



**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA**

FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019



**GOODWILL INDUSTRIES OF
SOUTH CENTRAL CALIFORNIA**

FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

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



Mayer Hoffman McCann P.C.
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, 2020 and 2019, 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, 2020 and 2019, 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
June 3, 2021

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF FINANCIAL POSITION

Years Ended December 31, 2020 and 2019

ASSETS

	2020	2019
CURRENT ASSETS		
Cash	\$ 2,193,278	\$ 949,227
Accounts receivable	162,912	80,269
Inventory held for sale	354,099	410,289
Prepaid expenses	2,674	13,360
Other assets	10,188	9,935
TOTAL CURRENT ASSETS	2,723,151	1,463,080
PROPERTY AND EQUIPMENT, net	4,292,021	4,480,094
DEPOSITS	148,499	148,499
TOTAL ASSETS	\$ 7,163,671	\$ 6,091,673

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 634,090	\$ 289,160
Accrued expenses	449,007	481,830
Accrued interest	20,822	11,796
Current portion of notes payable	203,370	176,446
TOTAL CURRENT LIABILITIES	1,307,289	959,232
LONG-TERM LIABILITIES		
Deferred rent	80,364	85,118
Notes payable, net	3,295,937	2,953,896
TOTAL LONG TERM LIABILITIES	3,376,301	3,039,014
TOTAL LIABILITIES	4,683,590	3,998,246
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
NET ASSETS:		
Without donor restrictions	2,480,081	2,093,427
TOTAL NET ASSETS	2,480,081	2,093,427
TOTAL LIABILITIES AND NET ASSETS	\$ 7,163,671	\$ 6,091,673

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF ACTIVITES

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
SUPPORT AND REVENUES		
Retail sales	\$ 10,969,225	\$ 14,634,195
Value of donated goods received	1,709,982	1,625,126
Paycheck protection program, forgivable grant (See note 7)	1,500,000	-
Salvage sales	512,965	801,454
Vocational services	188,744	270,596
Cash contributions received	<u>11,571</u>	<u>13,313</u>
TOTAL SUPPORT AND REVENUES	<u>14,892,487</u>	<u>17,344,684</u>
EXPENSES		
Program services		
Retail goods	11,251,589	12,889,735
Donated goods - salvage	<u>1,299,702</u>	<u>1,605,064</u>
TOTAL DONATED AND RETAIL GOODS	12,551,291	14,494,799
Vocational services	<u>172,276</u>	<u>168,677</u>
TOTAL PROGRAM SERVICES	12,723,567	14,663,476
Supporting services		
Management services	<u>1,782,266</u>	<u>1,884,033</u>
TOTAL EXPENSES	<u>14,505,833</u>	<u>16,547,509</u>
OTHER REVENUES AND EXPENSES		
Gain on sale of property and equipment	<u>-</u>	<u>458</u>
TOTAL OTHER REVENUES AND EXPENSES	<u>-</u>	<u>458</u>
CHANGE IN NET ASSETS	386,654	797,633
NET ASSETS, BEGINNING OF YEAR	<u>2,093,427</u>	<u>1,295,794</u>
NET ASSETS, END OF YEAR	<u><u>\$ 2,480,081</u></u>	<u><u>\$ 2,093,427</u></u>

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2020

	Program Services			Total Program Services	Supporting	Total Expenses
	Retail Goods	Donated Goods Salvage	Vocational Services		Management Services	
Salaries and related expenses:						
Salaries	\$ 4,043,502	\$ 701,177	\$ 118,144	\$ 4,862,823	\$ 797,886	\$ 5,660,709
Payroll taxes and worker's compensation	1,042,975	183,785	21,537	1,248,297	102,515	1,350,812
Employee benefits	328,509	74,577	7,308	410,394	41,976	452,370
Total salaries and related expenses	<u>5,414,986</u>	<u>959,539</u>	<u>146,989</u>	<u>6,521,514</u>	<u>942,377</u>	<u>7,463,891</u>
Other expenses:						
Value of donated goods sold	1,709,982	-	-	1,709,982	46	1,710,028
Occupancy	1,345,758	13,027	-	1,358,785	36,222	1,395,007
Cost of goods sold	1,162,152	-	-	1,162,152	-	1,162,152
Supplies	219,692	43,660	1,113	264,465	214,887	479,352
Vehicles and travel	185,186	149,420	4,748	339,354	10,643	349,997
Utilities	278,892	9,073	-	287,965	44,150	332,115
Professional fees and contract services	21,100	210	1,015	22,325	174,723	197,048
Bank fees	159,081	180	-	159,261	15,340	174,601
Equipment rental and maintenance	45,789	108,419	1,940	156,148	14,481	170,629
Telephone	80,451	6,527	15,087	102,065	39,313	141,378
Postage	125,983	1,046	-	127,029	7,732	134,761
Dues	1,701	-	-	1,701	121,823	123,524
Insurance	71,041	15,533	179	86,753	35,489	122,242
Interest expense	80,183	-	-	80,183	33,184	113,367
Other	59,780	(6,932)	1,205	54,053	-	54,053
Advertising	91,633	-	-	91,633	194	91,827
Printing and publications	7,209	-	-	7,209	2,152	9,361
Training	-	-	-	-	4,180	4,180
Conferences, conventions, and meetings	-	-	-	-	3,228	3,228
Special assistance	-	-	-	-	1,560	1,560
Total expenses before depreciation	<u>11,060,599</u>	<u>1,299,702</u>	<u>172,276</u>	<u>12,532,577</u>	<u>1,701,724</u>	<u>14,234,301</u>
Depreciation of property and equipment	<u>190,990</u>	<u>-</u>	<u>-</u>	<u>190,990</u>	<u>80,542</u>	<u>271,532</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 11,251,589</u>	<u>\$ 1,299,702</u>	<u>\$ 172,276</u>	<u>\$ 12,723,567</u>	<u>\$ 1,782,266</u>	<u>\$ 14,505,833</u>

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019

	Program Services			Total Program Services	Supporting	Total Expenses
	Retail Goods	Donated Goods Salvage	Vocational Services		Management Services	
Salaries	\$ 5,012,953	\$ 952,929	\$ 110,421	\$ 6,076,303	\$ 876,753	\$ 6,953,056
Payroll taxes and worker's compensation	987,320	187,188	14,434	1,188,942	98,060	1,287,002
Employee benefits	421,513	93,317	12,196	527,026	54,020	581,046
Total salaries and related expenses	<u>6,421,786</u>	<u>1,233,434</u>	<u>137,051</u>	<u>7,792,271</u>	<u>1,028,833</u>	<u>8,821,104</u>
Other expenses:						
Value of donated goods sold	1,625,126	-	-	1,625,126	-	1,625,126
Occupancy	1,296,092	19,970	2	1,316,064	41,054	1,357,118
Cost of goods sold	1,702,775	-	-	1,702,775	-	1,702,775
Supplies	250,461	42,754	1,487	294,702	140,197	434,899
Vehicles and travel	181,172	165,063	7,512	353,747	21,596	375,343
Utilities	330,591	16,735	-	347,326	53,394	400,720
Professional fees and contract services	85,446	35	910	86,391	192,326	278,717
Bank fees	189,805	256	-	190,061	15,676	205,737
Equipment rental and maintenance	36,922	93,119	1,974	132,015	14,276	146,291
Telephone	59,529	4,752	3,141	67,422	39,914	107,336
Postage	182,830	10,158	-	192,988	17,717	210,705
Dues	823	-	-	823	147,076	147,899
Insurance	71,744	15,609	180	87,533	31,357	118,890
Interest expense	99,439	-	-	99,439	46,734	146,173
Other	34,153	2,379	9,380	45,912	-	45,912
Advertising	106,918	-	-	106,918	381	107,299
Printing and publications	6,570	-	-	6,570	1,064	7,634
Training	678	800	7,040	8,518	8,287	16,805
Conferences, conventions, and meetings	-	-	-	-	6,998	6,998
Special assistance	-	-	-	-	5,359	5,359
Total expenses before depreciation	<u>12,682,860</u>	<u>1,605,064</u>	<u>168,677</u>	<u>14,456,601</u>	<u>1,812,239</u>	<u>16,268,840</u>
Depreciation of property and equipment	<u>206,875</u>	<u>-</u>	<u>-</u>	<u>206,875</u>	<u>71,794</u>	<u>278,669</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 12,889,735</u>	<u>\$ 1,605,064</u>	<u>\$ 168,677</u>	<u>\$ 14,663,476</u>	<u>\$ 1,884,033</u>	<u>\$ 16,547,509</u>

See Accompanying Notes to Financial Statements

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 386,654	\$ 797,633
Adjustments to reconcile decrease in net assets to net cash flows from operating activities:		
Depreciation	271,532	278,669
Amortization of debt issuance cost	1,971	2,628
Gain on sale of property and equipment	-	(458)
(Increase) decrease in operating assets:		
Accounts receivable	(82,643)	(4,599)
Inventory held for sale	56,190	28,651
Prepaid expenses	10,686	13,865
Other assets	(253)	488
Deposits	-	4,660
Increase (decrease) in operating liabilities:		
Accounts payable	344,930	92,423
Accrued expenses	(32,823)	2,292
Accrued interest	9,026	(710)
Deferred rent	(4,754)	(19,079)
	<u>960,516</u>	<u>1,196,463</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(83,459)	(16,725)
Proceeds from sale of property and equipment	-	10,500
	<u>(83,459)</u>	<u>(6,225)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	-	(1,000,000)
Payments on notes payable	(133,006)	(176,443)
Proceeds from issuance of notes payable	500,000	-
	<u>366,994</u>	<u>(1,176,443)</u>
NET CHANGE IN CASH	1,244,051	13,795
CASH, BEGINNING OF YEAR	949,227	935,432
CASH, END OF YEAR	\$ <u>2,193,278</u>	\$ <u>949,227</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for interest	\$ 102,370	\$ 144,255
NONCASH FINANCING ACTIVITIES:		
Acquisition of property and equipment provided by issuance of note payable	\$ -	\$ 38,288

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 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 Statements 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.

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, 2020 and 2019.

As of December 31, 2020 and 2019, the Organization had one customer, with uncollateralized accounts receivable balances in excess of 10% of total outstanding accounts receivable. The amounts of these account balances are 77% and 55% of total accounts receivable as of December 31, 2020 and 2019, respectively. Accounts receivable as of December 31, 2020 and 2019 represent 1.1% and 0.50% of revenue, respectively.

The Organization obtained approximately 18% and 25% of total purchases from one vendor during the years ended December 31, 2020 and 2019, 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 net assets with donor restrictions to net assets without donor restrictions at that time. As of December 31, 2020 and 2019, the Organization did not own any assets with donor restrictions.

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

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	5 - 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, 2020 and 2019.

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 - The Organization's revenue is generated substantially from the sale of retail goods in the thrift stores, salvage goods, and retail goods online. Most of the Organization's contracts with customers consist of a performance obligation to transfer goods. Revenue is recognized in the amount the entity expects to be entitled to receive from the customer, when a performance obligations is satisfied at a point in time by the transfer of control of promised goods to the customer. The price for the goods transferred is generally fixed.

For the majority of customers, control transfers at the point-in-time when goods are sold, typically at the point of sale in the thrift stores or salvage facilities. For online sales, control transfers at the time the goods are shipped. The Organization has elected to treat shipping expenses as activities to fulfill the promise to the customer.

Advertising and promotion - Advertising and promotion costs are expensed when incurred and were \$91,811 and \$107,299 for the years ended December 31, 2020 and 2019, 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 statements of activities. It is the 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, 2020 and 2019.

With few exceptions, the Organization is no longer subject to U.S. Federal and State income tax examinations for tax years 2017 and 2016, respectively.

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, 2021, and for interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Organization has yet to fully assess the impact of this guidance.

(3) Available resources and liquidity

In May 2017, the Organization 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 the Organization to have between \$1.3 million and \$2.6 million in available liquid financial assets.

The Organization's financial assets available within one year of the statements of financial position date for general expenditures as of December 31, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Cash	\$ 2,193,278	\$ 949,227
Accounts receivable	162,912	80,269
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,356,190</u>	<u>\$ 1,029,496</u>

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(3) Available resources and liquidity (continued)

Since the adoption of the revised policy, available liquid financial assets were \$2,356,190, and \$1,029,496 for December 31, 2020 and 2019, respectively. The Organization's intention is to continue to build to the target reserve over the next several years. Over the next twelve months, the Organization anticipates collecting sufficient revenues to cover general expenditures, while increasing its available liquid financial assets. Refer to the statements of cash flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations for 2020 and 2019.

(4) Property and equipment

Property and equipment as of December 31, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
Building and improvements	\$ 5,976,152	\$ 5,916,152
Land	1,685,282	1,685,282
Equipment	1,684,720	1,661,262
Leasehold improvements	699,729	699,729
Total Cost	<u>10,045,883</u>	<u>9,962,425</u>
Accumulated depreciation	<u>(5,753,862)</u>	<u>(5,482,331)</u>
Property and equipment, net	<u>\$ 4,292,021</u>	<u>\$ 4,480,094</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$271,532 and \$278,669, respectively.

(5) Notes payable

Notes payable as of December 31, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Note Payable - Wells Fargo Bank, payable in monthly installments of \$13,425, including 4.40% interest, secured by real property, accounts receivable, inventory and equipment, due in November 2026.	\$ 2,985,125	\$ 3,112,890
Note Payable - Jim Burke Ford, payable in monthly installments of \$531, including 0% interest, secured by a vehicle, due in June 2025.	30,169	35,410
U.S. Small Business Administration Economic Injury Disaster Loan payable in monthly installments of \$2,136, including 2.75% interest, due April 2050.	500,000	-
Total notes payable	<u>3,515,294</u>	<u>3,148,300</u>
Less current portion	<u>(203,370)</u>	<u>(176,446)</u>
Less unamortized debt issuance costs	<u>(15,987)</u>	<u>(17,958)</u>
Non-current portion	<u>\$ 3,295,937</u>	<u>\$ 2,953,896</u>

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(5) Notes payable (continued)

Future scheduled maturities of notes payable are as follows:

<u>Years Ending December 31,</u>	
2021	\$ 203,370
2022	220,684
2023	230,364
2024	241,404
2025	248,362
Thereafter	2,371,110
	<u>\$ 3,515,294</u>

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, 2020.

(6) Line of credit

The Organization has 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 was \$0 as of December 31, 2020 and 2019, respectively. 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 2.39% and 4.01% as of December 31, 2020 and 2019, 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, 2020.

(7) Paycheck Protection Program, Forgivable Grant

The Organization applied for and received a forgivable Paycheck Protection Loan of \$1,500,000 as provided under the Federal Coronavirus Aid, Relief and Economic Security Act and the loan was funded on June 30, 2020. Under the terms of the loan, the balance is forgivable to the extent the proceeds are used for certain qualified costs for the 8 week period through August 31, 2020 and that certain employment levels are maintained.

Through December 31, 2020, the Organization had used \$1,500,000 of the proceeds on qualified costs and such amount has been reported as grant revenue. Since the Organization used all of the proceeds on eligible costs, a formal request for forgiveness was submitted after the performance period outlined above; and forgiveness was obtained from Valley Republic Bank and the Small Business Administration on February 25, 2021.

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(8) 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. On April 23, 2019, the lease was amended, extending the term for an additional 60 months commencing on May 1, 2020 and ending on April 30, 2025. The payments during this period range from \$10,155 to \$11,429, with current payments of \$10,155 per month.

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 with an option to renew for an additional year. The Organization has continued to exercise the extension in 2019 through August 31, 2020. On July 1, 2020 the lease was extended again for a 60-month term commencing on September 1, 2020 and ending on August 31, 2025. The GISSC payments during this term range from \$11,584 to \$12,111, with current payments of \$11,584 per month.

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 continuing through November 30, 2019. On December 1, 2019 the lease was renewed for an additional 60-month term commencing on December 1, 2019 and ending on November 30, 2022 at a fixed monthly rental amount of \$4,620 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 is 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 \$8,077 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). On December 11, 2019, the lease was extended for an additional 36-month term commencing on August 1, 2020 and ending on July 31, 2023 with monthly payments ranging from \$9,585 to \$10,169, with current payments of \$9,585 per month 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

(8) Commitments and contingencies (continued)

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 \$6,554 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, 2020, are as follows:

<u>Years Ending December 31,</u>	
2021	\$ 796,205
2022	682,010
2023	512,138
2024	516,094
2025	377,543
Thereafter	391,560
	<u>\$ 3,275,550</u>

For the years ended December 31, 2020 and 2019, rental expense was \$869,634 and \$897,579, respectively.

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, 2020 are as follows:

<u>Years Ending December 31,</u>	
2021	\$ 88,944
2022	88,944
2023	39,285
	<u>\$ 217,173</u>

For the years ended December 31, 2020 and 2019, vehicle lease expense was \$228,173 and \$224,801, respectively.

GOODWILL INDUSTRIES OF SOUTH CENTRAL CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

(9) Risks and Uncertainties

On March 11, 2020 the World Health Organization declared the outbreak of the coronavirus (COVID-19) a pandemic. Significant uncertainties may arise with respect to potential shutdowns of operations or government orders to cease activities due to emergency declarations, loss of customers, inability to operate, or employee shortages and claims for business interruption insurance, etc. Each of these matters may have a significant impact on the expected financial results of the Organization, and are unknown at this time.

(10) Subsequent events

The Organization has evaluated subsequent events through June 3, 2021, the date that the financial statements were available to be issued.

The Organization applied for and received a forgivable Paycheck Protection Loan of \$1,631,036 as provided under the Federal Coronavirus Aid, Relief and Economic Security Act and the loan, which was funded on February 22, 2021. Under the terms of the loan, the balance is forgivable to the extent the proceeds are used for certain qualified costs for at least 8 weeks and no more than 24 weeks after the funding date and that certain employment levels are maintained.