



**AUDITED FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2021**

**CLOTHES THAT WORK**  
**YEAR ENDED DECEMBER 31, 2021**

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## Independent Auditors' Report

Board of Directors  
Clothes That Work  
Dayton, OH

### **Opinion**

We have audited the accompanying financial statements of Clothes That Work (a non-profit organization), which comprise the statement of financial position as of December 31, 2021 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 2021 financial statements referred to above present fairly, in all material respects, the financial position of Clothes That Work as of December 31, 2021, and the statements of activities 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 audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Clothes That Work and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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.

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 Clothes That Work's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Consolidated 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Clothes That Work'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 Clothes That Work'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.

*Kentner Sellers, LLP*

KENTNER SELLERS, LLP

October 4, 2022

**CLOTHES THAT WORK**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2021**

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**ASSETS**

**CURRENT ASSETS:**

Cash	\$ 578,325
Accounts receivable	2,985
Pledges receivable	19,550
Grants receivable	133,004
Prepaid expense	7,142
Inventories	<u>87,796</u>
Total Current Assets	<u>828,802</u>

**PROPERTY AND EQUIPMENT:**

Office equipment	24,900
Software	<u>75,676</u>
	100,576
Less accumulated depreciation	<u>(82,180)</u>
	<u>18,396</u>

**OTHER ASSETS:**

Deposits	<u>6,521</u>
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Total Assets	<u>\$ 853,719</u>
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accounts payable	\$ 10,539
Accrued payroll and taxes	20,131
Sales tax payable	1,026
Accrued interest	<u>6,696</u>
Total Current Liabilities	<u>38,392</u>

**LONG-TERM DEBT**

149,900

**NET ASSETS:**

Without donor restrictions	639,427
With donor restrictions	<u>26,000</u>
Total Net Assets	<u>665,427</u>

Total Liabilities and Net Assets \$ 853,719

**CLOTHES THAT WORK**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2021**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>CONTRIBUTIONS, REVENUE, GAINS, AND LOSSES:</b>			
Grants	\$ 322,893	\$ 24,000	\$ 346,893
Contributions	56,596	2,000	58,596
In-kind contributions	681,850	0	681,850
Special events	116,012	0	116,012
Less cost of direct benefit to participants	<u>(27,510)</u>	<u>0</u>	<u>(27,510)</u>
Special events - net	88,502	0	88,502
Program service fees	15,815	0	15,815
Training fees	49,904	0	49,904
Boutique sales	128,528	0	128,528
Interest income	<u>3,584</u>	<u>0</u>	<u>3,584</u>
Total Revenue	<u>1,347,672</u>	<u>26,000</u>	<u>1,373,672</u>
 <b>TOTAL CONTRIBUTIONS, REVENUE, GAINS, AND LOSSES:</b>			
	<u>1,347,672</u>	<u>26,000</u>	<u>1,373,672</u>
 <b>EXPENSES:</b>			
Program services	1,085,249	0	1,085,249
Supporting services:			
Management and general	64,716	0	64,716
Fundraising	<u>59,059</u>	<u>0</u>	<u>59,059</u>
Total Expenses	<u>1,209,024</u>	<u>0</u>	<u>1,209,024</u>
 <b>CHANGE IN NET ASSETS</b>			
	138,648	26,000	164,648
 <b>NET ASSETS - BEGINNING OF YEAR</b>			
	<u>500,779</u>	<u>0</u>	<u>500,779</u>
 <b>NET ASSETS - END OF YEAR</b>			
	<u>\$ 639,427</u>	<u>\$ 26,000</u>	<u>\$ 665,427</u>

See Notes to Financial Statements.

**CLOTHES THAT WORK**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2021**

	<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries	\$ 229,718	\$ 28,715	\$ 28,715	\$ 287,148
Employee benefits	4,221	528	528	5,277
Payroll taxes	19,600	2,450	2,450	24,500
Donated merchandise	665,700	0	0	665,700
Supplies	5,306	169	169	5,644
Professional fees	45,717	5,715	5,715	57,147
Bad debt expense	6,490	0	0	6,490
Travel and entertainment	2,167	271	271	2,709
Advertising	4,790	3,193	7,983	15,966
Repairs and maintenance	128	16	16	160
Equipment rental	2,055	2,055	0	4,110
Interest expense	5,356	670	670	6,696
Postage and shipping	1,115	557	557	2,229
Dues and subscriptions	2,195	732	732	3,659
Insurance	1,532	1,916	383	3,831
Rent	68,558	8,570	8,570	85,698
Telephone	7,156	894	894	8,944
Computer expenses	5,657	707	707	7,071
Bank service charge	0	6,859	0	6,859
Miscellaneous expenses	2,201	0	0	2,201
Depreciation	<u>5,587</u>	<u>699</u>	<u>699</u>	<u>6,985</u>
Total Expenses	<u>\$ 1,085,249</u>	<u>\$ 64,716</u>	<u>\$ 59,059</u>	<u>\$ 1,209,024</u>

See Notes to Financial Statements.



**CLOTHES THAT WORK**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2021**

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**OPERATING ACTIVITIES:**

Change in Net Assets	\$ 164,648
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used by) Operating Activities:	
Depreciation	6,985
Bad debt expense	6,490
PPP2 Term Note forgiveness	(56,882)
Decrease (increase) in operating assets:	
Accounts receivable	(1,970)
Pledges receivable	(16,550)
Grants receivable	(133,004)
Inventories	10,382
Increase (decrease) in operating liabilities:	
Accounts payable	6,152
Sales tax payable	632
Accrued payroll and taxes	(13,151)
Accrued interest	<u>6,696</u>
Net Cash Provided by (Used in) Operating Activities	<u>(19,572)</u>

**FINANCING ACTIVITIES:**

Proceeds from PPP2 Term Note	<u>56,882</u>
Net Cash Provided by (Used in) Financing Activities	<u>56,882</u>

**INCREASE IN CASH** 37,310

**CASH - Beginning of Year** 541,015

**CASH - End of Year** \$ 578,325

**CLOTHES THAT WORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE A - ORGANIZATION AND OPERATIONS**

Clothes That Work (the Organization) is a not-for-profit corporation operating to provide interview and work-appropriate clothing to women, men, and teens in transition who are developing their job skills to become self-reliant in the greater Dayton, Ohio area. The Organization receives support primarily from special events, sales from the Organization's Boutique, donations (including in-kind), grants, contracts and fees.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as contained in the Accounting Standards Codification (ASC) issued by the Financial Accounting Standards Board (FASB).

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. A description of each class as it pertains to the Organization is as follows:

*Net assets without donor restrictions* – Represents resources that have no restrictions on their use or purpose and are available for operations. These assets may be used at the discretion of the organization's management and the board of directors.

*Net assets with donor restrictions* – Represents resources resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When a restriction expires or is fulfilled, 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.

**CLOTHES THAT WORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions

The Organization recognizes revenue in accordance with FASB ASU 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event (the exchange component); the remaining portion represents a contribution to the Organization. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recorded as costs of direct donor benefits in the statement of activities and changes in net assets. The performance obligation is delivery of the event, which is usually accompanied by a presentation. The event fees are set by the Organization. FASB ASU 2014-09 requires allocation of the transaction price to the performance obligations.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or specific purposes are reported as net assets with donor restrictions and increases that net asset class. However, if a restriction is met in the same time period in which the contribution is received, the Organization reports the revenue as net assets without donor restrictions.

The Organization also receives grant revenues from various unrelated organizations through a contract agreement, which is accounted for on the accrual method.

In-kind contributions are recorded as revenue and expense at their fair value in the period they are received.

The Organization also has sales from a boutique called The Boutique. The boutique sales are accounted for on the accrual basis of accounting. The Boutique sells items that have been donated to the Organization and cannot be distributed through care packages. Revenue from The Boutique was \$108,407 during the year ended December 31, 2021.

Government Grants

The Organization accounts for government grants that are expected to be forgiven in accordance with FASB ASC 958-605 as conditional contributions. Revenue is recognized as the Organization meets specified criteria for forgiveness. In cases where conditions are met over time, contributions are recognized as qualifying expenses are incurred.

**CLOTHES THAT WORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Classification

Functional classification is a method of grouping expenses according to the purpose for which costs are incurred. This is done to help donors and others in assessing the Organization's service efforts. The primary functional classifications are program services and supporting activities. Program services are the activities that result in goods and services being distributed to beneficiaries or which fulfill the Organization's purpose and mission. Supporting activities are all activities of the Organization other than program services and include fundraising and management and general.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. All expenses are allocated on the basis of estimates of time and effort.

Cash and Cash Equivalents

The Organization considers all short-term investments with a maturity of ninety days or less to be cash equivalents for purposes of reporting balance sheet cash and cash flows.

Receivables

Accounts receivable and grants receivable represent uncollateralized obligations from various organizations and government entities for program service fees and reimbursement of program expenses in accordance with contractual agreements.

Pledge receivables represent unconditional promises from donors to contribute cash or other assets to the Organization. All pledges are recorded as contributions when the pledge is made at the net present value of the amount expected to be collected. Amounts expected to be collected after one year are recorded at the present value of their estimated future cash flows. Amortization of the discount for present value is included in revenue.

**CLOTHES THAT WORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Inventory

Inventory consists of donated clothing from local donors and items purchased by the Organization. The Organization values its purchased inventory at purchase price and donated inventory at fair value.

Property and Equipment

Property and equipment is recorded at cost, or if donated, at fair value. Property and equipment additions exceeding \$500 are capitalized. Impairment of asset value is recognized whenever events or changes in circumstances indicate that carrying amounts are not recoverable. For financial reporting purposes, the Organization provides for depreciation of its property and equipment according to asset classification on the following basis:

<u>CLASSIFICATION</u>	<u>USEFUL LIFE</u>	<u>METHOD</u>
Office equipment	5 to 7 Years	Straight-line
Software	5 to 7 Years	Straight-line

Advertising

Advertising costs are charged to expense as incurred. Advertising expense for the year ended December 31, 2021, was \$15,966.

Donated Services and Materials

Current accounting standards require the fair value of donated services to be recognized if the services either (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by entities or person possessing those skills, and would need to be purchased if they were not donated.

A substantial number of volunteers have made significant contributions of time to the Organization's policy making, program and support functions. The value of this contributed time does not meet the criteria detailed above and accordingly is not reflected in the accompanying financial statements.

Income Tax Status

Clothes That Work is an Ohio not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

**CLOTHES THAT WORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Tax Status (Continued)

The Organization follows authoritative guidance related to the accounting for uncertain tax positions. The new guidance prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements tax positions taken or expected to be taken on information and tax returns, including the positions that the Organization is exempt from income taxes or not subject to income taxes on unrelated business income. Management concluded that there are no material uncertain tax positions as of December 31, 2021. Accordingly, there is no adjustment to the financial statements required to comply with the provisions of this guidance.

**NOTE C - CONCENTRATION OF CREDIT RISK**

The Organization maintains cash balances at one financial institution which insures its customer accounts with the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At various times throughout the year, the Organization maintained cash balances in excess of FDIC insured limits. As of December 31, 2021, the uninsured portion of this balance was \$204,774, respectively.

**NOTE D - AVAILABILITY AND LIQUIDITY**

The Organization has \$733,864 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures, consisting of cash of \$578,325, accounts receivable of \$2,985, pledges receivable of \$19,550, and grants receivable of \$133,004. There are \$26,000 of the financial assets subject to donor restrictions that make them unavailable for general expenditures within one year of the statement of financial position date. There are no internal limits imposed by the Board of Directors.

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**CLOTHES THAT WORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE E - PLEDGES RECEIVABLE**

Pledges receivable at December 31 consist of the following:

	<u>2021</u>
Individual pledges	<u>\$ 19,550</u>
Pledges receivable, due in:	
Less than one year	\$ 17,550
One to five years	<u>2,000</u>
	<u>\$ 19,550</u>

**NOTE F - LONG-TERM DEBT**

Long-term debt consists of the following at December 31:

	<u>2021</u>
<u>U.S. Small Business Administration</u>	
Secured disaster loan under the Economic Injury Disaster Loan (EIDL) assistance program requiring monthly payments of \$641 beginning in November 2022. The note bears interest at 2.75% and matures in May 2050. The note is secured by all Organization assets.	<u>\$ 149,900</u>

**CLOTHES THAT WORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE F - LONG-TERM DEBT (Continued)**

Maturities of long-term debt are as follows:

YEARS ENDING DECEMBER 31	AMOUNT
2022	\$ 0
2023	900
2024	3,600
2025	3,700
2026	3,800
2027 and Thereafter	137,900
	\$ 149,900

On January 29, 2021, the Organization entered into a term note with PNC Bank with a principal amount of \$56,882 pursuant to the PPP2 Term Note under the CARES Act. This PPP Second Draw Loan was evidenced by a promissory note bearing interest at a fixed annual rate of 1.00%. The PPP Second Draw Term Note was unsecured and guaranteed by the United States SBA. On December 1, 2021, the Organization was granted full forgiveness of the PPP2 Term Note, based on the terms and conditions of the loan and the CARES Act. As of December 31, 2021, the Organization recognized the debt forgiveness as grant revenue and reported it on the statement of activities as such.

**NOTE G - NET ASSETS WITH DONOR RESTRICTIONS**

The Organization's net assets with donor restrictions are comprised of the following at December 31:

	2021
Donor restricted funds related to Mobile Outreach Program	\$ 24,000
Restricted pledges related to future year spending	2,000
	\$ 26,000



**CLOTHES THAT WORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE H - EMPLOYEE RETENTION CREDIT**

The Employee Retention Credit (ERC) allows for a refundable tax credit against certain employment taxes equal to 50% of the first ten thousand dollars in qualified wages paid to each employee commencing on March 13, 2020 through January 1, 2021. To be eligible, the organization must (i) have had operations fully or partially suspended because of a shut-down order from a governmental authority related to the COVID-19 pandemic, or (ii) have had gross receipts decline by more than 50% in a calendar quarter, when compared to the same quarter in 2019. Qualified wages are limited to wages paid to employees who were not providing services due to the COVID-19 pandemic.

The ERC was extended for nine months and allows a refundable credit for certain employment taxes equal to 70% of the first ten thousand dollars in qualified wages paid to each employee commencing January 1, 2021 through September 30, 2021. To be eligible, the company must (i) have had operations fully or partially suspended because of governmental orders limiting commerce, travel or group meetings due to COVID-19, or (ii) have had gross receipts decline by more than 20% in a calendar quarter in 2021, when compared to the same quarter in 2019. For employers averaging 500 or fewer full-time employees in 2019, qualified wages are wages paid to all employees, regardless of the services being provided.

During the year ended December 31, 2021, the Organization recognized \$119,511 related to the ERC as grant revenue on the statement of activities and in grant receivables on the statement of financial position. Subsequent to year end, the Organization received ERC refund payments for all three quarters requested.

**NOTE I - LEASE COMMITMENTS**

The Organization had a lease for office and warehouse space through April 2022, requiring monthly payments of \$7,142. In July 2022, the Organization renewed the lease, requiring total monthly payments of \$6,788 and expiring in June 2024. While the Organization was in the process of renewing the lease, the rent was on a month-to-month basis, requiring monthly payments of \$7,142.

In September 2019, the Organization entered into a copier lease agreement, requiring monthly payments of \$297. This lease expires in August 2024.

Lease expense was \$89,808 for the year ended December 31, 2021.

**CLOTHES THAT WORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE I - LEASE COMMITMENTS (Continued)**

Future lease payments are as follows:

YEARS ENDING DECEMBER 31	AMOUNT
2022	\$ 87,200
2023	85,000
2024	43,000
	\$ 215,200

**NOTE J - SPECIAL EVENT REVENUE**

Gross receipts from special fundraising events recorded by the Organization consist of exchange transaction revenue and contribution revenue. As a result of adopting FASB ASU 2014-09 during 2019, the Organization is required to separately present the components of this revenue.

	2021
Contributions	\$ 27,510
Special event revenue	88,502
Special events - gross	\$ 116,012

The Organization had in-kind expenses relating to special events of \$20,563 for the year ended December 31, 2021.

**NOTE K - IN-KIND CONTRIBUTIONS**

The Organization's in-kind contributions consist of donated clothing and other items for program services and fundraising. The Organization's donated clothing received totaled \$653,317 for the year ended December 31, 2021. The Organization's donated program and other services received totaled \$28,533 for the year ended December 31, 2021. Total in-kind contributions and services was \$681,850 for the year ended December 31, 2021.

**CLOTHES THAT WORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**NOTE L - SUBSEQUENT EVENT**

The Organization has evaluated subsequent events through October 4, 2022, the date which the financial statements were available to be issued.