

WORKING WARDROBES FOR A NEW START
Financial Statements
December 31, 2023
With Summarized Comparative Information as of December 31, 2022
With Independent Auditor's Report

Working Wardrobes for a New Start
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With Summarized Comparative Information as of December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Working Wardrobes for a New Start:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Working Wardrobes for a New Start (the "Organization"), which comprise the statement of financial position as of December 31, 2023, and 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 accompanying financial statements present fairly, in all material respects, the financial position of Working Wardrobes for a New Start as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). 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 the Organization 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 the Organization's ability to continue as a going concern for 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 GAAS 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 GAAS, 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 the Organization'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 the Organization'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.

Report on Summarized Comparative Information

We have previously audited the Organization's December 31, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 23, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.



May 13, 2024

Working Wardrobes for a New Start
Statement of Financial Position
December 31, 2023
With Summarized Comparative Information as of December 31, 2022

	Net Assets	Net Assets	Total	
	Without Donor Restrictions	With Donor Restrictions	2023	2022
Assets				
Current assets				
Cash and cash equivalents	\$ 848,069	\$ -	\$ 848,069	\$ 680,783
Investments	467,231	-	467,231	1,060,726
Accounts receivable, net	341,864	-	341,864	203,440
Other receivable	259,060	-	259,060	259,060
Current portion of unconditional promises to give	-	200,000	200,000	-
Prepaid expenses	65,555	-	65,555	28,367
Inventory	<u>4,046,023</u>	<u>-</u>	<u>4,046,023</u>	<u>4,124,661</u>
Total current assets	<u>6,027,802</u>	<u>200,000</u>	<u>6,227,802</u>	<u>6,357,037</u>
Unconditional promises to give, net current portion	-	100,000	100,000	-
Property and equipment, net	446,038	-	446,038	527,765
Right-of-use assets - operating, net	1,931,907	-	1,931,907	813,017
Deposits	<u>79,276</u>	<u>-</u>	<u>79,276</u>	<u>79,276</u>
Total assets	<u>\$ 8,485,023</u>	<u>\$ 300,000</u>	<u>\$ 8,785,023</u>	<u>\$ 7,777,095</u>
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued liabilities	\$ 176,775	\$ -	\$ 176,775	\$ 180,171
Current portion of lease liabilities - operating	<u>411,324</u>	<u>-</u>	<u>411,324</u>	<u>567,035</u>
Total current liabilities	<u>588,099</u>	<u>-</u>	<u>588,099</u>	<u>747,206</u>
Long-term liabilities				
Lease liabilities - operating, net current portion	<u>1,541,728</u>	<u>-</u>	<u>1,541,728</u>	<u>345,424</u>
Total liabilities	<u>2,129,827</u>	<u>-</u>	<u>2,129,827</u>	<u>1,092,630</u>
Net assets				
Without donor restrictions	6,355,196	-	6,355,196	6,670,347
With donor restrictions	<u>-</u>	<u>300,000</u>	<u>300,000</u>	<u>14,118</u>
Total net assets	<u>6,355,196</u>	<u>300,000</u>	<u>6,655,196</u>	<u>6,684,465</u>
Total liabilities and net assets	<u>\$ 8,485,023</u>	<u>\$ 300,000</u>	<u>\$ 8,785,023</u>	<u>\$ 7,777,095</u>

The Notes to Financial Statements are an integral part of this statement.

Working Wardrobes for a New Start
Statement of Activities
Year Ended December 31, 2023
With Summarized Comparative Information for the Year Ended December 31, 2022

	Net Assets	Net Assets	Total	
	Without Donor Restrictions	With Donor Restrictions	2023	2022
Operating revenues and public support				
Contributions of cash and other financial assets	\$ 852,558	\$ -	\$ 852,558	\$ 895,558
Career service fees	377,235	-	377,235	238,200
Grants	1,242,015	300,000	1,542,015	1,574,767
Special events revenue, net	284,309	-	284,309	97,279
Donated wardrobes	1,919,971	-	1,919,971	2,521,268
Contributions of nonfinancial assets	3,000	-	3,000	63,645
Resale revenue	1,566,832	-	1,566,832	1,655,123
Miscellaneous income	97,108	-	97,108	333,313
Net assets released from restrictions	14,118	(14,118)	-	-
Total operating revenues and public support	<u>6,357,146</u>	<u>285,882</u>	<u>6,643,028</u>	<u>7,379,153</u>
Expenses				
Program services				
Career services	3,504,593	-	3,504,593	3,836,232
Resale operations	1,550,730	-	1,550,730	1,569,863
Total program services	<u>5,055,323</u>	<u>-</u>	<u>5,055,323</u>	<u>5,406,095</u>
Supporting services				
General and administrative	1,240,284	-	1,240,284	1,437,049
Fundraising	407,806	-	407,806	511,250
Total supporting services	<u>1,648,090</u>	<u>-</u>	<u>1,648,090</u>	<u>1,948,299</u>
Total expenses	<u>6,703,413</u>	<u>-</u>	<u>6,703,413</u>	<u>7,354,394</u>
Non-operating income				
Realized and unrealized gain (loss) on investments	31,116	-	31,116	(118,522)
Total non-operating income	<u>31,116</u>	<u>-</u>	<u>31,116</u>	<u>(118,522)</u>
Changes in net assets	(315,151)	285,882	(29,269)	(93,763)
Net assets				
Beginning of year	<u>6,670,347</u>	<u>14,118</u>	<u>6,684,465</u>	<u>6,778,228</u>
End of year	<u>\$ 6,355,196</u>	<u>\$ 300,000</u>	<u>\$ 6,655,196</u>	<u>\$ 6,684,465</u>

The Notes to Financial Statements are an integral part of this statement.

Working Wardrobes for a New Start
Statement of Functional Expenses
Year Ended December 31, 2023
With Summarized Comparative Information for the Year Ended December 31, 2022

	Program Services			Supporting Services				Total	
	Career Services	Resale Operations	Subtotal	General and Administrative	Fundraising	Direct Costs of Donor Benefits	Subtotal	2023	2022
Advertising	\$ 6,204	\$ -	\$ 6,204	\$ 5,726	\$ -	\$ -	\$ 5,726	\$ 11,930	\$ 13,304
Bad debt	-	-	-	-	-	-	-	-	200
Bank fees	-	4,214	4,214	9,525	-	-	9,525	13,739	28,836
Career center	97,944	1,679	99,623	921	-	-	921	100,544	72,262
Computer	42,236	22,283	64,519	12,795	5,779	-	18,574	83,093	95,966
Cost of goods sold	1,998,609	-	1,998,609	-	-	-	-	1,998,609	1,848,948
Direct costs of donor benefits	-	-	-	-	-	143,805	143,805	143,805	159,895
Dues and subscriptions	1,632	375	2,007	1,243	343	-	1,586	3,593	7,797
Employee benefits	(2,607)	55,938	53,331	41,757	21,741	-	63,498	116,829	100,175
Equipment rental	9,259	-	9,259	-	-	-	-	9,259	14,250
Grant writing	54,600	-	54,600	-	-	-	-	54,600	59,800
Insurance	45,572	45,733	91,305	40,921	3,631	-	44,552	135,857	131,902
Interest expense	-	-	-	892	-	-	892	892	64
Licenses and permits	1,246	1,672	2,918	4,407	-	-	4,407	7,325	8,607
Marketing and media	-	-	-	2,255	102	-	2,357	2,357	5,526
Memberships	4,546	-	4,546	-	21	-	21	4,567	4,076
Miscellaneous	780	-	780	4,945	2,081	-	7,026	7,806	37,173
Office expenses	22,287	42,399	64,686	5,989	4,826	-	10,815	75,501	82,649
Outside services	15,022	137	15,159	430,617	20,896	-	451,513	466,672	552,692
Payroll fees	30,952	-	30,952	591	-	-	591	31,543	48,462
Payroll taxes	89,095	53,319	142,414	38,137	18,256	-	56,393	198,807	251,508
Personnel development	9,706	1,371	11,077	2,479	996	-	3,475	14,552	16,836

The Notes to Financial Statements are an integral part of this statement.

Working Wardrobes for a New Start
Statement of Functional Expenses
Year Ended December 31, 2023
With Summarized Comparative Information for the Year Ended December 31, 2022

	Program Services			Supporting Services				Total	
	Career	Resale	Subtotal	General	Fundraising	Direct Costs	Subtotal	2023	2022
	Services	Operations		and		of Donor			
Printing and postage	\$ 10,281	\$ 86	\$ 10,367	\$ 5,498	\$ 2,172	\$ -	\$ 7,670	\$ 18,037	\$ 9,805
Promotions	-	1,304	1,304	-	-	-	-	1,304	8,335
Rent	125,468	528,767	654,235	26,521	41,675	-	68,196	722,431	739,021
Repairs and maintenance	5,254	9,511	14,765	145	-	-	145	14,910	14,452
Salaries and wages	915,336	645,574	1,560,910	486,170	284,543	-	770,713	2,331,623	2,927,762
Security	359	3,034	3,393	439	-	-	439	3,832	6,060
Taxes	-	-	-	-	-	-	-	-	50
Telephone	8,423	39,506	47,929	233	146	-	379	48,308	46,280
Travel and entertainment	12,389	22,458	34,847	10,575	297	-	10,872	45,719	39,219
Utilities	-	40,811	40,811	-	301	-	301	41,112	36,856
Total expenses before depreciation and amortization	3,504,593	1,520,171	5,024,764	1,132,781	407,806	143,805	1,684,392	6,709,156	7,368,768
Depreciation and amortization	-	30,559	30,559	107,503	-	-	107,503	138,062	145,521
Total expenses	3,504,593	1,550,730	5,055,323	1,240,284	407,806	143,805	1,791,895	6,847,218	7,514,289
Less: Expenses included with revenues on the statement of activities									
Direct costs of donor benefits	-	-	-	-	-	(143,805)	(143,805)	(143,805)	(159,895)
	<u>\$ 3,504,593</u>	<u>\$ 1,550,730</u>	<u>\$ 5,055,323</u>	<u>\$ 1,240,284</u>	<u>\$ 407,806</u>	<u>\$ -</u>	<u>\$ 1,648,090</u>	<u>\$ 6,703,413</u>	<u>\$ 7,354,394</u>

The Notes to Financial Statements are an integral part of this statement.

Working Wardrobes for a New Start
Statement of Cash Flows
Year Ended December 31, 2023
With Summarized Comparative Information for the Year Ended December 31, 2022

	<u>2023</u>	<u>2022</u>
Operating activities		
Changes in net assets	\$ (29,269)	\$ (93,763)
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation and amortization	138,062	145,521
Amortization of right-of-use assets - operating	652,256	522,681
Bad debt expense	-	(200)
Realized and unrealized gain (loss) on investments	(31,116)	118,522
(Increase) decrease in assets		
Accounts receivable	(138,424)	214,620
Other receivable	-	(259,060)
Grants receivable	-	21,670
Unconditional promises to give	(300,000)	-
Prepaid expenses	(37,188)	3,233
Inventory	78,638	(672,320)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(3,396)	(223,509)
Deferred revenue	-	(7,422)
Lease liabilities - operating	<u>(730,553)</u>	<u>(602,665)</u>
Net cash used in operating activities	<u>(400,990)</u>	<u>(832,692)</u>
Investing activities		
Purchase of investments	(1,533,622)	(25,132)
Proceeds from sales of investments	2,158,233	
Purchases of property and equipment	<u>(56,335)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>568,276</u>	<u>(25,132)</u>
Net change in cash and cash equivalents	167,286	(857,824)
Cash and cash equivalents		
Beginning of year	<u>680,783</u>	<u>1,538,607</u>
End of year	<u>\$ 848,069</u>	<u>\$ 680,783</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	<u>\$ 892</u>	<u>\$ 64</u>

The Notes to Financial Statements are an integral part of this statement.

Working Wardrobes for a New Start

Notes to Financial Statements

December 31, 2023 and 2022

1. ORGANIZATION AND NATURE OF SERVICES

Working Wardrobes for a New Start (the “Organization”), incorporated in May 1995, is a nonprofit community-based organization formed to empower men, women, young adults and veterans overcoming difficult challenges to confidently enter the workforce and achieve self-sufficiency. The Organization provides career training, job placement assistance, and wardrobe services in an environment of dignity and respect.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization’s program services are as follows:

Career Services

Career services offer career development services to low-income men, women, and young adults as well as veterans who are overcoming difficult challenges and barriers to employment. These services include career assessment, resume development, customer service training, soft and hard skill trainings, financial literacy workshops, job referrals, job placement, and job retention services. Volunteer success coaches and job developers support these efforts, coordinated by a talented staff team. Professional wardrobing and grooming services are also provided with the help of volunteer personal shoppers.

The Hanger Shops

The Organization has two upscale resale boutiques that sell a wide selection of top-quality donated clothing and accessories to the general public. The shops are located in Tustin and Laguna Niguel, California.

Resale Shops

The Organization has two resale shops located in Costa Mesa and Garden Grove, California that sell men’s and women’s clothing, some housewares, and miscellaneous items to the general public. Many of the students in customer service training apprentice in the shops for real world experience to enhance their resumes.

The income derived from the sales in all four shops supports the services provided to the Organization’s clients.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations including amounts designated by the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Working Wardrobes for a New Start

Notes to Financial Statements

December 31, 2023 and 2022

Comparative Data

The financial statements include prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements as of and for the year ended December 31, 2022 from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with accounting principles under US GAAP requires management to make estimates and assumptions that 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 support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount rate adopted at the time of the gift is the incremental borrowing rate of the Organization or the US Treasury bill rate for the term of the agreement. The discount rate remains consistent annually. Conditional pledges are recognized when the conditions on which they depend are substantially met. Management believes potentially uncollectible pledges to be negligible as of December 31, 2023 and 2022.

Contributions

Contributions, including unconditional promises to give, are recognized when received or pledged by the donor. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a 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. The Organization's policy is to record restricted gifts that are received and spent in the same year as unrestricted support.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Unconditional promises to give are reported at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected.

Working Wardrobes for a New Start

Notes to Financial Statements

December 31, 2023 and 2022

Contributed Services and Contributed Nonfinancial Assets

Donated materials and other nonfinancial contributions are reflected in the accompanying financial statements at their estimated market values at date of receipt. Contributions of services are recognized if the services received creates or enhances nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis of deriving their value.

The Organization received donations of various non-cash items of \$3,000 and \$63,645 for the years ended December 31, 2023 and 2022, respectively. The various non-cash items for the years ended December 31, 2023 and 2022 consisted of legal professional services valued based on standard industry pricing for similar services. The Organization also received donated wardrobes of \$1,919,971 and \$2,521,268 for the years ended December 31, 2023 and 2022, respectively. The amount of donated wardrobes in inventory as of December 31, 2023 and 2022 was \$4,046,023 and \$4,124,661, respectively.

Accounts and Grants Receivable

Accounts and grants receivable consist mostly of grants classified as conditional promises to the extent that conditions have been met but reimbursement from the grantor has not yet been received. Accounts and grants receivable are reported as restricted support unless explicit donor stipulations or circumstances surrounding the pledge make clear the donor intended it to be used to support activities of the current period.

Inventory

Donations of professional wardrobes to the Organization are recorded at estimated net realizable value at the date of donation. The net realizable value of donated wardrobes is based on management's estimate which is derived from various valuation techniques including historical resale prices at the various store locations. The costs associated with selling the wardrobes are recorded as resale operations expense in the statement of activities. Costs associated with selling and distributing the wardrobes as part of the Organization's Career Services function are recorded as career services expense in the statement of activities.

The net realizable value of inventory for donated wardrobes is based on the estimated price per wardrobe item that the Organization can recover from resale operations.

Concentration of Credit Risk

The Organization has significant cash balances at financial institutions which throughout the year regularly exceed the federally insured limit of \$250,000. Any loss incurred or a lack of access to such funds could have a significant adverse impact on the Organization's financial condition, changes in net assets, and cash flows.

Investments

Investments are measured and reported at fair value. Those with readily determinable fair values are based on quotations obtained from national security exchanges. Investments with fair values that are not readily determinable are carried at estimated fair values as provided by the investment managers. Organization management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining their estimated fair value. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed.

Working Wardrobes for a New Start
Notes to Financial Statements
December 31, 2023 and 2022

Changes in fair value are reported as realized or unrealized gain or loss on investments in the statement of activities. All investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation. Donated assets are recorded at the estimated fair value on the date received. Depreciation is computed using the straight-line method over the estimated useful lives of assets as follows:

<u>Description</u>	<u>Estimated Life (Years)</u>
Furniture and equipment	5-10
Computer software	3-5
Auto	5

Leasehold improvements are amortized over the shorter of the term of the lease or the life of the improvement.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived assets are 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 future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment was recorded for the years ended December 31, 2023 and 2022.

Revenue Recognition

Revenue is recognized consistent with the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

For services provided to individuals through the Career Services program, revenues are recognized as the services have been provided and the appropriate party has been billed.

For resale revenue in the Hanger Shops and Resale Shops, revenues are recognized at the point of sale.

The Organization recognizes revenue from government and private grant and contract agreements, which are generally considered nonexchange transactions, when qualifying expenditures are incurred and conditions under the agreements are met. Grant funds received in advance of the expenditures incurred are recorded as deferred revenue. Grant funds expended in advance of reimbursement from the funding source are classified as grants receivable in the statements of financial position.

Special event revenue is recognized upon completion of the events and is recorded net of direct costs.

Working Wardrobes for a New Start

Notes to Financial Statements

December 31, 2023 and 2022

Contributory Retirement Plan

The Organization started a qualified 401(k) employee salary deferral and profit-sharing plan (the "Plan") for the benefit of its employees, effective January 1, 2020. Employees are eligible to participate in the Plan at the age of 21 and upon completing 6 months and 1,000 hours of service. The Organization may elect to make a profit-sharing contribution. These contributions are discretionary and determined by management on an annual basis. The Organization did not make any contributions to the Plan during the years ended December 31, 2023 and 2022.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

Certain expenses reported on the accompanying statement of functional expenses, such as bad debt, interest expense, career center, grant writing, and cost of goods sold have been allocated to programs, administrative, and retail based on direct usage. Expenses including office, printing and postage, rent, and property taxes are allocated based on the location and square footage of the location where expenses are incurred. The majority of the remaining natural expenses have generally been allocated to the program and supporting services based on time and effort of the employees involved. For certain expenses including advertising, bank fees, dues and subscriptions, events, insurance, miscellaneous, repairs and maintenance, and travel and entertainment, the cost directly attributable to program or supporting services has been allocated as such, with the remaining amount of shared cost being allocated based on the time and effort of the employees involved.

Sales Taxes

The Organization collects sales taxes from nonexempt customers and remits the entire amounts to the governmental authorities. The Organization's accounting policy is to exclude the taxes collected and remitted from revenue and expenses.

Income Taxes

The Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal and state income taxes. However, the Organization is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption.

The Organization has adopted the accounting standards relating to accounting and reporting for uncertainty in income taxes. For the Organization, these standards could be applicable to the incurrence of any unrelated business income attributable to the Organization. Because of the Organization's general tax-exempt status, these standards are not anticipated to have a material impact on the Organization's financial statements at December 31, 2023 and 2022. Further, there are no income tax related penalties and interest included in these financial statements.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities reflect all transactions attributable to the Organization's ongoing programs. Non-operating activities reflect transactions considered to be nonrecurring nature or not directly related to the Organization's mission including realized and unrealized gain or loss on investments.

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Advertising and Media Costs

All advertising and media costs, which include direct response advertising costs, are expensed by the Organization as they are incurred. Total advertising and media costs for the years ended December 31, 2023 and 2022 were \$14,287 and \$18,830, respectively.

Leases

The Organization categorizes leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow us to substantially utilize or pay for the entire asset over its estimated life. All other leases are categorized as operating leases. Leases with contractual terms of 12 months or less are not recorded in the statement of financial position. The Organization had no material finance leases during 2023 and 2022.

Certain lease contracts include obligations to pay for other services, such as operations, property taxes and maintenance. For leases of property, the Organization account for these other services as a component of the lease.

Lease liabilities are recognized at the present value of the fixed lease payments, using the risk-free rate as the discount rate. Right of use assets are recognized based on the initial present value of the fixed lease payments, reduced by landlord incentives, plus any direct costs from executing the leases. Lease assets are tested for impairment in the same manner as long-lived assets used in operations.

Options to extend lease terms, terminate leases before the contractual expiration date, or purchase the leased assets, are evaluated for their likelihood of exercise. If it is reasonably certain that the option will be exercised, the option is considered in determining the classification and measurement of the lease.

Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease.

Recent Accounting Pronouncements - Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") amending the accounting for credit losses on financial instruments. This methodology replaced the incurred loss methodology with the expected credit losses using a wide range of reasonable and supportable information. The amendment affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposure and other financial instruments recorded at amortized cost.

The Organization adopted the new standard effective January 1, 2023, using the modified retrospective approach. Implementation of this new standard had no impact on the accompanying financial statements.

Subsequent Events

The Organization evaluated subsequent events through May 13, 2024, the date these financial statements were available to be issued. Except for the event described in Note 12, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

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3. AVAILABILITY AND LIQUIDITY

	<u>2023</u>	<u>2022</u>
Financial assets at year end		
Cash and cash equivalents	\$ 848,069	\$ 666,665
Investments	467,231	1,060,726
Accounts receivable	341,864	203,440
Other receivable	259,060	259,060
Current portion of unconditional promises to give	<u>200,000</u>	<u>-</u>
Total available financial assets	2,116,224	2,189,891
Availability under line of credit	<u>-</u>	<u>150,000</u>
Total financial assets	2,116,224	2,339,891
Less: Financial assets not available for general expenditures within one year due to donor imposed restrictions		
Restricted for time and purpose	<u>(200,000)</u>	<u>-</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,916,224</u>	<u>\$ 2,339,891</u>

The Organization receives contributions and grants restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 90 days operating expenses. The Organization has a policy to target a year-end balance of reserves of unrestricted, undesignated net assets to meet at least 30 days of expected expenditures. To achieve these targets, the Organization forecasts its future cash flows and monitors its liquidity monthly, and its reserves quarterly. During the years ended December 31, 2023 and 2022 the level of liquidity and reserves was managed within the policy requirements.

4. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Less than one year	\$ 200,000	\$ -
One to five years	<u>100,000</u>	<u>-</u>
Unconditional promises to give	<u>\$ 300,000</u>	<u>\$ -</u>

5. INVESTMENTS RECORDED AT FAIR VALUE

Investments generally consist of fixed income corporate bonds, equity securities, commodities and certificates of deposits. It is the Organization's policy to liquidate gifted securities upon receipt. The Organization did not have any securities gifted during the years ended December 31, 2023 and 2022.

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The following is a description of the valuation methodologies the Organization uses for investments measured at fair value. There have been no changes in methodologies used.

Fixed income corporate bonds, equity securities and commodities - Valued at the settlement date basis at the close of the period as provided by independent pricing services.

Certificates of deposit - Valued at cost, which approximates fair value.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31:

	2023			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Fixed income corporate bonds	\$ -	\$ 434,471	\$ -	\$ 434,471
Equity securities	-	32,760	-	32,760
Total investments	<u>\$ -</u>	<u>\$ 467,231</u>	<u>\$ -</u>	<u>\$ 467,231</u>

	2022			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Fixed income corporate bonds	\$ -	\$ 739,855	\$ -	\$ 739,855
Equity securities	-	240,870	-	240,870
Commodities	-	33,784	-	33,784
Certificates of deposits	-	46,217	-	46,217
Total investments	<u>\$ -</u>	<u>\$ 1,060,726</u>	<u>\$ -</u>	<u>\$ 1,060,726</u>

Investment income for the years ended December 31, 2023 and 2022 is summarized as follows:

	<u>2023</u>	<u>2022</u>
Realized and unrealized gain (loss) on investments	\$ 31,116	\$ (118,522)

6. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Furniture and equipment	\$ 648,727	\$ 648,727
Computer software	98,355	98,355
Leasehold improvements	424,490	368,154
Auto	<u>35,000</u>	<u>35,000</u>
Total property and equipment, at cost	1,206,572	1,150,236
Less: Accumulated depreciation and amortization	<u>(760,534)</u>	<u>(622,471)</u>
Total property and equipment, net	<u>\$ 446,038</u>	<u>\$ 527,765</u>

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Total depreciation expense for the years ended December 31, 2023 and 2022 was \$138,062 and \$145,521, respectively.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Accounts payable	\$ 20,848	\$ 3,216
Accrued vacation	54,791	74,840
Credit cards payable	40,702	15,981
Accrued payroll	45,956	51,248
Sales tax payable	4,858	6,286
Other	<u>9,620</u>	<u>28,600</u>
	<u>\$ 176,775</u>	<u>\$ 180,171</u>

8. LINE OF CREDIT

In March 2016, the Organization entered into a revolving line of credit (“LOC”) with Pacific Premier Bank. The LOC provides for borrowings through May 2022 to provide the Organization with short-term working capital. The maturity date was extended to May 2023. The line of credit was not renewed. Borrowings bear interest at the bank’s prime rate plus 2.00%. The maximum amount that may be outstanding under the agreement is \$150,000. The LOC is collateralized by all of the Organization’s assets. There were no amounts outstanding under this line of credit at December 31, 2023 and 2022.

9. NET ASSETS

Net assets with donor restrictions consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Passage of time		
Grant	<u>\$ 300,000</u>	<u>\$ 14,118</u>

Net assets without donor restrictions for the years ended December 31, 2023 and 2022 are considered undesignated.

Net assets released from donor restrictions were \$14,118 and \$7,552 for the years ended December 31, 2023 and 2022, respectively.

10. LEASES

The Organization leases resale stores, hanger stores, and their main operating facility under noncancelable operating lease agreements. The monthly rents on the aforementioned leases expire through December 2028. Under the leasing arrangements, the Organization is required to pay property taxes and common area charges (maintenance, utilities and property insurance) attributable to the leases.

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The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of December 31:

2024	\$ 472,549
2025	488,432
2026	447,183
2027	432,968
2028	<u>268,432</u>
	2,109,564
Less: Imputed interest	<u>(156,512)</u>
Lease liabilities - operating	<u>\$ 1,953,052</u>

Right-of-use assets obtained in exchange for new operating lease liabilities was \$1,771,146 and \$1,335,698 for the years ended December 31, 2023 and 2022, respectively. Lease expense for the years ended December 31, 2023 and 2022 was \$722,431 and \$739,021, respectively, which includes variable lease expenses of \$70,043 and \$62,402, respectively. Short-term lease expense for the years ended December 31, 2023 and 2022 was \$9,259 and \$14,250, respectively. The weighted average remaining lease term is 4.41 years and 3.10 years as of December 31, 2023 and 2022, respectively. The weighted average discount rate associated with operating leases as of December 31, 2023 and 2022 was 3.55% and 1.55%, respectively. Cash paid for operating leases was \$558,898 and \$621,057 for the years ended December 31, 2023 and 2022, respectively.

11. LITIGATION

Attorneys for the landlord filed suit in the Superior Court of California against the Organization in regard to the fire that occurred at the Organization's previous operating facility. In November 2022, a settlement agreement was reached whereby the Organization's agreed upon amount to be paid would be covered by insurance.

12. EMPLOYEE RETENTION CREDITS AND SUBSEQUENT EVENT

During the year ended December 31, 2022, the Organization filed for the Employee Retention Credit ("ERC"), which is a refundable tax credit akin to a government grant for eligible entities. The ERC is recognized over time as qualifying expenses that give rise to the credit are incurred. The ERC amount of \$259,060 is recognized in miscellaneous income in the accompanying statement of activities for the year ended December 31, 2022. As of December 31, 2023 and 2022, the Organization has not yet received payment for the refundable portion of the ERC, and thus a receivable in the amount of \$259,060 has been recorded on the statement of financial position. In March 2024, the Organization received payment for the refundable portion of the ERC.