Partnerships With Industry

Financial Statements and Independent Auditor's Report

June 30, 2016 and 2015

CohnReznick
Accounting • Tax • Advisory

Partnerships With Industry

Index

Independent Auditor's Report

To the Board of Directors
Partnerships With Industry

We have audited the accompanying financial statements of Partnerships With Industry, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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 Partnerships With Industry as of June 30, 2016, 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.

Prior Period Financial Statements

The financial statements of Partnerships With Industry as of and for the year ended June 30, 2015, were audited by another auditor whose report dated December 23, 2015, expressed an unmodified opinion on those financial statements.

CohnReznick LLP

Sacramento, California
October 24, 2016

Partnerships With Industry

Statements of Financial Position
June 30, 2016 and 2015

Assets

	2016	2015
Cash and cash equivalents	$ 624,018	$ 363,593
Investments	309,763	354,808
Accounts receivable, net	602,167	597,660
Prepaid expenses and other assets	19,711	23,016
Property and equipment, net	204,819	183,691
Deposits	54,894	59,545
Total assets	$ 1,815,372	$ 1,582,313

Liabilities and Net Assets

	2016	2015
Liabilities		
Accounts payable	$ 34,531	$ 50,338
Accrued expenses	259,391	249,484
Total liabilities	293,922	299,822
Net assets		
Unrestricted	1,519,856	1,253,627
Temporarily restricted	1,594	28,864
Total net assets	1,521,450	1,282,491
Total liabilities and net assets	$ 1,815,372	$ 1,582,313

See Notes to Financial Statements.

Partnerships With Industry

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2016

	Unrestricted	Temporarily restricted	Total
Revenue and support			
Fees for service	$ 4,141,086	$ -	$ 4,141,086
Employer contracts	1,635,617	-	1,635,617
Donations and other support	431,012	800	431,812
Investment income	1,576	-	1,576
Net assets released from restrictions			
Satisfaction of program restrictions	28,070	(28,070)	-
Total revenue and support	6,237,361	(27,270)	6,210,091
Expenses			
Program services - instruction, training and placement	5,103,060	-	5,103,060
Supporting services			
Administrative and general	624,793	-	624,793
Fundraising	243,279	-	243,279
Total expenses	5,971,132	-	5,971,132
Change in net assets	266,229	(27,270)	238,959
Net assets, beginning	1,253,627	28,864	1,282,491
Net assets, ending	$ 1,519,856	$ 1,594	$ 1,521,450

Partnerships With Industry

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2015

	Unrestricted	Temporarily restricted	Total
Revenue and support			
Fees for service	$ 3,907,000	$ -	$ 3,907,000
Employer contracts	1,368,347	-	1,368,347
Donations and other support	252,839	28,069	280,908
Investment income	2,316	-	2,316
Gain on sale of asset	1,189	-	1,189
Net assets released from restrictions			
Satisfaction of program restrictions	48,683	(48,683)	-
Total revenue and support	5,580,374	(20,614)	5,559,760
Expenses			
Program services - instruction, training and placement	4,930,257	-	4,930,257
Supporting services			
Administrative and general	634,276	-	634,276
Fundraising	200,329	-	200,329
Total expenses	5,764,862	-	5,764,862
Change in net assets	(184,488)	(20,614)	(205,102)
Net assets, beginning	1,438,115	49,478	1,487,593
Net assets, ending	$ 1,253,627	$ 28,864	$ 1,282,491

See Notes to Financial Statements.

Partnerships With Industry

Statements of Functional Expenses
Years Ended June 30, 2016 and 2015

June 30, 2016	Program services	General and administrative	Fundraising	Total
Payroll and related costs	$ 3,866,264	$ 383,955	$ 156,179	$ 4,406,398
Office	745,635	37,508	2,769	785,912
Insurance	193,521	46,662	2,765	242,948
Staff training and reimbursement	116,909	12,788	1,274	130,971
Supplies	86,872	25,488	73,220	185,580
Professional services	37,383	88,277	5,141	130,801
Vehicle expense	37,598	1,107	-	38,705
Depreciation	15,019	13,910	-	28,929
Other	3,859	15,098	1,931	20,888
Total	$ 5,103,060	$ 624,793	$ 243,279	$ 5,971,132

June 30, 2015	Program services	General and administrative	Fundraising	Total
Payroll and related costs	$ 3,724,567	$ 388,529	$ 169,540	$ 4,282,636
Office	759,294	29,774	-	789,068
Insurance	174,613	51,551	2,039	228,203
Staff training and reimbursement	121,581	19,300	2,081	142,962
Supplies	88,870	24,598	20,312	133,780
Professional services	-	74,430	5,017	79,447
Vehicle expense	39,357	6,520	-	45,877
Depreciation	6,310	39,274	-	45,584
Other	15,665	300	1,340	17,305
Total	$ 4,930,257	$ 634,276	$ 200,329	$ 5,764,862

See Notes to Financial Statements.

Partnerships With Industry

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	$ 238,959	$ (205,102)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	28,929	45,584
Gain on sale of asset	-	(1,189)
Realized gain (loss) on investments	252	(178)
Donation of property	(5,000)	-
(Increase) decrease in assets		
Accounts receivable	(4,507)	50,865
Prepaid expenses	3,305	55,131
Deposits	4,651	(9,269)
(Decrease) increase in liabilities		
Accounts payable	(15,807)	35,722
Accrued expenses	9,907	9,224
Net cash provided by (used in) operating activities	260,689	(19,212)
Cash flows from investing activities		
Purchases and proceeds of investments, net	44,793	150,054
Purchases of property and equipment	(45,057)	(109,409)
Proceeds from sale of asset	-	1,189
Net cash (used in) provided by investing activities	(264)	41,834
Net increase in cash and cash equivalents	260,425	22,622
Cash and cash equivalents at beginning of year	363,593	340,971
Cash and cash equivalents at end of year	$ 624,018	$ 363,593
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 638	$ 300
Significant non-cash investing activities		
Donation of property and equipment	$ 5,000	$ -

See Notes to Financial Statements.

Note 1 - Organization and summary of significant accounting policies

Partnerships With Industry (the "Organization") is a California nonprofit public benefit corporation providing instruction, training and placement to persons with disabilities to develop their self-care, independence and vocational capabilities in San Diego County.

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting. Accordingly, income is recognized as earned and expenses as incurred, regardless of the timing of payments.

Financial statement presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Furthermore, information is required to segregate program service expenses from management and general and administrative expenses. The Organization does not have any permanently restricted net assets.

Cash equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid money market investments purchased with a maturity of three months or less to be cash equivalents.

Investments

Certificates of deposits held for investment, with original maturities greater than three months, are included in investments.

Accounts receivable

Accounts receivable are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2016 and 2015, the allowance for doubtful accounts is $7,000 and $7,000, respectively.

Property and equipment

Property and equipment and leasehold improvements in excess of $3,000 are capitalized and recorded at cost. Donated items are recorded at estimated fair value at the date of the gift. Depreciation and amortization are calculated using the straight-line method over the estimated lives of the assets. Amortization of leasehold improvements is included in depreciation expense.

Property and equipment is depreciated on a straight-line basis as follows:

Furniture and fixtures	5 to 7 years
Equipment	5 to 7 years
Document destruction equipment	15 years

Impairment of long-lived assets

The Organization reviews its equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows expected to be generated by an asset are less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment losses have been recognized during the years ended June 30, 2016 and 2015.

Revenue recognition

Revenues are recognized based on accrual accounting in accordance with generally accepted accounting principles ("GAAP"). Revenues are recognized when earned, regardless of the timing of cash receipts. Revenue is considered earned when PWI has substantially met its obligation to be entitled to the benefits represented by the revenue. Deposits, advance payments and progress payments for programs or activities to be conducted primarily in the next fiscal year are classified as unearned revenues and are recognized as revenue only when the revenue producing event has occurred.

Contributions are recognized as revenue when an unconditional promise, in substance, to give is received by the Organization. All contributions and other types of revenue with restrictions imposed by the donor are reported as increases in unrestricted, temporarily or permanently restricted net assets depending on the nature of the restrictions. All transactions and balances in these financial statements are reported within the unrestricted and temporarily restricted class of net assets because there have been no permanent restrictions imposed by donors.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Directly identifiable expenses are charged to program services and fundraising. Expenses related to more than one function are charged to program services and fundraising based on systematic methods. Management and general expenses include expense that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income tax status

The Organization has applied for and received a determination letter from the Internal Revenue Service ("IRS") to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the years ended June 30, 2016 and 2015. Due to its tax exempt status, the Organization is not subject to income taxes. The Organization is required to file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Organization has no other tax positions which must be considered for disclosure. While no income tax returns are currently being examined by the IRS, tax years since 2013 remain open.

Estimates and assumptions

The preparation of financial statements in accordance with GAAP 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.

Note 2 - Investments

As of June 30, 2016 and 2015, the value of the certificates of deposits are $309,763 and $354,808, respectively. The certificates of deposits have the following maturities:

August 2016	$	29,993
September 2016		62,987
October 2016		19,988
November 2016		49,958
December 2016		62,995
March 2017		34,001
June 2017		49,841
	$	309,763

Note 3 - Property and equipment

Property and equipment consist of the following at June 30:

		2016		2015
Equipment	$	611,665	$	583,882
Leasehold improvements		406,269		406,269
Furniture and fixtures		42,512		20,237
		1,060,446		1,010,388
Less accumulated depreciation		(855,627)		(826,697)
Total	$	204,819	$	183,691

Depreciation expense was $28,929 and $45,584 for the years ended June 30, 2016 and 2015, respectively.

Note 4 - Operating lease obligations

The Organization leases office equipment and office space under an operating lease. The equipment lease expires at various dates through July 2021. The office lease expires at various dates through 2020. Total expenses under operating leases were $612,715 and $597,130 as of June 30, 2016 and 2015, respectively, and are included in office on the statements of functional expenses.

Future aggregate minimum lease payments under non-cancelable operating leases for each of the next five years and thereafter subsequent to June 30, 2016 are as follows:

2017	$	601,327
2018		416,414
2019		387,081
2020		169,954
2021		67,192
Thereafter		4,713
Total	$	1,646,681

Note 5 - Line of credit

The Organization has a line of credit with US Bank under a revolving credit note. The line of credit is due on January 22, 2017 and bears interest at an annual rate equal to 0.5% plus the prime rate announced by US Bank. Once drawn, the line of credit will be collateralized by the investment balance of $200,000. As of June 30, 2016 the Organization has not drawn on the line of credit or incurred any interest expense.

Note 6 - Restricted net assets

Temporarily restricted net assets consist of the following at June 30:

	2016	2015
Autism technology training center plan	$ -	$ 25,000
Computer lab	800	3,070
Spanish language materials	478	478
Translation project	316	316
Total	$ 1,594	$ 28,864

Note 7 - Net assets released from restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of by occurrence of other events specified by donors.

Net assets released from restriction consist of the following at June 30:

	2016	2015
Vehicle	$ -	$ 42,000
Autism technology training center plan	25,000	-
Computer lab	3,070	-
Senior programs	-	5,000
Translation project	-	1,683
Total	$ 28,070	$ 48,683

Note 8 - Retirement plans

During the years ended June 30, 2016 and 2015, the Organization sponsored a 401(k) employer contributory tax deferred retirement plan. Employees, who have met certain service agreements, other than those covered under a collective bargaining agreement are eligible to participate in the 401(k) plan. During the years ended June 30, 2016 and 2015, the Organization made no contribution to the plan.

The Organization has a 457(b) tax deferred retirement plan covering Top Hat employees (CEO & CFO). During the years ended June 30, 2016 and 2015, the Organization made contributions of $6,225 and $8,135, respectively, to the plan.

Note 9 - Concentration of revenue

The Organization depends significantly on revenue received from the California Department of Development Services ("DDS"). The Organization is claimed as a vendor and submits monthly invoices for reimbursement based on the participant's enrollment and activities according to DDS' funding policies. Revenues for the years ended June 30, 2016 and 2015 were $4,141,086 and $3,907,000, respectively. Accounts receivable at June 30, 2016 and 2015 includes $389,513 and $420,204, respectively, from DDS.

Note 10 - Concentration of credit risk

The Organization maintains cash and cash equivalents with various financial institutions. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses. Management believes that no significant concentration of credit risk exists with respect to these balances at June 30, 2016.

Note 11 - Related party transactions

The Organization utilized the services of a board member's staffing business during the years ended June 30, 2016 and 2015. The amount of $6,616 and $7,300, respectively, was paid to the company.

The Organization utilized the services of a board member's insurance business during the year ended June 30, 2016. The amount of $2,200 was paid to the board member as a referral bonus from the insurance business.

Note 12 - Subsequent events

On August 10, 2016, the Organization entered into an equipment financing agreement with US Bank in the amount of $229,470. The financing agreement will be paid in 60 equal installments of $4,326.

Management evaluated the activity of the Organization through October 24, 2016, the date the financial statements were available to be issued, and concluded that no other subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

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