640
Insurance	116,160	22,638	-	138,798
Permits and licenses	86,640	6,862	-	93,502
Interest	-	67,560	-	67,560
Small tools	52,020	7,320	1	59,341
Staff development	9,897	1,166	2	11,065
Bad debt expense	-	3,000	-	3,000
	<u>\$ 19,605,467</u>	<u>\$ 2,030,715</u>	<u>\$ 73,924</u>	<u>\$ 21,710,106</u>

See accompanying notes.

Goodwill Central Coast
Statements of Cash Flows
for the years ended December 31, 2014 and 2013

	2014	2013
<u>Cash flows from operating activities:</u>		
Changes in net assets	\$ 2,566,579	\$ 2,946,566
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	1,153,027	968,553
Realized/unrealized (gain) loss on investments	217,246	(331,878)
Gain on sale of equipment	(240,674)	(9,922)
Noncash revenue for donated equipment	(414,408)	-
Changes in operating assets and liabilities:		
Receivables	(225,118)	(16,300)
Inventory	(26,456)	186,268
Prepaid expenses and deposits	(95,615)	(113,400)
Accounts payable	31,516	65,799
Accrued expenses	99,325	48,662
Deferred revenue	33,647	(2,958)
	3,099,069	3,741,390
<u>Cash flows from investing activities:</u>		
Proceeds from sale of marketable securities	4,973,406	3,621,279
Acquisition of marketable securities	(5,383,048)	(5,666,469)
Net Community Foundation activity	124	(222)
Proceeds from sale of equipment	278,505	22,400
Cash paid for equipment	(848,674)	(806,618)
	(979,687)	(2,829,630)
<u>Cash flows from financing activities:</u>		
Principal payments on long-term debt	(90,000)	(85,000)
	2,029,382	826,760
<u>Cash and cash equivalents, beginning of year</u>	3,014,182	2,187,422
<u>Cash and cash equivalents, end of year</u>	\$ 5,043,564	\$ 3,014,182

See accompanying notes.

Goodwill Central Coast
Statements of Cash Flows, continued
for the years ended December 31, 2014 and 2013

Supplemental Disclosure of Cash Flow Information

	2014	2013
Cash paid for interest	\$ 65,045	\$ 67,560

Schedule of Noncash Investing and Financing Activities

	2014	2013
Acquisition of equipment	\$ 1,263,082	\$ -
Less donated assets received	414,408	-
	\$ 848,674	\$ -

See accompanying notes.

Goodwill Central Coast
Notes to the Financial Statements
December 31, 2014 and 2013

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, 2014 and 2013.

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, 2014 and 2013

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.

Fair Value of Financial Instruments:

The Organizations financial instruments, including cash equivalents, accounts receivable and accounts payable are carried at cost, which approximated their fair value because of the short-term maturity of these instruments. The fair value of the Organization's debt approximated its book value as of December 31, 2014 and 2013.

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 \$18,849 and \$12,926 allowance for doubtful accounts as of December 31, 2014 and 2013, respectively.

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

Note 1: Summary of Significant Accounting Policies, continued:

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).

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 \$2,500. 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.

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

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, 2014 and 2013

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 as stated below:

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 \$250,792 and \$330,872 were expended when incurred for the years ended December 31, 2014 and 2013 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.

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

Note 1: Summary of Significant Accounting Policies, continued:

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, 2014 and does not expect this to change significantly over the next twelve months. The Organization will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2014, the Organization has not accrued interest or penalties related to uncertain tax positions.

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 the Organization 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.

Subsequent Events:

Management has evaluated subsequent events through August 24, 2015, the date the financial statements were available to be issued.

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

Note 2: Inventory:

Inventory consist of the following at December 31:

	2014	2013
Donated goods	\$ 596,673	\$ 576,655
New goods purchased for resale	33,156	26,718
Total	\$ 629,829	\$ 603,373

Note 3: Property and Equipment:

Property and equipment consisted of the following at December 31:

	2014	2013
Land	\$ 4,309,378	\$ 4,338,493
Office equipment	2,013,221	1,363,100
Plant and store equipment, vehicles, and collection trailers	3,548,241	3,209,719
Building and leasehold improvements	417,737	417,737
Buildings	13,157,645	13,113,343
Construction in progress	42,210	5,897
Total	23,488,432	22,448,289
Less accumulated depreciation	8,584,039	7,615,833
Property and equipment, net	\$ 14,904,393	\$ 14,832,456

Depreciation expense for the years ended December 31, 2014 and 2013 amounted to \$1,153,027 and \$968,553, respectively, and is included in the statement of functional expense.

Note 4: 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.

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

Note 5: Fair Value Measurement of Investments, continued:

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.

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, 2014 and 2013.

Fair value for Level 1 is based upon quoted market process. 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.

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

Note 5: Fair Value Measurement of Investments, continued:

Assets measured at fair value on a recurring basis at December 31, 2014 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	\$ 8,017,753	\$ 8,017,753	\$ -	\$ -
Investments, held at the Community Foundations	25,512	-	25,512	-
Total	\$ 8,043,265	\$ 8,017,753	\$ 25,512	\$ -

Assets measured at fair value on a recurring basis at December 31, 2013 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	\$ 7,825,481	7,825,481	\$ -	\$ -
Investments, held at the Community Foundations	25,225	-	25,225	-
Total	\$ 7,850,706	\$ 7,825,481	\$ 25,225	\$ -

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

Note 6: Investments:

Investments consist of the following at December 31:

	2014		
	Cost	Fair Market Value	Unrealized Gain (Loss)
Equities	\$ 2,665,664	\$ 3,036,671	\$ 371,007
Fixed income:			
Asset backed securities	200,968	202,364	1,396
Mutual funds	1,475,564	1,182,202	(293,362)
Government securities	1,698,410	1,686,142	(12,268)
Corporate bonds	1,170,166	1,171,463	1,297
Non-traditional	310,364	304,277	(6,087)
Commodities	11,079	10,079	(1,000)
Other	36,368	424,555	388,187
Total investments	<u>\$ 7,568,583</u>	<u>\$ 8,017,753</u>	<u>\$ 449,170</u>

	2013		
	Cost	Fair Market Value	Unrealized Gain (Loss)
Equities	\$ 2,689,611	\$ 3,391,875	\$ 702,264
Fixed income:			
Asset backed securities	496,335	479,447	(16,888)
Mutual funds	1,244,928	1,164,511	(80,417)
Government securities	1,724,070	1,671,648	(52,422)
Corporate bonds	1,113,789	1,118,000	4,211
Total investments	<u>\$ 7,268,733</u>	<u>\$ 7,825,481</u>	<u>\$ 556,748</u>

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

Note 6: Investments, continued:

Net investment income consists of the following at December 31:

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividend income	\$ 238,245	\$ 6,536	\$ -	\$ 244,781
Realized/unrealized gain on investments	96,827	411	-	97,238
Net investment income	<u>\$ 335,072</u>	<u>\$ 6,947</u>	<u>\$ -</u>	<u>\$ 342,019</u>
	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	\$ 221,941	\$ 3,178	\$ -	\$ 225,119
Realized/unrealized gain on investments	322,243	9,635	-	331,878
Net investment income	<u>\$ 544,184</u>	<u>\$ 12,813</u>	<u>\$ -</u>	<u>\$ 556,997</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 \$25,512 and \$25,225 at December 31, 2014 and 2013, 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, 2014 and 2013

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, 2014 and 2013, \$879 and \$855 respectively, were distributed in fees and grants to the Organization.

Endowment funds consist of the following at December 31:

	2014	2013
Held at CFMC	\$ 18,949	\$ 18,460
Held at CFSLO	6,563	6,765
Total	\$ 25,512	\$ 25,225

Note 8: Variable Rate Demand Revenue 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 (the “bonds”)

To secure the bonds, the Organization negotiated an irrevocable letter of credit with Wells Fargo Bank, N.A. (the “bank”) in favor of the Trustee, Wells Fargo Bank, for \$4,633,151 that was due on February 1, 2009, with automatic annual extensions until February 1, 2018. The letter of credit was drawn down upon by the Trustee to provide funds for the payment of principal and interest on the bonds when due and payable as well as for fees associated with the letter of credit. Collateral for the letter of credit consists of a first deed of trust on the Organizations property located at the Capitola Center and its corporate headquarters in Santa Cruz. At December 31, 2014 and 2013, no amounts had been drawn on the letter of credit.

The bonds bear interest at variable rates as determined by Wells Fargo Institutional Securities, LLC, and are payable quarterly. The bonds variable interest rate cannot exceed the maximum rate allowed of 10%. Annual principal payments are due beginning in February 2011 and continuing through 2038. The Organization must have an increase in net assets at the end of each quarter not less than \$1 and must maintain a debt service coverage ratio not less than 1.5 to 1.0.

The bonds can 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. who issued the organization the letter of credit.

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

Note 8: Variable Rate Demand Revenue Bonds, continued:

Bond issuance costs are capitalized when paid and amortized using the straight-line method over the life of the bonds. For the years ended December 31, 2014 and 2013, amortization expense amounted to \$6,840.

Future principle payments consist of the following:

<u>Year Ending December 31:</u>	
2015	\$ 95,000
2016	100,000
2017	105,000
2018	110,000
2019	120,000
Thereafter	<u>3,565,000</u>
	<u><u>\$ 4,095,000</u></u>

Note 9: 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, 2014 and 2013, see Note 16.

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

Note 10: Endowment Funds:

Endowment funds consist of the following as of December 31:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 26,820	\$ 77,954	\$ 104,774
Board-designated endowments	49,132	-	-	49,132
	\$ 49,132	\$ 26,820	\$ 77,954	\$ 153,906
	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 20,752	\$ 77,954	\$ 98,706
Board-designated endowments	49,132	-	-	49,132
	\$ 49,132	\$ 20,752	\$ 77,954	\$ 147,838

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

Note 10: Endowment Funds, continued:

Changes in endowment funds consists of the following at December 31:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	\$ 49,132	\$ 20,752	\$ 77,954	\$ 147,838
Investment return:				
Investment income	-	8,880	-	8,880
Realized/unrealized gain (loss)	-	(13)	-	(13)
Investment fees	-	(2,799)	-	(2,799)
Total investment return	-	6,068	-	6,068
End of year	\$ 49,132	\$ 26,820	\$ 77,954	\$ 153,906
	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	\$ -	\$ 7,939	\$ 77,954	\$ 85,893
Investment return:				
Investment income	-	3,178	-	3,178
Realized/unrealized gain	-	10,084	-	10,084
Investment fees	-	(449)	-	(449)
Total investment return	-	12,813	-	12,813
Contributions	49,132	-	-	49,132
End of year	\$ 49,132	\$ 20,752	\$ 77,954	\$ 147,838

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

Note 11: 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.

Note 12: 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:

2015	\$	103,435
2016		6,072
2017		500
2018		600
2019		600

Note 13: 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 2014 and 2013 was \$1,310,453 and \$1,100,508, respectively.

Future minimum lease payments are as follows:

Year Ending December 31:

2015	\$	839,705
2016		684,889
2017		549,282
2018		314,215
2019		124,843

Goodwill Central Coast
Notes to the Financial Statements, continued
December 31, 2014 and 2013

Note 14: 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, 2014 and 2013 were \$86,857 and \$46,343, respectively.

Note 15: 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.

Note 16: Prior Period Adjustment:

The Organization's financial statements as of December 31, 2013 contained an error resulting in an overstatement of unrestricted net assets and an understatement of temporarily restricted net assets by \$535,670. This consisted of an overstatement of unrestricted net assets and understatement of temporarily restricted net assets of \$506,159 as of December 31, 2012 and an improper release of temporarily restricted net assets during the year ended December 31, 2013 of \$29,511. This was a result of improper annual amortization of a grant for the use of a facility in the Organizations operating region. According to the grant agreement the Organization can only use the facilities for program services, if all the requirements are met after thirty years the Organization would take ownership of the facility, however if there was a breach of this agreement the entire property could be reclaimed by the granting agency. As such it was determined that over the last 17 years the Organization has been improperly amortizing this restriction, which is only lifted after 30 years of compliance with the terms of the agreement. As such, management has elected to make this adjustment during the year ending December 31, 2014. Also see Note 9.

	Unrestricted Net Assets	Temporarily Restricted Net Assets
Net assets as previously reported, December 31, 2012	\$ 18,679,320	\$ 392,102
Prior period adjustment	(506,159)	506,159
	\$ 18,173,161	\$ 898,261

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, 2014, and the related statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 24, 2015.

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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies, 2014-001.

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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2014-001.

Goodwill Central Coast's Response to Findings

Goodwill Central Coast's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs Goodwill Central Coast 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.



Roseville, California
August 24, 2015

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 REQUIRED BY OMB CIRCULAR A-133

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) Circular A-133 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, 2014. 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 laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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 OMB Circular A-133, 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 and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-001 to be a significant deficiency.

The Organization's response to the internal control over compliance findings 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 compliance and, accordingly, we express no opinion on the response.

We have audited the accompanying financial statements of the Organization, as of and for the year ended December 31, 2014, and have issued or report thereon dated August 24, 2015 which contained an unmodified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by OMB Circular A-133 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Gallina LLP

Roseville, California

August 24, 2015

Goodwill Central Coast
Schedule of Expenditures of Federal Awards
for the year ended December 31, 2014

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Labor:		
Pass-Through:		
County of Monterey - Senior Service America	17.235	\$ <u>121,880</u>
County of Monterey - WIA Adult Program	17.258	163,543
County of Santa Cruz - WIA Adult Program	17.258	44,164
County of San Luis Obispo - WIA Adult Program	17.258	<u>389,116</u>
Subtotal		<u>596,823</u>
County of San Luis Obispo - WIA Youth Program	17.259	<u>727,556</u>
County of Santa Cruz - WIA Dislocated Worker Formula Grants	17.278	135,195
County of San Luis Obispo - WIA Dislocated Worker Formula Grants	17.278	<u>430,204</u>
Subtotal		<u>565,399</u>
U.S. Department of Health and Human Services		
Pass-Through:		
County of Santa Cruz: Temporary Assistance for Needy Families	93.558	704,184
County of Monterey: Temporary Assistance for Needy Families	93.558	661,240
County of San Luis Obispo: Temporary Assistance for Needy Families	93.558	<u>13,595</u>
Subtotal		<u>1,379,019</u>
Total expenditures of federal awards		<u><u>\$ 3,390,677</u></u>

See accompanying notes.

Goodwill Central Coast
Notes to Schedule of Expenditures of Federal Awards
for the year ended December 31, 2014

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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: Program Clusters:

Federal CFDA	Program Title	Federal Expenditures
17.258	WIA Adult Program	\$ 596,823
17.259	WIA Youth Activities	727,556
17.278	WIA Dislocated Worker Formula Grants	<u>565,399</u>
	Total	<u><u>\$ 1,889,778</u></u>

**Goodwill Central Coast
Schedule of Findings and Questioned Costs
for the year ended December 31, 2014**

Section 1

Summary of Auditor's Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditor's report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | None Reported |
| 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? | Yes |
| 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 Circular OMB A-133, Section 510(a)? | Yes |
| 4. Identification of major program: | |

CFDA Number

Name of Federal Program

17.258
17.259
17.278
93.558

WIA Adult Program
WIA Youth Activities
WIA Dislocated Worker Formula Grants
Temporary Assistance for Needy Families

Goodwill Central Coast
Schedule of Findings and Questioned Costs, continued
for the year ended December 31, 2014

Section 1

Summary of Auditor's Results

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? | No |

Section 2

Financial Statement Findings

None reported

Section 3

Federal Award Findings and Questioned Costs

CFDA 17.278 and 93.558	2014-001
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Goodwill Central Coast
Schedule of Findings and Questioned Costs, continued
for the year ended December 31, 2014

Reference Number	2014-001
Federal Program Title	Temporary Assistance for Needy Families WIA Dislocated Worker Formula Grants
CFDA Numbers	93.558 and 17.278
Federal Agency	U.S. Department of Labor U.S. Department of Health and Human Services
Pass Through Entity	Monterey County San Luis Obispo County
Compliance Requirement	Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

Direct payroll charges to federal grants for employee time spent on grant functions must be supported with the documentation required by OMB Circular A-87. Where the applicable employees worked on an allowable grant activity as well as non-grant related activities and/or activities related to other grants, required documentation consists of reports signed by each employee accounting for the total number of hours worked and showing an actual distribution of those hours to grant and non-grant functions. These reports must be prepared at least monthly and should coincide with one or more pay periods. Substitute methods may be used, but only if such methods have been approved by the Federal agency overseeing the grant (2 CFR 225, Appendix B § (8) (h)).

Condition

During our audit we noted an employee who was missing a timesheet examination for January 18, 2014, pay period. Two employees' were found to be incorrectly allocated to the program rather than the department store during the year ending December 31, 2014. In addition, one employee's timesheet reflected 52 hours but the total hours reflected in the labor allocation report was 64 hours for the program for pay period October 25, 2014.

Questioned Costs

No costs are questioned.

Cause

The Department did not have proper oversight to ensure that timesheets are being completed and reviewed as required.

Effect of Condition

Failing to produce and retain signed time studies renders substantiation of personnel time spent on grant functions difficult. If time studies are not performed to properly allocate payroll by all the employees involved, the time charged to grants may result in incorrect payroll charges to federal awards programs.

**Goodwill Central Coast
Corrective Action Plan
for the year ended December 31, 2014**

Reference Number	2014-001
Federal Program Title	Temporary Assistance for Needy Families WIA Dislocated Worker Formula Grants
CFDA Numbers	93.558 and 17.278
Federal Agency	U.S. Department of Labor U.S. Department of Health and Human Services
Pass Through Entity	Monterey County San Luis Obispo County
Compliance Requirement	Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Recommendation

When reviewing and approving employee hours recorded on timesheets, we recommend that supervisory personnel review and compare the timesheet to the payroll registers to ensure that the all employees time is recorded and reported properly with the Department's accounting system.

Corrective Action Plan

The Organization is implementing an electronic time and attendance system. This implementation will reduce the need for human data entry and thereby reduce the likelihood of error regarding: incomplete time keeping, inappropriately charging time and, time record discrepancies. In addition, this will allow for a more in depth review of all time related assignments.

Subsequent to the installation of the new payroll system and processor the Organization will perform internal test of controls to ensure that all data transitioned to the new system is accurate and in compliance with the requirements of Federal programs including *Temporary Assistance for Needy Families* and *WIA Dislocated Worker Formula Grants*.

**Goodwill Central Coast
Summary Schedule of Prior Audit Findings
for the year ended December 31, 2014**

Reference Number	2013-001
Federal Program Title	Temporary Assistance for Needy Families WIA Adult Program WIA Youth Program WIA Dislocated Worker Formula Grants
CFDA Numbers	17.258, 17.259, 17.278 & 93.558
Federal Agency	U.S. Department of Labor U.S. Department of Health and Human Services
Pass Through Entity	Counties of Santa Cruz, Monterey and San Luis Obispo
Compliance Requirement	Allowable Costs/ Cost Principles

Condition

Through testing of the monthly contract invoices it was noted that several of the invoice workbooks did not have a general ledger detail that agreed to the final invoice. In many instances preliminary invoices were created based on preliminary general ledger detail. Before the invoices were billed they were updated from the final general ledger, but the invoice workbooks were not updated with the final general ledger detail and so the backup for the invoices does not agree.

Recommendation

Invoices are only prepared once the general ledger has been closed for the month to ensure that the correct amounts are being billed and that the proper backup is maintained with the file. This will help to ensure that the contracts are billed accurately and appropriately for actual activities that occurred and that the proper backup is always maintained with the invoice.

Status

Implemented.