

Clothes To Kids of Denver, Inc.

**Financial Statements and
Independent Auditor's Report**

December 31, 2017 and 2016

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**Haynie &
Company**

Certified Public Accountants (a professional corporation)

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Independent Auditor's Report

Board of Directors
Clothes To Kids of Denver, Inc.

We have audited the accompanying financial statements of Clothes To Kids of Denver, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clothes To Kids of Denver, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Littleton, Colorado
April 23, 2018



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Clothes To Kids of Denver, Inc.
Statements of Financial Position
For the Years Ended December 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 281,236	\$ 230,651
Inventory	234,645	240,467
Total current assets	515,881	471,118
Long-term assets:		
Security deposit	2,200	2,200
Property and equipment:		
Furniture and equipment	33,808	29,058
Computers and software	6,735	2,518
Leasehold improvements	16,218	16,218
	56,761	47,794
Less: accumulated depreciation and amortization	(32,808)	(27,928)
Net property and equipment	23,953	19,866
Total long-term assets	26,153	22,066
Total assets	\$ 542,034	\$ 493,184
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,806	\$ 5,090
Total current liabilities	4,806	5,090
Net assets		
Unrestricted	537,228	488,094
Total net assets	537,228	488,094
Total liabilities and net assets	\$ 542,034	\$ 493,184

The accompanying notes are an integral part of these financial statements.

Clothes To Kids of Denver, Inc.
Statements of Activities
For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
In-kind contributions	\$ 655,434	\$ -	\$ 655,434	\$ 600,334		\$ 600,334
Grants	170,261	-	170,261	131,000		131,000
Individual donations	105,142	-	105,142	75,361	23,000	98,361
Special events, net of \$26,872 and \$21,256, respectively, in direct benefit to donors	165,711	-	165,711	144,072		144,072
Other income	2,042	-	2,042	2,228		2,228
Interest income	557	-	557	162		162
Revenue released from restrictions	-	-	-	23,000	(23,000)	-
Total support and revenue	<u>1,099,147</u>	<u>-</u>	<u>1,099,147</u>	<u>976,157</u>	<u>-</u>	<u>976,157</u>
Expenses						
Program services	<u>952,891</u>	<u>-</u>	<u>952,891</u>	<u>826,237</u>	<u>-</u>	<u>826,237</u>
Supporting services:						
Fundraising	47,447	-	47,447	39,563	-	39,563
Management and general	<u>49,675</u>	<u>-</u>	<u>49,675</u>	<u>57,318</u>	<u>-</u>	<u>57,318</u>
Total supporting services	<u>97,122</u>	<u>-</u>	<u>97,122</u>	<u>96,881</u>	<u>-</u>	<u>96,881</u>
Total expenses	<u>1,050,013</u>	<u>-</u>	<u>1,050,013</u>	<u>923,118</u>	<u>-</u>	<u>923,118</u>
Change in Net Assets	49,134	-	49,134	53,039	-	53,039
Net assets beginning of year	<u>488,094</u>	<u>-</u>	<u>488,094</u>	<u>435,055</u>	<u>-</u>	<u>435,055</u>
Net assets end of year	<u>\$ 537,228</u>	<u>\$ -</u>	<u>\$ 537,228</u>	<u>\$ 488,094</u>	<u>\$ -</u>	<u>\$ 488,094</u>

The accompanying notes are an integral part of these financial statements.

Clothes To Kids of Denver, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 49,134	\$ 53,039
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,880	4,190
Changes in assets and liabilities:		
Change in inventory	5,823	(32,191)
Change in accounts payable and accrued liabilities	(284)	5,090
Net cash from operating activities	59,553	30,128
Cash flows from investing activities		
Purchase of fixed assets	(8,968)	(5,553)
Net cash from investing activities	(8,968)	(5,553)
Net change in cash and cash equivalents	50,585	24,575
Cash balance—beginning of year	230,651	206,076
Cash balance—end of year	\$ 281,236	\$ 230,651

The accompanying notes are an integral part of these financial statements.

Clothes To Kids of Denver, Inc.
Statements of Functional Expenses
For the Years Ended December 31, 2017 and 2016

	2017			2016	
	Program Services	Supporting Services		Total	Total
		Management and General	Fundraising		
Inventory	\$ 748,429	\$ -	\$ -	\$ 748,429	\$643,746
Compensation and related expenses:					
Compensation	124,735	21,172	27,997	173,904	152,371
Payroll taxes and other	10,423	1,772	2,401	14,596	12,325
Occupancy:					
Rent	46,984	2,186	2,186	51,356	50,483
Telephone and internet	2,578	155	155	2,888	2,703
Store fixtures and other	2,047	-	-	2,047	2,876
Technology and equipment	1,308	2,661	1,122	5,091	4,850
Insurance:					
General liability	-	2,148	-	2,148	1,566
Property	505	9	9	523	525
Directors and officers	-	1,409	-	1,409	690
Workers' compensation and unemployment	2,310	385	513	3,208	4,053
Accounting and audit	-	12,364	-	12,364	7,274
General marketing	963	1,460	3,570	5,993	5,154
Special events	-	-	4,863	4,863	15,404
Postage and shipping	-	688	6	694	1,664
Printing and copying	1,274	551	3,492	5,317	1,781
Supplies and other	1,915	86	-	2,001	2,387
Background checks	1,822	-	-	1,822	951
Credit card processing	-	-	3,243	3,243	3,347
Volunteer appreciation	2,037	-	-	2,037	1,648
Membership and dues	-	240	-	240	1,620
Depreciation and amortization	4,880	-	-	4,880	4,190
Miscellaneous	681	161	118	960	1,510
Total expenses	<u>\$ 952,891</u>	<u>\$ 47,447</u>	<u>\$ 49,675</u>	<u>\$ 1,050,013</u>	<u>\$923,118</u>

The accompanying notes are an integral part of these financial statements.

Clothes To Kids of Denver, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

1. Organization

Clothes To Kids of Denver (the "Organization") is a private, not-for-profit organization established in 2008 to provide new and quality used clothing to students from low-income or in-crisis families in the Denver Metro Area*, free of charge. To be eligible for clothing from the Organization, students must live in the Denver Metro Area or be in foster care, must be enrolled in grades preschool-12, or actively pursuing a General Equivalency Degree (GED), and must either be receiving Free and Reduced Lunch (FRL) through their school or be referred by an authorized person or institution, such as a school employee, religious leader or human service agency.

Central to the Organization's mission is a 3,000-square foot boutique where students are invited to browse a wide selection of clothing for a 21-22 piece school wardrobe, which includes 5 tops, 4 bottoms (shorts, pants or skirts), 1 dress (optional), 1 pair of shoes, 1 coat, 5 pairs each of new socks and underwear. Students who qualify may schedule an appointment to select a wardrobe of clothes twice in any 12-month period. The Organization relies on in-kind and monetary contributions as its primary source for providing these services. The Organization's inventory comes from individuals, community clothing drives, retail stores and clothing manufacturers. While most inventory is donated, the Organization purchases new socks and underwear, as well as clothing items and shoe sizes that are in short supply.

** The Organization serves students from 10 counties (Denver, Boulder, Douglas, Jefferson, Gilpin, Clear Creek, Adams, Arapahoe, Elbert and Park), which includes 19 school districts (Adams 12 Five Star Schools, Adams 14/Commerce City, Adams 50 (Westminster), Aurora Public Schools, Boulder Valley School District, Brighton 27J, Cherry Creek School District, Clear Creek School District, Denver Public Schools, Douglas County School District, Elizabeth School District C-1, Englewood Schools, Gilpin County School District, Jeffco Public Schools, Littleton Public Schools, Mapleton Public Schools, Platte Canyon, Sheridan School District 2 and St. Vrain Valley).*

2. Summary of Significant Accounting Policies

Method of Accounting

The Organization's records are maintained on the accrual basis of accounting in conformity with generally accepted accounting principles as applicable to not-for-profit organizations.

Basis of Accounting

Financial statement presentation follows the Accounting Standards Codification guidance for not-for-profit organizations, which requires the Organization to report information regarding its

Clothes To Kids of Denver, Inc.
Notes to Financial Statements (continued)
December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include all cash on hand and demand deposits. The Organization considers all highly liquid investments, except those restricted for endowment, with an original maturity of three months or less to be cash equivalents.

Inventory

Inventory primarily consists of quality used clothing, excluding socks and underwear which are new. Purchased inventory items are valued at cost. Inventory of clothes and other items donated to the Organization are valued at the estimated thrift-store value.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at estimated fair value at the date of receipt if donated. Acquisitions in excess of \$500 are capitalized. Depreciation is computed on the straight-line method over estimated useful lives of the assets and leasehold improvements are amortized over the expected term of the related lease. Repairs and maintenance are charged to expense as incurred. Fixed assets are depreciated over the following useful lives:

Furniture and fixtures	5-7 Years
Computers and software	3 Years
Leasehold improvements	15 Years

Revenue Recognition

Special event revenue is recognized in the period in which the event is held. Other revenue is recognized when earned.

Contributions and Grants

A contribution that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in permanently or temporarily restricted net assets. When a donor restriction expires, that is, when the purpose restriction is accomplished by an expenditure meeting the stated purpose or a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as a transfer in satisfaction of program restrictions.

Clothes To Kids of Denver, Inc.
Notes to Financial Statements (continued)
December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Donated Goods and Services

Donated goods, use of facilities, and services are recognized at fair value as of the date of donation. The related expense is recognized as the item is used. Contributions of services are recognized when the services received (a) create or enhance nonfinancial 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.

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 program and supporting service benefitted.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue, and expenses during the reporting period. Actual results could differ from those estimates.

Tax Exempt Status

Clothes To Kids of Denver, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from State income taxes under similar provisions of the Colorado Income Tax Code, except on net income derived from unrelated business activities. During 2017, the Organization had no unrelated business activities and believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's federal tax return (Form 990) for 2017 is subject to examination by the IRS, generally for three years after the return is filed.

Subsequent Events

Subsequent events have been evaluated through the auditor's report date, which is the date the financial statements were available to be issued, and none were identified.

3. Concentration of Credit Risk

The Organization's cash demand deposits are held at financial institutions, which are insured up to \$250,000 by the FDIC. As of December 31, 2017 and 2016, the Organization's bank balances exceeded this limitation by \$35,100 and \$0, respectively.

Clothes To Kids of Denver, Inc.
Notes to Financial Statements (continued)
December 31, 2017 and 2016

4. Inventory

Inventory at December 31, 2017 and 2016 consisted of the following:

	Carrying Value	
	<u>2017</u>	<u>2016</u>
Purchased inventory		
Socks and underwear	\$ 71,475	\$ 52,649
Donated inventory:		
Clothing and shoes	<u>163,170</u>	<u>187,818</u>
Total inventory	<u>\$234,645</u>	<u>\$240,467</u>

5. Concentrations

The Organization receives a substantial amount of its support from individual donations of clothing and other items. A significant reduction in the level of this support, if this was to occur, would have a significant effect on the Organization's programs and activities.

6. Property and Equipment

An analysis of the changes in property and equipment during 2017 are as follows:

	<u>12/31/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2017</u>
Assets at cost:				
Furniture and equipment	\$ 29,058	\$ 4,750	\$ -	\$ 33,808
Computers and software	2,518	4,217	-	6,735
Leasehold improvements	<u>16,218</u>	<u>-</u>	<u>-</u>	<u>16,218</u>
Total assets	<u>47,794</u>	<u>8,968</u>	<u>-</u>	<u>56,761</u>
Accumulated depreciation and amortization	<u>(27,928)</u>	<u>(4,881)</u>	<u>-</u>	<u>(32,808)</u>
Assets, net of accumulated depreciation and amortization	<u>\$ 19,866</u>	<u>\$ 4,087</u>	<u>\$ -</u>	<u>\$ 23,953</u>

Clothes To Kids of Denver, Inc.
Notes to Financial Statements (continued)
December 31, 2017 and 2016

6. Property and Equipment (continued)

An analysis of the changes in property and equipment during 2016 are as follows:

	<u>12/31/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2016</u>
Assets at cost:				
Furniture and equipment	\$ 24,308	\$ 4,750	\$ -	\$ 29,058
Computers and software	1,715	803	-	2,518
Leasehold improvements	<u>16,218</u>	<u>-</u>	<u>-</u>	<u>16,218</u>
Total assets	<u>42,421</u>	<u>5,553</u>	<u>-</u>	<u>47,794</u>
Accumulated depreciation and amortization	<u>(23,738)</u>	<u>(4,190)</u>	<u>-</u>	<u>(27,928)</u>
Assets, net of accumulated depreciation and amortization	<u>\$ 18,503</u>	<u>\$ 1,363</u>	<u>\$ -</u>	<u>\$ 19,866</u>

7. In-Kind Contributions

Certain goods and services are provided to the Organization gratis or at a cost substantially less than fair market value. The difference between the actual charge and the estimated fair value is reflected as in-kind contribution and expense or capitalized as property and equipment in the accompanying financial statements. In-kind contributions consist of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Clothing	\$ 645,831	\$ 587,788
Equipment and signage	4,750	5,629
Storage facility	4,050	4,050
Professional fees	-	1,500
Computers and software	<u>803</u>	<u>1,367</u>
Total	<u>\$ 655,434</u>	<u>\$ 600,334</u>

The Organization receives donations of miscellaneous accessories and items such as school supplies, toys, books and winter weather gear (“Extras”). Due to the wide variety of Extras, they are difficult to value and therefore have not been included as in-kind contributions or inventory. The Organization tracks outgoing Extras by weight. During 2017 and 2016, Extras distributed to student shoppers were 24,125 and 24,009 pounds, respectively.

Clothes To Kids of Denver, Inc.
Notes to Financial Statements (continued)
December 31, 2017 and 2016

7. In-Kind Contributions (continued)

During 2017 and 2016 volunteers donated a total of 8,414 and 10,061 hours, respectively, to the Organization in various capacities (in 2017 adults and groups gave 7,080 hours and youth gave 1,334 hours). However, these services are not reflected in the financial statements since the services do not require specialized skills.

8. Commitments and Contingencies

On July 7, 2008, the Organization entered into the original lease agreement for its primary office space. The original lease has been subsequently amended and extended through July 31, 2020 and calls for regular monthly rental payments. During the years ended December 31, 2017 and 2016, rent expense of \$46,984 and \$46,433, respectively, was incurred under this lease.

The Organization also entered into a lease agreement on October 21, 2014, for storage space for clothing and other items. The lease is a month-to-month agreement, with discounted monthly payments of \$1, and may be terminated with 30 days notice. As the rental rate on this space is below market rents, the Organization recorded estimated in-kind contributions and related rental expenses in the amount of \$4,050 for the years ended December 31, 2017 and 2016.

Future lease obligations as of December 31, 2017, are as follows:

<u>Year ending December 31,</u>	
2018	48,339
2019	49,293
2020	<u>29,079</u>
	<u>\$ 126,711</u>

9. Volunteers

A substantial number of unpaid volunteers have made contributions of their time. These volunteer contributions do not meet the criteria for financial statement recognition; however, approximately 8,414 hours (7,080 adult and group hours and 1,334 youth hours) at an estimated value of \$24.14 per hour, for a total unrecorded value of approximately \$203,114 was received in 2017. The total unrecorded value for 2016 was approximately \$242,873.