

**WORKING WARDROBES FOR A NEW START**  
**Financial Statements**  
**December 31, 2022**  
**With Summarized Comparative Information as of December 31, 2021**  
**With Independent Auditor's Report**

**Working Wardrobes for a New Start**  
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**December 31, 2022**  
**With Summarized Comparative Information as of December 31, 2021**

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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, 2022, 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, 2022, 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.

#### Emphasis of Matter

As described in Note 2, the Organization adopted Topic 842 as of January 1, 2022. Prior period amounts have not been adjusted and continue to be reported in accordance with the Organization's historic accounting under Topic 840. Our opinion is not modified with respect to this matter.

#### 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, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 19, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink that reads "Withum Smith + Brown, PC". The signature is written in a cursive, flowing style.

May 23, 2023

**Working Wardrobes for a New Start**  
**Statement of Financial Position**  
**December 31, 2022**  
**With Summarized Comparative Information as of December 31, 2021**

	Net Assets		Total	
	Without Donor Restrictions	Net Assets With Donor Restrictions	2022	2021
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 666,665	\$ 14,118	\$ 680,783	\$ 1,538,607
Investments	1,060,726	-	1,060,726	1,154,116
Accounts receivable, net	203,440	-	203,440	417,860
Other receivable	259,060	-	259,060	-
Grants receivable	-	-	-	21,670
Prepaid expenses	28,367	-	28,367	31,600
Inventory	4,124,661	-	4,124,661	3,452,341
Total current assets	6,342,919	14,118	6,357,037	6,616,194
Property and equipment, net	527,765	-	527,765	673,286
Right-of-use assets - operating, net	813,017	-	813,017	-
Deposits	79,276	-	79,276	79,276
Total assets	\$ 7,762,977	\$ 14,118	\$ 7,777,095	\$ 7,368,756
<b>Liabilities and Net Assets</b>				
Current liabilities				
Accounts payable and accrued liabilities	\$ 180,171	\$ -	\$ 180,171	\$ 403,680
Deferred revenue	-	-	-	7,422
Deferred rent	-	-	-	91,900
Current portion of lease liabilities - operating	567,035	-	567,035	-
Total current liabilities	747,206	-	747,206	503,002
Long-term liabilities				
Lease incentive liability	-	-	-	87,526
Lease liabilities - operating	345,424	-	345,424	-
Total liabilities	1,092,630	-	1,092,630	590,528
Net assets				
Without donor restrictions	6,670,347	-	6,670,347	6,756,558
With donor restrictions	-	14,118	14,118	21,670
Total net assets	6,670,347	14,118	6,684,465	6,778,228
Total liabilities and net assets	\$ 7,762,977	\$ 14,118	\$ 7,777,095	\$ 7,368,756

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, 2022**  
**With Summarized Comparative Information for the Year Ended December 31, 2021**

	Net Assets		Total	
	Without	Net Assets	2022	2021
	Donor	With Donor		
Restrictions	Restrictions			
<b>Public support and revenues</b>				
Contributions of cash and other financial assets	\$ 895,558	\$ -	\$ 895,558	\$ 658,497
Career service fees	238,200	-	238,200	308,347
Grants	1,574,767	-	1,574,767	2,171,064
Grants - Paycheck Protection Program forgiveness	-	-	-	565,728
Special events revenue, net	97,279	-	97,279	456,166
Donated wardrobes	2,521,268	-	2,521,268	5,416,718
Contributions of nonfinancial assets	63,645	-	63,645	93,702
Resale revenue	1,655,123	-	1,655,123	1,953,053
Miscellaneous income	333,313	-	333,313	28,368
Net assets released from restrictions	<u>7,552</u>	<u>(7,552)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	<u>7,386,705</u>	<u>(7,552)</u>	<u>7,379,153</u>	<u>11,651,643</u>
<b>Expenses</b>				
Program services				
Career services	3,836,232	-	3,836,232	5,775,829
Resale operations	<u>1,569,863</u>	<u>-</u>	<u>1,569,863</u>	<u>1,542,197</u>
Total program services	<u>5,406,095</u>	<u>-</u>	<u>5,406,095</u>	<u>7,318,026</u>
Supporting services				
General and administrative	1,437,049	-	1,437,049	1,375,793
Fundraising	<u>511,250</u>	<u>-</u>	<u>511,250</u>	<u>525,672</u>
Total supporting services	<u>1,948,299</u>	<u>-</u>	<u>1,948,299</u>	<u>1,901,465</u>
Total expenses	<u>7,354,394</u>	<u>-</u>	<u>7,354,394</u>	<u>9,219,491</u>
<b>Other income</b>				
Insurance claim proceeds	-	-	-	138,501
(Loss) gain on investments	<u>(118,522)</u>	<u>-</u>	<u>(118,522)</u>	<u>2,052</u>
Total other income	<u>(118,522)</u>	<u>-</u>	<u>(118,522)</u>	<u>140,553</u>
<b>Changes in net assets</b>	(86,211)	(7,552)	(93,763)	2,572,705
<b>Net assets</b>				
Beginning of year	<u>6,756,558</u>	<u>21,670</u>	<u>6,778,228</u>	<u>4,205,523</u>
End of year	<u>\$ 6,670,347</u>	<u>\$ 14,118</u>	<u>\$ 6,684,465</u>	<u>\$ 6,778,228</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, 2022**  
**With Summarized Comparative Information for the Year Ended December 31, 2021**

	<u>Program Services</u>			<u>Supporting Services</u>				<u>Total</u>	
	<u>Career Services</u>	<u>Resale Operations</u>	<u>Subtotal</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Direct Costs of Donor Benefits</u>	<u>Subtotal</u>	<u>2022</u>	<u>2021</u>
Advertising	\$ 6,918	\$ -	\$ 6,918	\$ 6,386	\$ -	\$ -	\$ 6,386	\$ 13,304	\$ 20,329
Bad debt	200	-	200	-	-	-	-	200	26,801
Bank fees	-	18,621	18,621	10,215	-	-	10,215	28,836	40,317
Career center	71,882	354	72,236	26	-	-	26	72,262	139,330
Computer	67,810	11,506	79,316	12,524	4,126	-	16,650	95,966	100,550
Cost of goods sold	1,848,948	-	1,848,948	-	-	-	-	1,848,948	3,237,709
Direct costs of donor benefits	-	-	-	-	-	159,895	159,895	159,895	-
Dues and subscriptions	3,955	-	3,955	3,012	830	-	3,842	7,797	6,668
Equipment rental	14,250	-	14,250	-	-	-	-	14,250	14,764
Employee benefits	322	51,204	51,526	30,975	17,674	-	48,649	100,175	82,615
Grant writing	59,800	-	59,800	-	-	-	-	59,800	44,600
Insurance	49,479	46,654	96,133	32,043	3,726	-	35,769	131,902	134,670
Interest expense	-	-	-	64	-	-	64	64	365
Licenses and permits	1,416	1,866	3,282	5,325	-	-	5,325	8,607	8,453
Marketing and media	-	-	-	5,286	240	-	5,526	5,526	9,200
Memberships	4,057	-	4,057	-	19	-	19	4,076	5,335
Miscellaneous	27,908	-	27,908	6,498	2,767	-	9,265	37,173	35,253
Office expenses	28,376	40,484	68,860	7,633	6,156	-	13,789	82,649	175,449
Outside services	9,508	2,400	11,908	529,071	11,713	-	540,784	552,692	332,777
Payroll fees	46,745	-	46,745	1,717	-	-	1,717	48,462	109,556
Payroll taxes	118,370	58,216	176,586	50,668	24,254	-	74,922	251,508	278,636
Personnel development	9,920	1,957	11,877	3,538	1,421	-	4,959	16,836	18,920

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, 2022**  
**With Summarized Comparative Information for the Year Ended December 31, 2021**

	Program Services			Supporting Services				Total	
	Career Services	Resale Operations	Subtotal	General and Administrative	Fundraising	Direct Costs of Donor Benefits	Subtotal	2022	2021
Printing and postage	\$ 4,958	\$ 80	\$ 5,038	\$ 3,783	\$ 984	\$ -	\$ 4,767	\$ 9,805	\$ 13,524
Promotions	-	8,335	8,335	-	-	-	-	8,335	2,909
Rent	186,423	480,793	667,216	27,617	44,188	-	71,805	739,021	683,757
Repairs and maintenance	4,733	9,588	14,321	131	-	-	131	14,452	16,385
Salaries and wages	1,250,431	696,603	1,947,034	588,407	392,321	-	980,728	2,927,762	3,405,930
Security	1,043	3,741	4,784	1,276	-	-	1,276	6,060	4,146
Taxes	-	-	-	50	-	-	50	50	10
Telephone	8,253	37,656	45,909	228	143	-	371	46,280	49,063
Travel and entertainment	10,527	19,257	29,784	8,992	443	-	9,435	39,219	44,646
Utilities	-	36,611	36,611	-	245	-	245	36,856	32,811
Total expenses before depreciation and amortization	3,836,232	1,525,926	5,362,158	1,335,465	511,250	159,895	2,006,610	7,368,768	9,075,478
Depreciation and amortization	-	43,937	43,937	101,584	-	-	101,584	145,521	144,013
Total expenses	3,836,232	1,569,863	5,406,095	1,437,049	511,250	159,895	2,108,194	7,514,289	9,219,491
Less: Expenses included with revenues on the statement of activities									
Direct costs of donor benefits	-	-	-	-	-	(159,895)	(159,895)	(159,895)	-
	<u>\$ 3,836,232</u>	<u>\$ 1,569,863</u>	<u>\$ 5,406,095</u>	<u>\$ 1,437,049</u>	<u>\$ 511,250</u>	<u>\$ -</u>	<u>\$ 1,948,299</u>	<u>\$ 7,354,394</u>	<u>\$ 9,219,491</u>

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

**Working Wardrobes for a New Start**  
**Statements of Cash Flows**  
**Year Ended December 31, 2022**  
**With Summarized Comparative Information for the Year Ended December 31, 2021**

	<u>2022</u>	<u>2021</u>
<b>Operating activities</b>		
Changes in net assets	\$ (93,763)	\$ 2,572,705
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	145,521	144,013
Bad debt expense	(200)	(26,801)
Loss (gain) on investments	118,522	(2,052)
(Increase) decrease in assets		
Accounts receivable	214,620	(93,570)
Other receivable	(259,060)	
Grants receivable	21,670	3,714
Prepaid expenses	3,233	188,426
Inventory	(672,320)	(2,123,009)
Deposits	-	(15,905)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(223,509)	158,847
Deferred revenue	(7,422)	(66,370)
Deferred rent	-	(46,967)
Lease incentive liability	-	(45,648)
Lease liabilities - operating	(79,984)	-
Net cash provided by (used in) operating activities	<u>(832,692)</u>	<u>647,383</u>
<b>Investing activities</b>		
Purchases of marketable securities	<u>(25,132)</u>	<u>(262,780)</u>
Net cash used in investing activities	<u>(25,132)</u>	<u>(262,780)</u>
<b>Financing activities</b>		
Principal repayments on note payable	<u>-</u>	<u>(71,052)</u>
Net cash used in financing activities	<u>-</u>	<u>(71,052)</u>
Net change in cash and cash equivalents	(857,824)	313,551
<b>Cash and cash equivalents</b>		
Beginning of year	<u>1,538,607</u>	<u>1,225,056</u>
End of year	<u>\$ 680,783</u>	<u>\$ 1,538,607</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for		
Interest	<u>\$ 64</u>	<u>\$ 365</u>

The Notes to Financial Statements are an integral part of these statements.

# Working Wardrobes for a New Start

## Notes to Financial Statements

### December 31, 2022 and 2021

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#### 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, 2022 and 2021**

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#### **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, 2021 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.

#### **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.

#### **Contributed Services and Contributed Nonfinancial Assets**

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements.

The Organization adopted the requirements of the new guidance as of January 1, 2022 on a retrospective basis. Adoption of the new guidance does not have a significant impact on the Organization's financial position, results of activities or cash flows.

**Working Wardrobes for a New Start**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

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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 \$63,645 and \$93,702 for the years ended December 31, 2022 and 2021, respectively. The various non-cash items for the year ended December 31, 2022 consisted of legal professional services valued based on standard industry pricing for similar services. The Organization also received donated wardrobes of \$2,521,268 and \$5,416,718 for the years ended December 31, 2022 and 2021, respectively. The amount of donated wardrobes in inventory as of December 31, 2022 and 2021 was \$4,124,661 and \$3,452,341, respectively.

**Grants Receivable**

Pledges and grants receivable consist of unconditional promises to give that are expected to be collected in future years and grants classified as conditional promises to the extent that conditions have been met but reimbursement from the grantor has not yet been received. Pledges 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 Revenue Sources and Credit Risk**

For the year ended December 31, 2021, the Organization received contributions from one source totaling \$815,572, representing approximately 13% of monetary revenues as disclosed in the statement of activities. There was no concentration for the year ended December 31, 2022. The Organization functions on the assumption that significant annual donations are not controllable and accordingly, attempts to budget its operations on recurring activity.

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, results of operations, and cash flows.

**Working Wardrobes for a New Start**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

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**Investments**

Investments are measured and reported at fair value. Those with a 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. 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 stated 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, 2022 and 2021.

**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.

## **Working Wardrobes for a New Start**

### **Notes to Financial Statements**

#### **December 31, 2022 and 2021**

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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.

#### **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, 2022 and 2021.

#### **Functional Expenses**

The costs of providing program and other activities have been summarized on a functional basis in the statements 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, 2022 and 2021. Further, there are no income tax related penalties and interest included in these financial statements.

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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, 2022 and 2021 were \$18,830 and \$29,529, respectively.

#### **Leases and Recently Adopted Accounting Policy**

In February 2016, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) amending the accounting for leases. The Organization adopted the new standard effective January 1, 2022, using the modified retrospective approach. The Organization elected to implement the package of practical expedients, whereby the Organization did not (i) reassess existing contracts for embedded leases, (ii) reassess existing lease agreements for finance or operating classification, or (iii) reassess existing lease agreements in consideration of initial direct costs. The implementation of this standard did not have a material impact to statement of activities or cash flows.

Upon adoption, the Organization recognized \$1,335,698 in right-of-use (“ROU”) assets related to its leased property and equipment. Corresponding lease liabilities of \$1,515,124 were also recognized. Deferred rent liabilities of \$91,900 and lease incentive liability of \$87,526 were reclassified and netted against the ROU asset. There was no cumulative effect of applying the new standard and accordingly there was no adjustment to net assets upon adoption.

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 balance sheet. The Organization had no material finance leases during 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 - Not Yet Adopted**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses: Topic 326*. This update requires organizations to measure all expected credit losses for financial assets held at the reporting date. The standard also amends the accounting for credit losses on available-for-sale debt securities, purchased financial assets with credit deterioration and trade and other receivables. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses*, which made technical corrections and improvements to the previous ASU issued. The standards will take effect for the year ended December 31, 2023. The Organization does not expect the adoption of this ASU to have a material impact on its financial statements.

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**Reclassifications**

The financial statements for the year ended December 31, 2021, contain certain reclassifications, which have no effect on changes in net assets, to conform to current period presentation for the year ended December 31, 2022.

**Subsequent Events**

The Organization evaluated subsequent events through May 23, 2023, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

**3. AVAILABILITY AND LIQUIDITY**

	<u>2022</u>	<u>2021</u>
Financial assets at year end		
Cash and cash equivalents	\$ 666,665	\$ 1,538,607
Investments	1,060,726	1,154,116
Accounts receivable	203,440	417,860
Other receivable	<u>259,060</u>	<u>-</u>
Total available financial assets	2,189,891	3,110,583
Availability under line of credit	<u>150,000</u>	<u>150,000</u>
Total financial assets	<u>\$ 2,339,891</u>	<u>\$ 3,260,583</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, 2022 and 2021 the level of liquidity and reserves was managed within the policy requirements.

**4. 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, 2022 and 2021.

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.

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

	<b>2022</b>			
	<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>

	<b>2021</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Fixed income corporate bonds	\$ -	\$ 797,294	\$ -	\$ 797,294
Equity securities	-	246,090	-	246,090
Certificates of deposits	-	110,732	-	110,732
Total investments	<u>\$ -</u>	<u>\$ 1,154,116</u>	<u>\$ -</u>	<u>\$ 1,154,116</u>

Investment income for the years ended December 31, 2022 and 2021 is summarized as follows:

	<u>2022</u>	<u>2021</u>
Gain (loss) on investments	\$ (118,522)	\$ 2,052

**5. PROPERTY AND EQUIPMENT**

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

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 648,727	\$ 648,727
Computer software	98,355	98,355
Leasehold improvements	368,154	368,154
Auto	35,000	35,000
	<u>1,150,236</u>	<u>1,150,236</u>
Less: Accumulated depreciation and amortization	<u>(622,471)</u>	<u>(476,950)</u>
	<u>\$ 527,765</u>	<u>\$ 673,286</u>

Total depreciation and amortization expense for the years ended December 31, 2022 and 2021 was \$145,521 and \$144,013, respectively.

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**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	<u>2022</u>	<u>2021</u>
Accounts payable	\$ 3,216	\$ 18,001
Accrued vacation	74,840	72,252
Credit cards payable	15,981	29,712
Accrued payroll	51,248	234,586
Sales tax payable	6,286	31,188
Other	<u>28,600</u>	<u>17,941</u>
	<u>\$ 180,171</u>	<u>\$ 403,680</u>

**7. 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. Borrowings bear interest at the bank’s prime rate (prime rate at December 31, 2022 was 7.50%) 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, 2022 and 2021.

**8. NET ASSETS**

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

	<u>2022</u>	<u>2021</u>
Passage of time		
Grant	<u>\$ 14,118</u>	<u>\$ 21,670</u>

Net assets without donor restrictions for the years ended December 31, 2022 and 2021 are considered undesignated.

Net assets released from donor restrictions were \$7,552 and \$0 for the years ended December 31, 2022 and 2021, respectively.

**9. 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 range from \$3,744 to \$30,364 expiring through May 2026. 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 liability as of December 31:

2023	\$ 576,269
2024	71,365
2025	73,506
2026	75,711
2027	77,982
Thereafter	<u>59,793</u>
	934,626
Less: Imputed interest	<u>(22,167)</u>
	<u>\$ 912,459</u>

Lease expense for the year ended December 31, 2022 was \$739,021 which includes variable lease expenses of \$62,402. Short-term lease expense for the year ended December 31, 2022 is \$14,250. The weighted average remaining lease term is 3.10 years and the weighted average discount rate associated with operating leases as of December 31, 2022 is 1.55%. Cash paid for operating leases was \$621,057 for the year ended December 31, 2022.

**10. 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.

**11. INSURANCE CLAIM PROCEEDS**

In February 2020, the Organization suffered a fire in its main warehouse and administrative location in Irvine, California. As a result of the loss, the Organization received insurance proceeds of \$138,501 for the year ended December 31, 2021 which is presented in other income on the statement of activities.

**12. PAYCHECK PROTECTION PROGRAM**

On January 15, 2021, the Organization received a Paycheck Protection Program ("PPP") for \$565,728 under the Second Draw of the PPP ("PPP Loan 2") of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The PPP Loan 2 was guaranteed by the SBA. The PPP Loan 2 may be forgiven, in whole or in part, if the Organization was eligible for the PPP Loan 2 at the time of application, used the loan proceeds for eligible expenses within a defined period, and otherwise satisfied PPP requirements. On August 3, 2021, the Organization was informed that its application for forgiveness of \$565,728 of the PPP Loan 2 was approved. Accordingly, the Organization recorded it as grant income in the accompanying statement of activities for the year ended December 31, 2021.

**13. EMPLOYEE RETENTION CREDITS**

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, 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.