

WORKSHOPS FOR WARRIORS, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2018

WORKSHOPS FOR WARRIORS, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Workshops for Warriors, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Workshops for Warriors, Inc., a nonprofit organization, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and change in net asset, 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

Earning Your Trust Since 1946

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Workshops for Warriors, Inc. as of December 31, 2018, 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.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The composite score is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2019, on our consideration of Workshops for Warriors, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Workshops for Warriors, Inc.'s internal control over financial reporting and compliance.



CONSIDINE & CONSIDINE
An accountancy corporation

September 25, 2019

WORKSHOPS FOR WARRIORS, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

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ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 889,380
Accounts receivable	5,000
Contributions receivable	66,790
Prepaid expenses	<u>96,273</u>

TOTAL CURRENT ASSETS	1,057,443
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PROPERTY AND EQUIPMENT (note 3)	3,120,323
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OTHER ASSETS

Contributions receivable - long term	40,000
Due from related parties (note 4)	15,540
Security deposits	<u>100,000</u>

TOTAL OTHER ASSETS	<u>155,540</u>
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TOTAL ASSETS	<u><u>4,333,306</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	43,105
Accrued liabilities	109,105
Due to related party (note 4)	201,142
Note payable - current portion (note 5)	<u>31,545</u>

TOTAL CURRENT LIABILITIES	384,897
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LONG TERM LIABILITIES

Note payable (note 5)	<u>48,437</u>
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TOTAL LIABILITIES	433,334
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NET ASSETS (note 6)

Without donor restrictions	3,165,181
With donor restrictions	<u>734,791</u>

TOTAL NET ASSETS	<u>3,899,972</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,333,306</u></u>
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See accompanying notes to the financial statements

WORKSHOPS FOR WARRIORS, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

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	Without donor restrictions	With donor restrictions	Total
REVENUES			
Contributions	\$ 2,383,184	\$ 585,300	\$ 2,968,484
Donated goods and services	354,221	-	354,221
Tuition income (note 8)	108,623	-	108,623
Equipment rental income	3,850	-	3,850
Other income	94,521	-	94,521
	<u>2,944,399</u>	<u>585,300</u>	<u>3,529,699</u>
SPECIAL EVENTS			
Special event revenue	509,400	-	509,400
Direct benefit to donor	(18,290)	-	(18,290)
	<u>491,110</u>	<u>-</u>	<u>491,110</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Restrictions satisfied by payments	1,085,393	(1,085,393)	-
TOTAL REVENUE	4,520,902	(500,093)	4,020,809
OPERATING EXPENSES			
Program services	3,357,538	-	3,357,538
Management and general	505,522	-	505,522
Development	284,914	-	284,914
	<u>4,147,974</u>	<u>-</u>	<u>4,147,974</u>
OTHER			
Loss on disposal of property and equipment	22,061	-	22,061
CHANGE IN NET ASSETS	350,867	(500,093)	(149,226)
NET ASSETS, BEGINNING OF YEAR	2,814,314	1,234,884	4,049,198
NET ASSETS, END OF YEAR	<u>\$ 3,165,181</u>	<u>\$ 734,791</u>	<u>\$ 3,899,972</u>

See accompanying notes to the financial statements

WORKSHOPS FOR WARRIORS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

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		Supporting Services			
	Program services	Management and general	Development	Total supporting services	Total
Personnel and benefits	\$ 1,221,902	\$ 243,649	\$ 164,691	\$ 408,340	\$ 1,630,242
Facilities, equipment and maintenance	1,138,404	101,191	40,843	142,034	1,280,438
Professional services	105,069	21,014	54,373	75,387	180,456
Insurance	106,570	5,729	2,292	8,021	114,591
Meetings and travel	69,550	4,636	18,767	23,403	92,953
Office	77,166	9,078	4,539	13,617	90,783
Marketing	57,213	11,292	13,881	25,173	82,386
Human resources	-	74,521	-	74,521	74,521
Supplies	65,604	-	3,768	3,768	69,372
Scholarships	59,593	-	-	-	59,593
Training and education	59,218	-	-	-	59,218
Tax, license and subscriptions	45,544	8,037	50	8,087	53,631
Interest	4,028	448	-	448	4,476
Student recruitment	3,214	-	-	-	3,214
	<u>3,013,075</u>	<u>479,595</u>	<u>303,204</u>	<u>782,799</u>	<u>3,795,874</u>
Depreciation	<u>344,463</u>	<u>25,927</u>	<u>-</u>	<u>25,927</u>	<u>370,390</u>
	<u>3,357,538</u>	<u>505,522</u>	<u>303,204</u>	<u>808,726</u>	<u>4,166,264</u>
Less: Direct benefit to donors at special events included in revenue	<u>-</u>	<u>-</u>	<u>(18,290)</u>	<u>(18,290)</u>	<u>(18,290)</u>
Total expense included in the expense section of the statement of activities and change in net assets	<u>\$ 3,357,538</u>	<u>\$ 505,522</u>	<u>\$ 284,914</u>	<u>\$ 790,436</u>	<u>\$ 4,147,974</u>

See accompanying notes to the financial statements

WORKSHOPS FOR WARRIORS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

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CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

Change in net assets	\$ (149,226)
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ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

Depreciation	370,390
Amortization of debt issuance costs	3,674
Loss on disposal of property and equipment	22,061
Donated goods capitalized as property and equipment	(58,919)
Changes in operating assets and liabilities:	
Accounts receivable	12,297
Contributions receivable	79,574
Prepaid expenses	(54,836)
Due from related parties	71,816
Other assets	750
Accounts payable	12,067
Accrued liabilities	72,317
Due to related party	143,373
Deferred revenue	(2,500)
	522,838

NET CASH PROVIDED BY OPERATING ACTIVITIES

522,838

CASH FLOWS USED BY INVESTING ACTIVITIES

Cash paid for purchases of property and equipment	(1,560,678)
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CASH FLOWS USED BY FINANCING ACTIVITIES

Principal payments on note payable	(31,543)
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NET INCREASE IN CASH

(1,069,383)

CASH AT BEGINNING OF YEAR

1,958,763

CASH AT END OF YEAR

\$ 889,380

SUPPLEMENTAL DISCLOSURES:

Interest paid	\$ 802
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NONCASH INVESTING AND FINANCING TRANSACTIONS:

Donated property and equipment	\$ 58,919
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WORKSHOPS FOR WARRIORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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NOTE 1 THE ORGANIZATION

Workshops for Warriors, Inc. (the "Organization"), is a California non-profit organization that was incorporated in 2008. Located in San Diego, California, the Organization's mission is to provide quality training, educational programs, and opportunities to earn third party nationally recognized credentials to enable veterans, transitioning service members, and other students to be successfully trained and placed in their chosen advanced manufacturing career field. The Organization's support comes primarily from contributions, including donated goods.

To achieve its mission, the Organization's objectives are to provide:

- Compressed academic instruction in a classroom setting.
- Extensive hands-on training using state-of-the-art equipment.
- Opportunities to earn nationally recognized credentials in advanced manufacturing.
- Programs that are relevant to employer needs.
- Assistance to graduates to gain employment in their chosen field through effective placement preparation and job placement assistance programs.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting – The accompanying financial statements are prepared using the accrual method in conformity with accounting principles generally accepted ("GAAP") in the United States of America.

Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Financial statement presentation – The Organization follows the Financial Accounting Standards Board's (FASB) Financial Statements of Not-for-Profit Organizations for presentation of its financial statements which requires that net assets, support, revenue and gains, expenses and losses be classified as without donor restrictions or with donor restrictions.

Cash – The Organization considers highly liquid financial instruments with an original fixed maturity date of less than three months to be cash equivalents.

The Organization maintains its cash accounts in three commercial banks. At various times, cash balances may exceed federally insured deposit limits. The Organization's accounts exceeded this limit by approximately \$656,000 at December 31, 2018. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Accounts receivable – Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. It is the Organization's policy to charge off uncollectible contributions receivable when management determines the receivable will not be collected. All accounts receivable are considered collectible as of December 31, 2018.

Contributions receivable – Contributions receivable consist of donor promises to give. It is the Organization's policy to charge off uncollectible contributions receivable when management determines

WORKSHOPS FOR WARRIORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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the receivable will not be collected. Contributions receivable that are expected to be received in excess of one year are reported at present value and a discount is recorded if material. All contributions receivable are considered collectible as of December 31, 2018. Amounts due in less than one year total \$66,790 and amounts due in one to five years is \$40,000.

Property and equipment – Property and equipment are carried at cost if purchased or at fair value at date of gift if donated, less depreciation. Depreciation is computed using the straight-line method of depreciation over the assets' estimated useful lives of three to thirty-nine years. Maintenance and repairs are charged to the expense as incurred; major renewals and betterments are capitalized. It is the Organization's policy to capitalize all property and equipment costs in excess of cost or fair value of \$1,000. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts, and any gain or loss is recognized in the current period financial statements.

Debt issuance costs – The Organization follows guidance issued by the FASB on accounting and disclosure requirements related to debt issuance costs. The guidance nets costs associated with acquiring debt with the principal of the debt acquired.

Fair value measurement – The Organization follows accounting standards which define fair value, establish a framework for measuring fair value and expand disclosures about fair value measurements for all financial statement elements.

Fair value is based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels has been established, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical financial statement elements. The fair value hierarchy gives the highest priority to level 1 inputs.

Level 2: Observable inputs other than level 1 prices such as quoted prices for similar financial statement elements; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to level 3 inputs.

Revenue recognition – Revenue is recognized when earned, which may be when cash is received, unconditional promises are made, ownership of assets are transferred or services rendered. Contributions that are restricted by the donor are reported as increases in revenues with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to without donor restrictions unless specifically restricted by the donor or subject to other legal restrictions.

Donor-imposed restrictions – All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received designated for future periods or restricted by the

WORKSHOPS FOR WARRIORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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donor for specific purposes are reported as with donor restrictions, increasing those net asset classes. However, if a restriction is fulfilled in the same fiscal period in which the contribution is received, the support is reported as without donor restrictions.

Grants – Grants are recognized initially as revenue when there is reasonable assurance that they will be received and the Organization will comply with the conditions associated with the grant, and are then recognized on the statement of activities and change in net assets.

Functional allocation of expenses – The Organization allocates its expenses on a functional basis among its various programs and support services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural expenditure. There are certain categories of expenses that are attributable to more than one program or supporting function and require allocation on a reasonable basis. Personnel and professional services are allocated on the basis of estimated time spent. Facilities are allocated on the basis of square footage. Insurance, meetings and travel, office, marketing, supplies, tax, licenses, subscriptions, interest and depreciation are allocated on the basis of estimated usage.

Donated goods – The Organization records donated goods with a fair value of \$300 or more. The fair value of donated goods has been measured on a nonrecurring basis using quoted prices for similar financial statement elements in inactive markets (level 2 inputs). If donors stipulate the length of an asset's use, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of donated goods are recorded as without donor restrictions support. Donated goods of \$274,513 were recognized for the year ending December 31, 2018, which included capitalized equipment of \$58,919.

Donated services – The Organization follows standards relating to contributions received and contributions made as consistent with FASB codification. These standards require recording the value of donated services that create or enhance non-financial assets or require specialized skills. Volunteers have contributed significant amounts of their time to activities of the Organization; however, only the services that meet the above requirements are recorded in the financial statements. Donated services of \$79,708 were required to be recognized for the year ended December 31, 2018. The fair value of donated services has been measured on a nonrecurring basis using quoted prices for similar financial statement elements in inactive markets (level 2 inputs). These services were allocated as follows: \$15,665 to program, \$6,332 to general and administrative, \$17,711 to development, and \$40,600 to construction costs.

Marketing – Marketing expenses are charged to expense as incurred.

Income taxes – As a nonprofit organization, Workshops for Warriors, Inc. has obtained exempt status under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code.

Management has considered its tax position and believes that all of the positions taken in its exempt organization tax returns are more likely than not to be sustained upon examination. Accordingly, the Organization has not accrued interest or penalties related to uncertain tax positions. The Organization files tax returns in the U.S. Federal jurisdiction and the State of California.

WORKSHOPS FOR WARRIORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization's management elected to adopt this ASU effective for the year ended December 31, 2018.

The new standards change the following aspects of the Organization's financial statements:

- The temporarily restricted net asset class has been renamed net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (note 7).
- The net asset disclosure was expanded.
- The description of the method of allocation of functional expenses has been expanded.

NOTE 3 PROPERTY AND EQUIPMENT

Major categories of property and equipment are summarized as follows:

Building and structures	\$ 1,217,656
Shop equipment	906,667
Leasehold improvements	899,595
Computers and software	470,966
Tooling and fixtures	108,693
Furniture and office equipment	105,310
Vehicles	70,900
	<hr/> 3,779,787
Accumulated depreciation	(1,059,205)
	<hr/> 2,720,582
Construction in progress	399,741
	<hr/> <u>\$ 3,120,323</u>

For the year ended December 31, 2018, the depreciation expense was \$370,390.

At December 31, 2018, construction in progress relates to the Organization's expansion plan project. The project is estimated to cost \$75,000,000 with a Phase A estimated completion date of December 2022 and Phase B estimated completion date of December 2024. The expansion project is set to build a manufacturing training facility.

WORKSHOPS FOR WARRIORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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NOTE 4 RELATED PARTY TRANSACTIONS

The Organization has board approved related party transactions with the CEO and two LLC entities, Zorgon, LLC and VetPowered, LLC, owned by the CEO.

The Organization shares certain operational expenses, which include utilities, equipment, payroll costs, equipment purchases and insurance with VetPowered, LLC. These shared expenses are allocated to the entities either on a percentage basis or based on actual usage, depending on the type of expense. Some of these expenses are also paid by the Organization and billed to VetPowered, LLC for reimbursement. The net amount paid by the Organization to VetPowered, LLC was \$408,679 for the year ended December 31, 2018.

The board engaged and utilized a qualified appraiser to research and report fair value lease rates for the facilities used in current and prior years. The final negotiated and approved lease agreements were set at the mid-point range. The Organization has the option to purchase the properties with written notice not less than six months prior to the end of the 120 month lease term. The option purchase price shall be the average of three independent certified appraisals or broker's opinion of value and shall not be less than the original purchase price of the property plus associated expenses.

The Organization has two leases with VetPowered, LLC under which it pays rent. One lease is a standard flat rate lease and the other is a triple net lease. The Organization paid VetPowered, LLC \$406,377 for rent and property tax for the year ended December 31, 2018. During 2018, these leases were transferred to Zorgon, LLC.

The Organization has a number of triple net leases with Zorgon, LLC and paid rents and property taxes totaling \$478,646. This included a \$200,000 true-up for fair value of the leases in 2018 and prior years based on lease analysis performed by the third party appraiser and approved by the board of directors.

The Organization has a lease directly with the CEO for a rental unit for students and paid \$37,200 in rent under a triple net lease for this property for the year ended December 31, 2018.

At December 31, 2018 the following balances were outstanding in regards to the related parties:

Due from VetPowered, LLC	\$ 14,398
Due to Zorgon, LLC	\$ 200,000
Rental security deposit held by Zorgon, LLC	\$ 100,000

These advances do not accrue interest and are due on demand.

NOTE 5 NOTE PAYABLE

The Organization has a note payable with a national bank to finance the acquisition of equipment. The outstanding balance on the note was \$92,007 at December 31, 2018. The note requires monthly payments of \$2,629 and matures November 2021. The note has a zero interest rate due to the financing fee of \$20,041 being incurred and added to the loan balance and amortized over the life of the loan.

WORKSHOPS FOR WARRIORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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Note payable consists of the following at December 31, 2018:

	Principal	Unamortized Debt Issuance Cost	Net Balance
Note payable	<u>\$ 92,007</u>	<u>\$ (12,025)</u>	<u>\$ 79,982</u>

Interest expense included \$3,674 of amortization relating to debt issuance cost for the year ended December 31, 2018.

The future principal payments required under the note payable for the years ended December 31 are as follows:

2019	\$ 31,545
2020	31,545
2021	<u>28,917</u>
	<u>\$ 92,007</u>

NOTE 6 NET ASSETS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by donors during the year ended December 31, 2018 are as follows:

Capital expenditures	\$ 917,293
Purpose restriction accomplished:	
Hiring new staff	81,737
Women in manufacturing	25,000
Scholarships and NIMS credentialing	25,000
Scholarships	20,000
Training for female veterans	<u>16,363</u>
	<u>168,100</u>
	<u>\$ 1,085,393</u>

WORKSHOPS FOR WARRIORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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Net assets consist of the following at December 31, 2018:

Without donor restrictions	\$ 3,165,181
With donor restrictions	
Hiring new staff	318,263
Property acquisition	281,228
Welding lab expansion	100,000
Women in manufacturing	25,000
New building construction	5,000
Scholarships and NIMS credentialing	5,000
	<u>734,491</u>
Total net assets	<u>\$ 3,899,672</u>

NOTE 7 LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets at year-end:	
Cash and cash equivalents	\$ 889,380
Accounts receivable	5,000
Contributions receivable	106,790
Due from related parties	15,540
	<u>\$ 1,016,710</u>
Less:	
Donor imposed restrictions making financial assets unavailable for general expenditure	<u>734,791</u>
Financial assets available to meet general expenditure within one year	<u>\$ 281,919</u>

The Organization is partially supported by restricted contributions. Due to donor restrictions requiring resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. 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. In addition, the Organization sets aside cash in excess of daily requirements in its savings account. In the event of an unanticipated liquidity need, the Organization also could draw upon the funds set aside in the Organization's savings account.

WORKSHOPS FOR WARRIORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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NOTE 8 TUITION INCOME

Tuition income consists of the following:

Tuition and fees	\$ 2,877,241
Less: tuition discounts and financial aid	<u>(2,768,618)</u>
Net tuition and fees	<u><u>\$ 108,623</u></u>

NOTE 9 RETIREMENT BENEFIT PLAN

The Organization sponsors a 401(k) profit sharing plan for all eligible employees which allow employees to contribute 100% of their annual salary to a maximum of \$18,500 to the plan for 2018. The Organization has the option to make annual discretionary matching and profit sharing contributions to the plan. Total retirement plan contribution expense for the year ended December 31, 2018 was \$5,711.

NOTE 10 COMMITMENTS

The Organization has four operating lease agreements with a related party (see note 4) for office, parking lot, warehouse space, and residential space under triple net leases. The leases expire December 31, 2028. Rent is subject to an annual adjustment of a 3% increase. Minimum future rental and lease contract payments under non-cancelable operating leases and contracts, in aggregate, having remaining terms in excess of one year for the years ended December 31 are as follows:

2019	\$ 539,112
2020	555,285
2021	571,944
2022	589,102
2023	606,775
Thereafter	<u>3,318,095</u>
	<u><u>\$ 6,180,313</u></u>

Rent expense for the year ended December 31, 2018 was approximately \$538,000.

NOTE 11 SUBSEQUENT EVENTS

The Organization renegotiated their leases with effective dates as of January 1, 2019. The new terms of the leases have been included in the commitments footnote (see note 10).

Management has evaluated subsequent events through September 25, 2019, the date the financial statements were available to be issued.

WORKSHOPS FOR WARRIORS, INC.
SUPPLEMENTARY INFORMATION – COMPOSITE SCORE
DECEMBER 31, 2018

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The Department of Education evaluates that institutions are maintaining the standards of financial responsibility necessary to participate in Title IV programs. One of the many standards used is a composite of three ratios derived from an institution's audited financial statements. The three ratios are a primary reserve ratio, an equity ratio, and a net income ratio. A composite score greater than or equal to 1.5 indicates the institution is considered financially responsible.

Primary Reserve Ratio	0.20
Equity Ratio	0.90
Net Income Ratio	0.08

Ratio Strength Factors

Primary Reserve Strength Factor Score (10 x Primary Reserve Ratio)	2.0
Equity Strength Factor Score (6 x Equity Ratio)	5.4
Net Income Ratio Strength Factor Score (1 + (50 x Net Income Ratio))	4.9

Weighted Score

Primary Reserve Weighted Score (40% x Primary Reserve Strength Factor Score)	0.8
Equity Weighted Score (40% x Equity Strength Factor Score)	2.2
Net Income Weighted Score (20% x Net Income Strength Factor Score)	1.0
Composite Score is the sum of the weighted scores	3.9

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Workshops for Warriors, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Workshops for Warriors, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Workshops for Warriors, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Workshops for Warriors, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Workshops for Warriors, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Workshops for Warriors, Inc.'s financial statements are free from material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Workshops for Warriors, Inc.'s Response to Findings

Workshops for Warriors, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Workshops for Warriors, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CONSIDINE & CONSIDINE
An Accountancy Corporation

September 25, 2019

WORKSHOPS FOR WARRIORS, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018

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A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- | | | |
|--|---|--|
| • Material weakness(es) identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| • Significant deficiencies identified that are Not considered to be material weaknesses? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| • Non-compliance material to financial statements noted | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

B. Financial Statement Findings

2018-001 Lack of complete and accurate financial reporting

Condition: The key employees for compiling the internal financial statements do not have adequate technical knowledge to prepare the financial statements in conformity with Generally Accepted Accounting Principles (GAAP).

Criteria: The Organization should implement alternate controls to compensate for the lack of GAAP knowledge in the preparation of internal financial statements.

Cause: The Organization is a small organization with limited personnel and limited resources for hiring accountants with high level of GAAP knowledge.

Effect: Without proper knowledge of GAAP the internal financial statements submitted to us for audit have significant number of errors noted. Some of the errors were immaterial but in total become material to the financials. Some errors were material in nature individually.

Recommendation: The Organization should dedicate the additional necessary staff resources, technical training and oversight to ensure that the internal financial statements are accurately prepared in accordance with GAAP. With these additional resources the financial statements would have minimal immaterial audit adjustments. An individual knowledgeable in financial reporting requirements and independent of the financial statement preparation process should perform a thorough review of the financial statements and supporting schedules to ensure they are accurate, complete and presented in accordance with GAAP.

Views of responsible officials and planned corrective action: In 2018 the Organization engaged a CPA who prepares financial statements on a monthly basis and has adequate knowledge of GAAP. We also believe that internal staff and board members have adequate knowledge of GAAP.

**WORKSHOPS FOR WARRIORS, INC.
PRIOR YEAR SCHEDULE OF FINDINGS
DECEMBER 31, 2018**

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Finding: 2017-001

Status: This finding was resolved with training and limited employee turnover.

Finding: 2017-002

Status: This finding was resolved with an additional employee being promoted to approve invoices and sign checks. In addition, the external CPA reviews the monthly credit card transactions.

Finding: 2017-003

Status: Still a finding in 2018. See finding 2018-001.