ACCOUNTING + CONSULTING

WORKING WARDROBES FOR A NEW START

Financial Statements
For the Year Ended December 31, 2016
(With Summarized Comparative Information for the Year Ended December 31, 2015)
(With Independent Auditor's Report Thereon)

KSJGCPA.COM

T 949.261.2808 F 949.261.0188 • 100 SPECTRUM CENTER DRIVE, SUITE 1000, IRVINE, CALIFORNIA 92618

TABLE OF CONTENTS — PAGE NO.

ACCOUNTING + CONSULTING

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Working Wardrobes for a New Start

We have audited the accompanying financial statements of Working Wardrobes for a New Start, (a non-profit organization) (the Organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KSJGCPA.COM

T 949.261.2808 F 949.261.0188 • 100 SPECTRUM CENTER DRIVE, SUITE 1000, IRVINE, CALIFORNIA 92618

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kushner Smith Joanou & Gregson, LLP

March 14, 2017

Kushner, Smith, Joanou, and Gregson, LLP
100 Spectrum Center Drive, Suite 1000, Irvine, California 92618

WORKING WARDROBES FOR A NEW START

Statement of Financial Position
December 31, 2016
(with summarized financial information as of December 31, 2015)

ASSETS

	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
Current assets:				
Cash and cash equivalents	$ 522,989	$ 62,000	$ 584,989	$ 83,997
Accounts receivable	102,114	--	102,114	105,076
Grants receivable	--	10,000	10,000	18,750
Prepaid expenses	27,346	--	27,346	15,574
Inventory (Note 1)	558,422	--	558,422	763,508
Contribution receivable (Note 1, 2 and 3)	--	35,450	35,450	39,612
Total current assets	1,210,871	107,450	1,318,321	1,026,517
Property and equipment - net (Note 4)	248,536	--	248,536	135,249
Other assets:				
Contribution receivable - non current (Note 1, 2 and 3)	--	4,041	4,041	36,419
Deposits	50,401	--	50,401	35,541
Total other assets	50,401	4,041	54,442	71,960
Total assets	$ 1,509,808	$ 111,491	$ 1,621,299	$ 1,233,726

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
Current liabilities:				
Accounts payable and accrued liabilities (Note 5)	$ 113,030	$ --	$ 113,030	$ 89,816
Deferred revenue	--	62,000	62,000	200
Deferred rent	68,876	--	68,876	--
Line of credit (Note 8)	--	--	--	140,741
Current portion of notes payable (Note 6)	24,294	--	24,294	--
Current portion of notes payable to related party (Note 7)	--	--	--	42,432
Total current liabilities	206,200	62,000	268,200	273,189
Long-term liabilities:				
Notes payable (Note 6)	150,846	--	150,846	--
Notes payable to related party (Note 7)	--	--	--	17,073
Total liabilities	357,046	62,000	419,046	290,262
Commitments (Note 10)				
Net assets:				
Unrestricted	1,152,762	--	1,152,762	848,683
Temporarily restricted (Note 9)	--	49,491	49,491	94,781
Total net assets	1,152,762	49,491	1,202,253	943,464
Total liabilities and net assets	$ 1,509,808	$ 111,491	$ 1,621,299	$ 1,233,726

See accompanying notes to financial statements

WORKING WARDROBES FOR A NEW START

Statement of Activities
Year Ended December 31, 2016
(with summarized financial information as of December 31, 2015)

	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
Public support and revenue:				
Contributions	$ 1,102,418	$ --	$ 1,102,418	$ 456,060
Career service fees	473,499	--	473,499	449,892
Grants	825,461	10,000	835,461	763,876
Donated wardrobes	210,256	--	210,256	1,380,867
Contributed services and gifts in-kind (Note 1)	71,763	--	71,763	143,540
Resale revenue	1,425,077	--	1,425,077	921,650
Consignment revenue - net	18,037	--	18,037	32,110
Miscellaneous income	30,824	--	30,824	24,286
	4,157,335	10,000	4,167,335	4,172,281
Special events:				
Special events revenue	442,177	--	442,177	350,472
Less direct costs of donor benefits	(24,826)	--	(24,826)	(47,812)
Net revenues from special events	417,351	--	417,351	302,660
Subtotal support and revenues	4,574,686	10,000	4,584,686	4,474,941
Net assets released from restrictions	55,290	(55,290)	--	--
Total support and revenues	4,629,976	(45,290)	4,584,686	4,474,941
Expenses:				
Program services:				
Career services	2,254,886	--	2,254,886	3,108,929
Resale operations	1,225,098	--	1,225,098	916,833
Total program services	3,479,984	--	3,479,984	4,025,762
Supporting services:				
General and administrative	651,006	--	651,006	462,169
Fundraising	194,907	--	194,907	149,536
Total supporting services	845,913	--	845,913	611,705
Total expenses	4,325,897	--	4,325,897	4,637,467
Other income:				
Realized gain on investments	--	--	--	525
Change in net assets	304,079	(45,290)	258,789	(162,001)
Net assets:				
Beginning of year	848,683	94,781	943,464	1,105,465
End of year	$ 1,152,762	$ 49,491	$ 1,202,253	$ 943,464

See accompanying notes to financial statements

WORKING WARDROBES FOR A NEW START

Statement of Functional Expenses
Year Ended December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

	Program Services			Supporting Services				
	Career Services	Resale Operations	Subtotal	General and Admin	Fundraising	Subtotal	Total 2016	Total 2015
Advertising	$ 3,606	$ 949	$ 4,555	$ --	$ --	$ --	$ 4,555	$ 17,659
Bad debt	24,890	--	24,890	--	--	--	24,890	13,980
Bank fees	9,769	51,539	61,308	--	--	--	61,308	46,645
Board meetings	--	--	--	4,121	--	4,121	4,121	2,076
Career center	65,027	--	65,027	--	--	--	65,027	106,212
Computer	31,051	--	31,051	--	--	--	31,051	30,639
Cost of goods sold	439,600	2,400	442,000	--	--	--	442,000	1,462,319
Dues and subscriptions	4,056	4,705	8,761	--	--	--	8,761	2,101
Equipment rental	16,971	--	16,971	--	--	--	16,971	28,863
Employee benefits	74,876	21,874	96,750	13,579	--	13,579	110,329	55,214
Events	40,752	--	40,752	--	63,853	63,853	104,605	92,184
Grant writing	40,975	--	40,975	--	--	--	40,975	39,600
Insurance	69,645	7,590	77,235	--	--	--	77,235	68,132
Interest expense	--	--	--	18,743	--	18,743	18,743	16,290
Licenses and permits	3,055	6,029	9,084	150	--	150	9,234	3,179
Marketing and media	232	--	232	--	331	331	563	17,206
Memberships	2,014	--	2,014	2,014	--	2,014	4,028	5,975
Miscellaneous	47,938	1,773	49,711	3,745	--	3,745	53,456	77,033
Office expenses	64,079	18,691	82,770	9,031	10,837	19,868	102,638	67,124
Outside services	129,196	--	129,196	53,261	--	53,261	182,457	97,654

(Statement of functional expenses continued on the following page)

WORKING WARDROBES FOR A NEW START

Statement of Functional Expenses
(Continued)
Year Ended December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

	Program Services			Supporting Services				
	Career Services	Resale Operations	Subtotal	General and Admin	Fundraising	Subtotal	Total 2016	Total 2015
Payroll fees	9,710	--	9,710	--	--	--	9,710	7,974
Payroll taxes	62,517	50,109	112,626	36,994	5,304	42,298	154,924	116,838
Personnel development	9,890	255	10,145	10,331	--	10,331	20,476	20,592
Printing and postage	3,012	1,290	4,302	430	516	946	5,248	44,413
Rent	164,942	347,927	512,869	28,412	34,095	62,507	575,376	467,972
Repairs and maintenance	27,338	6,441	33,779	4,713	5,656	10,369	44,148	30,760
Salaries and wages	774,534	620,802	1,395,336	458,315	65,717	524,032	1,919,368	1,546,306
Security	1,009	5,451	6,460	174	209	383	6,843	11,259
Taxes	510	1,075	1,585	88	105	193	1,778	--
Telephone	17,455	19,523	36,978	3,010	3,611	6,621	43,599	19,546
Travel and entertainment	27,523	2,107	29,630	--	--	--	29,630	21,877
Utilities	22,609	47,691	70,300	3,895	4,673	8,568	78,868	47,760
Total expenses before depreciation and amortization	2,188,781	1,218,221	3,407,002	651,006	194,907	845,913	4,252,915	4,585,382
Depreciation and amortization	66,105	6,877	72,982	--	--	--	72,982	52,085
Total expenses	$ 2,254,886	$ 1,225,098	$ 3,479,984	$ 651,006	$ 194,907	$ 845,913	$ 4,325,897	$ 4,637,467

WORKING WARDROBES FOR A NEW START

Statements of Cash Flows
Year Ended December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 258,789	$ (162,001)
Adjustment to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	72,982	52,085
Donated assets	(23,900)	--
Donated stock	--	(23,719)
Unrealized (gain) on investments	--	(2,096)
Decrease (increase) in accounts receivable	2,962	(80,089)
Decrease in grants receivable	8,750	72,850
(Increase) in prepaid expenses	(11,772)	(2,490)
Decrease (increase) in inventory	205,086	(11,894)
Decrease in contributions receivable	36,540	34,235
(Increase) in deposits	(14,860)	(9,895)
Increase in accounts payable and accrued liabilities	23,214	12,731
Increase in deferred revenue	61,800	--
Increase in deferred rent	68,876	--
Net cash provided by (applied to) operating activities	688,467	(120,283)
Cash flows from investing activities:		
Acquisition of property and equipment	(162,369)	(35,673)
Proceeds from sale of stock	--	30,855
Net cash (applied to) investing activities	(162,369)	(4,818)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	226,000	--
Principal repayments on notes payable	(50,860)	(46,676)
Net activity on revolving line of credit	(140,741)	140,741
Principal repayments on related party notes payable	(59,505)	(33,199)
Net cash (applied to) provided by financing activities	(25,106)	60,866
Net increase (decrease) in cash	500,992	(64,235)
Cash and cash equivalents at beginning of year	83,997	148,232
Cash and cash equivalents at end of year	$ 584,989	$ 83,997
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 18,743	$ 16,290

See accompanying notes to financial statements

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Services - Working Wardrobes for a New Start (the Organization) incorporated in May 1995, is a non-profit 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.

The Organization's program services are as follows:

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, CA.

Outlet Shops - The Organization has three outlet shops located in Laguna Hills, Garden Grove, and Huntington Beach, CA that sell men's and women's clothing to the general public. Many of the students in Customer Service Training apprentice in the shop for real world experience to enhance their resumes.

Thrift Shops - The Organization has two thrift shops located in Anaheim and Costa Mesa, CA that sell men's and women's clothing, some housewares and miscellaneous items to the general public. The shop managers also work with students from Customer Service classes to offer real world experience that can be added to their resumes.

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

Basis of Presentation - The financial statements of the Organization have been prepared on the accrual basis of accounting. Net assets are classified based on the existence or absence of third-party donor restrictions and are reported as follows:

- Unrestricted net assets represent the portion of expendable funds available for support of operations.

(Note 1 continued on the following page)

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - (Continued)

- Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period, be used for a specific purpose, or both. As donor restrictions are satisfied, amounts are reclassified to the unrestricted class as net assets released from restrictions.

- Permanently restricted net assets represent an endowment to be held in perpetuity. Investment income earned on this endowment is unrestricted. The Organization had no permanently restricted net assets as of December 31, 2016 and 2015.

The Organization's policy is to record temporarily restricted gifts that are received and spent in the same year as unrestricted support.

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

Revenue Recognition - For services provided to individuals through the Career Services program, revenues are recognized once the services have been provided and the appropriate party has been billed. For sales transactions in the Hanger Stores, WW Outlet Shops and Thrift Shops, revenues are recognized at the point of sale.

Pledges and 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 either temporarily or permanently 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.

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory (Continued) - 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. As of December 31, 2016 and 2015, wardrobe inventory recorded on the statement of financial position is valued at estimated net realizable value of $558,422 and 763,508, respectively.

In the year ended December 31, 2016, the Organization reassessed the net realizable value of its inventory by obtaining newly available historical sales information from its accounting system. Upon examination of the information, management changed its valuation technique by assigning values of its inventory items based on historical resale prices at the Organization's specific store locations rather than utilizing discounted department store pricing. The effect of this change in estimate was a decrease in the value of inventory, donated wardrobe revenue and cost of goods sold in the year ended December 31, 2016.

Concentration of Credit Risk - The Organization maintains its cash balances at major financial institutions which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Contributed Services and Gifts In-Kind - Contributed services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Volunteers providing nonspecialized skills such as administrative or warehouse tasks represent valuable services necessary to the operation of the Organization. For the years ended December 31, 2016 and 2015, such nonspecialized volunteer hours totaled 39,700 and 40,500, the value of such hours the Organization estimated to be $1,045,698 and $1,066,770, respectively, which has not been recorded in the accompanying financial statements. Only amounts that meet the criteria above are recorded in the accompanying financial statements.

The Organization also has received donations of various noncash assets, such as supplies or services that were used for purposes of operating activities. Contributed services and gifts in-kind in the amounts of $71,763 and $143,540 are recorded as income and expense in the statement of activities for the years ended December 31, 2016 and 2015, respectively.

(Note 1 continued on the following page)

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements - The carrying value of financial instruments in the financial statements approximates fair value.

For fair value measurements of financial assets and financial liabilities (Note 2), and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis, the Organization has adopted generally accepted accounting principles (GAAP) standards that define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The assets that are recorded at fair value on a recurring basis are investments and contributions receivable. The Organization has no financial liabilities or non-financial items that are recorded at fair value on a recurring basis.

GAAP establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

- Level 1: fair values are based on quoted prices in active markets for identical assets and liabilities. The Organization's has no Level 1 assets.

- Level 2: fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset. The Organization has no Level 2 assets.

- Level 3: fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. The Organization's Level 3 assets include contributions receivable.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering from sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

(Note 1 continued on the following page)

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - Property and equipment includes furniture and equipment, computer software, and leasehold improvements, and is stated at cost, net of accumulated depreciation. Donated assets are recorded at the estimated fair value on the date received and are recorded as temporarily restricted support and subsequently released from restrictions as such assets are depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of assets as follows:

Furniture and equipment	5 - 7 years
Computer software	5 years

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.

Non-Contributory Retirement Plan - Effective September 2006, the Organization adopted a non-contributory retirement plan covering substantially all employees. Participating employees may contribute up to a maximum allowable limit established by the Internal Revenue Service. The Organization does not match employee contributions to the plan.

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 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.

(Note 1 continued on the following page)

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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, 2016 and 2015.

Vacation Expense - Hourly and salary employees earn credits during the current year for future vacation benefits. The expense and corresponding liability are accrued when vacations are earned rather than when vacations are paid.

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, 2016 and 2015, was $5,118 and $34,865, respectively.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2015 from which the summarized information was derived.

(Note 1 continued on the following page)

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements - In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Under ASU No. 2016-02, lessees will be required 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.

ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019.

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.

Reclassifications - The financial statements for the year ended December 31, 2015 reflect certain reclassifications, which have no effect on changes in net assets, to conform to classifications adopted at December 31, 2016.

Subsequent Events - The Organization evaluated subsequent events through March 14, 2017, the date these financial statements were issued. With the exception of the matters discussed in Note 10, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2016 and 2015

NOTE 2 - ASSETS RECORDED AT FAIR VALUE

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2016 and 2015:

	Assets at Fair Value as of December 31, 2016			
	Level 1	*Level 2*	*Level 3*	*Total*
Contributions receivable	$ --	$ --	$ 39,491	$ 39,491
Total assets at fair value	$ --	$ --	$ 39,491	$ 39,491

	Assets at Fair Value as of December 31, 2015			
	Level 1	*Level 2*	*Level 3*	*Total*
Contributions receivable	$ --	$ --	$ 76,031	$ 76,031
Total assets at fair value	$ --	$ --	$ 76,031	$ 76,031

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year ended December 31, 2016 and 2015.

	2016	**2015**
Balance, beginning of year	$ 76,031	$ 110,266
Payments received	(18,095)	(18,175)
Write-offs	(14,790)	(16,060)
Change in allowance for uncollectible pledges	(5,300)	--
Change in present value discount amount	1,645	--
Balance, end of year	$ 39,491	$ 76,031

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2016 and 2015

NOTE 3 - CONTRIBUTIONS RECEIVABLE

The Organization has recognized uncollected contribution promises as temporarily restricted support. These receivables represent unconditional promises to give to the Organization to be collected through 2019. Uncollected promises at December 31, 2016 that are expected to be collected within one year are recorded at the estimated net realizable value. Uncollected promises at December 31, 2016 that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Future collections of the contributions receivable are scheduled as follows:

	2016	2015
Amounts due in:		
Less than one year	$ 44,950	$ 43,812
One to five years	4,100	38,123
	49,050	81,935
Less: allowance for uncollectibles	(9,500)	(4,200)
Less: unamortized discount	(59)	(1,704)
	$ 39,491	$ 76,031

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and consist of the following at December 31, 2016 and 2015:

	2016	2015
Furniture and equipment	$ 281,821	$ 225,486
Computer software	97,115	92,215
Leasehold improvements	285,012	195,228
Auto	35,000	--
	698,948	512,929
Less: Accumulated depreciation and amortization	(450,412)	(377,680)
	$ 248,536	$ 135,249

Total depreciation and amortization expense for the years ended December 31, 2016 and 2015, was $72,982 and $52,085, respectively.

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2016 and 2015

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at December 31, 2016 and 2015:

	2016	2015
Accounts payable	$ 35,914	$ 42,862
Accrued vacation	23,497	38,082
Credit cards payable	1,736	--
Accrued payroll	12,683	--
Sales tax payable	10,206	8,872
Accrued professional fees	27,000	--
Other	1,994	--
	$ 113,030	$ 89,816

NOTE 6 - NOTES PAYABLE

Notes payable at December 31, 2016 and 2015 is summarized as follows:

	2016	2015
Note payable to bank, payable in monthly installments of $2,690, including interest at a variable rate (as determined by the bank to be 4.78% at December 31, 2016), scheduled to mature in April 2023.	$ 175,140	$ --
	175,140	--
Less current portion	(24,294)	--
	$ 150,846	$ --

(Note 6 continued on the following page)

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2016 and 2015

NOTE 6 - NOTES PAYABLE (Continued)

Aggregate maturities of the notes payable as of December 31, 2016 are as follows:

Year ending December 31:		
2017	$	24,294
2018		25,616
2019		26,868
2020		28,181
2021		29,558
Thereafter		40,623
	$	175,140

Borrowings are collateralized by virtually all of the Organization’s assets.

Interest expense for the aforementioned notes payable was $14,276 and $3,378 for the years ended December 31, 2016 and 2015, respectively.

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2016 and 2015

NOTE 7 - NOTES PAYABLE TO RELATED PARTY

	2016	2015
Note payable to CEO/Founder, payable in monthly installments of $2,458, including interest at a fixed rate of 7.00%, originally scheduled to mature in July 2015. During the year ended December 31, 2011, the maturity date was extended to December 2016. The amount was paid in full as of December 31, 2016.	$ --	$ 30,555
Note payable to CEO/Founder to cover short-term cash short falls. The original loan was interest free and was subject to a one-time 3% processing fee. The note was expected to be repaid in full by December 2012. At January 31, 2013, the maturity date was extended to January 31, 2018 with monthly installments of $832, including interest at a fixed rate of 5.00%. The amount was paid in full as of December 31, 2016.	--	21,964
Note payable to CEO/Founder to cover short-term cash shortfalls. The original loan was interest free and was subject to a one-time 3% processing fee. The note was expected to be repaid in full by December 2012. At January 31, 2013, the maturity date was extended to January 31, 2018 with monthly installments of $245, including interest at a fixed rate of 5.00%. The amount was paid in full as of December 31, 2016.	--	6,986
	--	59,505
Less current portion	--	(42,432)
	$ --	$ 17,073

Interest expense for the aforementioned related party notes payable was $2,835 and $9,234 for the years ended December 31, 2016 and 2015, respectively.

NOTE 8 - LINE OF CREDIT

The Organization obtained a revolving line of credit with a bank to assure credit availability. The agreement allows for borrowing up to a maximum of $250,000 and expired May 10, 2016. Interest accrues at the date of advance at the bank’s prime rate plus 3.00% (prime rate at December 31, 2016 was 3.75%). There were advances of none and $140,741 as of December 31, 2016 and 2015, respectively.

In March 2016, the Organization entered into a revolving line of credit (LOC) with Pacific Premier Bank. The LOC provides for borrowings through March 2017 to provide the Organization with short-term working capital. Borrowings bear interest at the bank’s prime rate (prime rate at December 31, 2016 was 3.75%) 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, 2016, and December 31, 2015.

In March 2016, the Organization entered into a revolving line of credit (LOC) with Pacific Premier Bank. The LOC provides for borrowings through September 2022 to provide the Organization with financing in place for four future retail locations. Borrowings bear interest at the WSJ prime rate plus a margin of 1.00%, the interest rate will not be less than 4.50%. The maximum amount that may be outstanding under the agreement is $200,000. The LOC is collateralized by all of the Organization’s assets at prospective locations. There were no amounts outstanding under this line of credit at December 31, 2016, and December 31, 2015.

Under the terms of the agreement, the Organization is required to meet certain covenants, including minimum level of debt coverage ratio.

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2016 and 2015

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 and 2015 consist of the following:

	2016	2015
Contribution receivables	$ 39,491	$ 76,031
Deferred revenue	62,000	--
Grants receivable	10,000	18,750
Total temporarily restricted net assets	$ 111,491	$ 94,781

NOTE 10 - COMMITMENTS AND SUBSEQUENT EVENT

The Organization leases resale stores, four outlet stores, and their main operating facility under noncancelable operating lease agreements. The monthly rents on the aforementioned leases range from $2,117 to $18,793 expiring May 2017 through April 2023. 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.

The Organization also leases another outlet store on a month to month basis. The Organization pays monthly rent for the outlet store of $3,386.

Future minimum annual rental payments under noncancelable operating leases at December 31, 2016 are as follows:

Years ending December 31:	
2017	$ 431,362
2018	392,802
2019	281,529
2020	261,896
2021	216,823
Thereafter	298,500
	$ 1,882,912

Rent expense related to the aforementioned operating lease agreements was $575,376 and $467,972 for the years ended December 31, 2016 and 2015, respectively.

(Note 10 continued on the following page)

NOTE 10 – COMMITMENTS AND SUBSEQUENT EVENT (Continued)

In March, 2017, the Organization entered into a lease termination agreement with its current lessor for the Laguna Hills Outlet store due to the stores underperformance. The termination agreement accelerated the expiration date of the lease from September, 30, 2020 to March, 15 2017, through which date, the Organization is obligated to pay all base rent, operating expenses and other obligations due under the current lease. In addition, contingent upon the Organization's surrender of the leased space in compliance with the termination agreement on or before March 15, 2017, the Organization is obligated to pay the lessor an early termination charge of $25,000.