

WORKSHOPS FOR WARRIORS, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2021

WORKSHOPS FOR WARRIORS, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Workshops for Warriors, Inc.

Opinion

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, 2021, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Workshops for Warriors, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Workshops for Warriors, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally

accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Workshops for Warriors, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Workshops for Warriors, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2022 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 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

June 23, 2022

WORKSHOPS FOR WARRIORS, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

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ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,689,601
Accounts receivable	9,945
Contributions receivable (note 3)	60,000
Grants receivable (note 3)	180,000
Other current assets	92,310
	92,310

TOTAL CURRENT ASSETS 2,031,856

PROPERTY AND EQUIPMENT (note 4) 4,907,492

OTHER ASSETS

Contributions receivable - long term (note 3)	146,274
Grants receivable - long term (note 3)	98,544
Due from related parties (note 5)	9,672
Security deposits	102,750
	102,750

TOTAL OTHER ASSETS 357,240

TOTAL ASSETS 7,296,588

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	177,378
Deferred revenue	12,500
Due to related party (note 5)	64,256
Capital lease - current portion (note 6)	2,593
Note payable - related party (note 5 and 8)	170,849
Notes payable - current portion (note 7)	33,613
	33,613

TOTAL CURRENT LIABILITIES 461,189

LONG TERM LIABILITIES

Capital lease (note 6)	12,117
Note payable - related party (note 5 and 8)	648,618
Notes payable (note 7)	303,941
	303,941

TOTAL LONG TERM LIABILITIES 964,676

TOTAL LIABILITIES 1,425,865

NET ASSETS (note 9)

Without donor restrictions	5,752,890
With donor restrictions	117,833
	117,833

TOTAL NET ASSETS 5,870,723

TOTAL LIABILITIES AND NET ASSETS \$ 7,296,588

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, 2021

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	Without donor restrictions	With donor restrictions	Total
REVENUES			
Contributions	\$ 3,276,013	\$ 558,334	\$ 3,834,347
Donated goods and services	241,528	-	241,528
Tuition income (note 11)	2,506,650	-	2,506,650
Equipment rental income	25,861	-	25,861
Government loan forgiveness (note 12)	437,173	-	437,173
Other income	18,307	-	18,307
	6,505,532	558,334	7,063,866
NET ASSETS RELEASED FROM RESTRICTIONS			
Restrictions satisfied by payments	1,039,828	(1,039,828)	-
TOTAL REVENUE	7,545,360	(481,494)	7,063,866
OPERATING EXPENSES			
Program services	5,235,417	-	5,235,417
Management and general	546,916	-	546,916
Development	296,904	-	296,904
	6,079,237	-	6,079,237
OTHER			
Loss on disposal of property and equipment	35,627	-	35,627
CHANGE IN NET ASSETS	1,430,496	(481,494)	949,002
NET ASSETS, BEGINNING OF YEAR	4,322,394	599,327	4,921,721
NET ASSETS, END OF YEAR	\$ 5,752,890	\$ 117,833	\$ 5,870,723

See accompanying notes to the financial statements

WORKSHOPS FOR WARRIORS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Supporting Services			Total supporting services	Total
	Program services	Management and general	Development		
Personnel and benefits	\$ 2,071,399	\$ 240,261	\$ 124,067	\$ 364,328	\$ 2,435,727
Facilities, equipment and maintenance	1,210,443	197,943	3,136	201,079	1,411,522
Equipment rentals	105,991	744	413	1,157	107,148
Office	169,950	27,877	12,642	40,519	210,469
Professional services	377,476	18,813	124,871	143,684	521,160
Insurance	94,543	10,234	5,086	15,320	109,863
Training and education	144,176	-	-	-	144,176
Tax, license and subscriptions	94,627	7,326	13,897	21,223	115,850
Scholarships	115,981	-	-	-	115,981
Outside services teachers and TAs	40,450	-	-	-	40,450
Supplies	265,016	25	864	889	265,905
Meetings and travel	77,275	9,835	7,080	16,915	94,190
Human resources	32,631	16,200	1,183	17,383	50,014
Marketing	18,509	2,637	3,665	6,302	24,811
Student recruitment	49,090	-	-	-	49,090
Interest	23,411	669	-	669	24,080
	4,890,968	532,564	296,904	829,468	5,720,436
Depreciation	344,449	14,352	-	14,352	358,801
Total expense included in the expense section of the statement of activities and change in net assets	\$ 5,235,417	\$ 546,916	\$ 296,904	\$ 843,820	\$ 6,079,237

See accompanying notes to the financial statements

WORKSHOPS FOR WARRIORS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

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CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	\$ 949,002
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation	358,801
Amortization of debt issuance costs	4,677
Loss on disposal of property and equipment	35,627
Donated goods capitalized as property and equipment	(108,409)
PPP loan forgiveness	(437,173)
Changes in operating assets and liabilities:	
Accounts receivable	512,255
Contributions and grants receivable	532,825
Other current assets	(10,448)
Due from related parties	(4,505)
Other assets	2,250
Accounts payable and accrued liabilities	60,733
Due to related party	20,054
Deferred revenue	10,000
	1,925,689
NET CASH PROVIDED BY OPERATING ACTIVITIES	
CASH FLOWS USED BY INVESTING ACTIVITIES	
Cash paid for purchases of property and equipment	(785,977)
Proceeds on disposal of property and equipment	25,999
	(759,978)
NET CASH USED BY OPERATING ACTIVITIES	
CASH FLOWS USED BY FINANCING ACTIVITIES	
Payments on line of credit	(500)
Proceeds from related party note payable	408,547
Principal payments on related party note payable	(1,066,418)
Proceeds from note payable	5,149
Principal payments on note payable	(64,757)
Amounts borrowed on PPP loan payable	437,173
	(280,806)
NET INCREASE IN CASH	
	884,905
CASH AT BEGINNING OF YEAR	
	804,696
CASH AT END OF YEAR	
	\$ 1,689,601

Supplementary disclosures (see note 16)

See accompanying notes to the financial statements

WORKSHOPS FOR WARRIORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
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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 two commercial banks. At various times, cash balances may exceed federally insured deposit limits. The Organization's accounts exceeded this limit by approximately \$1,148,000 at December 31, 2021. 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. Subsequent to year end the Organization updated their cash accounts to being fully insured.

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, 2021.

WORKSHOPS FOR WARRIORS, INC.
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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, 2021.

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, 2021.

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.

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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. The Organization reports 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.

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 \$241,528 were recognized for the year ending December 31, 2021.

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. 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). The Organization did not have any donated services for the year ended December 31, 2021.

The Organization follows Accounting Standards Update 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*, which provides guidance for revenue recognition. This ASC's core principle requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods or services.

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The Organization follows 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 does not make significant contributions and the impact of ASU 2018-08 related to contributions made is not 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. All other expenses 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, 2021, however, early application is permitted. Management will evaluate the application of these standards to determine future impact on the Organization's financial statements.

NOTE 3 CONTRIBUTIONS RECEIVABLE

Long-term contributions receivable are shown at present value using discount rates ranging from 0.73% to 1.26%. Contributions receivable consist of the following at December 31:

Gross contributions receivable	\$ 215,000
Gross grants receivable	280,000
	<hr/> 495,000
Less: discount to net present value	(10,182)
Net contributions and grants receivable	<hr/> <u>\$ 484,818</u>

WORKSHOPS FOR WARRIORS, INC.
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Amounts due in:	
One year or less	\$ 240,000
Between one and five years	195,000
More than five years	60,000
	\$ 495,000

NOTE 4 PROPERTY AND EQUIPMENT

Major categories of property and equipment are summarized as follows:

Building and structures	\$ 1,508,367
Leasehold improvements	1,256,156
Shop equipment	2,220,638
Computers and software	682,924
Furniture and office equipment	200,057
Tooling and fixtures	256,402
Kitchen equipment	22,649
	6,147,193
Accumulated depreciation	(2,045,875)
	4,101,318
Construction in progress	806,174
	\$ 4,907,492

For the year ended December 31, 2021, the depreciation expense was \$358,801.

At December 31, 2021, a majority of the construction in progress relates to the Organization’s expansion plan project. The expansion project is set to build a manufacturing training facility. The project is broken into three phases. The first phase is expected to cost approximately \$9 million with construction starting during the summer of 2022 and completed by the end of 2023. The construction costs for the core and shell will be paid for by a related party and the Organization will sign a new fair market value lease. The second phase is currently estimated at \$140 million based on original design. The Organization is awaiting for the completion of phase one before resubmitting for a new plan. The third phase is still in the process of being designed and costs and completion are unknown at this time.

NOTE 5 RELATED PARTY TRANSACTIONS

The Organization has board approved arm’s length, market valued related party transactions with the CEO and two LLC entities, Zorgon, LLC and VetPowered, LLC, owned by the CEO, that benefits Workshops for Warriors.

The Organization shares certain operational expenses, which include equipment and various shared services. 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

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and billed to VetPowered, LLC for reimbursement. The net amount paid by the Organization to VetPowered, LLC was approximately \$731,000 for the year ended December 31, 2021.

The Organization rents equipment and vehicles from VetPowered, LLC and rents equipment to VetPowered, LLC. The net amount paid by the Organization to VetPowered, LLC for rents was approximately \$123,000. The Organization also received approximately \$32,000 in proceeds from selling equipment to VetPowered, LLC. In addition, the Organization received donated equipment from VetPowered, LLC during the year valued at \$114,800.

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 for approximately 49,000 sq. ft. of buildings and land and paid rents and property taxes totaling approximately \$783,000 for the year ended December 31, 2021. The Organization and Zorgon, LLC had reimbursed expenses between each other that netted to approximately \$600 net paid to Zorgon, LLC.

At December 31, 2021 the following balances were outstanding in regards to the related parties:

Due to VetPowered, LLC	\$ 55,042
Due from Zorgon, LLC	\$ 458
Rental security deposit held by Zorgon, LLC	\$ 100,000

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

The Organization purchased equipment from VetPowered, LLC of approximately \$1,366,000. The Organization paid off two notes payable with VetPowered, LLC during 2021 in the amount of \$618,040 and \$408,547. The organization has a note payable outstanding with VetPowered, LLC at December 31, 2021 (see note 8).

WORKSHOPS FOR WARRIORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6 CAPITAL LEASE

The Organization leases equipment under a long-term capital lease. Included in property and equipment on the accompanying statement of financial position as of December 31, 2021, is equipment financed under a capital lease with a capitalized cost of \$14,710 and accumulated depreciation of \$368.

Future minimum lease payments under capital lease obligations are as follows:

For the year ending December 31:

	2022	\$	2,829
	2023		3,086
	2024		3,086
	2025		3,087
	2026		3,086
	Thereafter		<u>257</u>
Total future minimum lease payments			15,431
Less: amount representing interest			<u>(721)</u>
Present value of future minimum lease payments			14,710
Less: current maturities			<u>(2,593)</u>
Obligations under capital leases - long term		\$	<u><u>12,117</u></u>

NOTE 7 NOTES PAYABLE

The Organization has a note payable with a national bank to finance the acquisition of equipment. The outstanding balance on the note was \$179,427 at December 31, 2021. The note has an interest rate of 3.15%. The note requires monthly payments of \$3,339 and matures October 2026.

The Organization has a SBA Economic Injury Disaster Loan. The outstanding balance on the note was \$158,127 at December 31, 2021. The note has an interest rate of 2.75%. The note requires payments of \$641 starting July 2022 and matures June 2051.

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

	2022	\$	33,613
	2023		39,643
	2024		40,895
	2025		42,186
	2026		42,306
	Thereafter		<u>138,911</u>
		\$	<u><u>337,554</u></u>

WORKSHOPS FOR WARRIORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 8 RELATED PARTY NOTE PAYABLE

The Organization has a note payable with VetPowered, LLC. The outstanding balance on the note is \$819,467 at December 31, 2021. The note has an interest rate of 3.15% per annum. The note requires monthly payments of \$15,498 and matures on September 1, 2026. This note was paid off in May 2022.

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

	2022	\$	170,849
	2023		167,686
	2024		173,046
	2025		178,575
	2026		129,311
			\$ 819,467
			\$ 819,467

NOTE 9 NET ASSETS

Net assets consist of the following at December 31, 2021:

Without donor restrictions	\$	5,752,890
With donor restrictions		
Classroom equipment and maintenance		46,541
Machining operating expenses		25,713
Machining program scholarships		15,000
Meals for students		14,111
Computers (classroom expansion)		10,000
Welding and machining operating expense		6,218
AWS student memberships		250
		117,833
Total net assets	\$	5,870,723

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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, 2021 are as follows:

Capital expenditure restrictions satisfied	\$ 200,463
Purpose restriction accomplished:	
Advanced manufacturing for veterans	400,000
Intermediate welding and machining instructor salaries	75,000
Machining dean salary	59,000
Machining program scholarships	55,000
Salaries for program instructors	50,000
Scholarships and outreach to improve diversity and inclusion	50,000
Machining operating expenses	39,287
CNC Machining II	37,633
Robotics instructor and equipment	31,720
Student scholarships	12,750
Welding and machining operating expense	11,631
Meals for students	5,635
Food pantry	5,000
Classroom equipment costs and maintenance	3,459
Facility maintenance and classroom needs	3,000
AWS student memberships	250
	<u>839,365</u>
	<u>\$ 1,039,828</u>

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NOTE 10 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	\$ 1,689,601
Accounts receivable	9,945
Contributions receivable	206,274
Due from related parties	9,672
	<u>\$ 1,915,492</u>

Less:

Donor imposed restrictions making financial assets unavailable for general expenditure	<u>117,833</u>
Financial assets available to meet general expenditure within one year	<u>\$ 1,797,659</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 or its line of credit.

NOTE 11 TUITION INCOME

Tuition income consists of the following:

Tuition and fees	\$ 4,299,485
Less: tuition discounts and financial aid	<u>(1,792,835)</u>
Net tuition and fees	<u>\$ 2,506,650</u>

NOTE 12 GOVERNMENT LOAN FORGIVENESS

On April 25, 2021, the Organization entered into a note payable agreement with Endeavor Bank for \$437,173, pursuant to the Paycheck Protection Program (PPP) second draw. The note matures two years from the disbursement date and bears interest at a rate of 1.00% per annum, with the first six months of interest deferred. Principal and interest are payable monthly commencing six months after the disbursement date and may be prepaid by the Organization at any time prior to maturity with no prepayment penalties. Under the terms of the PPP loan recipients can apply for and be granted forgiveness

WORKSHOPS FOR WARRIORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

for all or a portion of the loan granted under the PPP. The note is subject to forgiveness to the extent proceeds are used for payroll costs, including payments required to continue group health care benefits, and certain rent, utility, and mortgage interest expenses (qualifying expenses), pursuant to the terms and limitations of the PPP. The loan was forgiven in August 2021 and the Organization has recognized the full amount of \$437,173 as other income in the statement of activities and change in net assets for the year ended December 31, 2021.

NOTE 13 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 \$19,500 to the plan for 2021. 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, 2021 was \$21,622.

NOTE 14 COMMITMENTS

The Organization has four operating fair value 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:

2022	\$	746,572
2023		768,969
2024		792,038
2025		815,799
2026		840,273
Thereafter		<u>1,756,928</u>
	\$	<u><u>5,720,579</u></u>

Rent expense for the year ended December 31, 2021 was approximately \$725,000.

NOTE 15 LINE OF CREDIT

The Organization has a line of credit with Endeavor bank for \$500,000. The line had an outstanding balance of \$0 at December 31, 2021. The line of credit matures October 21, 2022 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 plus 1.0% with a minimum of 4.25%. The interest rate at December 31, 2021 was 4.25%.

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NOTE 16 SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2021</u>
Interest paid	\$ 19,403

During 2021, the Organization leased equipment with a capital lease in the amount of \$14,710 (see note 6).

During 2021, the Organization purchased equipment with two notes payable in the amounts of \$408,547 and \$859,298. During the year the note payable in the amount of \$408,547 was paid off. The remaining note payable is outstanding at December 31, 2021 (see note 8).

NOTE 17 SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 23, 2022, the date the financial statements were available to be issued. There were no material subsequent events which affected the amounts or disclosures in the financial statements, except for the below.

The Organization paid off a note payable with a related party in May 2022 (see note 8).

WORKSHOPS FOR WARRIORS, INC.
SUPPLEMENTARY INFORMATION – COMPOSITE SCORE
DECEMBER 31, 2021

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	0.80
Net Income Ratio	0.19

Ratio Strength Factors

Primary Reserve Strength Factor Score (10 x Primary Reserve Ratio)	3.5
Equity Strength Factor Score (6 x Equity Ratio)	4.8
Net Income Ratio Strength Factor Score (1 + (50 x Net Income Ratio))	10.5

Weighted Score

Primary Reserve Weighted Score (40% x Primary Reserve Strength Factor Score)	1.4
Equity Weighted Score (40% x Equity Strength Factor Score)	1.9
Net Income Weighted Score (20% x Net Income Strength Factor Score)	2.1
Composite Score is the sum of the weighted scores	5.4

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, 2021, 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 June 23, 2022.

Report on 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) as a basis for designing 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 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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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.

A handwritten signature in cursive script that reads "Considine & Considine". The signature is written in dark ink and is positioned above the printed name of the firm.

CONSIDINE & CONSIDINE
An Accountancy Corporation

June 23, 2022

**WORKSHOPS FOR WARRIORS, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

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 type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| • Non-compliance material to financial
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, 2021**

No findings were noted during the prior year audit.