GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

FINANCIAL STATEMENTS

Years Ended December 31, 2014 and 2013

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Goodwill Industries of South Central California

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April 23, 2015

Goodwill Industries of South Central California ("the Agency") offers readers of the financial statements contained in the following report an introduction to the Agency's financial statements which are listed in the Table of Contents to this report. These financial statements comprise four components for both of the report years: 1) the Statement of Financial Position, 2) the Statement of Activities, 3) the Statement of Functional Expenses, and 4) the Statement of Cash Flows. The report also contains Notes to Financial Statements.

The ***Statements of Financial Position*** presents information on all of the Agency's assets and liabilities, for the two most-recent years' end. The difference between each year's assets and liabilities is reported as ***Net Assets***. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Agency's financial position is improving or deteriorating. The assets of the Agency exceeded its liabilities at the close of the most-recent fiscal year by $1,284,238.

The ***Statements of Activities*** (and the ***Statement of Functional Expenses***) present information showing how the Agency's net assets changed during both report years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., Interest Payable).

The ***Statement of Cash Flows*** shows where the Agency's money is coming from, and how it is being spent. Cash inflows and outflows are grouped according to the activity that gave rise to them: core business operations, investing and financing.

The Notes to Financial Statements can be found beginning on page seven of this report and provide additional information that is essential to a full understanding of the data presented in the financial statements. Although each note contributes significantly to that understanding, management encourages the reader to give particular attention to ***Note 5*** (page 12) which describes our Interest Rate Swap Agreement. The same topic is also discussed in ***Note 2*** (page 10 – Interest rate swap) under the Summary of Significant Accounting Policies. At no time since its inception has the value of the swap agreement been positive. This cumulative reduction in the agreement's fair value is classified in the *Statements of Financial Position* as a "current" and "non-current" based on the amount due to settle during the next fiscal year, and thereafter. The payment of this liability due Wells Fargo Bank is required only if the Agency terminates the underlying loan agreements. The Agency does not intend either to sell any of the properties that serve as collateral for the loan agreements or otherwise take actions that would terminate these agreements and it does not anticipate doing either during the term of the loans.

Sheryl Chalupa
President / CEO

GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA

FINANCIAL STATEMENTS

Year Ended December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

We have audited the accompanying financial statements of Goodwill Industries of South Central California (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014, and the related statements of activities, 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; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 2014 financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of South Central California 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 Information

The introductory letter from Management has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Adjustments to Prior Period Financial Statements

The financial statements of Goodwill Industries of South Central California as of December 31, 2013, were audited by other auditors whose report dated April 24, 2014, expressed an unmodified opinion on those financial statements. As discussed in Note 8 to the financial statements, the Organization has adjusted its 2013 financial statements to reflect a prior period adjustment for the correction of an error. The other auditors reported on the financial statements before the prior period adjustment.

As part of our audit of the 2014 financial statements, we also audited the adjustments to the 2013 financial statements to correct the error as described in Note 8. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to Goodwill Industries of South Central California's 2013 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements as a whole.

Mayer Hoffman McCann, P.C.

Bakersfield, California
April 23, 2015

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash	$ 650,624	$ 1,465,149
Accounts receivable	135,925	167,669
Inventory held for sale	365,445	240,876
Prepaid expenses	274,865	165,672
Deposits	62,700	110,200
Other assets	21,453	34,811
TOTAL CURRENT ASSETS	1,511,012	2,184,377
PROPERTY AND EQUIPMENT, net	5,968,148	6,043,620
TOTAL ASSETS	$ 7,479,160	$ 8,227,997

LIABILITIES AND NET ASSETS

	2014	2013
CURRENT LIABILITIES		
Accounts payable	$ 198,462	$ 193,400
Accrued expenses	367,611	540,209
Accrued interest	31,301	31,225
Deferred rent	96,122	69,746
Current portion of notes payable	160,909	150,092
Current portion of interest rate swap liability	280,477	297,618
TOTAL CURRENT LIABILITIES	1,134,882	1,282,290
LONG-TERM LIABILITIES		
Notes payable, net of current portion	4,884,014	5,044,923
Interest rate swap liability	176,026	404,375
TOTAL LONG TERM LIABILITIES	5,060,040	5,449,298
TOTAL LIABILITIES	6,194,922	6,731,588
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
UNRESTRICTED NET ASSETS	1,284,238	1,496,409
TOTAL NET ASSETS	1,284,238	1,496,409
TOTAL LIABILITIES AND NET ASSETS	$ 7,479,160	$ 8,227,997

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2014 and 2013

	2014	2013
SUPPORT AND REVENUES		
Retail sales	$ 11,655,866	$ 9,774,052
Value of donated goods received	1,972,473	1,535,934
Salvage sales	1,334,996	1,262,549
Vocational services	185,104	86,618
Cash contributions received	32,785	9,365
Other revenues	6,000	-
TOTAL SUPPORT AND REVENUES	15,187,224	12,668,518
EXPENSES		
Program services		
Donated goods - retail	11,651,453	9,350,642
Donated goods - salvage	1,562,125	1,008,108
TOTAL DONATED GOODS	13,213,578	10,358,750
Vocational services	352,888	209,443
TOTAL PROGRAM SERVICES	13,566,466	10,568,193
Supporting services		
Management services	2,080,169	1,833,613
TOTAL EXPENSES	15,646,635	12,401,806
OTHER REVENUES AND EXPENSES		
Change in value of interest rate swap	245,490	291,710
Gain on disposal of asset	1,750	1,000
TOTAL OTHER REVENUES AND EXPENSES	247,240	292,710
CHANGE IN NET ASSETS	(212,171)	559,422
NET ASSETS, BEGINNING OF YEAR, as restated	1,496,409	936,987
NET ASSETS, END OF YEAR	$ 1,284,238	$ 1,496,409

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2014
(With Comparative Totals for the Year Ended December 31, 2013)

	Program Services				Supporting Services	Total Expenses	
	Donated Goods Retail	Donated Goods Salvage	Vocational Services	Total Program Services	Management Services	2014	2013
Salaries and related expenses:							
Salaries	$ 4,414,454	$ 774,475	$ 264,010	$ 5,452,939	$ 1,148,702	$ 6,601,641	$ 5,388,670
Employee benefits	413,881	74,199	11,908	499,988	66,802	566,790	355,680
Payroll taxes and worker's compensation	940,355	170,724	34,975	1,146,054	104,351	1,250,405	984,874
Total salaries and related expenses	5,768,690	1,019,398	310,893	7,098,981	1,319,855	8,418,836	6,729,224
Other expenses:							
Occupancy	1,474,582	60,666	858	1,536,106	113,650	1,649,756	1,451,914
Value of donated goods sold	1,972,473	-	-	1,972,473	-	1,972,473	1,535,934
Cost of goods sold	867,124	-	-	867,124	-	867,124	368,803
Vehicles and travel	115,132	321,242	16,356	452,730	65,625	518,355	424,042
Supplies	233,418	58,863	15,099	307,380	88,778	396,158	351,448
Utilities	353,913	32,522	-	386,435	-	386,435	297,797
Advertising	173,134	100	-	173,234	14,600	187,834	182,049
Professional fees and contract services	54,259	2,786	2,250	59,295	94,564	153,859	114,778
Dues	2,300	-	-	2,300	147,021	149,321	109,164
Bank fees	118,527	1,284	-	119,811	12,553	132,364	104,864
Equipment rental and maintenance	45,655	41,531	2,103	89,289	15,628	104,917	102,511
Insurance	67,914	14,443	1,065	83,422	16,859	100,281	87,067
Telephone	61,700	4,843	2,682	69,225	27,538	96,763	85,573
Training	6,341	195	-	6,536	19,917	26,453	26,402
Special assistance	19,110	2,209	-	21,319	5,182	26,501	10,116
Conferences, conventions, and meetings	2,029	-	1,557	3,586	21,265	24,851	20,623
Postage	7,440	79	-	7,519	7,469	14,988	17,454
Printing and publications	871	-	-	871	7,415	8,286	4,057
Other	4,179	1,964	25	6,168	20,016	26,184	25,918
Total expenses before depreciation	11,348,791	1,562,125	352,888	13,263,804	1,997,935	15,261,739	12,049,738
Depreciation of property and equipment	302,662	-	-	302,662	82,234	384,896	352,068
TOTAL FUNCTIONAL EXPENSES	$ 11,651,453	$ 1,562,125	$ 352,888	$ 13,566,466	$ 2,080,169	$ 15,646,635	$ 12,401,806

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (212,171)	$ 559,422
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	384,896	352,068
Gain on disposal of assets	(1,750)	1,000
Change in fair value of interest rate swap	(245,490)	(291,710)
(Increase) decrease in operating assets:		
Accounts receivable	31,744	(74,560)
Inventory held for sale	(124,569)	(25,900)
Prepaid expenses	(109,193)	(5,755)
Deposits	47,500	(11,740)
Other assets	13,358	374
Increase (decrease) in operating liabilities:		
Accounts payable	5,062	41,338
Accrued expenses	(172,598)	53,212
Deferred rent	26,376	32,162
Accrued interest	76	193
NET CASH FLOWS FROM OPERATING ACTIVITIES	(356,759)	630,104
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(309,424)	(388,841)
Proceeds from sale of property and equipment	1,750	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	(307,674)	(388,841)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(150,092)	(140,000)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(150,092)	(140,000)
NET CHANGE IN CASH	(814,525)	101,263
CASH, BEGINNING OF YEAR	1,465,149	1,363,886
CASH, END OF YEAR	$ 650,624	$ 1,465,149
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 361,962	$ 372,220

See Accompanying Notes to Financial Statements

(1) Nature of operations

Goodwill Industries of South Central California (the "Organization") was incorporated under the laws of the State of California on August 1, 1986, as a not-for-profit organization. The Organization is supported predominantly through sales of donated goods at 13 thrift stores. The service area of the Organization encompasses Kern, Kings, and Southern Tulare counties. The Organization provides work opportunities and skills development to people with barriers to employment. The Organization is affiliated with Goodwill Industries International (GII) and accredited by the Commission on Accreditation of Rehabilitation Facilities (CARF).

(2) Summary of significant accounting policies

This summary of significant accounting policies of Goodwill Industries of South Central California is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for their integrity and objectivity.

Basis of accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Basis of presentation - The accompanying financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. Under FASB ASC 958-205, the Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Restricted and unrestricted revenue and support - The Organization follows ASC 958-605, *Revenue Recognition*. In accordance with ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any 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 or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

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. These estimates and assumptions 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.

(2) Summary of significant accounting policies (continued)

Accounts receivable - The Organization considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Concentrations of credit risk - Financial instruments, which potentially subject the Organization to credit risk, consist primarily of cash and accounts receivable. The Organization maintains cash with major financial institutions. The Organization has maintained balances in excess of federally insured limits periodically throughout the years ended December 31, 2014 and 2013.

As of December 31, 2014 and 2013, the Organization had two customers, with uncollateralized accounts receivable balances in excess of 10% of total outstanding accounts receivable. The amounts of these account balances are 97% (55% and 42%) and 90% (62% and 28%) of total accounts receivable as of December 31, 2014 and 2013, respectively. Accounts receivable as of December 31, 2014 and 2013 represent 0.89% and 1.42% of revenue, respectively. The majority of accounts receivable are due from the State of California.

Inventory - GII publishes guidelines for accounting, reporting, and disclosures. The guidelines can be used by local Goodwill Industry agencies to assist in compliance with industry practices and comparability of financial performance from agency to agency. Effective for fiscal years beginning January 1, 1996, GII has recommended that local agencies estimate the value of donated goods received and of donated goods on hand at the end of the year.

In estimating these values, the Organization uses a portion of the direct and indirect costs of production, transportation, support, and management and general services in accordance with the guideline recommendations. The Organization uses the number of months that a typical item remains in inventory in estimating the value of inventories at year-end. The methodology used to value donated goods approximates fair value at the date of donation. Inventory also consists of goods purchased for resale.

Property, equipment, and depreciation – All acquisitions of property and equipment in excess of $5,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. As of December 31, 2014 and 2013, the Organization did not own any assets with temporary or permanent restrictions.

(2) Summary of significant accounting policies (continued)

Property and equipment are recorded at cost. Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the assets as follows:

Assets	Useful Lives
Buildings and improvements	5 - 31 years
Equipment	3 - 15 years

The cost of leasehold improvements is amortized using the straight-line method over the lesser period between the lease contract life or the useful life of the related leasehold improvement.

In accordance with FASB ASC Topic 360, *Property, Plant, and Equipment* (ASC 360), property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, the impairment charge to be recognized is measured by the excess of the carrying amount over the fair value of the asset. Assets to be disposed of are reported at the lower of carrying amount or fair value, less cost to sell. There was no impairment recorded during the years ended December 31, 2014 and 2013.

Fair value - ASC 820-10 *Fair Value Measurements* establishes 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 ASC 820-10 are described below:

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

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input 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.

(2) Summary of significant accounting policies (continued)

Interest rate swap - The Organization is exposed to interest rate risk through its borrowing activities. As of December 31, 2014, one of the Organization's long-term borrowings is a variable rate instrument. The Organization previously entered into interest rate swap contracts under which the Organization agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and receives in return an amount equal to a specified variable rate of interest times the same notional principal amount.

The Organization accounts for its interest rate swap agreements in accordance with FASB ASC Topic 958-815, *Not-for Profit Entities - Derivatives and Hedging*. FASB ASC 958-815 requires that all derivative instruments be recorded at fair value and changes in fair value be recorded each period as a change in net assets.

The Organization maintains an interest-rate risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest-rate volatility. The Organization's specific goals are (1) to manage interest-rate sensitivity by modifying the repricing or maturity characteristics of certain debt instruments and (2) to lower (where possible) the cost of its borrowed funds. Interest-rate fluctuations create an unrealized appreciation or depreciation in the market value of the Organization's debt when compared with its cost. The effect of this unrealized appreciation or depreciation in market value, however, will generally be offset by income or loss on derivative instruments that are linked to the debt.

By using derivative financial instruments to hedge exposure to a change in interest rates, the Organization exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Organization, which creates repayment risk for the Organization. When the fair value of a derivative contract is negative, the Organization owes the counterparty and therefore, it does not possess repayment risk. The Organization minimizes the credit (or repayment) risk in derivative instruments by (1) entering into transactions with high quality counterparties, and (2) limiting the amount of exposure to the counterparty. The Organization does not anticipate nonperformance by the counterparties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by the establishment and monitoring of parameters that limit the types and degree of market risk that may be undertaken.

Retail and salvage revenues - Retail and salvage sales revenues are recognized when the merchandise is sold, typically at the point of sale in thrift stores or salvage facilities.

Advertising and promotion - Advertising and promotion costs are expensed when incurred and amounted to $187,834 and $182,049 for the years ended December 31, 2014 and 2013, respectively.

(2) Summary of significant accounting policies (continued)

Functional allocation of expenses - The costs of providing the various programs and other activities are summarized on a functional basis in the statement of activities. It is policy of the Organization to allocate the indirect expenses of administrative overhead and occupancy to certain programs based on combining equally their relative values of revenues and expenses. Accordingly, certain costs are allocated among the programs and supporting services benefited. Interest expense is directly allocated among the programs and among the functional expense items benefited by the asset underlying the debt for which the interest was incurred.

Tax exempt status - The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), and from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code. FASB ASC Topic 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. Management believes that no such uncertain tax positions exist for the Organization at December 31, 2014 and 2013.

With few exceptions, the Organization is no longer subject to U.S. Federal and State income tax examinations for tax years 2011 and 2010, respectively.

Reclassifications – Certain reclassifications have been made to the December 31, 2013 financial statement amounts presented in order to conform with December 31, 2014 financial statement presentation. Such reclassifications had no effect on change in net assets as previously reported.

(3) Property and equipment

Property and equipment as of December 31, 2014 and 2013, consists of the following:

	2014	2013
Buildings and improvements	$ 5,846,596	$ 5,717,515
Land	1,685,282	1,685,282
Equipment	1,564,344	1,502,784
Leasehold improvements	1,144,886	1,042,118
Construction in progress	-	2,568
	10,241,108	9,950,267
Less: accumulated depreciation	(4,272,960)	(3,906,647)
	$ 5,968,148	$ 6,043,620

Depreciation expense for the years ended December 31, 2014 and 2013 was $384,896 and $352,068, respectively.

(4) Notes payable

Notes payable as of December 31, 2014 and 2013 consist of the following:

	2014	2013
Note Payable - Wells Fargo Bank, payable in monthly installments ranging from $11,656 to $12,496, including interest at a variable rate (effective rate of 6.98% with swap agreement), secured by real property, due in November 2016.	$ 4,699,216	$ 4,839,928
Note Payable - Wells Fargo Bank, payable in monthly installments ranging from $777 to $833 including interest at a variable rate (effective rate of 6.98% with swap agreement), secured by real property, due in November 2016.	345,707	355,087
	5,044,923	5,195,015
Less current portion	(160,909)	(150,092)
Total notes payable	$ 4,884,014	$ 5,044,923

Future scheduled maturities of notes payable are as follows:

Years Ending December 31,	
2015	$ 160,909
2016	4,884,014
	$ 5,044,923

The note payable to Wells Fargo Bank is subject to certain financial and non-financial covenants, including requirements relating to liquidity. As of December 31, 2014, the Organization was in breach of one financial covenant related to fixed charge coverage ratio. This breach in the loan covenant could give the Organization's lender the right to accelerate payment of the bank debt, however the Organization received a waiver for this breach. All other financial covenants were in compliance.

(5) Interest rate swap agreement

In 2006, the Organization entered into a master agreement with Wells Fargo Bank for an interest rate swap transaction to reduce the impact of changes in interest rates on its variable long-term debt of $5,600,000 dated September 1, 2006. The loan was also structured as such that the original line of credit with Wells Fargo Bank would convert to a term loan at November 1, 2007. The line of credit was limited to a maximum of $400,000 and the Organization took down the full amount as of October 30, 2007. This amount remains as a separate note, but the swap agreement was amended to include both notes. This agreement effectively changed the interest rate exposure on the

(5) Interest rate swap agreement (continued)

variable rate loan to a fixed rate of 6.98%. The interest rate swap matures November 1, 2016. The Organization is exposed to credit loss in the event of nonperformance by Wells Fargo Bank. However, the Organization does not anticipate nonperformance by the counterparty. The fair value of the swap agreement is recorded on the accompanying statement of financial position as a liability and totaled $456,503 and $701,933 as of December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, $245,490 and $291,710, respectively, was recorded as part of other revenues in the statement of activities related to the change in the swap agreement's fair value.

	2014	2013
Change in Net Assets before effect of Swap Agreement	$ (457,661)	$ 267,712
Change in fair value of interest rate swap	245,490	291,710
Change in Net Assets	$ (212,171)	$ 559,422

(6) Fair value measurements

The following table summarizes the valuation of liabilities subject to measurement at fair value using FASB ASC 820 categories as of December 31, 2014:

	Fair Value	Level 1	Level 2	Level 3
December 31, 2014				
Interest rate swap liability	$ (456,503)	$ -	$ (456,503)	$ -
	$ (456,503)	$ -	$ (456,503)	$ -
December 31, 2013				
Interest rate swap liability	$ (404,375)	$ -	$ (404,375)	$ -
	$ (404,375)	$ -	$ (404,375)	$ -

The fair value of the interest rate swap is estimated by a third party using a model that builds a yield curve from market data for actively traded securities at various times and maturities and takes into account current interest rates and the current credit worthiness of the respective counterparties. Such securities are classified within Level 2 of the valuation hierarchy.

(7) Commitments and contingencies

Facility operating leases - On March 10, 2005, the Organization entered into an 84-month lease agreement beginning in May 2005 for a retail store on Olive Drive in Bakersfield. On June 29, 2009, the lease was amended to adjust the base rent and extend the term of the lease until April 30, 2015. The monthly rent amount is $10,929. The Organization is required to pay property taxes, insurance, and common area expenses associated with the leased property. The lease provides for annual rent increases of 3%. For January 2014 through April 2014 the monthly rent was $12,302. For May 2014 through April 2015 the monthly rent is $12,671. On January 28, 2015, the lease was extended through April 30, 2020.

On May 20, 2009, the Organization exercised its option under the original lease agreement for its retail store on Rosedale Highway in Bakersfield to extend the term of its lease 60 months. This extension expired October 14, 2014. On October 14, 2014, the lease was renewed for an additional 36 months and will expire on October 14, 2017. The lease requires minimum monthly rental payments of $5,200 exclusive of utilities, personal property tax, liability insurance, and certain repairs and maintenance.

On November 4, 1998, the Organization entered into a 60-month lease agreement ending August 31, 2004 for the retail store on Oswell Street in Bakersfield. Subsequent amendments to the agreement have changed the monthly rent payments and extended the original term until August 31, 2013. On March, 28, 2013, the Organization entered into a fifth amendment extending the term of the lease to August 31, 2018. The monthly rent amount is $11,057 from January 2014 through August 2014 and $11,583 for September 2014 through August 2015, with scheduled increases of $584 on each August 31st through the lease term, exclusive of personal property tax.

On February 14, 2005, the Organization exercised its option under the original lease agreement for its retail store and storage space on China Lake Boulevard in Ridgecrest to extend the term of the lease for 60 months, beginning in September 2005. On September 3, 2009, the lease was amended to adjust the base rent and extend the term of the lease until August 31, 2015. The minimum monthly rental amount was $5,710 exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance, and common area expenses. The lease provided for an increase to $6,566 per month beginning September 1, 2010.

On October 11, 2004, the Organization entered into a 60-month lease agreement for a retail store in Taft, beginning in November 2004. On July 10, 2009, the lease was renewed for an additional 60 months, commencing December 1, 2009, and continuing through November 30, 2014. On December 1, 2014, the lease was renewed for an additional 60 months at a fixed monthly rental amount of $4,200 per month exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance, and common area expenses.

(7) Commitments and contingencies (continued)

Commencing on September 1, 2011, the Organization entered into a 60-month lease agreement for a retail store in Porterville. The monthly rent amount ranges from $6,190 to $6,897 per month, and is currently $6,720, exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance, and common area expenses.

Commencing on November 1, 2011, the Organization entered into a 38-month lease agreement with a 36-month option to extend for a retail store in Tulare. On August 14, 2014 the lease was extended for an additional 36 months. The monthly rent amount ranges from $3,958 to $6,849 per month, and is currently $5,792, exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance, and common area expenses.

Commencing on May 1, 2013, the Organization entered into an 87-month lease agreement for a second retail store on Rosedale Highway (west of the other Rosedale location). The monthly rent amount ranges from $7,166 to $9,306, and is currently $7,717, exclusive of utilities, personal property taxes, liability insurance, certain repairs and maintenance, and common area expenses.

On January 1, 2013, the Organization entered into a 60-month lease agreement for a retail store in Hanford. The monthly rent amount is $4,000 throughout the lease term. Utilities, real and personal property taxes, liability insurance and certain repairs and maintenance expenses are to be paid directly by the Organization. There are no common area expenses.

Commencing on July 1, 2014, the Organization entered into a 60-month lease agreement for a retail store in Lemoore. The monthly rent amount ranges from $5,281 to $6,178 per month, and is currently $5,281, exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance, and common area expenses.

Future minimum lease commitments under noncancellable facility leases as of December 31, 2014, are as follows:

Years Ending December 31,	
2015	$ 821,612
2016	757,053
2017	714,305
2018	505,177
2019	349,066
Thereafter	125,073
	$ 3,272,286

For the years ended December 31, 2014 and 2013, rental expense was $812,583 and $719,688, respectively.

(7) Commitments and contingencies (continued)

Vehicle operating leases - The Organization entered into a master agreement and several subordinate operating leases for vehicles with various payments and terms. The minimum lease commitments subsequent to December 31, 2014 are as follows:

Years Ending December 31,		
2015	$	200,556
2016		166,464
2017		128,639
2018		60,186
2019		30,468
Thereafter		6,493
	$	592,806

For the years ended December 31, 2014 and 2013, vehicle lease expense was $258,353 and $175,706, respectively.

Litigation - The Organization is involved in various legal proceedings in the normal course of business. Management does not believe that the final disposition of any of these cases will have a material impact on the financial position or results of operations of the Organization.

(8) Prior period adjustment

Net assets at January 1, 2013, as previously reported	$	974,571
To adjust for deferred rent		(37,584)
Net assets at January 1, 2013, as restated	$	936,987

During the year ended December 31, 2014, the Organization corrected the recording of deferred rent related to building leases.

In addition to adjusting beginning net assets as noted previously, the 2013 financial statements include an adjustment to deferred rent and occupancy expense of $32,162 for the correction of the error.

(9) Subsequent events

The Organization has evaluated subsequent events through April 23, 2015, the date that the financial statements were available to be issued.