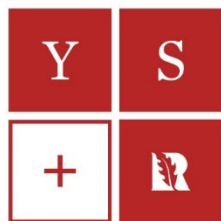

RISE UP INDUSTRIES
FINANCIAL STATEMENTS

December 31, 2021



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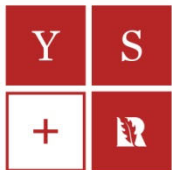
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RISE UP INDUSTRIES
FINANCIAL STATEMENTS
December 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Rise Up Industries

Opinion

We have audited the accompanying financial statements of Rise Up Industries (a California nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, 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 Rise Up Industries 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 Rise Up Industries 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 Rise Up Industries' 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, including omissions, 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 Rise Up Industries' 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 Rise Up Industries' 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.

Emphasis of a Matter – Adoption of New Accounting Principles

For the year ended December 31, 2021, the Organization adopted Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), ASU 2016-01 and ASU 2018-08, Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made, as described in Note 1. The changes required by the update have been applied to all periods presented. Our opinion is not modified with respect to that matter.

YSR CPA Group, P.C.

Encinitas, California
June 3, 2022

RISE UP INDUSTRIES**STATEMENT OF FINANCIAL POSITION**December 31, 2021

	<u>12/31/21</u>
ASSETS	
CURRENT ASSETS	
Cash	\$ 1,066,476
Accounts receivable	98,425
Contracts and grants receivable	68,610
Other receivables	51,770
Inventory (Note 4)	57,615
Prepaid expenses	7,087
Other assets	<u>1,581</u>
TOTAL CURRENT ASSETS	1,351,564
NON-CURRENT ASSETS	
Property and equipment, net of accumulated depreciation (Note 5)	378,782
Security deposit	<u>2,719</u>
TOTAL ASSETS	<u>\$ 1,733,065</u>
COMMITMENTS AND CONTINGENCIES	
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 35,428
Accrued expenses	23,754
Current portion of notes payable (Note 7)	<u>147,222</u>
TOTAL CURRENT LIABILITIES	206,404
NON-CURRENT LIABILITIES	
Notes payable, net of discount (Note 7)	<u>95,769</u>
TOTAL LIABILITIES	302,173
NET ASSETS	
Without donor restrictions	1,212,012
With donor restrictions (Note 8)	<u>218,880</u>
TOTAL NET ASSETS	<u>1,430,892</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,733,065</u>

See accompanying independent auditors' report and notes to financial statements.

RISE UP INDUSTRIES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions and grants	\$ 600,648	\$ 201,812	\$ 802,460
Social enterprise revenue	489,604	-	489,604
less cost of goods sold	(256,589)	-	(256,589)
Program revenue	26,343	-	26,343
Other sales revenue	33,484	-	33,484
Government grants and assistance	511,357	15,000	526,357
Special event revenue			
net direct expenses of \$41,887	158,368	-	158,368
In-kind contributions	15,029	-	15,029
Interest income	344	-	344
Investment loss	(1,121)	-	(1,121)
Other income	10,068	-	10,068
Net assets released from restrictions	166,114	(166,114)	-
TOTAL REVENUE AND SUPPORT	1,753,649	50,698	1,804,347
EXPENSES			
Program Expenses:	869,041	-	869,041
Supporting Services:			
General and administrative	207,820	-	207,820
Fundraising	112,780	-	112,780
TOTAL EXPENSES	1,189,641	-	1,189,641
INCREASE IN NET ASSETS	564,008	50,698	614,706
NET ASSETS AT BEGINNING OF YEAR	648,004	168,182	816,186
NET ASSETS AT END OF YEAR	\$ 1,212,012	\$ 218,880	\$ 1,430,892

See accompanying independent auditors' report and notes to financial statements.

RISE UP INDUSTRIES**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended December 31, 2021

	PROGRAM EXPENSES			SUPPORTING SERVICES		TOTAL
	Machine Shop	Member Services	Other Programs	General and Administrative	Fundraising	Total Expenses
Salaries and wages	\$ 349,487	\$ 188,470	\$ 6,810	\$ 158,098	\$ 78,505	\$ 781,370
Payroll taxes	26,471	13,970	674	11,686	6,000	58,801
Employee benefits	15,005	5,755	1,814	5,041	1,563	29,178
Direct program expenses	80,555	13,363	22,266	1,068	215	117,467
Professional fees	-	-	-	1,750	-	1,750
Advertising and promotion	-	-	-	-	4,974	4,974
Office expenses	10,160	598	585	10,735	6,640	28,718
Information technology	4,802	-	-	2,115	2,957	9,874
Occupancy	38,030	407	150	8,465	238	47,290
Travel	929	287	-	-	-	1,216
Interest	1,039	-	-	3,120	7,283	11,442
Depreciation	77,184	-	-	620	-	77,804
Insurance	3,596	21	89	3,314	74	7,094
Other expenses	3,483	541	2,500	1,808	4,331	12,663
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	\$ 610,741	\$ 223,412	\$ 34,888	\$ 207,820	\$ 112,780	\$ 1,189,641

See accompanying independent auditors' report and notes to financial statements.

RISE UP INDUSTRIES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2021

	<u>12/31/21</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 614,706
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	77,804
Contributed securities	(111,819)
Proceeds from contributed securities	110,697
Loss on sale of contributed securities	1,121
Forgiveness of PPP loan	(202,050)
(Increase) decrease in:	
Accounts receivable	(84,323)
Contracts and grants receivable	(52,485)
Other receivables	(51,473)
Inventory	(26,192)
Prepaid expenses	(170)
Other assets	320
Increase (decrease) in	
Accounts payable	3,942
Accrued expenses	<u>7,019</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES:	<u>287,097</u>
CASH FLOWS USED BY INVESTING ACTIVITIES	
Purchase of property and equipment	<u>(27,783)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(27,783)</u>
CASH FLOWS USED BY FINANCING ACTIVITIES	
Proceeds from PPP loan	96,650
Proceeds from notes payable	200,000
Payments on notes payable	<u>(96,385)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>200,265</u>
INCREASE IN CASH AND CASH EQUIVALENTS	459,579
CASH AT BEGINNING OF YEAR	<u>606,897</u>
CASH AT END OF YEAR	<u><u>\$ 1,066,476</u></u>

See accompanying independent auditors' report and notes to financial statements.

RISE UP INDUSTRIES

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2021

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Rise Up Industries (the "Organization") was formed in 2013 to minimize gang involvement by providing integrated gang prevention, gang intervention and post-detention reentry services for former gang-involved individuals. A key component of the Reentry Program is the Machine Shop Social Enterprise (MSSE), where the Organization prepares formerly incarcerated, previously gang involved individuals for careers as CNC (Computer Numeric Control) machine operators. Members receive additional wraparound support services, such as counseling, case management, financial literacy, therapy for PTSD, mentoring, education assistance, tattoo removal and 12 Step groups for drug and alcohol recovery. The Organization pays members full-time wages as they work their way through the 18-month program.

The Reentry Program and MSSE has a five-year history that demonstrates the Organization's approach to reentry with an emphasis on career development is working. 100% of graduates have been hired immediately by local manufacturing companies and 0% have returned to incarceration. A 0% recidivism rate is contrasted to the national average of 68% recidivism within 3 years of release.

The Organization also operates a purchasing program for individuals, churches and other organizations interested in ordering specialty coffee on a regular basis, as well as a screen printing and embroidery program that produces shirts for organizations.

The Organization provides its programs through its office and machine shop located in Santee, California.

Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). ASC 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

- *Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.
- *Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

RISE UP INDUSTRIES

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2021

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing services and interest earned. Nonoperating activities are limited to resources and other activities considered to be of a more unusual or nonrecurring nature.

Estimates

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

Fair Value of Financial Instruments

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments at December 31, 2021.

New Accounting Pronouncements Recently Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and requires entities to recognize revenue when control of the promised goods or services are transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Organization adopted ASU No. 2014-09 as of January 1, 2021, using the modified retrospective transition method as management believes the standard improves the usefulness and understandability of the Organization's financial reporting.

In June 2018, the FASB released ASU 2018-08, Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made. The update provides clarifying accounting guidance for contributions received and contributions made about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments in this update include (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance (within the scope of Topic 606, Revenue from Contracts with Customers) and (2) determining whether a contribution is conditional.

The Organization adopted Accounting Standards Update (ASU) No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605) as of January 1, 2021, as management believes the standard improves the usefulness and understandability of the Organization's financial reporting.

RISE UP INDUSTRIES
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2021

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements Recently Adopted (continued)

The Organization accounts for contributions in accordance with Accounting Standards Update (ASU) No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605) and accounts for revenue (exchange transactions) in accordance with ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The accounting may be different depending on the guidance applied.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which amends the existing guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and by disclosing key information about leasing arrangements. ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014.

Additionally, in July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases and ASU No. 2018-11, Leases, Targeted Improvements. The amendments in these updates provide additional clarification and implementation guidance on certain aspects of ASU 2016-02 and have the same effective and transition requirements as ASU 2016-02. Specifically, ASU 2018-11 creates an additional transition method option allowing entities to record a cumulative effect adjustment to opening net assets in the year of adoption.

In December 2018, the FASB further issued ASU 2018-20, Leases (Topic 842) Narrow-Scope Improvements for Lessors. The amendments in this update permits lessors to make an accounting policy election to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs and instead account for the costs as if they were lessee costs. Additionally, the amendment requires lessors to exclude from variable payments, and therefore revenue, lessor costs paid by lessees directly to third parties. The amendments also require lessors to account for costs excluded from the consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments.

In March 2019, the FASB also issued ASU 2019-01, Leases (Topic 842) Codification Improvements, to further clarify certain identified issues regarding implementation of ASU 2016-02. Specifically, the amendments in ASU 2019-01 clarify the determination of fair value of underlying assets by lessors that are not manufacturers or dealers, the cash flow presentation of sales-type or direct financing leases, and transition disclosures for interim periods. Issued in November 2019, ASU 2019-10, "Financial Instruments-Credit Losses, Derivatives and Hedging, and Leases" alters the effective date of ASU 2016-02 for private companies. On June 3, 2020, the FASB issued ASU 2020-05, which deferred the effective dates of the Board's standards on ASU 2016-02 to give immediate relief to certain entities as a result of the widespread adverse economic effects and business disruptions caused by the coronavirus disease 2019 (COVID-19) pandemic.

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This ASU is meant to improve generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. An NFP will be required to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets.

See accompanying independent auditors' report

RISE UP INDUSTRIES

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2021

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements Not Yet Adopted (continued)

The amendments address presentation and disclosure of contributed nonfinancial assets. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. An NFP will be required to disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets and additional information for each category of contributed nonfinancial assets. The amendments in this ASU are effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022, and should be applied on a retrospective basis. Early adoption is permitted.

In October 2021, the FASB Issued ASU 2021-10 Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance, which aims to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements. The disclosure requirements in ASC 832 only apply to transactions with a government that are accounted for by analogizing to either a grant model (for example, in International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance), or a contribution model (for example, in ASC 958-605, Not-for-Profit Entities – Revenue Recognition). ASC 832 requires the following disclosures about government assistance transactions in the notes to the annual financial statements:

- Information about the nature of the transactions, including a general description and the form (cash or other assets, for example) in which the assistance has been received.
- The accounting policies used to account for the transactions.
- Line items on the balance sheet and income statement affected by the transactions and the amounts applicable to each financial statement line item in the current reporting period.

Entities are required to provide the new disclosures prospectively for all transactions with a government entity that are accounted for under either a grant or a contribution accounting model and are reflected in the financial statements at the date of initially applying the new amendments, and to new transactions entered into after that date. Retrospective application of the guidance is permitted. The guidance in ASU 2021-10 is effective for financial statements of all entities, including private companies, for annual periods beginning after December 15, 2021, with early application permitted.

Cash and Cash Equivalents

Cash and cash equivalents consist of short term, highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Accounts Receivable

Accounts receivable are stated net of an allowance for doubtful accounts. It is the policy of management to review the outstanding accounts receivable at year-end, as well as the bad debt write-offs experienced in the past to establish an allowance for doubtful accounts. As of December 31, 2021, accounts receivable consists of trade accounts receivable from sales. Based on the judgment of management and past collection histories, no allowance for doubtful accounts has been recorded as of December 31, 2021.

RISE UP INDUSTRIES
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2021

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts and Grants Receivable

Contracts and grants receivable consist primarily of amounts due from private agencies. Contracts and grants receivable consist primarily of amounts due from various organizations for on the job training subsidies. All such receivables are stated at the amount management expects to collect.

Inventory

Inventory is valued at the lower of cost or net realizable value.

Property and Equipment

The Organization capitalizes all expenditures in excess of \$1,500 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values at the date of donation. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Property and equipment are depreciated using the straight-line method over the estimated useful asset lives. Maintenance, repairs and minor renewals are charged to operations as incurred.

Revenue Recognition

Revenue from Contracts with Customers

The Organization adopted Financial Accounting Standards Board's (FASB) accounting standards update (ASU) ASU 2014-09, Revenue from Contracts with Customers (Topic 606) effective January 1, 2021. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization generally measures revenue based on the amount of consideration the Organization expects to be entitled for the transfer of goods to a customer, then recognizes this revenue when the Organization satisfies its performance obligations. The Organization evaluates its revenue contracts with customers based on the five-step model under Topic 606: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognize revenue when (or as) each performance obligation is satisfied. In accordance with FASB ASC 606-10-50-14, the Organization has elected not to disclose certain information about its remaining performance obligations, as such obligations relate to contracts with an original expected duration of one year or less.

The Organization determined that machine shop revenue and other such sales and a portion of revenue received for event sponsorship and tickets represent exchange transactions that must be recognized under ASC 606. The Organization recognized sales at a point in time when the sale occurs and there is a transfer of goods to the customer. The Organization has no further performance obligations related to the sales and there are no additional services required by the Organization. Revenue from sponsorships at events and ticket sales to events is recognized at a point in time, when the event takes place. Meals and entertainment are the only performance obligations of more than nominal value for these contracts. Event ticket purchases and sponsorship fees received prior to the event taking place are recognized a deferred revenue and recognized in future periods when the event occurs.

There were no other significant exchange revenues during the year ended December 31, 2021.

See accompanying independent auditors' report

RISE UP INDUSTRIES
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2021

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Program Revenue

Program revenue comprises revenue from various private entities that provide subsidies for on the job training. These revenues are recognized as the training occurs and the beneficiary of the program receives the benefit. These transactions are determined not to be exchange transactions.

Contributions and Support

Contributed revenue may include gifts of cash or promises to give. Contributions and grants are recognized as revenues in the period received and are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The Organization adopted ASU 2018-08, Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made effective January 1, 2021. In accordance with Topic 958, Revenue Recognition, the Organization must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement.

Government Grants and Assistance

The Organization received direct government grants and assistance including the Paycheck Protect Program (PPP) loan and Employee Retention Credits (ERC) (see Note 6). In accordance with ASC 958, the proceeds from PPP loans are recognized initially as a refundable advance and recognized as revenue upon forgiveness. The Employee Retention Credit (ERC), a credit against certain payroll taxes allowed to an eligible employer for qualifying wages, was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and further amended by the Consolidated Appropriations Act (CAA) and the American Rescue Plan (ARP). As the government is not receiving a benefit as a result of these transactions, revenue is considered to be a contribution to the Organization.

The Organization also receives pass-through funding from various non-profit organizations that are subrecipients of state funded and federal funding sources. As the beneficiary of the program receives the benefit, these transactions are determined not to be exchange transactions.

Contributed Goods and Services

Contributed physical assets, investments, and other noncash donations are recorded as contributions at their fair market value at their date of donation. The Organization reports the donations in the net assets without donor restrictions category, unless explicit donor stipulations specify how the donated assets must be used.

RISE UP INDUSTRIES
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2021

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Contributed Goods and Services (continued)

The Organization utilizes the services of volunteers throughout the year that perform a variety of tasks to assist with various programs. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Some members of the Organization have also donated significant amounts of time to the Organization in furthering its programs and objectives. However, no amounts have been included in the financial statements for donated member or volunteer services since they did not meet the criteria for recognition.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis, such as time and effort or full time equivalents.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511.

The Organization follows the provision of uncertain tax positions as addressed in FASB Accounting Standards Codification. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. The Organization believes that it has taken no significant uncertain tax positions for the year ended December 31, 2021.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued.

RISE UP INDUSTRIES
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2021

NOTE 2. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets as of December 31:

Financial assets at year-end:	12/31/21
Cash	\$ 1,066,476
Accounts receivable	98,425
Contracts and grants receivable	68,610
Other receivables	51,770
Total financial assets	1,285,281
Less amounts not available to be used within one year:	
Debt obligations to be met in less than a year	147,222
Restricted by donor with purpose restrictions	218,880
Financial assets available to meet general expenditures over the next twelve months	\$ <u>919,179</u>

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization has a liquidity goal to maintain six months of operating expenses. To achieve this target, the entity forecasts its future cash flows and monitors its liquidity monthly.

NOTE 3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash. The Organization maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor. At December 31, 2021, \$797,365 exceeded FDIC limit of \$250,000.

NOTE 4. INVENTORY

Inventory consists of the following at December 31:

	12/31/21
Machine shop inventory	\$ 55,770
Miscellaneous inventory for resale	1,845
	\$ <u>57,615</u>

RISE UP INDUSTRIES
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2021

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	<u>12/31/21</u>
Furniture, fixtures and equipment	\$ 591,751
Leasehold improvements	<u>20,222</u>
	611,973
Less accumulated depreciation	<u>(233,191)</u>
	<u>\$ 378,782</u>

Depreciation expense for the year ended December 31, 2021 was \$77,804.

NOTE 6. GOVERNMENT GRANTS AND ASSISTANCE

CARES ACT Loans

Paycheck Protection Program – First Draw

In April 2020, the Organization was granted a \$105,400 loan under the Paycheck Protection Program “PPP” administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. In accordance with ASC Subtopic 958-605 in situations in which the PPP’s eligibility and loan forgiveness criteria are expected to be met, the proceeds from the PPP loan were initially recognized as a refundable advance until the conditions for forgiveness were substantially met. Contribution revenue is recognized when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived.

On March 13, 2021, the PPP loan was fully forgiven. For the year ended December 31, 2021, the Organization recognized \$106,315 as government grants and assistance on the statement of activities, which includes \$915 in interest.

Paycheck Protection Program – Second Draw

On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the “Economic Aid Act”) was signed into law, which reopened the Paycheck Protection Program (PPP) both to first-time borrowers and to borrowers that previously received a PPP loan (second draw borrowers). On January 29, 2021, the Organization was granted a loan (the “Loan”) from California Bank and Trust in the amount of \$96,650, pursuant to the Paycheck Protection Program (the “PPP2”).

On August 17, 2021, the PPP2 loan was fully forgiven. For the year ended December 31, 2021, the Organization recognized \$97,182 as government grants and assistance on the statement of activities, which includes \$532 in interest.

Employee Retention Credit (ERC)

The 2020 and 2021 Employee Retention Credit (ERC) act as fully refundable credits against the employer portion of Social Security taxes based on the amount of qualified wages that an eligible employer has incurred. The maximum credit is based on a qualified-wages ceiling for each employee. Filing the paperwork with the IRS is an administrative burden that does not impact the timing of when the receivable should be recognized. Therefore, management has elected to recognize a receivable, for the ERC amount that was not taken as a credit on payroll tax reporting forms, on the statement of financial position in the amount of \$50,595 and is included as revenue in government grants and assistance on the statement of activities.

See accompanying independent auditors’ report

RISE UP INDUSTRIES
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2021

NOTE 6. GOVERNMENT GRANTS AND ASSISTANCE (continued)

CARES ACT Loans (continued)

Laws and regulations concerning government programs, including the ERC established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review.

NOTE 7. DEBT

Debt consists of the following at December 31:

	<u>12/31/21</u>
Term loan with Mission Driven Finance, with original principal of \$100,000, effective September 11, 2020, and matures March 1, 2023, with 12 principal payments of \$2,778 beginning April 1, 2021, and 12 principal payments of \$5,556 beginning April 1, 2022, discounted at imputed interest rate of 4%, secured by substantially all of the Organization's assets.	\$ 72,787
Term loan with Mission Driven Finance, with original principal of \$200,000, effective May 3, 2021, and matures December 1, 2023, with principal payments of \$7,407 beginning October 1, 2021, discounted at imputed interest rate of 4%, secured by substantially all of the Organization's assets.	170,204
Unamortized discount	<u>9,787</u>
	252,778
Less current portion	<u>(147,222)</u>
	\$ <u>105,556</u>

The carrying value of the noninterest-bearing obligations is shown net of total unamortized discount of \$9,787. Amortization of the discounts is reported in the statement of activities as interest expense.

Principal payments are due as follows:

<u>Year Ended</u> <u>December 31,</u>	
2022	\$ 147,222
2023	<u>105,556</u>
	\$ <u>252,778</u>

NOTE 8. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions consists of the following as of December 31:

	<u>12/31/21</u>
Program activities	\$ 218,880

See accompanying independent auditors' report

RISE UP INDUSTRIES
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2021

NOTE 8. RESTRICTIONS ON NET ASSETS (continued)

Net assets released from net assets with donor restrictions are as follows:

	<u>12/31/21</u>
Satisfaction of program restrictions	\$ 166,114

NOTE 9. OPERATING LEASES

In November 2019, the Organization entered into a sub-lease agreement for its office space with monthly payments of \$2,719 which expired April 30, 2021. The lease was renewed for an additional year with an option to renew with a two percent monthly increase. The Organization exercised its option to renew effective May 1, 2022, for an additional year.

Rent expense associated with the operating lease was approximately \$33,209 for the year ended December 31, 2021.

Minimum future lease payments under the operating lease is as follows:

<u>Year Ended</u> <u>December 31,</u>	
2022	\$ 26,499
2023	<u>8,891</u>
	<u>\$ 35,390</u>

NOTE 10. IMPACT OF COVID-19

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., including California, where the Organization is located, have declared a state of emergency.

The Organization experienced restrictions and quarantines on its employees' ability to work and the ability to operate its programs. Actions to mitigate the spread of COVID-19 have had an adverse impact. As of the date of these financial statements, many of the restrictions and quarantines have been lifted. Management continues to monitor the outbreaks, however, as of the date of these financial statements, the potential impact cannot be quantified.

NOTE 11. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 3, 2022, the date which the financial statements were available to be issued.