

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2021  
(WITH COMPARABLE TOTALS)**

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
DECEMBER 31, 2021  
(WITH COMPARABLE TOTALS)**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Goodwill Industries of South Central California  
Bakersfield, California

### **Opinion**

We have audited the accompanying financial statements of Goodwill Industries of South Central California (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021; the related statements of activities, functional expenses, and cash flows for the year then ended; and the related notes to the financial statements.

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, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Goodwill Industries of South Central California and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Goodwill Industries of South Central California's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally

accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Goodwill Industries of South Central California's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Goodwill Industries of South Central California's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### **Prior Period Financial Information**

The financial statements as of and for the year ended December 31, 2020, were audited by other auditors, who expressed an unmodified audit opinion in their report dated June 3, 2021.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

Bakersfield, California  
October 20, 2022

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2021  
(WITH COMPARABLE TOTALS)**

	2021	2020
<u>ASSETS</u>		
Current assets		
Cash	\$ 5,229,489	\$ 2,193,278
Accounts receivable	164,898	162,912
Inventory held for sale	421,975	354,099
Prepaid expenses	5,338	2,674
Other assets	11,016	10,188
Total current assets	5,832,716	2,723,151
Property and equipment, net of accumulated depreciation	4,255,060	4,292,021
Deposits	148,499	148,499
<b>TOTAL ASSETS</b>	<b>\$ 10,236,275</b>	<b>\$ 7,163,671</b>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable	\$ 632,044	\$ 634,090
Accrued expenses	587,713	449,007
Accrued interest	20,143	20,822
Notes payable, current portion	211,925	203,370
Total current liabilities	1,451,825	1,307,289
Long-term liabilities		
Deferred rent	80,364	80,364
Notes payable, net of current portion	3,103,728	3,295,937
Total long-term liabilities	3,184,092	3,376,301
Total liabilities	4,635,917	4,683,590
Net assets		
Without donor restrictions	5,600,358	2,480,081
Total net assets	5,600,358	2,480,081
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 10,236,275</b>	<b>\$ 7,163,671</b>

The accompanying notes are an integral part of these financial statements.

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2021  
(WITH COMPARABLE TOTALS)**

	<u>2021</u>	<u>2020</u>
<b>SUPPORT AND REVENUES</b>		
Retail sales	\$ 16,128,426	\$ 10,969,225
Value of donated goods received	2,260,532	1,709,982
Paycheck protection program, forgivable grants (See Note 7)	1,621,037	1,500,000
Salvage sales	878,446	512,965
Vocational services	157,696	188,744
Cash contributions received	<u>21,515</u>	<u>11,571</u>
Total support and revenues	<u>21,067,652</u>	<u>14,892,487</u>
<b>EXPENSES</b>		
Program services		
Donated goods - retail	14,301,607	11,251,589
Donated goods - salvage	<u>1,342,790</u>	<u>1,299,702</u>
Total donated goods	15,644,397	12,551,291
Vocational services	<u>177,647</u>	<u>172,276</u>
Total program services	15,822,044	12,723,567
Supporting services		
Management services	<u>2,125,331</u>	<u>1,782,266</u>
Total expenses	<u>17,947,375</u>	<u>14,505,833</u>
Change in net assets	3,120,277	386,654
Net assets, beginning of year	<u>2,480,081</u>	<u>2,093,427</u>
Net assets, end of year	<u><u>\$ 5,600,358</u></u>	<u><u>\$ 2,480,081</u></u>

The accompanying notes are an integral part of these financial statements.

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Program Services			Total Program Services	Supporting Services	Total Expenses
	Retail Goods	Donated Goods Salvage	Vocational Services		Management Services	
Salaries and related expenses:						
Salaries	\$ 5,720,208	\$ 847,357	\$ 141,423	\$ 6,708,988	\$ 1,095,108	\$ 7,804,096
Payroll taxes and worker's compensation	882,259	116,278	8,121	1,006,658	110,760	1,117,418
Employee benefits	403,674	73,964	16,761	494,399	41,668	536,067
<b>Total salaries and related expenses</b>	<b>7,006,141</b>	<b>1,037,599</b>	<b>166,305</b>	<b>8,210,045</b>	<b>1,247,536</b>	<b>9,457,581</b>
Other expenses:						
Value of donated goods sold	2,260,532	-	-	2,260,532	-	2,260,532
Occupancy	1,596,879	16,037	-	1,612,916	61,427	1,674,343
Cost of goods sold	1,498,156	-	-	1,498,156	-	1,498,156
Supplies	287,615	27,400	487	315,502	165,529	481,031
Vehicles and travel	297,878	173,726	4,622	476,226	8,943	485,169
Utilities	330,503	9,116	-	339,619	48,660	388,279
Professional fees and contract services	30,321	764	665	31,750	199,537	231,287
Bank fees	226,722	146	-	226,868	23,676	250,544
Equipment rental and maintenance	36,101	65,769	1,683	103,553	9,168	112,721
Telephone	70,614	3,278	2,970	76,862	33,930	110,792
Postage	194,095	658	16	194,769	10,335	205,104
Dues	1,903	-	-	1,903	121,136	123,039
Insurance	78,213	17,325	199	95,737	35,232	130,969
Interest expense	89,248	-	-	89,248	60,872	150,120
Other	(25,415)	(10,528)	700	(35,243)	-	(35,243)
Advertising	124,099	-	-	124,099	432	124,531
Printing and publications	16,169	-	-	16,169	1,907	18,076
Training	-	1,500	-	1,500	2,764	4,264
Conferences, conventions, and meetings	-	-	-	-	3,124	3,124
Special assistance	-	-	-	-	130	130
<b>Total expenses before depreciation</b>	<b>14,119,774</b>	<b>1,342,790</b>	<b>177,647</b>	<b>15,640,211</b>	<b>2,034,338</b>	<b>17,674,549</b>
Depreciation of property and equipment	181,833	-	-	181,833	90,993	272,826
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 14,301,607</b>	<b>\$ 1,342,790</b>	<b>\$ 177,647</b>	<b>\$ 15,822,044</b>	<b>\$ 2,125,331</b>	<b>\$ 17,947,375</b>

The accompanying notes are an integral part of these financial statements.

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
STATEMENT OF FUNCTIONAL EXPENSES  
COMPARABLE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2020**

	Program Services			Total Program Services	Supporting Services	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
<b>Total salaries and related expenses</b>	<b>5,414,986</b>	<b>959,539</b>	<b>146,989</b>	<b>6,521,514</b>	<b>942,377</b>	<b>7,463,891</b>
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
<b>Total expenses before depreciation</b>	<b>11,060,599</b>	<b>1,299,702</b>	<b>172,276</b>	<b>12,532,577</b>	<b>1,701,724</b>	<b>14,234,301</b>
Depreciation of property and equipment	190,990	-	-	190,990	80,542	271,532
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 11,251,589</b>	<b>\$ 1,299,702</b>	<b>\$ 172,276</b>	<b>\$ 12,723,567</b>	<b>\$ 1,782,266</b>	<b>\$ 14,505,833</b>

The accompanying notes are an integral part of these financial statements.

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2021  
(WITH COMPARABLE TOTALS)**

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,120,277	\$ 386,654
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	272,826	271,532
Amortization of debt issuance cost	2,628	1,971
(Increase) decrease in operating assets:		
Accounts receivable	(1,986)	(82,643)
Inventory held for sale	(67,876)	56,190
Prepaid expenses	(2,664)	10,686
Other assets	(828)	(253)
Increase (decrease) in operating liabilities:		
Accounts payable	(2,046)	344,930
Accrued expenses	138,706	(32,823)
Accrued interest	(679)	9,026
Deferred rent	-	(4,754)
Net cash provided by operating activities	3,458,358	960,516
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(235,865)	(83,459)
Net cash used by investing activities	(235,865)	(83,459)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on notes payable	(186,282)	(133,006)
Proceeds from issuance of notes payable	-	500,000
Net cash (used)/provided by financing activities	(186,282)	366,994
Net increase in cash	3,036,211	1,244,051
Cash, beginning of year	2,193,278	949,227
Cash, end of year	\$ 5,229,489	\$ 2,193,278
 <b>SUPPLEMENTAL DISCLOSURES ON CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	\$ 128,845	\$ 102,370

The accompanying notes are an integral part of these financial statements.

**GOODWILL INDUSTRIES OF  
SOUTH CENTRAL CALIFORNIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021  
(WITH COMPARABLE TOTALS)**

**NOTE 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).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Organization 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 its 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 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.

## **NOTE 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, 2021 and 2020 in the amount of \$4,974,179, and \$1,851,402, respectively.

As of December 31, 2021 and 2020, the Organization had one customer with an uncollateralized accounts receivable balance in excess of 10% of total outstanding accounts receivable. The amount of this account balance is 72% and 77% of total accounts receivable as of December 31, 2021 and 2020, respectively. Accounts receivable as of December 31, 2021 and 2020, represent 0.8% and 1.1% of revenue, respectively.

The Organization obtained approximately 7% and 18% of total purchases from one vendor during the years ended December 31, 2021 and 2020, 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, 2021 and 2020, 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:

<u>Assets</u>	<u>Useful Lives</u>
Buildings and improvements	5 - 31 years
Equipment	5 - 15 years

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### **Property, Equipment, and Depreciation** (Continued)

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, 2021 and 2020.

### **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 Statement 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 Organization expects to be entitled to receive from the customer, when a performance obligation 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 \$124,531 and \$91,811 for the years ended December 31, 2021 and 2020, 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 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.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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, 2021 and 2020.

With few exceptions, the Organization is no longer subject to U.S. Federal and State income tax examinations for tax years 2018 and 2017, respectively.

### Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (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.

## NOTE 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 Statement of Financial Position date for general expenditures as of December 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Cash	\$ 5,229,489	\$ 2,193,278
Accounts receivable	<u>164,898</u>	<u>162,912</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,394,387</u>	<u>\$ 2,356,190</u>

Since the adoption of the revised policy, available liquid financial assets were \$5,394,387 and \$2,356,190 for December 31, 2021 and 2020, 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 Statement of Cash Flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations for the years ended December 31, 2021 and 2020.

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Building and improvements	\$ 6,182,346	\$ 5,976,152
Land	1,685,282	1,685,282
Equipment	1,714,391	1,684,720
Leasehold improvements	<u>699,729</u>	<u>699,729</u>
Total cost	10,281,748	10,045,883
Accumulated depreciation	<u>(6,026,688)</u>	<u>(5,753,862)</u>
Property and equipment, net	<u>\$ 4,255,060</u>	<u>\$ 4,292,021</u>

Depreciation expense for the years ended December 31, 2021 and 2020, was \$272,826 and \$271,532, respectively.

**NOTE 5 – NOTES PAYABLE**

Notes payable as of December 31, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</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.	\$ 2,805,095	\$ 2,985,125
Note Payable - Jim Burke Ford, payable in monthly installments of \$531, including 0% interest, secured by a vehicle, due in June 2025.	23,917	30,169
U.S. Small Business Administration Economic Injury Disaster Loan, payable in monthly installments of \$2,136, including 2.75% interest, due April 2050.	<u>500,000</u>	<u>500,000</u>
Total notes payable	3,329,012	3,515,294
Less current portion	(211,925)	(203,370)
Less unamortized debt issuance costs	<u>(13,359)</u>	<u>(15,987)</u>
Non-current portion	<u>\$ 3,103,728</u>	<u>\$ 3,295,937</u>

**NOTE 5 – NOTES PAYABLE** (Continued)

Future scheduled maturities of the notes payable are as follows:

<u>Year Ended</u> <u>December 31,</u>	
2022	\$ 211,925
2023	249,011
2024	241,404
2025	248,362
2026	253,331
Thereafter	<u>2,124,979</u>
	<u>\$ 3,329,012</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, 2021 and 2020.

**NOTE 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 and \$0 as of December 31, 2021 and 2020, 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% as of December 31, 2021 and 2020, 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, 2021 and 2020.

**NOTE 7 – PAYCHECK PROTECTION PROGRAM, FORGIVABLE GRANTS**

The Organization applied for and received forgivable Paycheck Protection Loans of \$1,500,000 and \$1,621,037 as provided under the Federal Coronavirus Aid, Relief, and Economic Security Act. The loans were funded on June 30, 2020, and February 22, 2021, respectively. Under the terms of the first loan in 2020, 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. Under the terms of the second loan in 2021, 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.

Through December 31, 2021, the Organization had used 100% 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, and November 18, 2021, respectively.

## **NOTE 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 \$10,460 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 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.

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 \$6,751 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.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES** (Continued)

**Facility Operating Leases** (Continued)

Commencing on May 27, 2021, the Organization entered into a 126-month lease agreement ending April 1, 2032, for a retail store in Hanford. The monthly rent amounts range from \$15,202 to \$16,839, and is currently \$15,202 per month.

Future minimum lease commitments under non-cancellable facility leases as of December 31, 2021, are as follows:

<u>Year Ended December 31,</u>	
2022	\$ 864,436
2023	694,564
2024	698,520
2025	559,969
2026	573,986
Thereafter	<u>1,010,360</u>
	<u>\$ 4,401,835</u>

For the years ended December 31, 2021 and 2020, rental expense was \$883,937 and \$869,634, 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, 2021, are as follows:

<u>Year Ended December 31,</u>	
2022	\$ 88,944
2023	<u>39,285</u>
	<u>\$ 128,229</u>

For the years ended December 31, 2021 and 2020, vehicle lease expense was \$345,115 and \$228,173, respectively.

**NOTE 9 – SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through October 20, 2022, the date that the financial statements were available to be issued.