

**WORKSHOPS FOR WARRIORS, INC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

## WORKSHOPS FOR WARRIORS, INC.

	<u>Pages</u>
I Index	1
II Independent auditor's report	2 – 3
III Statement of financial position	4
IV Statement of activities and change in net assets	5
V Statement of functional expenses	6
VI Statement of cash flows	7
VII Notes to the financial statements	8 – 17
VIII Supplemental information	18
IX 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 <i>Government Auditing Standards</i>	19 – 20
X Schedule of findings and responses	21
XI Prior year schedule of findings	22

## 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, 2019, 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.

## ***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, 2019, 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 July 6, 2020, 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 solely 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 the effectiveness of the Workshops for Warriors, Inc.'s 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

July 6, 2020

**WORKSHOPS FOR WARRIORS, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2019**

Page 4

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 964,063
Accounts receivable	103,188
Contributions receivable (note 3)	263,333
Prepaid expenses	<u>109,098</u>

TOTAL CURRENT ASSETS 1,439,682

PROPERTY AND EQUIPMENT (note 4) 3,431,651

OTHER ASSETS

Contributions receivable - long term (note 3)	514,577
Due from related parties (note 5)	903
Security deposits	<u>105,044</u>

TOTAL OTHER ASSETS 620,524

TOTAL ASSETS 5,491,857

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	74,749
Accrued liabilities	66,051
Deferred revenue	10,000
Due to related party (note 5)	126,325
Line of credit (note 6)	600
Note payable - current portion (note 7)	<u>31,545</u>

TOTAL CURRENT LIABILITIES 309,270

LONG TERM LIABILITIES

Note payable (note 7)	<u>20,566</u>
-----------------------	---------------

TOTAL LIABILITIES 329,836

NET ASSETS (note 8)

Without donor restrictions	4,727,095
With donor restrictions	<u>434,926</u>

TOTAL NET ASSETS 5,162,021

TOTAL LIABILITIES AND NET ASSETS \$ 5,491,857

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, 2019**

Page 5

	Without donor restrictions	With donor restrictions	Total
REVENUES			
Contributions	\$ 2,554,856	\$ 1,154,452	\$ 3,709,308
Donated goods and services	105,513	-	105,513
Tuition income (note 10)	1,814,704	-	1,814,704
Equipment rental income	5,830	-	5,830
Other income	54,091	-	54,091
	4,534,994	1,154,452	5,689,446
SPECIAL EVENTS			
Special event revenue	705,520	-	705,520
Direct benefit to donor	(28,719)	-	(28,719)
	676,801	-	676,801
NET ASSETS RELEASED FROM RESTRICTIONS			
Restrictions satisfied by payments	1,454,317	(1,454,317)	-
TOTAL REVENUE	6,666,112	(299,865)	6,366,247
OPERATING EXPENSES			
Program services	4,322,228	-	4,322,228
Management and general	465,609	-	465,609
Development	287,612	-	287,612
	5,075,449	-	5,075,449
OTHER			
Loss on disposal of property and equipment	28,749	-	28,749
CHANGE IN NET ASSETS	1,561,914	(299,865)	1,262,049
NET ASSETS, BEGINNING OF YEAR	3,165,181	734,791	3,899,972
NET ASSETS, END OF YEAR	\$ 4,727,095	\$ 434,926	\$ 5,162,021

See accompanying notes to the financial statements

**WORKSHOPS FOR WARRIORS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Supporting Services			Total supporting services	Total
	Program services	Management and general	Development		
Personnel and benefits	\$ 1,649,930	\$ 308,270	\$ 127,840	\$ 436,110	\$ 2,086,040
Facilities, equipment and maintenance	1,410,182	58,758	50,294	109,052	1,519,234
Professional services	161,700	7,521	77,804	85,325	247,025
Insurance	93,169	15,346	1,096	16,442	109,611
Meetings and travel	80,107	5,007	23,876	28,883	108,990
Office	152,041	29,667	3,708	33,375	185,416
Marketing	36,491	2,606	19,106	21,712	58,203
Human resources	-	18,879	-	18,879	18,879
Supplies	78,004	-	12,607	12,607	90,611
Scholarships	77,035	-	-	-	77,035
Training and education	85,794	-	-	-	85,794
Tax, license and subscriptions	85,279	2,637	-	2,637	87,916
Interest	3,685	-	-	-	3,685
Student recruitment	2,769	-	-	-	2,769
	3,916,186	448,691	316,331	765,022	4,681,208
Depreciation	406,042	16,918	-	16,918	422,960
	4,322,228	465,609	316,331	781,940	5,104,168
Less: Direct benefit to donors at special events included in revenue	-	-	(28,719)	(28,719)	(28,719)
Total expense included in the expense section of the statement of activities and change in net assets	\$ 4,322,228	\$ 465,609	\$ 287,612	\$ 753,221	\$ 5,075,449

See accompanying notes to the financial statements

**WORKSHOPS FOR WARRIORS, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Page 7

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	\$ 1,262,049
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation	422,960
Amortization of debt issuance costs	3,674
Loss on disposal of property and equipment	28,749
Changes in operating assets and liabilities:	
Accounts receivable	(98,188)
Contributions receivable	(671,120)
Prepaid expenses	(12,825)
Due from related parties	14,637
Other assets	(5,044)
Accounts payable	31,644
Accrued liabilities	(43,054)
Due to related party	(74,817)
Deferred revenue	10,000
	868,665
NET CASH PROVIDED BY OPERATING ACTIVITIES	
CASH FLOWS USED BY INVESTING ACTIVITIES	
Cash paid for purchases of property and equipment	(763,037)
CASH FLOWS USED BY FINANCING ACTIVITIES	
Proceeds from line of credit	600
Principal payments on note payable	(31,545)
	(30,945)
NET INCREASE IN CASH	
	74,683
CASH AT BEGINNING OF YEAR	
	889,380
CASH AT END OF YEAR	
	\$ 964,063
SUPPLEMENTAL DISCLOSURES:	
Interest paid	\$ 802

See accompanying notes to the financial statements



**WORKSHOPS FOR WARRIORS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

Page 8

**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 two commercial banks. At various times, cash balances may exceed federally insured deposit limits. The Organization's accounts exceeded this limit by approximately \$590,000 at December 31, 2019. 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, 2019.

**WORKSHOPS FOR WARRIORS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

Page 9

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 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, 2019.

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. 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. Estimated useful lives are listed below:

Computers and related equipment	5 years
Office furniture	5 years
Equipment	10 years
Building and building improvements	40 years

Impairment of long-lived assets - The Organization reviews its long-lived assets and certain identifiable intangibles 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 the future net undiscounted cash flows 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 held for sale are reported at the lower of the carrying amount or the fair value less costs to sell. Based on an evaluation of existing long-lived and intangible assets, the Organization determined that no impairments occurred for the year ended December 31, 2019.

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:

**WORKSHOPS FOR WARRIORS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**Page 10**

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 donor for specific purposes are reported as with donor restrictions, increasing those net asset classes. In 2019, the Organization changed to reporting all donor-restricted contributions as increases in net assets with restrictions. When a restriction expires, amounts are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. In previous years if a restriction was fulfilled in the same fiscal period in which the contribution is received, the support is reported as without donor restrictions in the statement of activities.

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.

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 \$61,012 were recognized for the year ending December 31, 2019.

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 \$44,501 were required to be recognized for the year ended December 31, 2019. 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: \$21,805 to program, \$13,795 to general and administrative, \$8,901 to development.

**WORKSHOPS FOR WARRIORS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**Page 11**

Accounting Standards Update (“ASU”) No. 2014-09, 2016-08, 2016-10, 2016-12, and 2016-20, collectively implemented as FASB Accounting Standards Codification (“ASC”) Topic 606 (“ASC 606”) *Revenue from Contracts with Customers*, provides guidance for revenue recognition. The Organization’s financial statements reflect the application of ASC 606 guidance beginning on January 1, 2019. No cumulative-effect adjustment in net assets was recorded because of the adoption of ASU 2014-09 did not significantly impact the Organization’s reported historical revenue.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU includes clarification regarding the accounting for contracts and agreements as exchange transactions or contributions and provides improved guidance to better distinguish between conditional and unconditional contributions. The Organization adopted ASU 2018-08, under the modified prospective approach to agreements that were either not completed as of January 1, 2019 or entered into after January 1, 2019. The adoption of the ASU did not have a material effect on the financial statement for contributions received. The Organization does not make significant contributions and the impact of ASU 2018-08 related to contributions made is not expected to be material to the financial statements or disclosures.

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.

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.

Recently issued accounting standards - In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires balance sheet presentation of lease assets and lease liabilities for those leases classified as operating leases. For nonpublic entities, the standard is effective retrospectively for fiscal years beginning after December 15, 2019, however, early application is permitted. Management will evaluate the application of these standards to determine future impact on the Organization’s financial statements.

**WORKSHOPS FOR WARRIORS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**Page 12**

**NOTE 3     CONTRIBUTIONS RECEIVABLE**

Long-term contributions receivable are shown at present value using discount rates ranging from 1.58% to 1.69%. Contributions receivable consist of the following at December 31:

Gross contributions receivable	\$ 801,666
Less: discount to net present value	<u>(23,756)</u>
Net contributions receivable	<u><u>\$ 777,910</u></u>
Amounts due in:	
One year or less	\$ 263,333
Between one and five years	<u>538,333</u>
	<u><u>\$ 801,666</u></u>

**NOTE 4     PROPERTY AND EQUIPMENT**

Major categories of property and equipment are summarized as follows:

Building and structures	\$ 1,248,983
Leasehold improvements	1,232,205
Shop equipment	897,631
Computers and software	551,038
Furniture and office equipment	141,233
Tooling and fixtures	108,693
Vehicles	<u>54,900</u>
	4,234,683
Accumulated depreciation	<u>(1,421,798)</u>
	2,812,885
Construction in progress	<u>618,766</u>
	<u><u>\$ 3,431,651</u></u>

For the year ended December 31, 2019, the depreciation expense was \$422,960.

At December 31, 2019, construction in progress relates to the Organization's expansion plan project. The project is estimated to cost \$75,000,000 and is expected to start in December 2022. The expansion project is set to build a manufacturing training facility.

**NOTE 5     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.

**WORKSHOPS FOR WARRIORS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**Page 13**

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 \$1,004,500 for the year ended December 31, 2019.

VetPowered made donations to the Organization in the amount of \$7,500 for the year ended December 31, 2019.

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 a number of triple net leases with Zorgon, LLC and paid rents and property taxes totaling \$664,541 for the year ended December 31, 2019.

At December 31, 2019 the following balances were outstanding in regards to the related parties:

Due to VetPowered, LLC	\$ 73,261
Due to Zorgon, LLC	\$ 52,161
Rental security deposit held by Zorgon, LLC	\$ 100,000

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

**NOTE 6 LINE OF CREDIT**

The Organization has a line of credit with Endeavor bank for \$500,000. The line had an outstanding balance of \$600 at December 31, 2019. The line of credit matures August 21, 2020 and is secured by all inventory, chattel paper, accounts, equipment and general intangibles. The line of credit bears variable interest at the Endeavor Bank Base Reference Rate with a minimum of 5.25%. The interest rate at December 31, 2019 was 5.25%.

**NOTE 7 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 \$60,462 at December 31, 2019. 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, 2019**

Note payable consists of the following at December 31, 2019:

	Principal	Unamortized Debt Issuance Cost	Net Balance
Note payable	\$ 60,462	\$ (8,351)	\$ 52,111

Interest expense included \$3,674 of amortization relating to debt issuance cost for the year ended December 31, 2019.

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

	2020	\$	31,545
	2021		28,917
		\$	60,462

**NOTE 8 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, 2019 are as follows:

Capital expenditures	\$	509,087
Purpose restriction accomplished:		
Staff salary		383,263
Increase advanced manufacturing staff and students		306,983
Accreditation expense and lab consumables		59,991
Classroom expansion and training costs		50,880
Women in manufacturing		50,523
Machining for warriors program		40,000
Meals for students		33,905
Scholarships		8,750
Machining program scholarships		7,795
Coast Guard fundraiser		2,250
Event tables		890
		945,230
	\$	1,454,317

**WORKSHOPS FOR WARRIORS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

Page 15

Net assets consist of the following at December 31, 2019:

Without donor restrictions	\$ 4,727,095
With donor restrictions	
Property acquisition	112,203
Advanced manufacturing staff and students	93,017
Robotics instructor and equipment	50,000
Classroom expansion and training costs	49,120
Accreditation expenses and lab consumables	46,659
Meals for students	24,595
Women in manufacturing	24,477
Machining program scholarships	22,205
Capital campaign	7,100
New building construction	5,000
AWS student memberships	250
	434,626
Total net assets	\$ 5,161,721

**NOTE 9 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	\$ 964,063
Accounts receivable	103,188
Contributions receivable	777,910
Due from related parties	903
	\$ 1,846,064
Less:	
Donor imposed restrictions making financial assets unavailable for general expenditure	434,926
Financial assets available to meet general expenditure within one year	\$ 1,411,138

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



**WORKSHOPS FOR WARRIORS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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 or its line of credit.

**NOTE 10 TUITION INCOME**

Tuition income consists of the following:

Tuition and fees	\$ 2,800,720
Less: tuition discounts and financial aid	<u>(986,016)</u>
Net tuition and fees	<u><u>\$ 1,814,704</u></u>

**NOTE 11 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 \$19,000 to the plan for 2019. 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, 2019 was \$13,763.

**NOTE 12 COMMITMENTS**

The Organization has four operating lease agreements with a related party (see note 5) 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:

	2020	\$	703,716
	2021		724,827
	2022		746,572
	2023		768,969
	2024		792,038
	Thereafter		<u>3,413,000</u>
		\$	<u><u>7,149,122</u></u>

Rent expense for the year ended December 31, 2019 was approximately \$622,000.

**WORKSHOPS FOR WARRIORS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**Page 17**

**NOTE 13    SUBSEQUENT EVENTS**

As a result of the spread of the COVID-19 Coronavirus and the resulting stay-at-home orders issued by the State of California, the state in which the Organization operates, the Organization has not seen a significant negative change to contributions to date. However, the related financial impact and duration cannot be reasonably estimated at this time. The Organization received a SBA loan under the Paycheck Protection Program of in the amount of \$520,000 on April 24, 2020.

Management has evaluated subsequent events through July 6, 2020, the date the financial statements were available to be issued.

**WORKSHOPS FOR WARRIORS, INC.**  
**SUPPLEMENTARY INFORMATION – COMPOSITE SCORE**  
**DECEMBER 31, 2019**

**Page 18**

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	0.35
Equity Ratio	0.94
Net Income Ratio	0.23

Ratio Strength Factors

Primary Reserve Strength Factor Score (10 x Primary Reserve Ratio)	3.5
Equity Strength Factor Score (6 x Equity Ratio)	5.6
Net Income Ratio Strength Factor Score (1 + (50 x Net Income Ratio))	12.7

Weighted Score

Primary Reserve Weighted Score (40% x Primary Reserve Strength Factor Score)	1.4
Equity Weighted Score (40% x Equity Strength Factor Score)	2.3
Net Income Weighted Score (20% x Net Income Strength Factor Score)	2.5
Composite Score is the sum of the weighted scores	6.2

**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, 2019, 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 July 6, 2020.

**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. However, material weaknesses may exist that have not been identified.

## **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*.

## **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.

The logo consists of the words "Considine" and "Considine" written in a cursive, handwritten style, separated by a colon ":".

CONSIDINE & CONSIDINE  
An Accountancy Corporation

July 6 , 2020

**WORKSHOPS FOR WARRIORS, INC.  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**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<br>Not considered to be material weaknesses? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| • Non-compliance material to financial<br>statements noted                                  | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

**B. Financial Statement Findings**

None

**WORKSHOPS FOR WARRIORS, INC.  
PRIOR YEAR SCHEDULE OF FINDINGS  
DECEMBER 31, 2019**

**Page 22**

Finding 2018-001: Lack of complete and accurate financial reporting

Status: This finding has been resolved with the addition of the Controller position when previously it was a Bookkeeper/Data Entry position. Management's decision to invest in the accounting department by creating that position with a higher level of reporting and financial responsibility in addition to the continued collaboration with the outside CPA hired in 2018 has resulted in producing more accurate financial statements on a regular basis.