ACCOUNTING + CONSULTING

WORKING WARDROBES FOR A NEW START

Financial Statements
For the Year Ended December 31, 2017
(With Summarized Comparative Information for the Year Ended December 31, 2016)
(With Independent Auditor's Report Thereon)

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KSJG
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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, 2017, 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.

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, 2017, 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 March 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KSJG, LLP

March 9, 2018

KSJG, LLP
100 Spectrum Center Drive, Suite 1000, Irvine, California 92618

WORKING WARDROBES FOR A NEW START

Statement of Financial Position
December 31, 2017
(with summarized financial information as of December 31, 2016)

ASSETS

	Unrestricted	Temporarily Restricted	Total 2017	Total 2016
Current assets:				
Cash and cash equivalents	$ 2,208,299	$ 85,380	$ 2,293,679	$ 584,989
Accounts receivable	133,177	--	133,177	102,114
Grants receivable	--	30,000	30,000	10,000
Prepaid expenses	38,495	--	38,495	27,346
Inventory (Note 1)	705,480	--	705,480	558,422
Contribution receivable (Note 1, 2 and 3)	--	--	--	35,450
Total current assets	3,085,451	115,380	3,200,831	1,318,321
Property and equipment - net (Note 4)	184,419	--	184,419	248,536
Other assets:				
Contribution receivable - non current (Note 1, 2 and 3)	--	--	--	4,041
Deposits	48,326	--	48,326	50,401
Total other assets	48,326	--	48,326	54,442
Total assets	$ 3,318,196	$ 115,380	$ 3,433,576	$ 1,621,299

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted	Total 2017	Total 2016
Current liabilities:				
Accounts payable and accrued liabilities (Note 5)	$ 156,713	$ --	$ 156,713	$ 113,030
Deferred revenue	--	85,380	85,380	62,000
Deferred rent	73,979	--	73,979	68,876
Current portion of notes payable (Note 6)	25,498	--	25,498	24,294
Total current liabilities	256,190	85,380	341,570	268,200
Long-term liabilities:				
Notes payable (Note 6)	125,921	--	125,921	150,846
Total liabilities	382,111	85,380	467,491	419,046
Commitments (Note 9)				
Net assets:				
Unrestricted	2,936,085	--	2,936,085	1,152,762
Temporarily restricted (Note 8)	--	30,000	30,000	49,491
Total net assets	2,936,085	30,000	2,966,085	1,202,253
Total liabilities and net assets	$ 3,318,196	$ 115,380	$ 3,433,576	$ 1,621,299

WORKING WARDROBES FOR A NEW START

Statement of Activities
Year Ended December 31, 2017
(with summarized financial information as of December 31, 2016)

	Unrestricted	Temporarily Restricted	Total 2017	Total 2016
Public support and revenue:				
Contributions	$ 2,321,733	$ --	$ 2,321,733	$ 1,102,418
Career service fees	368,854	--	368,854	473,499
Grants	1,105,605	30,000	1,135,605	835,461
Donated wardrobes	206,777	--	206,777	210,256
Contributed services and gifts in-kind (Note 1)	142,690	--	142,690	71,763
Resale revenue	1,533,118	--	1,533,118	1,425,077
Consignment revenue - net	18,386	--	18,386	18,037
Miscellaneous income	35,769	--	35,769	30,824
	5,732,932	30,000	5,762,932	4,167,335
Special events:				
Special events revenue	503,852	--	503,852	442,177
Less direct costs of donor benefits	(26,555)	--	(26,555)	(24,826)
Net revenues from special events	477,297	--	477,297	417,351
Subtotal support and revenues	6,210,229	30,000	6,240,229	4,584,686
Net assets released from restrictions	49,491	(49,491)	--	--
Total support and revenues	6,259,720	(19,491)	6,240,229	4,584,686
Expenses:				
Program services:				
Career services	2,274,625	--	2,274,625	2,254,886
Resale operations	1,394,892	--	1,394,892	1,225,098
Total program services	3,669,517	--	3,669,517	3,479,984
Supporting services:				
General and administrative	564,568	--	564,568	651,006
Fundraising	242,312	--	242,312	194,907
Total supporting services	806,880	--	806,880	845,913
Total expenses	4,476,397	--	4,476,397	4,325,897
Change in net assets	1,783,323	(19,491)	1,763,832	258,789
Net assets:				
Beginning of year	1,152,762	49,491	1,202,253	943,464
End of year	$ 2,936,085	$ 30,000	$ 2,966,085	$ 1,202,253

WORKING WARDROBES FOR A NEW START

Statement of Functional Expenses
Year Ended December 31, 2017
(with summarized financial information for the year ended December 31, 2016)

	Program Services			Supporting Services				
	Career Services	Resale Operations	Subtotal	General and Admin	Fundraising	Subtotal	Total 2017	Total 2016
Advertising	$ 4,137	$ 1,341	$ 5,478	$ --	$ --	$ --	$ 5,478	$ 4,555
Bad debt	46,876	--	46,876	--	--	--	46,876	24,890
Bank fees	12,721	55,781	68,502	--	--	--	68,502	61,308
Board meetings	--	--	--	6,232	--	6,232	6,232	4,121
Career center	172,883	--	172,883	--	--	--	172,883	65,027
Computer	55,214	--	55,214	--	--	--	55,214	31,051
Cost of goods sold	59,718	215	59,933	--	--	--	59,933	442,000
Dues and subscriptions	7,668	7,365	15,033	--	--	--	15,033	8,761
Equipment rental	18,227	--	18,227	--	--	--	18,227	16,971
Employee benefits	26,103	31,539	57,642	43,637	2,526	46,163	103,805	110,329
Events	28,401	--	28,401	--	94,119	94,119	122,520	104,605
Grant writing	39,600	--	39,600	--	--	--	39,600	40,975
Insurance	76,438	16,568	93,006	4,043	2,022	6,065	99,071	77,235
Interest expense	--	--	--	13,077	--	13,077	13,077	18,743
Licenses and permits	1,266	1,438	2,704	170	--	170	2,874	9,234
Marketing and media	17,498	--	17,498	--	17,498	17,498	34,996	563
Memberships	4,013	--	4,013	4,013	--	4,013	8,026	4,028
Miscellaneous	35,212	3,261	38,473	188	--	188	38,661	52,184
Office expenses	65,548	29,843	95,391	--	--	--	95,391	102,638
Outside services	103,049	--	103,049	33,617	--	33,617	136,666	182,457

(Statement of functional expenses continued on the following page)

WORKING WARDROBES FOR A NEW START

Statement of Functional Expenses
(Continued)
Year Ended December 31, 2017
(with summarized financial information for the year ended December 31, 2016)

	Program Services			Supporting Services				
	Career Services	Resale Operations	Subtotal	General and Admin	Fundraising	Subtotal	Total 2017	Total 2016
Payroll fees	4,160	--	4,160	--	--	--	4,160	9,710
Payroll taxes	102,593	57,624	160,217	19,857	9,928	29,785	190,002	154,924
Personnel development	18,320	10,448	28,768	11,872	--	11,872	40,640	20,476
Printing and postage	4,568	1,869	6,437	801	400	1,201	7,638	5,248
Promotions	--	54,215	54,215	--	--	--	54,215	1,272
Rent	171,395	358,828	530,223	33,173	16,587	49,760	579,983	575,376
Repairs and maintenance	19,269	10,939	30,208	3,729	1,865	5,594	35,802	44,148
Salaries and wages	1,031,564	637,579	1,669,143	389,863	97,219	487,082	2,156,225	1,919,368
Security	1,528	5,285	6,813	296	148	444	7,257	6,843
Taxes	1,134	--	1,134	--	--	--	1,134	1,778
Telephone	20,396	29,033	49,429	--	--	--	49,429	43,599
Travel and entertainment	24,927	4,314	29,241	--	--	--	29,241	29,630
Utilities	43,313	28,954	72,267	--	--	--	72,267	78,868
Total expenses before depreciation and amortization	2,217,739	1,346,439	3,564,178	564,568	242,312	806,880	4,371,058	4,252,915
Depreciation and amortization	56,886	48,453	105,339	--	--	--	105,339	72,982
Total expenses	$ 2,274,625	$ 1,394,892	$ 3,669,517	$ 564,568	$ 242,312	$ 806,880	$ 4,476,397	$ 4,325,897

See accompanying notes to financial statements

WORKING WARDROBES FOR A NEW START

Statements of Cash Flows
Year Ended December 31, 2017
(with summarized financial information for the year ended December 31, 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 1,763,832	$ 258,789
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Depreciation and amortization	105,339	72,982
Donated assets	--	(23,900)
Accounts receivable	(31,063)	2,962
Grants receivable	(20,000)	8,750
Prepaid expenses	(11,149)	(11,772)
Inventory	(147,058)	205,086
Contributions receivable	39,491	36,540
Deposits	2,075	(14,860)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	43,683	23,214
Deferred revenue	23,380	61,800
Deferred rent	5,103	68,876
Net cash provided by operating activities	1,773,633	688,467
Cash flows from investing activities:		
Acquisition of property and equipment	(41,222)	(162,369)
Net cash (applied to) investing activities	(41,222)	(162,369)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	--	226,000
Principal repayments on notes payable	(23,721)	(50,860)
Net activity on revolving line of credit	--	(140,741)
Principal repayments on related party notes payable	--	(59,505)
Net cash (applied to) financing activities	(23,721)	(25,106)
Net increase in cash	1,708,690	500,992
Cash and cash equivalents at beginning of year	584,989	83,997
Cash and cash equivalents at end of year	$ 2,293,679	$ 584,989
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 13,077	$ 18,743

See accompanying notes to financial statements

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
December 31, 2017 and 2016

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.

Resale Shops - The Organization has four resale shops located in Anaheim, Costa Mesa, Garden Grove, and Huntington Beach, CA 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 six 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)

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, 2017 and 2016.

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)

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2017 and 2016

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, 2017 and 2016, wardrobe inventory recorded on the statement of financial position is valued at estimated net realizable value of $705,480 and $558,422, respectively.

Concentration of Revenue Sources and Credit Risk – For the years ended December 31, 2017 and 2016, the Organization received contributions from one source totaling $2,086,860 and $823,578, representing approximately 90% and 75% of contributions as disclosed in the statement of activities, respectively. 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 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, 2017 and 2016, such nonspecialized volunteer hours totaled 40,933 and 39,700, the value of such hours the Organization estimated to be $1,078,175 and $1,045,698, 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 $142,690 and $71,763 are recorded as income and expense in the statement of activities for the years ended December 31, 2017 and 2016, respectively.

(Note 1 continued on the following page)

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2017 and 2016

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, 2017 and 2016

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	3 - 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.

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.

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.

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.

(Note 1 continued on the following page)

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016.

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, 2017 and 2016, was $40,474 and $5,118, 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, 2016 from which the summarized information was derived.

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.

Recent Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers:* Topic 606. Under Topic 606, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Management is currently assessing the impact of Topic 606 on the financial statements. Topic 606 is effective for our year ended December 31, 2019.

(Note 1 continued on the following page)

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued) - In February 2016, the Financial Accounting Standards Board (FASB) 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. The Organization is in the process of assessing the potential impact of the ASU on its financial statements.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Under ASU No. 2016-14, not-for-profit entities will be required to provide additional information as follows:

- Transition to a two-class net asset classification;
- Liquidity and availability disclosures;
- Expense reporting presented by function and nature and the allocation methodology disclosed;
- Investment returns will be required to be presented, net of all investment expenses; and
- Statement of cash flows changes where the direct method no longer needs the indirect reconciliation.

ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. The Organization is in the process of assessing the potential impact of the ASU on its financial statements.

Subsequent Events - The Organization evaluated subsequent events through March 9, 2018, the date these financial statements were issued. 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, 2017 and 2016

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, 2017 and 2016:

	Assets at Fair Value as of December 31, 2017			
	Level 1	*Level 2*	*Level 3*	*Total*
Contributions receivable	$ --	$ --	$	$ --
Total assets at fair value	$ --	$ --	$ --	$ --

	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

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, 2017 and 2016.

	2017	**2016**
Balance, beginning of year	$ 39,491	$ 76,031
Payments received	(6,835)	(18,095)
Write-offs	(42,156)	(14,790)
Change in allowance for uncollectible pledges	9,500	(5,300)
Change in present value discount amount	--	1,645
Balance, end of year	$ --	$ 39,491

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2017 and 2016

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 in future years. Uncollected promises that are expected to be collected within one year are recorded at the estimated net realizable value. Uncollected promises 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:

	2017	2016
Amounts due in:		
Less than one year	$ --	$ 44,950
One to five years	--	4,100
	--	49,050
Less: allowance for uncollectibles	--	(9,500)
Less: unamortized discount	--	(59)
	$ --	$ 39,491

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and consist of the following at December 31, 2017 and 2016:

	2017	2016
Furniture and equipment	$ 287,109	$ 281,821
Computer software	97,115	97,115
Leasehold improvements	320,682	285,012
Auto	35,000	35,000
	739,906	698,948
Less: Accumulated depreciation and amortization	(555,487)	(450,412)
	$ 184,419	$ 248,536

Total depreciation and amortization expense for the years ended December 31, 2017 and 2016, was $105,339 and $72,982, respectively.

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2017 and 2016

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at December 31, 2017 and 2016:

		2017		2016
Accounts payable	$	56,549	$	35,914
Accrued vacation		27,171		23,497
Credit cards payable		--		1,736
Accrued payroll		32,578		12,683
Sales tax payable		3,469		10,206
Accrued professional fees		23,000		27,000
Other		13,946		1,994
	$	156,713	$	113,030

NOTE 6 - NOTES PAYABLE

Notes payable at December 31, 2017 and 2016 is summarized as follows:

		2017		2016
Note payable to Pacific Premier 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, 2017), scheduled to mature in April 2023.	$	151,419	$	175,140
		151,419		175,140
Less current portion		(25,498)		(24,294)
	$	125,921	$	150,846

(Note 6 continued on the following page)

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2017 and 2016

NOTE 6 - NOTES PAYABLE (Continued)

Aggregate maturities of the notes payable as of December 31, 2017 are as follows:

Aggregate maturities of the notes payable as of December 31, 2017 are as follows:

Years ending December 31:		
2018	$	25,498
2019		26,868
2020		28,181
2021		29,558
2022		31,002
Thereafter		10,312
	$	151,419

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

Interest expense for the aforementioned notes payable was $12,795 and $14,276 for the years ended December 31, 2017 and 2016, respectively.

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2017 and 2016

NOTE 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 2018 to provide the Organization with short-term working capital. Borrowings bear interest at the bank's prime rate (prime rate at December 31, 2017 was 4.50%) 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, 2017, and December 31, 2016.

In April 2016, the Organization entered into a revolving line of credit (LOC) with Pacific Premier Bank. The LOC provides for borrowings through October 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, 2017 and December 31, 2016.

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

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017 and 2016 consist of the following:

	2017	2016
Contribution receivables	$ --	$ 39,491
Deferred revenue	85,380	62,000
Grants receivable	30,000	10,000
Total temporarily restricted net assets	$ 115,380	$ 111,491

WORKING WARDROBES FOR A NEW START

Notes to Financial Statements
(Continued)
December 31, 2017 and 2016

NOTE 9 - COMMITMENTS

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 $2,448 to $18,793 expiring September 2018 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 resale store on a month to month basis. The Organization pays monthly rent for the outlet store of $2,160.

Future minimum annual rental payments under noncancelable operating leases at December 31, 2017 are as follows:

Years ending December 31:		
2018	$	427,395
2019		318,029
2020		262,973
2021		216,823
2022		223,327
Thereafter		75,173
	$	1,523,720

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 was 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 was obligated to pay the lessor an early termination charge of $25,000.

Rent expense related to the aforementioned operating lease agreements was $579,983 and $575,376 for the years ended December 31, 2017 and 2016, respectively.