GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2018 the Organization adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

Bakersfield, California
April 29, 2019

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash	$ 935,432	$ 657,865
Accounts receivable	75,670	138,106
Inventory held for sale	438,940	410,159
Prepaid expenses	27,225	29,376
Other assets	10,423	10,214
TOTAL CURRENT ASSETS	1,487,690	1,245,720
PROPERTY AND EQUIPMENT, net	4,713,792	4,946,457
DEPOSITS	153,159	150,875
TOTAL ASSETS	$ 6,354,641	$ 6,343,052

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts payable	$ 196,737	$ 516,152
Accrued expenses	479,538	428,625
Accrued interest	12,506	14,711
Current portion of notes payable	165,871	157,903
TOTAL CURRENT LIABILITIES	854,652	1,117,391
LONG-TERM LIABILITIES		
Deferred rent	104,197	128,708
Notes payable, net	3,099,998	3,263,242
Line of credit	1,000,000	1,000,000
TOTAL LONG TERM LIABILITIES	4,204,195	4,391,950
TOTAL LIABILITIES	5,058,847	5,509,341
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
NET ASSETS:		
Without donor restrictions	1,295,794	833,711
TOTAL NET ASSETS	1,295,794	833,711
TOTAL LIABILITIES AND NET ASSETS	$ 6,354,641	$ 6,343,052

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2018 and 2017

	2018	2017
SUPPORT AND REVENUES		
Retail sales	$ 13,836,611	$ 12,488,980
Value of donated goods received	1,493,406	1,421,266
Salvage sales	922,573	946,626
Vocational services	222,426	284,080
Cash contributions received	14,309	11,802
TOTAL SUPPORT AND REVENUES	16,489,325	15,152,754
EXPENSES		
Program services		
Retail goods	12,587,266	11,833,970
Donated goods - salvage	1,505,149	1,475,308
TOTAL DONATED AND RETAIL GOODS	14,092,415	13,309,278
Vocational services	189,620	258,543
TOTAL PROGRAM SERVICES	14,282,035	13,567,821
Supporting services		
Management services	1,745,207	1,741,324
TOTAL EXPENSES	16,027,242	15,309,145
OTHER REVENUES AND EXPENSES		
Loss on disposal of property and equipment	-	(2,392)
TOTAL OTHER REVENUES AND EXPENSES	-	(2,392)
INCREASE (DECREASE) IN NET ASSETS	462,083	(158,783)
NET ASSETS, BEGINNING OF YEAR	833,711	992,494
NET ASSETS, END OF YEAR	$ 1,295,794	$ 833,711

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

	Program Services				Supporting Services	
	Retail Goods	Donated Goods Salvage	Vocational Services	Total Program Services	Management Services	Total Expenses
Salaries and related expenses:						
Salaries	$ 4,544,644	$ 895,795	$ 141,743	$ 5,582,182	$ 816,205	$ 6,398,387
Payroll taxes and worker's compensation	944,783	185,776	13,141	1,143,700	96,864	1,240,564
Employee benefits	423,873	83,227	16,756	523,856	74,802	598,658
Total salaries and related expenses	5,913,300	1,164,798	171,640	7,249,738	987,871	8,237,609
Other expenses:						
Cost of goods sold	2,038,196	-	-	2,038,196	-	2,038,196
Value of donated goods sold	1,493,406	-	-	1,493,406	3	1,493,409
Occupancy	1,262,329	12,871	-	1,275,200	32,377	1,307,577
Supplies	255,482	54,267	1,161	310,910	90,822	401,732
Utilities	321,118	11,140	-	332,258	53,600	385,858
Vehicles and travel	180,656	170,470	7,007	358,133	24,844	382,977
Postage	258,623	582	-	259,205	11,176	270,381
Professional fees and contract services	86,746	1,133	525	88,404	162,822	251,226
Bank fees	160,554	184	-	160,738	15,954	176,692
Interest expense	112,902	-	-	112,902	52,845	165,747
Equipment rental and maintenance	62,146	67,460	1,838	131,444	14,986	146,430
Dues	14	-	-	14	144,300	144,314
Advertising	114,366	-	-	114,366	395	114,761
Insurance	59,275	16,347	555	76,177	24,589	100,766
Telephone	50,915	4,769	3,160	58,844	35,789	94,633
Training	-	-	379	379	5,760	6,139
Conferences, conventions, and meetings	1,112	6	105	1,223	4,521	5,744
Other	70	1,122	3,250	4,442	-	4,442
Special assistance	-	-	-	-	3,170	3,170
Printing and publications	1,371	-	-	1,371	1,155	2,526
Total expenses before depreciation	12,372,581	1,505,149	189,620	14,067,350	1,666,979	15,734,329
Depreciation of property and equipment	214,685	-	-	214,685	78,228	292,913
TOTAL FUNCTIONAL EXPENSES	$ 12,587,266	$ 1,505,149	$ 189,620	$ 14,282,035	$ 1,745,207	$ 16,027,242

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

	Program Services				Supporting Services	
	Retail Goods	Donated Goods Salvage	Vocational Services	Total Program Services	Management Services	Total Expenses
Salaries and related expenses:						
Salaries	$ 4,116,778	$ 850,047	$ 197,300	$ 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	5,500,615	1,120,639	235,733	6,856,987	1,037,388	7,894,375
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	1,222,195	22,758	-	1,244,953	34,794	1,279,747
Vehicles and travel	192,635	175,178	12,776	380,589	23,031	403,620
Supplies	248,425	56,334	856	305,615	58,923	364,538
Utilities	292,334	10,980	-	303,314	51,689	355,003
Professional fees and contract services	81,465	2,585	177	84,227	134,213	218,440
Interest expense	126,620	-	-	126,620	59,195	185,815
Postage	158,479	1,076	-	159,555	8,993	168,548
Bank fees	134,520	663	-	135,183	15,926	151,109
Dues	-	-	-	-	133,155	133,155
Equipment rental and maintenance	48,990	63,724	1,744	114,458	13,737	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	-	-	-	-	4,883	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	11,620,569	1,475,308	258,543	13,354,420	1,650,485	15,004,905
Depreciation of property and equipment	213,401	-	-	213,401	90,839	304,240
TOTAL FUNCTIONAL EXPENSES	$ 11,833,970	$ 1,475,308	$ 258,543	$ 13,567,821	$ 1,741,324	$ 15,309,145

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 462,083	$ (158,783)
Adjustments to reconcile decrease in net assets to net cash flows from operating activities:		
Depreciation	292,913	304,240
Amortization of debt issuance cost	2,628	2,628
Loss on disposal of property and equipment	-	2,392
(Increase) decrease in operating assets:		
Accounts receivable	62,436	16,242
Inventory held for sale	(28,781)	58,170
Prepaid expenses	2,151	29,509
Other assets	(209)	1,105
Deposits	(2,284)	20,638
Increase (decrease) in operating liabilities:		
Accounts payable	(319,415)	69,431
Accrued expenses	50,913	(35,106)
Accrued interest	(2,205)	(1,326)
Deferred rent	(24,511)	39,413
NET CASH FLOWS FROM OPERATING ACTIVITIES	495,719	348,553
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(60,248)	(19,949)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(60,248)	(19,949)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(157,904)	(305,257)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(157,904)	(305,257)
NET CHANGE IN CASH	277,567	23,347
CASH, BEGINNING OF YEAR	657,865	634,518
CASH, END OF YEAR	$ 935,432	$ 657,865
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 165,324	$ 184,513

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 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 two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

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 with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. Donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. Other donor-restricted support is perpetual in nature, where the donor stipulates that resources must be maintained in perpetuity.

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, 2018 and 2017.

As of December 31, 2018 and 2017, the Organization had four and two customers, respectively, with uncollateralized accounts receivable balances in excess of 10% of total outstanding accounts receivable. The amounts of these account balances are 92% (35%, 28%, 17% and 12%) and 91% (72% and 19%) of total accounts receivable as of December 31, 2018 and 2017, respectively. Accounts receivable as of December 31, 2018 and 2017 represent 0.47% and 0.91% of revenue, respectively.

The Organization obtained approximately 29% and 28% of total purchases from one vendor during the years ended December 31, 2018 and 2017, 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 support without donor restrictions 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 support with donor restrictions. 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

(2) Summary of significant accounting policies (continued)

net assets with donor restrictions to net assets without donor restrictions at that time. As of December 31, 2018 and 2017, the Organization did not own any assets with donor 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:

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 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, 2018 and 2017.

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 statements of financial position, 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 were $114,761 and $119,339 for the years ended December 31, 2018 and 2017, respectively.

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

(2) Summary of significant accounting policies (continued)

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, 2018 and 2017.

With few exceptions, the Organization is no longer subject to U.S. Federal and State income tax examinations for tax years 2015 and 2014, respectively.

Reclassifications - Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 classifications. Total net assets and change in net assets are unchanged due to these reclassifications.

Accounting pronouncements adopted - In August 2016, the FASB issued Accounting Standards Update (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. 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. Additionally, a NFP will be required to disclose quantitative and qualitative information regarding liquidity and availability of resources. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2017. The Organization has adopted ASU 2016-14 for the year ended December 31, 2018 and has applied retrospectively to all periods presented. The Organization opted not to disclose liquidity and availability information for 2017 as permitted under the ASU in the year of adoption.

Recently issued accounting pronouncements - 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.

(3) Available resources and liquidity

In May 2017, Goodwill adopted a revised Operating Reserve Fund policy where the target minimum Operating Reserve Fund is equal to one month (approximately $1.3 million) of average operating costs and the optimal Operating Reserve Fund is equal to two months (approximately $2.6 million) of average operating costs. The goal is for Goodwill to have between $1.3 million and $2.6 million in available liquid financial assets.

Goodwill's financial assets available within one year of the statement of financial position date for general expenditures as of December 31, 2018 are as follows:

Cash	$ 935,432
Accounts receivable	$ 75,670
Total financial assets available to meet cash needs for general expenditures within one year	$ 1,011,102

At the time the revised policy was adopted, the available liquid financial assets were $788,866 and they have increased to $1,011,102 with the intention to continue to build to the target reserve over the next several years. Over the next twelve months, Goodwill anticipates collecting sufficient revenues to cover general expenditures, while increasing its available liquid financial assets. Refer to the statement of cash flows which identifies the sources and uses of the agency's cash and shows positive cash generated by operations for 2018 and 2017.

(4) Property and equipment

Property and equipment as of December 31, 2018 and 2017, consist of the following:

	2018	2017
Buildings and improvements	$ 5,899,914	$ 5,879,993
Land	1,685,282	1,685,282
Equipment	1,645,344	1,614,924
Leasehold improvements	699,729	689,823
Total Cost	9,930,269	9,870,022
Accumulated depreciation	(5,216,477)	(4,923,565)
Property and equipment, net	$ 4,713,792	$ 4,946,457

Depreciation expense for the years ended December 31, 2018 and 2017 was $292,913 and $304,240, respectively.

(5) Notes payable

Notes payable as of December 31, 2018 and 2017 consist of the following:

	2018	2017
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.	$ 3,274,675	$ 3,428,570
Note Payable - Jim Burke Ford, payable in monthly installments of $356, including interest at 1.90%, secured by equipment, due in October	11,780	15,789
Total notes payable	3,286,455	3,444,359
Less current portion	(165,871)	(157,903)
Less unamortized debt issuance costs	(20,586)	(23,214)
Non current portion	$ 3,099,998	$ 3,263,242

Future scheduled maturities of notes payable are as follows:

Years Ending December 31,	
2018	$ 165,871
2019	174,261
2020	182,854
2021	187,880
2022	197,520
Thereafter	2,378,069
	3,286,455

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. Management believes they are in compliance with all covenants at December 31, 2018.

(6) 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, 2018 and 2017. 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

(6) Line of credit (continued)

4.75% and 3.81% as of December 31, 2018 and 2017, respectively. The line of credit with Wells Fargo Bank is subject to certain financial and non-financial covenants, including requirements relating to liquidity. Management believes they are in compliance with all covenants at December 31, 2018.

(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 $14,261 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.

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. On June 15, 2018 the lease was extended for an additional 12 month term commencing on September 1, 2018 and ending August 31, 2019 with monthly payments of $12,636 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

(7) Commitments and contingencies (continued)

August 1, 2016 and ending July 31, 2021 with monthly rent payments ranging from $7,369 to $8,077, and is currently $7,723 per month.

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 $9,035, 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 was $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 November 27, 2017, the date the lease expired.

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, exclusive of utilities, personal property tax, liability insurance, certain repairs and maintenance, and common area expenses. On October 30, 2018, the Lemoore lease was renewed for an additional 34 month term commencing on April 1, 2019 and ending January 31, 2022 with monthly rent payments ranging from $6,363 to $6,751, and is currently $6,178 per month.

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, 2018, are as follows:

Years Ending December 31,		
2019	$	815,135
2020		511,811
2021		351,109
2022		227,831
2023		234,936
Thereafter		861,432
	$	3,002,254

For the years ended December 31, 2018 and 2017, rental expense was $836,736 and $769,798, 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, 2018 are as follows:

Years Ending December 31,		
2019	$	152,904
2020		104,351
2021		71,808
2022		71,808
2023		22,149
	$	423,020

For the years ended December 31, 2018 and 2017, vehicle lease expense was $230,572 and $224,033, respectively.

(8) Subsequent events

The Organization has evaluated subsequent events through April 29, 2019, the date that the financial statements were available to be issued.