



**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA**

FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016



**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA**

FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to Financial Statements	8



5060 California Ave., Suite 800 ■ Bakersfield, CA 93309
Main: 661.325.7500 ■ Fax: 661.325.7004 ■ www.mhmcpa.com

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, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of South Central California as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Bakersfield, California
April 30, 2018

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	<u>ASSETS</u>	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash	\$ 657,865	\$ 634,518
Accounts receivable	138,106	154,348
Inventory held for sale	410,159	468,329
Prepaid expenses	29,376	58,885
Other assets	10,214	11,319
TOTAL CURRENT ASSETS	<u>1,245,720</u>	<u>1,327,399</u>
PROPERTY AND EQUIPMENT, net	4,946,457	5,233,140
DEPOSITS	<u>150,875</u>	<u>171,513</u>
TOTAL ASSETS	<u>\$ 6,343,052</u>	<u>\$ 6,732,052</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES		
Accounts payable	\$ 516,152	\$ 446,721
Accrued expenses	428,625	463,731
Accrued interest	14,711	16,037
Deferred rent	128,708	89,295
Current portion of notes payable	157,903	305,252
TOTAL CURRENT LIABILITIES	<u>1,246,099</u>	<u>1,321,036</u>
LONG-TERM LIABILITIES		
Notes payable, net	3,263,242	3,418,522
Line of credit	1,000,000	1,000,000
TOTAL LONG TERM LIABILITIES	<u>4,263,242</u>	<u>4,418,522</u>
TOTAL LIABILITIES	<u>5,509,341</u>	<u>5,739,558</u>
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
UNRESTRICTED NET ASSETS	<u>833,711</u>	<u>992,494</u>
TOTAL NET ASSETS	<u>833,711</u>	<u>992,494</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,343,052</u>	<u>\$ 6,732,052</u>

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
SUPPORT AND REVENUES		
Retail sales	\$ 12,488,980	\$ 12,859,199
Value of donated goods received	1,421,266	1,679,431
Salvage sales	946,626	1,238,603
Vocational services	284,080	238,935
Cash contributions received	<u>11,802</u>	<u>12,974</u>
 TOTAL SUPPORT AND REVENUES	 <u>15,152,754</u>	 <u>16,029,142</u>
EXPENSES		
Program services		
Retail goods	11,899,129	13,048,844
Donated goods - salvage	<u>1,511,576</u>	<u>1,488,063</u>
TOTAL DONATED AND RETAIL GOODS	13,410,705	14,536,907
 Vocational services	 <u>259,109</u>	 <u>262,018</u>
 TOTAL PROGRAM SERVICES	 13,669,814	 14,798,925
Supporting services		
Management services	<u>1,639,331</u>	<u>2,084,014</u>
 TOTAL EXPENSES	 <u>15,309,145</u>	 <u>16,882,939</u>
OTHER REVENUES AND EXPENSES		
Loss on disposal of property and equipment	(2,392)	(118,144)
Change in value of interest rate swap	<u>-</u>	<u>218,625</u>
 TOTAL OTHER REVENUES AND EXPENSES	 <u>(2,392)</u>	 <u>100,481</u>
 DECREASE IN NET ASSETS	 (158,783)	 (753,316)
NET ASSETS, BEGINNING OF YEAR	<u>992,494</u>	<u>1,745,810</u>
 NET ASSETS, END OF YEAR	 <u>\$ 833,711</u>	 <u>\$ 992,494</u>

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

	Program Services			Total Program Services	Supporting	Total Expenses
	Retail Goods	Donated Goods Salvage	Vocational Services		Management Services	
Salaries and related expenses:						
Salaries	\$ 4,116,778	\$ 849,481	\$ 197,866	\$ 5,164,125	\$ 840,197	\$ 6,004,322
Payroll taxes and worker's compensation	932,385	182,411	19,541	1,134,337	143,296	1,277,633
Employee benefits	451,452	88,181	18,892	558,525	53,895	612,420
Total salaries and related expenses	<u>5,500,615</u>	<u>1,120,073</u>	<u>236,299</u>	<u>6,856,987</u>	<u>1,037,388</u>	<u>7,894,375</u>
Other expenses:						
Cost of goods sold	1,963,751	-	-	1,963,751	-	1,963,751
Value of donated goods sold	1,421,266	-	-	1,421,266	-	1,421,266
Occupancy	1,233,674	40,747	-	1,274,421	5,326	1,279,747
Vehicles and travel	194,768	175,436	12,776	382,980	20,640	403,620
Supplies	271,669	52,329	856	324,854	39,684	364,538
Utilities	317,977	35,736	-	353,713	1,290	355,003
Professional fees and contract services	81,465	2,585	177	84,227	134,213	218,440
Interest expense	126,746	-	-	126,746	59,069	185,815
Postage	158,479	1,076	-	159,555	8,993	168,548
Bank fees	134,098	1,202	-	135,300	15,809	151,109
Dues	130	-	-	130	133,025	133,155
Equipment rental and maintenance	51,736	61,021	1,744	114,501	13,694	128,195
Advertising	117,672	-	-	117,672	1,667	119,339
Insurance	59,830	14,896	1,099	75,825	24,328	100,153
Telephone	49,942	5,901	3,286	59,129	37,909	97,038
Training	80	-	-	80	4,803	4,883
Conferences, conventions, and meetings	484	-	70	554	4,213	4,767
Special assistance	58	-	27	85	4,142	4,227
Other	622	574	2,775	3,971	-	3,971
Printing and publications	666	-	-	666	2,299	2,965
Total expenses before depreciation	<u>11,685,728</u>	<u>1,511,576</u>	<u>259,109</u>	<u>13,456,413</u>	<u>1,548,492</u>	<u>15,004,905</u>
Depreciation of property and equipment	<u>213,401</u>	<u>-</u>	<u>-</u>	<u>213,401</u>	<u>90,839</u>	<u>304,240</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 11,899,129</u>	<u>\$ 1,511,576</u>	<u>\$ 259,109</u>	<u>\$ 13,669,814</u>	<u>\$ 1,639,331</u>	<u>\$ 15,309,145</u>

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016

	Program Services			Total Program Services	Supporting	Total Expenses
	Retail Goods	Donated Goods Salvage	Vocational Services		Management Services	
Salaries and related expenses:						
Salaries	\$ 4,703,847	\$ 781,146	\$ 191,093	\$ 5,676,086	\$ 1,106,578	\$ 6,782,664
Payroll taxes and worker's compensation	1,054,177	171,539	19,860	1,245,576	137,115	1,382,691
Employee benefits	475,638	79,280	18,613	573,531	75,038	648,569
Total salaries and related expenses	<u>6,233,662</u>	<u>1,031,965</u>	<u>229,566</u>	<u>7,495,193</u>	<u>1,318,731</u>	<u>8,813,924</u>
Other expenses:						
Cost of goods sold	2,057,835	-	-	2,057,835	-	2,057,835
Value of donated goods sold	1,679,431	-	-	1,679,431	-	1,679,431
Occupancy	1,268,251	59,393	95	1,327,739	930	1,328,669
Vehicles and travel	201,065	167,535	13,659	382,259	42,667	424,926
Utilities	354,749	35,248	-	389,997	4	390,001
Supplies	210,897	74,761	5,416	291,074	73,121	364,195
Interest expense	221,845	-	-	221,845	89,640	311,485
Professional fees and contract services	63,220	5,536	1,922	70,678	167,388	238,066
Advertising	153,321	-	-	153,321	4,739	158,060
Dues	1,350	-	-	1,350	152,593	153,943
Bank fees	137,747	289	-	138,036	13,459	151,495
Equipment rental and maintenance	61,965	35,203	1,686	98,854	13,345	112,199
Insurance	73,324	13,771	1,012	88,107	19,437	107,544
Telephone	56,656	6,325	2,902	65,883	18,602	84,485
Postage	3,269	56,080	-	59,349	16,379	75,728
Other	12,790	1,825	1,300	15,915	34,267	50,182
Training	9	-	4,299	4,308	20,003	24,311
Conferences, conventions, and meetings	606	132	161	899	10,203	11,102
Printing and publications	2,413	-	-	2,413	2,272	4,685
Special assistance	59	-	-	59	1,380	1,439
Total expenses before depreciation	<u>12,794,464</u>	<u>1,488,063</u>	<u>262,018</u>	<u>14,544,545</u>	<u>1,999,160</u>	<u>16,543,705</u>
Depreciation of property and equipment	<u>254,380</u>	<u>-</u>	<u>-</u>	<u>254,380</u>	<u>84,854</u>	<u>339,234</u>
TOTAL FUNCTIONAL EXPENSES	\$ 13,048,844	\$ 1,488,063	\$ 262,018	\$ 14,798,925	\$ 2,084,014	\$ 16,882,939

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (158,783)	\$ (753,316)
Adjustments to reconcile decrease in net assets to net cash flows from operating activities:		
Depreciation	304,240	339,234
Amortization of debt issuance cost	2,628	4,118
Loss on disposal of property and equipment	2,392	118,144
Change in fair value of interest rate swap	-	(218,625)
(Increase) decrease in operating assets:		
Accounts receivable	16,242	139,002
Inventory held for sale	58,170	(61,400)
Prepaid expenses	29,509	197,023
Other assets	1,105	(1,526)
Deposits	20,638	(108,813)
Increase (decrease) in operating liabilities:		
Accounts payable	69,431	307,737
Accrued expenses	(35,106)	76,411
Accrued interest	(1,326)	(16,060)
Deferred rent	39,413	(7,364)
	<u>348,553</u>	<u>14,565</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(19,949)</u>	<u>(47,272)</u>
	<u>(19,949)</u>	<u>(47,272)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(305,257)	(170,590)
Debt issuance cost incurred	-	(26,310)
Proceeds from issuance of notes payable	<u>-</u>	<u>13,886</u>
	<u>(305,257)</u>	<u>(183,014)</u>
NET CHANGE IN CASH	23,347	(215,721)
CASH, BEGINNING OF YEAR	<u>634,518</u>	<u>850,239</u>
CASH, END OF YEAR	<u>\$ 657,865</u>	<u>\$ 634,518</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 184,513</u>	<u>\$ 327,545</u>
NONCASH FINANCING ACTIVITIES:		
Acquisition of property and equipment provided by issuance of notes payable	<u>\$ -</u>	<u>\$ 22,306</u>

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

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 10 thrift stores, a salvage center, and online through shopgoodwill.com. 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 FASB ASC 958-605, *Revenue Recognition*. In accordance with FASB 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.

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(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, 2017 and 2016.

As of December 31, 2017 and 2016, the Organization had two and three customers, respectively, with uncollateralized accounts receivable balances in excess of 10% of total outstanding accounts receivable. The amounts of these account balances are 91% (72% and 19%) and 72% (30%, 25% and 17%) of total accounts receivable as of December 31, 2017 and 2016, respectively. Accounts receivable as of December 31, 2017 and 2016 represent 0.91% and 0.97% of revenue, respectively.

The Organization obtained approximately 28% and 29% of total purchases from one vendor during the years ended December 31, 2017 and 2016, respectively.

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

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

net assets to unrestricted net assets at that time. As of December 31, 2017 and 2016, the Organization did not own any assets with temporary or permanent restrictions.

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

<u>Assets</u>	<u>Useful Lives</u>
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 and the useful life of the related leasehold improvement.

In accordance with FASB ASC Topic 360, *Property, Plant, and Equipment*, 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, 2017 and 2016.

Fair value of financial instruments – Per FASB ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), certain financial instruments are carried at cost on the balance sheet, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash, accounts receivable, prepaid expenses, accounts payable, and accrued expenses.

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. Online sales are recognized when the merchandise is shipped.

Advertising and promotion - Advertising and promotion costs are expensed when incurred and amounted to \$119,339 and \$158,225 for the years ended December 31, 2017 and 2016, respectively.

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(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 de-recognition, classification, interest and penalties, disclosure, and transition. Management believes that no such uncertain tax positions exist for the Organization at December 31, 2017 and 2016.

With few exceptions, the Organization is no longer subject to U.S. Federal and State income tax examinations for tax years 2014 and 2013, respectively.

Recently issued accounting pronouncements - In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not for-Profit Entities. The main provisions of this update, amend the requirements for financial statements and notes in Topic 958, *Not-for-Profit Entities*. The ASU requires Not-for-Profit entities (NFP) to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. A NFP will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets. Additionally, a NFP will be required to present on the face of the statement of activities the amount of the change in each of the two classes of net assets, net assets with donor restrictions and net assets without donor restrictions, rather than that of the currently required three classes. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments in this update is permitted. The Organization has assessed the impact of this guidance, and feels it does not apply.

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments in this update require lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date, a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and, a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The amendments in this update will be effective for the annual period beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Organization has yet to fully assess the impact of this guidance.

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(3) Property and equipment

Property and equipment as of December 31, 2017 and 2016, consists of the following:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 5,879,993	\$ 5,879,993
Land	1,685,282	1,685,282
Equipment	1,614,924	1,577,797
Leasehold improvements	689,823	701,463
Total Cost	<u>9,870,022</u>	<u>9,844,535</u>
Accumulated depreciation	<u>(4,923,565)</u>	<u>(4,628,379)</u>
	4,946,457	5,216,156
Construction in progress	-	16,984
Property and equipment, net	<u>\$ 4,946,457</u>	<u>\$ 5,233,140</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$304,240 and \$339,234, respectively.

(4) Notes payable

Notes payable as of December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Note Payable - Wells Fargo Bank, payable in monthly installments ranging from \$12,770 to \$25,110, including interest at 4.40%, secured by real property, accounts receivable, inventory and equipment, due in November 2026.	\$ 3,428,570	\$ 3,729,890
Note Payable - Jim Burke Ford, payable in monthly installments of \$356, including interest at 1.90%, secured by equipment, due in October 2021.	<u>15,789</u>	<u>19,726</u>
Total notes payable	3,444,359	3,749,616
Less current portion	(157,903)	(305,252)
Less unamortized debt issuance costs	<u>(23,214)</u>	<u>(25,842)</u>
Non current portion	<u>\$ 3,263,242</u>	<u>\$ 3,418,522</u>

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(4) Notes payable (continued)

Future scheduled maturities of notes payable are as follows:

<u>Years Ending December 31,</u>		
2018	\$	157,903
2019		165,871
2020		174,261
2021		182,854
2022		187,880
Thereafter		2,575,590
		<u>3,444,359</u>

On November 1, 2016, the Organization refinanced its note payable with Wells Fargo Bank through the issuance of a 10 year term note for \$3,755,000 and the issuance of a \$1,000,000 line of credit. 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, 2017, 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.

(5) Line of credit

On November 1, 2016, the Organization opened a line of credit with Wells Fargo Bank, which expires on November 1, 2026. The maximum line of credit under the agreement is \$1,000,000 and the outstanding balance is \$1,000,000 as of December 31, 2017 and 2016. The line of credit is secured by real property, accounts receivable, inventory, and equipment. Interest is payable monthly at LIBOR plus 2.25%. The interest rate was 3.81% and 3.02% as of December 31, 2017 and 2016, respectively. The line of credit with Wells Fargo Bank is subject to certain financial and non-financial covenants, including requirements relating to liquidity.

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(6) 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 variable rate loan to a fixed rate of 6.98%. The interest rate swap matured on November 1, 2016 and was not renewed. 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 \$0 as of December 31, 2017 and 2016, respectively. For the years ended December 31, 2017 and 2016, \$0 and \$218,625, respectively, was recorded as part of other revenues and expenses in the statement of activities related to the change in the swap agreement's fair value.

	2017	2016
Change in net assets before effect of swap agreement	\$ (158,783)	\$ (971,941)
Change in fair value of interest rate swap	-	218,625
Change in net assets	\$ (158,783)	\$ (753,316)

(7) Commitments and contingencies

Facility operating leases – Commencing 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 Organization is required to pay property taxes, insurance, and common area expenses associated with the leased property. On January 28, 2015, the lease was extended for an additional 60 month term commencing on May 1, 2015 and ending April 30, 2020 with monthly payments ranging from \$10,000 to \$14,689, and is currently \$13,846 per month.

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 to 60 months. This extension expired October 14, 2014. On October 14, 2014, the lease was renewed for an additional 36 months and expired on October 14, 2017. The lease was not renewed during 2017, the retail store was closed at that time. The lease required minimum monthly rental payments of \$5,200 exclusive of utilities, personal property tax, liability insurance, and certain repairs and maintenance.

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(7) Commitments and contingencies (continued)

Commencing on November 4, 1998, the Organization entered into a 60-month lease agreement for the retail store on Oswell Street in Bakersfield. Subsequent amendments to the agreement had changed the monthly rent payments and extended the original term until August 31, 2013. On March, 28, 2013 the lease was extended for an additional 60 month term commencing on September 1, 2013 and ending August 31, 2018 with monthly payments ranging from \$11,057 and \$13,163, and is currently \$13,163 per month, exclusive of personal property tax.

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 month term commencing on December 1, 2014 and ending November 30, 2019 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.

Commencing on September 1, 2011, the Organization entered into a 60-month lease agreement for a retail store in Porterville. The monthly rent amount ranged from \$6,190 to \$6,897 per month, exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance, and common area expenses. On February 22, 2016, the Porterville lease was renewed for an additional 60 month term commencing on August 1, 2016 and ending July 31, 2021 with monthly rent payments ranging from \$7,369 to \$8,077, and is currently \$7,546 per month.

Commencing on November 1, 2011, the Organization entered into a 38-month lease agreement with two 36-month options to extend for a retail store in Tulare. On July 29, 2014 the lease was extended for an additional 24 months commencing on November 1, 2014 and ending October 31, 2016 with monthly rent payments of \$5,580, exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance, and common area expenses. The lease was not renewed as of October 31, 2016, the retail store was closed at that time.

Commencing on May 1, 2013, the Organization entered into an 87-month lease agreement ending July 31, 2020, 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 \$8,772, exclusive of utilities, personal property taxes, liability insurance, certain repairs and maintenance, and common area expenses.

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(7) Commitments and contingencies (continued)

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. During August 2016, the Organization closed the retail store and ceased operations at the location. The rent payments continued through December 31, 2017, the date the lease expired. Lease termination costs of \$60,000 were accrued as of December 31, 2016 and are included as occupancy expense for the year ending December 31, 2016.

Commencing on July 1, 2014, the Organization entered into a 60-month lease agreement ending March 31, 2019, for a retail store in Lemoore. The monthly rent amount ranges from \$5,281 to \$6,178 per month, and is currently \$5,940, exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance, and common area expenses.

Commencing on June 2, 2017, the Organization entered into a 123-month lease agreement ending September 30, 2027, for a retail store on Ming Avenue in Bakersfield. The monthly rent amounts range from \$17,846 to \$19,578, and is currently \$17,846, exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance, and common area expenses.

Future minimum lease commitments under non-cancellable facility leases as of December 31, 2017, are as follows:

<u>Years Ending December 31,</u>	
2018	\$ 810,766
2019	762,082
2020	434,910
2021	270,691
2022	221,080
Thereafter	1,096,368
	<u>\$ 3,595,897</u>

For the years ended December 31, 2017 and 2016, rental expense was \$769,798 and \$772,221, respectively.

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(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, 2017 are as follows:

<u>Years Ending December 31,</u>	
2018	\$ 109,114
2019	63,237
2020	19,905
	<u>\$ 192,256</u>

For the years ended December 31, 2017 and 2016, vehicle lease expense was \$224,033 and \$239,867, respectively.

(8) **Subsequent events**

The Organization has evaluated subsequent events through April 30, 2018, the date that the financial statements were available to be issued.