



Sonnenberg & Company, CPAs

A Professional Corporation

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Leonard C. Sonnenberg, CPA

RISE UP INDUSTRIES Audited Financial Statements December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
RISE UP INDUSTRIES

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, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RISE UP INDUSTRIES as of December 31, 2017, 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.

A handwritten signature in blue ink, appearing to read "David G. Gandy", is positioned above the firm name.

June 21, 2018

Sonnenberg & Company, CPAs

RISE UP INDUSTRIES
STATEMENT OF FINANCIAL POSITION
December 31, 2017

	<u>Total</u>
Assets:	
Cash	\$ 361,531
Accounts receivable	17,302
Inventory	2,421
Prepaid expenses	7,233
Deposits	446
Furniture, fixtures and equipment	389,636
Tenant improvements	20,222
Less: accumulated depreciation	<u>(20,004)</u>
Total Assets	\$ <u><u>778,787</u></u>
Liabilities and Net Assets:	
Liabilities:	
Accounts payable	\$ 970
Credit cards payable	9,450
Payroll liabilities	19,637
Deferred revenue	<u>50,020</u>
Total Liabilities	<u>80,077</u>
Net Assets:	
Unrestricted	<u>698,710</u>
Total Net Assets	<u>698,710</u>
Total Liabilities and Net Assets	\$ <u><u>778,787</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements

RISE UP INDUSTRIES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Other Support:			
Grants and contributions	\$ 250,985	\$ 209,800	\$ 460,785
In-kind contributions	18,811	-	18,811
Beef jerky enterprise	624	-	624
Coffee enterprise	18,524	-	18,524
Machine shop operations	155,163	-	155,163
Silkscreening embroidery revenue	32,039	-	32,039
Charity mania revenue	50	-	50
Merchandise sales	1,281	-	1,281
Miscellaneous income	142	-	142
Interest income	137	-	137
Net assets released from restrictions	209,800	(209,800)	-
Total Revenue and Other Support	<u>687,556</u>	<u>-</u>	<u>687,556</u>
Expenses:			
Program Services:			
Member Services	3,570	-	3,570
Silkscreening & Embroidery	29,056	-	29,056
Coffee	17,347	-	17,347
Machine Shop	394,088	-	394,088
Other Program	598	-	598
Total Program Services	<u>444,659</u>	<u>-</u>	<u>444,659</u>
Supporting Services:			
Management and general	90,477	-	90,477
Fundraising	5,354	-	5,354
Total Supporting Services	<u>95,831</u>	<u>-</u>	<u>95,831</u>
Total Expenses	<u>540,490</u>	<u>-</u>	<u>540,490</u>
Change in Net Assets	\$ 147,066	\$ -	\$ 147,066
Net Assets - Beginning of Year	551,644	-	551,644
Net Assets - End of Year	<u>\$ 698,710</u>	<u>\$ -</u>	<u>\$ 698,710</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, 2017

	Program								
	Member Services	Silkscreening Embroidery	Coffee	Machine Shop	Other Program	Total Program	General & Other	Fund Raising	Total All Funds
Salaries and wages	\$ -	\$ -	\$ -	229,901	-	\$ 229,901	\$ 50,144	\$ -	\$ 280,045
Payroll taxes	-	-	-	20,403	-	20,403	4,376	-	24,779
Workers compensation insurance	-	-	-	9,188	-	9,188	298	-	9,486
Total Payroll Expense	-	-	-	259,492	-	259,492	54,818	-	314,310
Advertising and promotion	-	26	26	4,013	83	4,148	469	2,988	7,605
Case management	3,570	-	-	-	-	3,570	-	-	3,570
Charity mania expenses	-	-	-	-	-	-	-	50	50
Cost of goods sold	-	28,610	10,883	25,013	504	65,010	181	747	65,938
Depreciation	-	-	-	18,145	-	18,145	1,737	-	19,882
Equipment	-	-	400	7,295	-	7,695	3,244	-	10,939
Information technology	-	-	-	-	-	-	530	-	530
In-kind donations expense	-	-	-	15,057	-	15,057	3,754	-	18,811
Insurance	-	-	-	1,576	-	1,576	3,389	-	4,965
Legal fees	-	-	-	-	-	-	725	-	725
Meals and food	-	-	-	462	-	462	2,483	40	2,985
Miscellaneous expenses	-	67	373	1,276	-	1,716	1,975	804	4,495
Occupancy	-	-	-	23,018	-	23,018	11,092	-	34,110
Printing and postage	-	87	20	1,737	-	1,844	1,965	402	4,211
Property taxes	-	-	-	866	-	866	34	-	900
Repairs and maintenance	-	-	-	735	-	735	530	-	1,265
Staff development	-	-	-	1,094	-	1,094	459	-	1,553
Storage	-	-	-	1,204	-	1,204	-	-	1,204
Supplies	-	-	5,395	13,807	-	19,202	1,847	8	21,057
Support services	-	-	-	-	-	-	1,165	315	1,480
Tattoo removal expenses	-	-	-	-	-	-	-	-	-
Tooling expenses	-	-	-	19,298	-	19,298	-	-	19,298
Transportation	-	266	250	-	11	527	80	-	607
TOTAL	\$ 3,570	\$ 29,056	\$ 17,347	\$ 394,088	\$ 598	\$ 444,659	\$ 90,477	\$ 5,354	\$ 540,490

The Accompanying Notes are an Integral Part of the Financial Statements

RISE UP INDUSTRIES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

	<u>Total</u>
Cash Flows From:	
Operating Activities:	
Change in net assets	\$ 147,066
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation expense	19,882
(Increase) decrease in:	
Accounts receivable	(4,120)
Pledges receivable	50,000
Inventory	(1,758)
Prepaid expenses	(4,251)
Deposits	452
Increase in:	
Accounts payable	(4,671)
Credit cards payable	9,450
Payroll liabilities	8,203
Deferred revenue	50,020
Net Cash provided by operating activities	<u>270,273</u>
Investing Activities:	
Additions to property and equipment	(326,427)
Net Cash provided by investing activities	<u>(326,427)</u>
Net Decrease in Cash	(56,154)
Cash at Beginning of Year	<u>417,685</u>
Cash at End of Year	<u>\$ 361,531</u>

The Accompanying Notes are an Integral Part of the Financial Statements

RISE UP INDUSTRIES
Notes to Financial Statements
December 31, 2017

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 specific purpose of the Organization is to provide assistance, services (including tattoo removal), counseling, education, mentoring and potentially transitional and/or permanent employment. The target populations for this program are at risk youth, those individuals with previous gang involvement and those men and women who are recently released from incarceration.

Note 2. Exempt Tax Status:

The Organization has federal tax exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code for the promotion of public charity. The Organization is thereby exempt as a charitable organization, whereby the Organization may accept tax deductible contributions.

Note 3. 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.

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.

Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted. Net assets that are not subject to donor-imposed stipulations. These generally result from revenues generated by receiving unrestricted contributions, providing services, raising contributions, and performing administrative functions.

RISE UP INDUSTRIES
Notes to Financial Statements
December 31, 2017

Note 3. Summary of Significant Accounting Policies: (Continued)

Temporarily Restricted. The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from program or capital restrictions. Restricted contributions are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. The Organization had no temporarily restricted net assets at December 31, 2017.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Organization to expend all of the income (or other economic benefits) derived from the donated assets. The Organization had no permanently restricted net assets at December 31, 2017.

Concentration of Credit Risk

The Organization maintains cash balances at two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000. The Organization has not experienced any loss in such accounts. The Organization believes it is not exposed to any significant credit risk on its cash balances.

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. 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, 2017 was \$19,882.

RISE UP INDUSTRIES
Notes to Financial Statements
December 31, 2017

Note 3. Summary of Significant Accounting Policies: (Continued)

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, 2017, 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.

Deferred Revenue

Deferred revenue is recorded for non-contribution revenue received in advance of the date earned. In addition, contributions or grants received are recorded as deferred revenue if they are subject to significant conditions which must be met before they become unconditional.

Contributions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when the donor makes a promise to the Organization, in substance and unconditionally.

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 Expenses

A functional classification of expenses has been used to analyze the cost of providing various services or other activities, including program services, and management and general. Certain costs are allocated within the various categories. Program services include all expenses incurred by the Organization for activities directly related to the purposes for which it exists. Management and general include all expenses incurred for supporting services.

RISE UP INDUSTRIES
Notes to Financial Statements
December 31, 2017

Note 3. Summary of Significant Accounting Policies: (Continued)

Compensated Absences

The Organization accrues for unpaid vacation and sick time computed in accordance with the Organization's employment policy. Total accrued compensated absence balance as of December 31, 2017 is \$4,163.

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.

Note 4. Income Taxes:

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 to not be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Contributions are tax-deductible by the donors.

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'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.

RISE UP INDUSTRIES
Notes to Financial Statements
December 31, 2017

Note 5. Property and Equipment:

Property and equipment consists of the following at December 31, 2017:

	<u>Amount</u>
Furniture, fixtures, and equipment	\$ 389,636
Tenant improvements	<u>20,222</u>
Total Property and Equipment	409,858
Less: accumulated depreciation	<u>(20,004)</u>
Net Property and Equipment	\$ <u>389,854</u>

Note 6. Operating Leases:

The Organization leases its office space and machine shop operations space under a 24 month lease through May 2019. Future minimum lease payments on this operating lease for the years ending December 31 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 32,630
2019	<u>13,596</u>
Total	\$ <u>46,226</u>

Note 7. Revenue Concentration:

The Organization's operations rely significantly on funding primarily from Machine Shop Operations. During the year ended December 31, 2017, the amount received through this program was \$155,163, approximately 23% of total revenue.

The Organization's operations also rely significantly on grants and contributions. During the year ended December 31, 2017, two donors contributed \$186,000, approximately 27% of total revenue.

Note 8. Date of Management's Review:

The Organization's management has evaluated subsequent events through June 21, 2018 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.