



Sonnenberg & Company, CPAs

A Professional Corporation

5190 Governor Drive, Suite 201, San Diego, California 92122

Phone: (858) 457-5252 • (800) 464-4HOA • Fax: (858) 457-2211 • (800) 303-4FAX



Leonard C. Sonnenberg, CPA

RISE UP INDUSTRIES Audited Financial Statements December 31, 2022

	<u>Page</u>
FINANCIAL AUDIT REPORT	
Independent Auditor's Report	1-2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-16



Sonnenberg & Company, CPAs

A Professional Corporation

5190 Governor Drive, Suite 201, San Diego, California 92122

Phone: (858) 457-5252 • (800) 464-4HOA • Fax: (858) 457-2211 • (800) 303-4FAX



Leonard C. Sonnenberg, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Rise Up Industries

Opinion

We have audited the accompanying financial statements of Rise Up Industries (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, 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, 2022, 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 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.



April 20, 2023

Sonnenberg & Company, CPAs

RISE UP INDUSTRIES
STATEMENT OF FINANCIAL POSITION
December 31, 2022

	<u>Total</u>
ASSETS:	
Cash and Cash Equivalents	\$ 974,192
Accounts Receivable	120,486
Contracts and Grants Receivable	45,934
Inventory	111,110
Prepaid Expenses	12,553
Security Deposits	2,719
Other Assets	8,985
Investment in LLC	333,296
 Furniture, Fixtures and Equipment	 664,368
Tenant Improvements	20,222
Less: Accumulated Depreciation	<u>(260,157)</u>
 TOTAL ASSETS	 \$ <u>2,033,708</u>
 LIABILITIES:	
Accounts Payable	\$ 28,811
Credit Cards Payable	11,891
Payroll Liabilities	<u>3,182</u>
TOTAL LIABILITIES	43,884
 NET ASSETS:	
Without Donor Restrictions	1,609,607
With Donor Restrictions	<u>380,217</u>
TOTAL NET ASSETS	1,989,824
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u>2,033,708</u>

The Accompanying Notes are an Integral Part of the Financial Statements

RISE UP INDUSTRIES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support:			
Contributions and Private Grants	\$ 376,159	\$ 547,249	\$ 923,408
Government Grants	201,826	74,263	276,089
In-Kind Contributions	85,765	-	85,765
Fundraising Revenue	256,554	2,000	258,554
Less: Fundraising Expenses	(60,198)	-	(60,198)
Coffee Enterprise	9,759	-	9,759
Machine Shop Operations	540,384	-	540,384
Silkscreening Embroidery Revenue	23,776	-	23,776
Merchandise Sales	2,563	-	2,563
Recycling Revenue	2,721	-	2,721
Other Sales	7,957	-	7,957
Miscellaneous Revenue	8,509	-	8,509
Interest Income	1,726	-	1,726
Net Loss From Investment in LLC	(29,004)	-	(29,004)
Net Assets Released From Restrictions	462,175	(462,175)	-
TOTAL REVENUES	1,890,672	161,337	2,052,009
Expenses:			
Program Services:			
Machine Shop	784,669		784,669
Silk Screening	31,833		31,833
Member Services	334,831		334,831
Other Programs	11,456		11,456
Total Program Services	1,162,789	-	1,162,789
Supporting Services:			
Management and General	230,229		230,229
Fundraising	114,860		114,860
Total Supporting Services	345,089	-	345,089
Total Expenses	1,507,878	-	1,507,878
Change in Net Assets	\$ 382,794	\$ 161,337	\$ 544,131
Net Assets - Beginning of Year	1,212,012	218,880	1,430,892
Prior Period Adjustment	14,801	-	14,801
Net Assets - End of Year	<u>\$ 1,609,607</u>	<u>\$ 380,217</u>	<u>\$ 1,989,824</u>

The Accompanying Notes are an Integral Part of the Financial Statements

RISE UP INDUSTRIES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2022

	Machine Shop	Silk Screening	Program Member Services	Other Program	Total Program	General and Other	Supporting Funds Raising	Total Supporting	Total All Funds
Payroll Expenses:									
Salaries and Wages	\$ 251,507	\$ 12,455	\$ 291,945	\$ 2,838	\$ 558,745	\$ 164,678	\$ 55,912	\$ 220,590	\$ 779,335
Employee Benefits	8,200	-	-	-	8,200	1,660	2,558	4,218	12,418
Payroll Taxes	19,364	690	21,962	219	42,235	12,703	4,126	16,829	59,064
Workers Compensation Insurance	9,407	194	6,259	39	15,899	1,189	989	2,178	18,077
Total Payroll Expenses	288,478	13,339	320,166	3,096	625,079	180,230	63,585	243,815	868,894
Other Expenses:									
Advertising and Promotion	-	-	-	-	-	100	1,420	1,520	1,520
Case Management	-	-	5,385	-	5,385	-	-	-	5,385
Cost of Goods Sold	316,333	17,105	497	7,851	341,786	35	458	493	342,279
Computer Software	6,137	-	121	-	6,258	546	3,913	4,459	10,717
Counseling	-	-	4,650	-	4,650	-	-	-	4,650
Depreciation	51,180	-	-	-	51,180	375	-	375	51,555
Direct Program Expenses	4,786	-	-	-	4,786	-	-	-	4,786
Equipment	12,100	-	551	140	12,791	825	-	825	13,616
Information Technology	844	-	601	-	1,445	2,351	39	2,390	3,835
In-Kind Donations	4,324	-	-	-	4,324	-	29,506	29,506	33,830
Insurance	4,416	57	26	47	4,546	3,938	32	3,970	8,516
Legal and Audit	-	-	-	-	-	17,150	-	17,150	17,150
Machine Shop Tools	44,702	-	-	-	44,702	54	-	54	44,756
Meetings and Conferences	336	-	-	-	336	973	-	973	1,309
Miscellaneous Expenses	192	(5)	1,394	33	1,614	5,615	11,330	16,945	18,559
Occupancy	39,843	52	419	52	40,366	8,735	227	8,962	49,328
Printing and Postage	916	411	76	210	1,613	1,275	3,639	4,914	6,527
Repairs and Maintenance	-	-	-	-	-	1,500	-	1,500	1,500
Staff Development	3,546	306	901	-	4,753	742	507	1,249	6,002
Supplies	6,404	-	37	-	6,441	5,750	204	5,954	12,395
Transportation	132	568	7	27	734	35	-	35	769
Total Other Expenses	496,191	18,494	14,665	8,360	537,710	49,999	51,275	101,274	638,984
Total Expenses	<u>\$ 784,669</u>	<u>\$ 31,833</u>	<u>\$ 334,831</u>	<u>\$ 11,456</u>	<u>\$ 1,162,789</u>	<u>\$ 230,229</u>	<u>\$ 114,860</u>	<u>\$ 345,089</u>	<u>\$ 1,507,878</u>

The Accompanying Notes are an Integral Part of the Financial Statements

RISE UP INDUSTRIES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022

Cash Flows From -

	<u>Total</u>
Operating Activities::	
Change in net assets	\$ 544,131
Cash and Cash Equivalents	
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation expense	51,555
(Increase) decrease in:	
Accounts Receivable	29,709
Contracts and Grants Receivable	22,676
Inventory	(53,495)
Prepaid Expenses	(5,466)
Other Assets	(7,404)
Increase / (Decrease) in:	
Accounts Payable	(7,424)
Credit Cards Payable	(5,435)
Payroll Liabilities	(2,439)
Net Cash provided by operating activities	<u>566,408</u>
Investing Activities:	
Additions to property and equipment	(72,617)
Investment in LLC	(333,296)
Net Cash used by investing activities	<u>(405,913)</u>
Financing Activities:	
Payments on Notes Payable	(252,779)
Net Cash used by investing activities	<u>(252,779)</u>
Net Increase (Decrease) in Cash	(92,284)
Cash at Beginning of Year	<u>1,066,476</u>
Cash at End of Year	<u><u>\$ 974,192</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements

RISE UP INDUSTRIES
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 1. Organization and Purpose:

Rise Up Industries (the “Organization”) was incorporated May 13, 2013 pursuant to the general nonprofit corporation law of the State of California.

The Organization was formed 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 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.

Note 2. Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting 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.

Net Assets

Net assets and revenues, expenses, 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 and reported as follows:

Net Assets Without Donor Restrictions. Net assets which are available for use in general operations and not subject to donor restrictions. These net assets generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

RISE UP INDUSTRIES
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 2. Summary of Significant Accounting Policies: (Continued)

Net Assets Without Donor Restrictions – Board Designated. Net assets comprised of resources that the Board of Directors has established as being designated for particular purposes. For purposes of complying with net assets accounting, this fund is included in unrestricted net assets as of December 31, 2022.

Net Assets with Donor Restrictions. Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met with the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

Use of 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements Recently Adopted

Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets: 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.

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 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.

RISE UP INDUSTRIES
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 2. Summary of Significant Accounting Policies: (Continued)

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.

Disclosures by Business Entities about Government Assistance: 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 apply only 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 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

The Organization Industries has defined cash and cash equivalents as cash in banks and 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, 2022, 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, 2022.

RISE UP INDUSTRIES
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 2. Summary of Significant Accounting Policies: (Continued)

Contracts and Grants Receivable

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 lower of cost or market value.

Property and Equipment

Property and equipment are stated at cost, or if donated, at the approximate fair market value at the date of donation. The cost of purchased assets or fair market value of donated assets is being depreciated using the straight-line method over the estimated useful lives of the related assets, which is five to twelve years for furniture and equipment. Maintenance and repairs are charged to expense as incurred. The Organization capitalizes all expenditures for and donations of property and equipment with a fair value in excess of \$1,500. Machine shop equipment with a cost in excess of \$20,000 is assigned a ten percent salvage value.

At the time of retirement or other disposition, the cost and accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in the accompanying statements of activities. Total depreciation expense for the year ended December 31, 2022 was \$51,555.

Contributions

Contributions are recognized when the donor makes a promise to give The Organization that is in substance, unconditional. All donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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 it 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.

RISE UP INDUSTRIES
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 2. Summary of Significant Accounting Policies: (Continued)

The Organization has 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 on the date the funds are received. 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 as deferred revenue and recognized in future periods when the event occurs.

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 have been determined not to be exchange transactions.

Government Grants

The Organization 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.

In-kind Service Contributions

Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization may also receive a significant amount of contributed time from volunteers that may not meet the recognition criteria described. No amounts have been reflected in the financial statements for donated services because no objective basis is available to measure the value of such services.

Functional Allocation of Expenses

The costs of providing various services and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Directly identifiable expenses are charged to programs and supporting services benefitted. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Rise Up.

Concentration of Credit Risk

The Organization held a combined total of \$944,572 at California Bank & Trust at December 31, 2022. This amount is in excess of the federally insured limit of \$250,000 per depositor. The Organization has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk on its cash balances.

RISE UP INDUSTRIES
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 2. Summary of Significant Accounting Policies: (Continued)

Risks and Uncertainties

Certain of the Organization's services are governed by grant agreements with private donors and foundations. There can be no assurances that the Organization will be able to obtain future grant agreements as deemed necessary by management. The loss of some of the current grants or the inability to obtain future grants could have an adverse effect on the Organization's financial position and results of activities. Management believes that they will be able to continue obtaining appropriate agreements to fund future operations based on their historical ability to obtain new grant agreements and based on their relationships with continuing donors.

Impairment of Long-Lived Assets

Management assesses the recoverability of its long-lived assets upon the occurrence of a triggering event by determining whether the depreciation of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment, if any, is measured based on fair value and is charged to operations in the period in which impairment is determined by management. At December 31, 2022, management believes there is no impairment of its long-lived assets. There can be no assurance however, that market conditions will not change or demand for the Organization's services will continue, which could result in impairment of long-lived assets in the future.

Compensated Absences

The Organization accrues unpaid vacation and sick time computed in accordance with the Organization's employment policy. Total accrued compensated absence balance as of December 31, 2022 is \$7,057.

Going Concern

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.

Note 3. Income Taxes:

The Financial Accounting Standards Board (FASB) FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48) which was subsequently included in the FASB Codification as ASC 70, prescribes a recognition threshold and measurement attribute for financial statements recognition and measurement of a tax position taken or expected to be taken in a tax return. Management has evaluated its uncertain tax positions and related income tax contingencies. Management does not believe that any material uncertain tax positions exist.

The Organization is generally exempt from federal income taxation as an organization described in 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. Contributions are tax-deductible by the donors.

RISE UP INDUSTRIES
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 3. Income Taxes: (Continued)

The Organization is required to report and pay income tax on unrelated business income (UBIT), if any. For the year ended December 31, 2022, the Organization had two sources of UBIT, sales of merchandise through the Organization, and another through a disregarded entity for income tax purposes, RUI-Market St, LLC (LLC) (See Note 10) as follows:

	Merchandise		
	Sales	LLC	Total
Revenue	\$ 38,777	\$ 33,037	\$ 71,814
Cost of Goods Sold	(24,956)	-	(24,956)
Direct Expenses	-	(62,041)	(62,041)
Indirect Expenses	(18,574)		(18,574)
Net Income	\$ (4,753)	\$ (29,004)	\$ (33,757)

The Organization's federal income tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed; and the California Franchise Tax Board, generally for four years after they are filed.

Note 5. Net Assets With Donor Restrictions:

Net assets with donor restrictions at December 31, 2022 are as follows:

Source	12/31/21	Additions	Released	12/31/22
Corporate Grants	\$ -	\$ 30,200	\$ -	\$ 30,200
Discount on Loans Payable*	9,788	-	(9,788)	-
Faith Organization Grants	-	21,100	(20,000)	1,100
Foundation and Nonprofit Grants	8,287	174,000	(57,801)	124,486
Fundraising Donations	541	2,000	(1,041)	1,500
Government Grants	-	74,263	(62,538)	11,725
Individual Donations	200,264	193,522	(211,007)	182,779
Other Donations	-	128,427	(100,000)	28,427
Total	\$ 218,880	\$ 623,512	\$ (462,175)	\$ 380,217

*Discount on Loans Payable was an erroneous entry in the prior year audit report. It is recorded as a prior period adjustment in the year ended December 31, 2022 (See Note 6).

Note 4. Operating Lease:

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 2% monthly increase. The Organization exercised its option to renew effective May 1, 2022, for an additional year, expiring May 1, 2023.

RISE UP INDUSTRIES
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 4. Operating Lease: (Continued)

Rent expense associated with the renewed operating lease was \$33,944 for the year ended December 31, 2022. Future minimum future lease payments under the operating lease is \$11,394 for 2023.

Upon expiration of the lease, the Organization will rent on a month-to-month basis until it relocates to the 5275 Market Street, San Diego, California address partially owned by the LLC formed by The Organization (See Note 10). The move is expected to take place in 2024.

Note 6. Prior Period Adjustment:

The prior year audit report included the following Statement of Financial Items that were reversed in the current year:

	<u>Amount</u>
Overstatement of Accumulated Depreciation	\$ 24,589
Understatement of Notes Payable	<u>(9,788)</u>
Net Accumulative Effect	<u>\$ 14,801</u>

This prior period adjustment has the effect of increasing equity at the beginning of the year.

Note 7. Employee Retention Tax Credit:

In 2020 and 2021, the Organization received loan proceeds under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, provides loans to qualifying businesses. The loan proceeds obtained under this program were fully forgiven in 2021.

In December 2020, the CARES Act was amended to add a provision to the Employee Retention Tax Credit (ERTC). This amendment applies to qualified wages paid after March 12, 2020 and before January 1, 2021 and primarily relates to who can claim the credit.

On March 2021, the CARES was again amended to include qualified wages pad after December 31, 2020 and before July 1, 2021.

On March 11, 2021, the CARES was again amended to include wages paid after June 30, 2021 and before January 1, 2022. Wages claimed under the PPP program cannot be claimed as part of the ERTC. The Organization has determined that it qualified for the ERTC credit and submitted quarterly claims. At December 31, 2021 the Organization was owed \$50,595 which was received during the year ended December 31, 2022 along with interest as follows:

	<u>Amount</u>
Principal	\$ 50,595
Interest	<u>840</u>
Total Received	<u>\$ 51,435</u>

RISE UP INDUSTRIES
Notes to Financial Statements
December 31, 2022

Note 8. Notes Payable:

On September 11, 2020, The Organization obtained an interest-free loan of \$100,000 from MDF Fund I, LP with a maturity date of March 1, 2023. This loan required 12 monthly payments of \$2,777.78 beginning April 1, 2021 and 12 monthly payments of \$5,555.55 beginning April 1, 2022. This loan matures on March 1, 2023, at which time all remaining principal is due and payable. This loan was secured by substantially all the Organization's assets and was paid in full during the year ended December 31, 2022.

On May 3, 2021, The Organization obtained an interest-free loan of \$200,000 from MDF Fund I, LP with a maturity date of December 1, 2023. This loan required 27 monthly payments of \$7,407.41 beginning October 1, 2021 and matures on December 1, 2023, at which time all remaining principal is due and payable. This loan was secured by substantially all the Organization's assets and was paid in full during the year ended December 31, 2022.

Note 9. Concentration of Risk - Revenue:

The Organization's operations rely significantly on funding from Machine Shop Operations. During the year ended December 31, 2022, the amount received through this program was \$540,384, approximately 26% of total revenue.

The Organization's operations also relied significantly on government grants in 2022. During the year ended December 31, 2022, The Organization received \$276,089 in government funding, approximately 13% of total revenue.

Note 10. Investment in LLC:

On August 25, 2022 the Organization formed RUI-Market St, LLC (LLC), which was formed to operate exclusively to further the charitable purpose of its member and cannot be merged with or converted into a for-profit entity.

In November 2022 the LLC purchased property known as *Bryco Business Park* located at 5275 Market Street, San Diego, California along with another nonrelated entity. Each entity receives rental income from designated sections of the building and all expenses are divided equally. The LLC's share of this investment in 2022 was a loss of \$29,004 (see Note 3). This LLC has not been audited for the year ended December 31, 2022.

Equity in the LLC at December 31, 2022 is as follows:

	<u>Amount</u>
Initial Investment	\$ 362,300
Current Year Decrease in Equity	<u>(29,004)</u>
Investment in LLC at December 31, 2022	<u><u>\$ 333,296</u></u>

RISE UP INDUSTRIES
Notes to Financial Statements
December 31, 2022

Note 11. CalSavers Retirement Plan:

The Organization participates in a California State sponsored retirement plan *CalSavers*, overseen by the California Retirement Savings Board (CRSB). Employees of the Organization can voluntarily contribute to this retirement plan, subject to the eligibility requirements of the CRSB.

Note 12. Date of Management's Review:

The Organization's management has evaluated subsequent events through April 20, 2023, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require adjustment to, or disclosures in, the financial statements.