Reports of Independent Auditors and Financial Statements with Supplementary Information

Workshops for Warriors, Inc.

December 31, 2023 and 2022

MOSSADAMS

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Report of Independent Auditors

The Board of Directors
Workshops for Warriors, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Workshops for Warriors, Inc., which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Workshops for Warriors, Inc., as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. 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 audits. 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 for 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 GAAS and *Government 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 GAAS and *Government 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial responsibility ratios are presented for purposes of additional analysis and are 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 financial responsibility ratios are 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 June 6, 2024, 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.

Moss Adams LLP

San Diego, California
June 7, 2024

Financial Statements

Workshops for Warriors, Inc.
Statements of Financial Position
December 31, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,631,190	$ 12,545,938
Accounts receivable	19,026	43,430
Grants and contributions receivable, net	135,000	520,000
Due from related party	-	8,814
Prepaids	161,333	146,962
Total current assets	7,946,549	13,265,144
GRANTS AND CONTRIBUTIONS RECEIVABLE, net	71,233	77,533
PROPERTY AND EQUIPMENT, net	6,693,544	5,051,264
SECURITY DEPOSITS	163,000	103,000
RIGHT-OF-USE ASSETS - OPERATING LEASES	6,969,370	4,646,192
RIGHT-OF-USE ASSETS - FINANCE LEASES	757,018	938,267
Total assets	$ 22,600,714	$ 24,081,400
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 815,551	$ 434,332
Operating leases, current portion	955,580	692,646
Finance leases, current portion	215,646	208,130
Notes payable, current portion	88,797	86,227
Total current liabilities	2,075,574	1,421,335
OPERATING LEASES, net of current portion	6,135,366	4,024,200
FINANCE LEASES, net of current portion	543,617	724,353
NOTES PAYABLE, net of current portion	1,937,040	2,026,554
Total liabilities	10,691,597	8,196,442
NET ASSETS		
Net assets without donor restrictions	5,933,466	10,779,232
Net assets with donor restrictions	5,975,651	5,105,726
Total net assets	11,909,117	15,884,958
Total liabilities and net assets	$ 22,600,714	$ 24,081,400

See accompanying notes.

Workshops for Warriors, Inc.
Statements of Activities and Changes in Net Assets
Year Ended December 31, 2023

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES, SUPPORT, AND OTHER INCOME			
Grants and contributions	$ 1,447,482	$ 819,500	$ 2,266,982
Tuition income	772,611	-	772,611
Event revenue	341,802	-	341,802
Donated goods and services	655,074	-	655,074
Rental income	20,472	-	20,472
	3,237,441	819,500	4,056,941
NET ASSETS RELEASED FROM RESTRICTION	591,575	(591,575)	-
Total revenues	3,829,016	227,925	4,056,941
OPERATING EXPENSES			
Program services	8,429,703	-	8,429,703
Management and general	749,264	-	749,264
Development	494,851	-	494,851
	9,673,818	-	9,673,818
CHANGE IN NET ASSETS FROM OPERATIONS	(5,844,802)	227,925	(5,616,877)
NON-OPERATING			
Capital contributions	-	1,272,000	1,272,000
Releases from restriction	630,000	(630,000)	-
Interest income	355,363	-	355,363
Other income	13,673	-	13,673
CHANGE IN NET ASSETS FROM NON-OPERATING ACTIVITIES	999,036	642,000	1,641,036
CHANGE IN NET ASSETS	(4,845,766)	869,925	(3,975,841)
NET ASSETS, beginning of year	10,779,232	5,105,726	15,884,958
NET ASSETS, end of year	$ 5,933,466	$ 5,975,651	$ 11,909,117

See accompanying notes.

Workshops for Warriors, Inc.
Statements of Activities and Changes in Net Assets
Year Ended December 31, 2022

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES, SUPPORT, AND OTHER INCOME			
Grants and contributions	$ 9,904,891	$ 1,044,500	$ 10,949,391
Tuition income	833,624	-	833,624
Event revenue	499,271	-	499,271
Donated goods and services	229,177	-	229,177
Rental income	18,475	-	18,475
	11,485,438	1,044,500	12,529,938
NET ASSETS RELEASED FROM RESTRICTION	590,258	(590,258)	-
Total revenues	12,075,696	454,242	12,529,938
OPERATING EXPENSES			
Program services	6,142,811	-	6,142,811
Management and general	718,048	-	718,048
Development	326,724	-	326,724
	7,187,583	-	7,187,583
CHANGE IN NET ASSETS FROM OPERATIONS	4,888,113	454,242	5,342,355
NON-OPERATING			
Capital contributions	-	4,620,000	4,620,000
Capital contributions – releases from restriction	86,349	(86,349)	-
Interest income	38,480	-	38,480
Other income	13,400	-	13,400
CHANGE IN NET ASSETS FROM NON-OPERATING ACTIVITIES	138,229	4,533,651	4,671,880
CHANGE IN NET ASSETS	5,026,342	4,987,893	10,014,235
NET ASSETS, beginning of year	5,752,890	117,833	5,870,723
NET ASSETS, end of year	$ 10,779,232	$ 5,105,726	$ 15,884,958

See accompanying notes.

Workshops for Warriors, Inc.
Statements of Functional Expenses
Year Ended December 31, 2023

	2023				
		Supporting Services			
	Program Services	Management and General	Development	Total Supporting Services	Total
Salaries and wages	$ 2,621,623	$ 314,445	$ 199,912	$ 514,357	$ 3,135,980
Instructor training	1,135,244	-	-	-	1,135,244
Lease expense	687,525	111,922	-	111,922	799,447
Repairs and maintenance	622,652	32,771	-	32,771	655,423
Depreciation	455,665	50,629	-	50,629	506,294
Classroom and lab maintenance	371,386	-	-	-	371,386
Student stipends, housing, and meals	355,794	-	-	-	355,794
Office expenses	263,759	29,989	16,307	46,296	310,055
Recruitment	270,080	-	-	-	270,080
Payroll taxes	211,902	25,979	16,467	42,446	254,348
Amortization	194,147	21,572	-	21,572	215,719
Professional fees	155,217	17,328	21,710	39,038	194,255
In- kind expenses	186,091	-	-	-	186,091
Insurance	147,794	23,504	14,628	38,132	185,926
Event expenses	-	-	181,321	181,321	181,321
Human resources	134,186	21,338	5,329	26,667	160,853
Utilities	114,307	28,576	-	28,576	142,883
Equipment and vehicle expenses	88,819	25,518	5,498	31,016	119,835
Marketing	69,170	14,034	17,042	31,076	100,246
Employee benefits	77,072	5,016	7,227	12,243	89,315
Taxes, licenses, and fees	78,717	5,214	799	6,013	84,730
Interest expense	79,269	-	-	-	79,269
Dues and membership	43,247	5,406	5,406	10,812	54,059
Accreditation expenses	39,721	-	-	-	39,721
Uniforms	24,180	-	-	-	24,180
Meals and entertainment	2,136	16,023	3,205	19,228	21,364
	$ 8,429,703	$ 749,264	$ 494,851	$ 1,244,115	$ 9,673,818

See accompanying notes.

Workshops for Warriors, Inc.
Statements of Functional Expenses
Year Ended December 31, 2022

	2022				
		Supporting Services			
	Program Services	Management and General	Development	Total Supporting Services	Total
Salaries and wages	$ 2,218,501	$ 257,393	$ 118,353	$ 375,746	$ 2,594,247
Lease expense	609,534	155,160	-	155,160	764,694
Repairs and maintenance	501,604	55,293	3,106	58,399	560,003
Instructor training	515,439	-	-	-	515,439
Depreciation	397,309	16,555	-	16,555	413,864
Professional fees	193,911	54,429	46,821	101,250	295,161
Classroom and lab maintenance	259,571	108	-	108	259,679
In-kind expenses	229,177	-	-	-	229,177
Payroll taxes	174,980	20,068	9,254	29,322	204,302
Student stipends, housing, and meals	170,042	-	-	-	170,042
Office expenses	130,865	17,526	10,077	27,603	158,468
Amortization	147,138	6,131	-	6,131	153,269
Insurance	128,850	12,595	6,648	19,243	148,093
Utilities	95,617	25,360	-	25,360	120,977
Event expenses	-	-	105,992	105,992	105,992
Human resources	40,311	60,465	3,359	63,824	104,135
Taxes, licenses, and fees	65,947	3,991	1,373	5,364	71,311
Equipment and vehicle expenses	57,026	3,843	3,397	7,240	64,266
Recruitment	51,893	-	-	-	51,893
Employee benefits	39,735	4,981	2,097	7,078	46,813
Dues and membership	27,477	4,212	7,432	11,644	39,121
Marketing	24,655	4,980	7,492	12,472	37,127
Accreditation expenses	21,879	10,666	-	10,666	32,545
Interest expense	23,847	738	-	738	24,585
Uniforms	14,370	73	-	73	14,443
Meals and entertainment	3,133	3,481	1,323	4,804	7,937
	$ 6,142,811	$ 718,048	$ 326,724	$ 1,044,772	$ 7,187,583

See accompanying notes.

Workshops for Warriors, Inc.
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (3,975,841)	$ 10,014,235
Adjustments to reconcile change in net assets to cash provided by operating activities		
Amortization	254,348	153,269
Non-cash lease costs	843,741	729,007
Depreciation	506,294	413,864
Loss on disposal of an asset	1,350	-
(Increase) decrease in assets		
Accounts receivable	24,404	(33,485)
Grants and contracts receivable, net	391,300	(112,715)
Prepaids	(14,371)	(54,652)
Due from related party	8,814	858
Security deposits	(60,000)	(250)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	381,219	244,454
Due to related party	-	(64,256)
Change in lease liability	(1,039,138)	(832,116)
Net cash (used in) provided by operating activities	(2,677,880)	10,458,213
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	1,300	-
Purchase of property and equipment	(2,151,224)	(557,636)
Net cash flows used in investing activities	(2,149,924)	(557,636)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of related-party notes payable	-	(819,467)
Proceeds from notes payable	-	1,849,880
Repayments of notes payable	(86,944)	(74,653)
Net cash (used in) provided by financing activities	(86,944)	955,760
NET CHANGE IN CASH	(4,914,748)	10,856,337
CASH BALANCE, beginning of year	12,545,938	1,689,601
CASH BALANCE, end of year	$ 7,631,190	$ 12,545,938
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 79,269	$ 24,585
Leases recorded as a result of adoption under ASC 842	$ -	$ 6,466,735
Leases acquired in exchange for liabilities	$ 3,240,018	$ -

See accompanying notes.

Note 1 – The School

Workshops for Warriors, Inc. (the School), is a California nonprofit organization that was incorporated in 2008. Located in San Diego, California, the School'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 School's support comes primarily from contributions, including donated goods.

To achieve its mission, the School'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 – Net assets are classified as net assets without donor restrictions and net assets with donor restrictions based upon the following criteria:

- Net assets without donor restrictions represent expendable funds available for operations that are not otherwise limited by donor restrictions.
- Net assets with donor restrictions consist of contributed funds subject to specific donor-imposed restrictions which are contingent upon a specific performance of a future event or a specific passage of time before the School may spend the funds. Net assets with donor restrictions may also be subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, primarily for generating investment income, net of investment expenses to fund current operations. There were no net assets restricted in perpetuity as of December 31, 2023 and 2022.

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

The School maintains its cash accounts in three commercial banks. The School has an insurance policy which covers the entire balance of its cash deposits 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 credit losses as determined by management based on historical experience. All accounts receivable are considered collectible as of December 31, 2023 and 2022. Interest is not charged on outstanding balances and the School does not obtain collateral.

Grants and contributions receivable – Contributions receivable consist of donor promises to give. It is the School'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 grants and contributions receivable are considered collectible as of December 31, 2023.

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 School'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 School 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. Based on an evaluation of existing long-lived and intangible assets, the School determined that no impairments occurred for the years ended December 31, 2023 and 2022.

Debt issuance costs – The School follows guidance issued by the Financial Accounting Standards Board (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 and amortizes the cost over the life of the debt.

Leases – The School evaluates whether its contractual arrangements contain leases at the inception of such arrangements. Specifically, the School considers whether it can control the underlying asset and have the right to obtain substantially all of the economic benefits or outputs from the asset. The School has elected not to recognize a right-of-use (ROU) asset and lease liability for leases with terms of 12 months or less. The ROU lease asset represents the right to use an underlying asset for the lease term, and lease liability represents the obligation to make lease payments. All leases are assessed for classification as either operating or financing leases, based on the terms and conditions of the arrangement.

Both the ROU lease asset and liability are recognized as of the lease commencement date or adoption of the standard, whichever is later, at the present value of the lease payments over the lease term. Most of the School's leases do not provide an implicit rate that can readily be determined. Therefore, the School uses the risk-free rate as per the practical expedient.

The School may enter into lease agreements that include options to extend the lease term or terminate it early. Impacts related to options to extend or terminate leases are included in the ROU lease asset and liability only when it is reasonably certain these options will be exercised. Lease expense is recognized on a straight-line basis over the lease term and is included in operating expenses on the accompanying statements of activities and changes in net assets. The leases do not contain non-lease components or variable leases.

Revenue recognition

Contributions – Contributions, including cash, other assets, and unconditional promises to give, are recognized as revenues in the period received. Contributions whose restrictions are met in the same period they are received are recorded as revenue in net assets with donor restrictions and as net assets released from restrictions. Unconditional pledges with terms greater than one year are initially recorded at fair value based on their estimated future cash flows. Pledges are discounted to present value using a discount rate commensurate with the risk involved. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Gifts of assets other than cash are recorded at their estimated fair value.

Grants – Individual governmental and private grant arrangements are evaluated and determined whether they are nonreciprocal, meaning the granting entity has not received a direct benefit of commensurate value in exchange for the resources provided. When determined to be nonreciprocal, revenue is recognized like a conditional contribution, when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met. For the individual governmental and private grant arrangements that are reciprocal, revenue is recognized as services are provided, which is generally as allowable expenditures are incurred. Certain grant contracts require compliance with federal or grantor compliance requirements in order to continually receive funding for the duration of the contract. Certain grant contracts also allow the grantor to perform site visits, audits, and other monitoring visits, which may result in disallowed costs or disciplinary actions if disallowed costs are identified or compliance requirements are not followed. As of and for the years ended December 31, 2023 and 2022, there have not been any disciplinary action nor disallowed costs.

Tuition – The School uses the output measure for revenue recognition of tuition revenue, which means the revenue is recognized pro rata over each instructional course as performance obligations associated with the delivery of educational services are provided. A contract is entered into with a student and covers a course. The School determined there are no costs that are capitalized to obtain or fulfill these contracts with a student. Revenue recognition begins once a student starts attending a course. Fees that do not relate to instruction are recognized when no longer refundable. Students are able to obtain a full refund if they withdraw by the first day of class or seven days after enrollment, whichever is later. After that, students are eligible to obtain a pro rata refund if withdrawn prior to completing 60% of the course as measured by time completed.

Donated goods – The School records donated goods with a fair value of $300 or more. If donated goods are unable to be used by the School, they are monetized using a third-party auction house. 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 are recorded at fair value on the date of donation.

Donated goods of approximately $655,000 and $229,000 were recognized for the years ended December 31, 2023 and 2022, respectively, included welding and metalworking supplies and consumables, none of which contained donor restrictions. Donated goods received during the years ended December 31, 2023 and 2022, were utilized in the School's academic programs. All fair values were estimated through research of identical or similar products for sale in local markets.

Donated services – The School 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 nonfinancial assets or require specialized skills. Volunteers have contributed significant amounts of their time to activities of the School; however, only the services that meet the above requirements are recorded in the financial statements. The School did not have any donated services for the years ended December 31, 2023 and 2022.

Functional allocation of expenses – The School 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.

Advertising – Advertising expenses are charged to expense as incurred.

Operating activities – Operating revenue and expenses consist of those items attributed to the School's academic programs and student services.

Concentrations of credit risk – Grants and contributions receivable are exposed to various credit risks such as creditworthiness of the donor. As of December 31, 2023 and 2022, approximately 100 percent and 92 percent, respectively, of grants and contributions receivable are due from two and four donors, respectively.

For the years ended December 31, 2023 and 2022, contributions from three and two donors represented 64 percent and 73 percent, respectively, of the School's grants and contributions.

Income taxes – As a nonprofit organization, the School has obtained exempt status under Section 501(c)(3) of the Internal Revenue Code (the 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 School has not accrued interest or penalties related to uncertain tax positions. The School files tax returns in the U.S. federal jurisdiction and the State of California.

Recently adopted accounting standards – Effective January 1, 2023, the School adopted FASB issued Accounting Standards Update (ASU) 2016-13 Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*. This ASU requires organizations to measure all expected credit losses for financial instruments held at the reporting date. There was no material impact to the financial statements as of December 31, 2023.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. The School recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including any estimates inherent in the process of preparing the financial statements. The School's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the financial position but arose after the financial position date and before the financial statements are available to be issued.

The School has evaluated subsequent events through June 7, 2024, which is the date the financial statements are available to be issued.

Note 3 – Contributions Receivable

Long-term contributions receivable are shown at present value using discount rates ranging from 3.84% to 4.23%. Contributions receivable consisted of the following at December 31:

	2023	2022
Gross contributions receivable	$ 95,000	$ 155,000
Gross grants receivable	125,000	460,000
	220,000	615,000
Less discount to net present value	(13,767)	(17,467)
	$ 206,233	$ 597,533
Amounts due in		
One year or less	$ 135,000	$ 520,000
Between one and five years	55,000	50,000
More than five years	30,000	45,000
	$ 220,000	$ 615,000

Note 4 – Property and Equipment

As of December 31, 2023 and 2022, property and equipment consisted of:

	2023	2022
Building and structures	$ 1,545,326	$ 1,545,326
Leasehold improvements	1,264,412	1,264,412
Machinery and equipment	3,621,280	2,272,840
Computers and software	955,115	955,115
Furniture and office equipment	212,215	206,828
Tooling and fixtures	256,402	256,402
Kitchen equipment	22,649	22,649
Vehicles	-	3,000
Construction in progress	1,781,895	984,498
	9,659,294	7,511,070
Less accumulated depreciation	(2,965,750)	(2,459,806)
	$ 6,693,544	$ 5,051,264

(Unaudited) At December 31, 2023, a majority of the construction in progress related to the School's expansion plan project. The expansion project is set to build a purpose built manufacturing training facility and do tenant improvements on an a welding training facility. This project is expected to cost approximately $103 million, over 5 years, with construction starting during the summer of 2024 and completed by the spring of 2025 and includes construction, equipment, and operating expense.

Note 5 – Related-Party Transactions

The School has Board-approved arm's length, related-party transactions with the CEO and two limited liability company (LLC) entities, Zorgon, LLC and VetPowered, LLC, owned by the CEO, that benefit the School.

VetPowered, LLC provides project management, facilities management, machinery repair and maintenance, facilities repairs and maintenance, and training services to the School as per board approved contracts between the two entities. Some expenses are paid by the School and billed to VetPowered, LLC for reimbursement. The net amount paid by the School to VetPowered, LLC was approximately $2,198,000 and $1,244,000, respectively, for the years ended December 31, 2023 and 2022. The School had accounts payable to VetPowered, LLC of approximately $145,000 and $144,000, respectively.

In addition, the School rents equipment and vehicles from VetPowered, LLC at or below market value. The net amount paid by the School to VetPowered, LLC for rents was approximately $246,000 and $187,000 for the years ended December 31, 2023 and 2022, respectively.

In 2022, 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 School 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 School has a number of triple net leases at fair value with Zorgon, LLC for approximately 49,000 sq. ft. of buildings and land and paid rents and property taxes totaling approximately $905,000 and $805,000 for the years ended December 31, 2023 and 2022, respectively. The School and Zorgon, LLC had reimbursed expenses between each other that netted to approximately $415,000 and $16,000 net paid to Zorgon, LLC for the years ended December 31, 2023 and 2022, respectively. The School also purchased office equipment from Zorgon, LLC for $2,203, of which $2,203 was included in accounts payable as of December 31, 2022.

Outstanding balances in regards to the related parties consisted of rental security deposits of $163,000 and $103,000 were held by Zorgon, LLC as of December 31, 2023 and 2022, respectively.

Note 6 – Operating and Finance Leases

The School has six triple net lease agreements at fair value for office space, parking lot, warehouse space, and residential space. Monthly payments range from $3,146 to $24,088 and are subject to periodic adjustment. Six of the leases expire in December of 2028, and the other three expire in December of 2033.These leases contain an option to purchase the property at the fair value as determined at the conclusion of the leases as well as options to extend which are not included in the right-of-use assets and lease liabilities. These lease agreements are classified as operating leases.

The School has 13 vehicle leases at or below market value with monthly payments ranging from $1,038 to $2,418 that expire between August of 2026 and July of 2028. These lease agreements are classified as finance leases.

The School has one lease for a copy machine with monthly payments of $237 that expires in February 2027. This lease agreement is classified as a finance lease.

During the years ended December 31, 2023 and 2022, the School recognized lease expense in relation to the leases described above as follows:

	2023	2022
Lease cost		
Finance lease cost		
Amortization of right-of-use assets	$ 211,144	$ 153,269
Interest on lease liabilities	21,744	16,336
Operating lease cost	863,806	764,694
Total lease cost	$ 1,096,694	$ 934,299

The School has elected to exercise the practical expedient permitting the use of the risk-free rate as the discount rate for its leases. The weighted-average remaining lease terms and weighted-average discount rates for operating and finance leases are as follows at December 31, 2023 and 2022:

	2023	2022
	Operating	Operating
Weighted-average remaining lease term	7.73 years	6 years
Weighted-average discount rate	2.98%	1.76

Future payments due under operating and finance leases as of December 31, 2023, are as follows:

	Operating	Finance
2024	$ 1,153,834	$ 233,278
2025	1,177,595	233,278
2026	1,202,069	218,459
2027	1,245,367	98,218
2028	1,288,665	13,373
Thereafter	1,978,040	-
Total minimum lease payments	8,045,570	796,606
Less effects of discounting	(954,624)	(37,343)
Total lease liabilities	7,090,946	759,263
Less current liabilities under leases	(955,580)	(215,646)
Long-term lease liabilities	$ 6,135,366	$ 543,617

Note 7 – Notes Payable

The School has a note payable with a national bank to finance the acquisition of equipment. The outstanding balance on the note was $108,476 and $146,120 at December 31, 2023 and 2022, respectively. The note has an interest rate of 3.15%. The note requires monthly payments of $3,339 and matures October 2026. The note is secured by the equipment purchased using the note payable.

The School has a Small Business Administration Economic Injury Disaster Loan. The outstanding balance on the note was $1,917,361 and $1,970,795 at December 31, 2023 and 2022, respectively. The note has an interest rate of 2.75%. The note requires payments of $8,641 starting January 2023 and matures January 2052. The note is secured by real estate owned.

The future principal payments required under the notes payable are as follows:

Years Ending December 31,	
2024	$ 88,777
2025	91,402
2026	87,418
2027	56,023
2028	57,606
Thereafter	1,644,611
Total	$ 2,025,837

Note 8 – Net Assets

Net assets consisted of the following at December 31:

	2023	2022
Net assets without donor restriction		
Board-designated net assets for real estate development	$ 2,000,000	$ 2,000,000
Net assets without Board designations	3,933,466	8,779,232
Total net assets without donor restrictions	5,933,466	10,779,232
Net assets with donor restrictions		
Real estate development	5,805,651	4,533,651
Train the Trainer grant	100,000	200,000
Advanced manufacturing for veterans	40,000	40,000
Scholarships	30,000	71,300
Student computers – machining	-	260,000
Meals for students	-	775
Total net assets with donor restrictions	5,975,651	5,105,726
Total net assets	$ 11,909,117	$ 15,884,958

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 years ended December 31, 2023 and 2022, are as follows:

	2023	2022
Capital expenditure restrictions satisfied		
Purchase of manufacturing equipment	$ 630,000	$ -
Real estate development	-	86,349
Total capital expenditures restrictions satisfied	630,000	86,349
Purpose restriction accomplished		
Student computers – machining	274,500	10,000
Train the Trainer grant	100,000	-
Scholarships	75,000	48,700
Advanced manufacturing for veterans	70,000	-
Scholarships and outreach to improve diversity and inclusion	41,300	-
Scholarship and student team competition	30,000	-
Meals for students	775	13,336
Salaries	-	236,000
Classroom equipment and maintenance	-	182,222
Purchase of welding booths	-	100,000
Total purpose restriction accomplished	591,575	590,258
	$ 1,221,575	$ 676,607

Note 9 – Liquidity and Availability of Resources

The following reflects the School'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.

	2023	2022
Financial assets at year end		
Cash and cash equivalents	$ 7,631,190	$ 12,545,938
Accounts receivable	19,026	43,430
Grants and contributions receivable	135,000	520,000
Due from related parties	-	8,814
Total financial assets at year end	7,785,216	13,118,182
Less those unavailable for general expenditures within one year		
Net assets restricted for real estate development	(5,805,651)	(4,533,651)
Financial assets available to meet the cash needs for general expenditures within one year	$ 1,979,565	$ 8,584,531

The School 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 School 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 School'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 School sets aside cash in excess of daily requirements in its savings account. In the event of an unanticipated liquidity need, the School also could draw upon the funds set aside in the School's savings account or its line of credit.

Note 10 – Tuition Income

Tuition income consisted of the following at December 31:

	2023	2022
Tuition and fees	$ 2,842,236	$ 3,780,160
Less tuition discounts and financial aid	(2,069,625)	(2,946,536)
Net tuition and fees	$ 772,611	$ 833,624

Note 11 – Retirement Benefit Plan

The School 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 $22,500 and $20,500 to the plan for 2023 and 2022, respectively. The School has the option to make annual discretionary matching and profit sharing contributions to the plan. Total retirement plan contribution expense for the years ended December 31, 2023 and 2022, was $17,857 and $14,782, respectively.

Note 12 – Line of Credit

The School had a line of credit with Endeavor bank for $500,000. The line had an outstanding balance of $0 at December 31, 2023 and 2022. The line of credit matured in December of 2023.

Supplementary Information

Report of Independent Auditors 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*

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., which comprise the statement of financial position as of December 31, 2023, 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 7, 2024.

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 first 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 tests 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

San Diego, California
June 7, 2024

Section 498(c)(1) of the Higher Education Act authorizes the secretary for the Department of Education (Department) to establish ratios and other criteria for determining whether an institution has sufficient financial responsibility. Section 668.172 established a methodology based on three ratios—primary reserve, equity, and net income—that measure different aspects of financial health and are combined into a composite score to measure financial responsibility. Several mathematical steps are required to combine an institution's ratio results into a composite score:

- Determine the value of each ratio;
- Calculate a strength factor score for each ratio using the appropriate algorithm;
- Calculate a weighted score for each ratio by multiplying the strength factor score by its corresponding weighted percentage; and
- Add the weighted scores to arrive at the composite score.

Institutions receiving a composite score of 1.5 or greater are considered financially responsible. An institution that fails the financial responsibility standards may continue to participate in Title IV programs under provisional certifications for three years. To continue to participate in Title IV programs under provisional certification, an institution will be required to provide surety to the Department of 10% or more of its previous year's Title IV funding, as determined by the Department.

The source for each balance below has been referenced to either the statement of financial position (SOFP), statement of activities and changes in net assets (SOA), or a specific footnote except for the following:

The Department has set limits within the primary reserve calculation so that long-term debt issued by Workshops for Warriors, Inc., after July 1, 2019, must be limited to the portion spent on property, plant, and equipment. Therefore, the Department requires that all property, plant, and equipment and long-term debt acquired or issued after that date be reported separately. Note 4 to the financial statements provides information on the School's total property, plant, and equipment, net, but does not provide a breakout of assets acquired before and after the implementation date of July 1, 2019. Similarly, Note 7 to the financial statements provides information on total debt of the School but does not provide a breakout of debt issued before and after July 1, 2019. The following tables provide a breakdown at December 31, 2023, based on the respective implementation date.

	Reference		
Property, plant, and equipment – pre-implementation		$ 1,792,877	*
Property, plant, and equipment – post-implementation with outstanding debt for original purchase		144,509	**
Property, plant, and equipment – post-implementation without outstanding debt for original purchase		2,974,263	***
Construction in progress		1,781,895	*****
Total property, plant, and equipment at December 31, 2023	SOFP	$ 6,693,544	
Lease right-of-use asset post-implementation – operating leases	SOFP	$ 6,969,370	
Lease right-of-use asset post-implementation – finance leases	SOFP	757,018	
Total lease right-of-use asset post-implementation		$ 7,726,388	****
Lease right-of-use liability post-implementation – operating leases	Note 6	$ 7,090,946	
Lease right-of-use liability post-implementation – finance leases	Note 6	759,263	
Total lease right-of-use liability post-implementation		$ 7,850,209	†

Workshops for Warriors, Inc.
Schedule of Financial Responsibility Ratios (Continued)
December 31, 2023

Primary Reserve Ratio Calculation	Reference	As of and for the Year Ended December 31, 2023	
Net assets without donor restrictions	SOFP	$ 6,874,972	
Net assets with donor restrictions	SOFP	5,034,145	
Total net assets		11,909,117	
Less			
Annuities with donor restrictions		-	
Term endowments with donor restrictions		-	
Life income funds with donor restrictions		-	
Net assets with donor restrictions restricted in perpetuity (less annuities)		-	
Unsecured related-party receivables		-	
Unsecured other related-party assets	Note 5	(163,000)	
Property, plant, and equipment – pre-implementation	*	(1,792,877)	
Property, plant, and equipment – post-implementation with outstanding debt for original purchase	**	(144,509)	
Property, plant, and equipment – post-implementation without outstanding debt for original purchase	***	(2,974,263)	
Construction in progress	*****	(1,781,895)	
Lease right-of-use asset pre-implementation		-	
Lease right-of-use asset post-implementation	****	(7,726,388)	
Intangible assets		-	
Add			
Post-employment and pension liabilities		-	
Long-term debt for long-term purposes pre-implementation		-	
Long-term debt for long-term purposes post-implementation	Note 7	108,476	
Line of credit for construction in progress		-	
Pre-implementation right-of-use lease liabilities		-	
Post-implementation right-of-use lease liabilities	†	7,850,209	
Total expendable net assets			$ 5,284,870
Total expenses without donor restrictions	SOA	9,594,549	
Add			
Non-operating and net investment losses		-	
Net investment losses		-	
Pension – related changes other than net periodic costs		-	
Total expenses without donor restrictions and losses without donor restrictions			$ 9,594,549
Primary reserve ratio			0.6
Net assets with donor restrictions: other for purpose or time (not included in the calculation)	Note 8		5,034,145

Workshops for Warriors, Inc.
Schedule of Financial Responsibility Ratios (Continued)
December 31, 2023

Equity Ratio Calculation	Reference	December 31, 2023	
Net assets without donor restrictions	SOFP	$ 6,874,972	
Net assets with donor restrictions	SOFP	5,034,145	
		11,909,117	
Less			
Lease right-of-use assets pre-implementation		-	
Intangible assets	-	-	
Unsecured related-party receivables	-	-	
Unsecured related-party other assets	Note 5	(163,000)	
Add			
Pre-implementation right-of-use lease liabilities		-	
Modified net assets			$ 11,746,117
Total assets		$ 22,600,714	
Less			
Lease right-of-use assets pre-implementation		-	
Intangible assets	-	-	
Unsecured related-party receivables	-	-	
Unsecured related-party other assets	Note 5	(163,000)	
Modified assets			$ 22,437,714
Equity ratio			0.5

Net Income Ratio Calculation	Reference	For the Year Ended December 31, 2023	
Change in net assets without donor restrictions	SOA		$ (4,845,766)
Total operating revenue, gains, and other support without donor restrictions	SOA	$ 3,237,441	
Add			
Investment return appropriated for spending (without donor restriction)		-	
Non-operating revenue and other gains (without donor restriction)	SOA	369,036	
Total revenue and gains without donor restrictions			$ 3,606,477
Net income ratio			(1.3)

Step 1: Calculate the strength factor score for each ratio by using the following algorithms:

- Primary Reserve strength factor score = 10 x the primary reserve ratio result
- Equity strength factor score = 6 x the equity ratio result
- Negative net income ratio result: Net income strength factor = 1 + (25 x net income ratio result)
- Positive net income ratio result: Net income strength factor = 1 + (50 x net income ratio result)
- Zero result for net income ratio: Net income strength factor = 1

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for the ratio is 3.

If the strength factor score for any ratio is less than or equal to -1, the strength factor score for the ratio is -1.

Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores

- Primary Reserve weighted score = 40% x the Primary Reserve strength factor score
- Equity weighted score = 40% x the equity strength factor score
- Net income weighted score = 20% x the net income strength factor score
- Composite score = the sum of all weighted scores
- Round the composite score to one digit after the decimal point to determine the final score

	As of and for the Year Ended December 31,2023			
Ratio Description	Ratio	Strength Factor	Weight	Composite Scores
Primary Reserve ratio	0.6	3.0	40%	1.2
Equity ratio	0.5	3.0	40%	1.2
Net income ratio	(1.3)	(1.0)	20%	(0.2)
Composite score				2.2

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