Partnerships With Industry

Financial Statements and Independent Auditor's Report

June 30, 2018 and 2017

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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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 audits. We conducted our audits 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

Sacramento, California
October 22, 2018

Partnerships With Industry

Statements of Financial Position
June 30, 2018 and 2017

Assets

		2018		2017
Cash and cash equivalents	$	804,383	$	819,879
Investments		254,865		360,658
Accounts receivable, net		755,548		671,172
Prepaid expenses and other assets		22,407		23,873
Property and equipment, net		255,809		292,475
Deposits		54,445		49,518
Total assets	$	2,147,457	$	2,217,575

Liabilities and Net Assets

		2018		2017
Liabilities				
Accounts payable	$	24,544	$	58,653
Accrued expenses		270,191		278,504
Deferred rent		35,424		27,638
Note payable		164,132		207,595
Total liabilities		494,291		572,390
Net assets				
Unrestricted		1,652,372		1,627,882
Temporarily restricted		794		17,303
Total net assets		1,653,166		1,645,185
Total liabilities and net assets	$	2,147,457	$	2,217,575

See Notes to Financial Statements.

Partnerships With Industry

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2018

	Unrestricted	Temporarily restricted	Total
Revenue and support			
Fees for service	$ 4,363,778	$ -	$ 4,363,778
Employer contracts	1,738,656	-	1,738,656
Donations and other support	437,499	-	437,499
Investment income	4,423	-	4,423
Net assets released from restrictions			
Satisfaction of program restrictions	16,509	(16,509)	-
Total revenue and support	6,560,865	(16,509)	6,544,356
Expenses			
Program services - instruction, training and placement	5,385,367	-	5,385,367
Supporting services			
General and administrative	1,024,403	-	1,024,403
Fundraising	126,605	-	126,605
Total expenses	6,536,375	-	6,536,375
Change in net assets	24,490	(16,509)	7,981
Net assets, beginning	1,627,882	17,303	1,645,185
Net assets, end	$ 1,652,372	$ 794	$ 1,653,166

See Notes to Financial Statements.

Partnerships With Industry

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2017

	Unrestricted	Temporarily restricted	Total
Revenue and support			
Fees for service	$ 4,332,100	$ -	$ 4,332,100
Employer contracts	1,749,155	-	1,749,155
Donations and other support	378,734	16,509	395,243
Investment income	1,290	-	1,290
Net assets released from restrictions			
Satisfaction of program restrictions	800	(800)	-
Total revenue and support	6,462,079	15,709	6,477,788
Expenses			
Program services - instruction, training and placement	5,300,853	-	5,300,853
Supporting services			
Administrative and general	866,782	-	866,782
Fundraising	186,418	-	186,418
Total expenses	6,354,053	-	6,354,053
Change in net assets	108,026	15,709	123,735
Net assets, beginning	1,519,856	1,594	1,521,450
Net assets, end	$ 1,627,882	$ 17,303	$ 1,645,185

See Notes to Financial Statements.

Partnerships With Industry

Statements of Functional Expenses
Years Ended June 30, 2018 and 2017

June 30, 2018	Program services	General and administrative	Fundraising	Total
Payroll and related costs	$ 4,239,947	$ 533,409	$ 46,931	$ 4,820,287
Office	738,380	35,202	805	774,387
Insurance	139,417	47,127	661	187,205
Staff training and reimbursement	136,452	27,331	1,025	164,808
Supplies	77,830	44,041	30,074	151,945
Professional services	-	204,979	46,339	251,318
Vehicle expense	32,515	1,353	-	33,868
Depreciation	-	110,900	-	110,900
Other	20,826	20,061	770	41,657
Total	$ 5,385,367	$ 1,024,403	$ 126,605	$ 6,536,375

June 30, 2017	Program services	General and administrative	Fundraising	Total
Payroll and related costs	$ 3,885,047	$ 484,833	$ 97,728	$ 4,467,608
Office	784,539	42,446	50	827,035
Insurance	166,484	46,350	1,536	214,370
Staff training and reimbursement	127,364	19,039	853	147,256
Supplies	73,998	47,820	53,515	175,333
Professional services	102,343	143,069	31,064	276,476
Loss on disposal of assets	104,414	-	-	104,414
Vehicle expense	31,004	-	-	31,004
Depreciation	10,560	72,456	-	83,016
Other	15,100	10,769	1,672	27,541
Total	$ 5,300,853	$ 866,782	$ 186,418	$ 6,354,053

See Notes to Financial Statements.

Partnerships With Industry

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 7,981	$ 123,735
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	110,900	83,016
Loss on sale of asset	-	104,414
Realized loss on investments	(70)	(235)
(Increase) decrease in assets		
Accounts receivable	(84,376)	(69,005)
Prepaid expenses	1,466	(4,162)
Deposits	(4,927)	5,376
(Decrease) increase in liabilities		
Accounts payable	(16,624)	6,637
Accrued expenses	(8,313)	19,113
Deferred rent	7,786	27,638
Net cash provided by operating activities	13,823	296,527
Cash flows from investing activities		
Purchases and proceeds of investments, net	105,863	(50,660)
Purchases of property and equipment	(91,719)	(293,390)
Proceeds from sale of asset	-	35,789
Net cash provided by (used in) investing activities	14,144	(308,261)
Cash flows from financing activities		
Proceeds from notes payable	-	229,471
Payments on notes payable	(43,463)	(21,876)
Net cash provided by (used in) financing activities	(43,463)	207,595
Net increase (decrease) in cash and cash equivalents	(15,496)	195,861
Cash and cash equivalents at beginning of year	819,879	624,018
Cash and cash equivalents at end of year	$ 804,383	$ 819,879
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 9,153	$ 8,989
Significant noncash investing and financing activities		
Accounts payable included in property and equipment	$ -	$ 17,485

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, 2018 and 2017, 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
IT Infrastructure	3 to 5 years
Leasehold improvements	5 years
Vehicles	5 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, 2018 and 2017.

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 the Organization 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 expenses 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, 2018 and 2017. 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 2015 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, 2018 and 2017, the value of the certificates of deposits are $254,865 and $360,658, respectively. The certificates of deposits have the following maturities:

July 2018	$	59,984
August 2018		49,964
September 2018		34,983
October 2018		24,987
December 2018		24,988
January 2019		24,972
March 2019		34,987
	$	254,865

Note 3 - Property and equipment

Property and equipment consist of the following at June 30:

		2018		2017
Equipment	$	220,182	$	220,182
Leasehold improvements		442,760		406,269
Furniture and fixtures		83,676		39,375
IT Infrastructure		245,493		245,493
Vehicles		32,055		-
Work in progress		25,562		64,175
		1,049,728		975,494
Less accumulated depreciation		(793,919)		(683,019)
Total	$	255,809	$	292,475

Depreciation expense was $110,900 and $83,016 for the years ended June 30, 2018 and 2017, respectively.

Note 4 - Operating lease obligations

The Organization leases office space under operating leases. The office leases expire at various dates through 2022. Total expenses under operating leases were $603,173 and $653,861 as of June 30, 2018 and 2017, 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 four years subsequent to June 30, 2018 are as follows:

2019	$	527,736
2020		344,410
2021		241,761
2022		190,778
Total	$	1,304,685

Note 5 - Note payable

The Organization has an outstanding note with US Bank in the original amount of $229,471 for the purchase of fixed assets. The note bears an interest rate of 4.5% and is due to mature on November 9, 2021, with 60 monthly installments in the amount of $4,326. Interest expense was $9,153 and $8,409, respectively, for the years ended June 30, 2018 and 2017 and is included in other expenses in the statements of functional expenses. As of June 30, 2018 and 2017, notes payable is $164,132 and $207,595, respectively.

Estimated future principal payments on the above note payable for each of the next four years subsequent to June 30, 2018 are as follows:

2019	$	45,460
2020		47,548
2021		49,733
2022		21,391
Total	$	164,132

Note 6 - Line of credit

The Organization has a line of credit with US Bank under a revolving credit note. The line of credit has no maturity and bears interest at an annual rate equal to 5.28 % plus the prime rate announced by US Bank. Once drawn, the line of credit will be collateralized by the business assets. As of June 30, 2018 and 2017, the Organization has not drawn on the line of credit or incurred any interest expense.

Note 7 - Restricted net assets

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

	2018	2017
Computers	$ -	$ 15,180
Computer lab	-	1,050
Spanish language materials	478	478
Translation project	317	316
FDD Training materials	-	279
Total	$ 794	$ 17,303

Note 8 - Net assets released from restrictions

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

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

	2018	2017
Computer lab	$ 1,050	$ -
Computers	15,180	-
FDD Training materials	279	-
Translation project	-	800
Total	$ 16,509	$ 800

Note 9 - Retirement plans

During the years ended June 30, 2018 and 2017, 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, 2018 and 2017, the Organization made contributions of $10,114 and $0 , respectively, 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, 2018 and 2017, the Organization made contributions of $5,250 and $6,650, respectively, to the plan.

Note 10 - 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, 2018 and 2017 were $4,363,778 and $4,332,100, respectively. Accounts receivable at June 30, 2018 and 2017 includes $494,942 and $413,268, respectively, from DDS.

Note 11 - 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, 2018.

Note 12 - Related party transactions

The Organization may utilize the services of a board member's staffing business. During the years ended June 30, 2018 and 2017, no amount was paid to the company.

Note 13 - Disposal of fixed assets

As part of the decision to discontinue the document destruction operation, during the year ended June 30, 2017, the Organization decided to dispose of the truck and equipment used in its document destruction facility. The Organization sold the truck and equipment for $35,800 and wrote off the carrying basis of the asset net of accumulated depreciation. As a result, the Organization recognized a loss on sale of property of $104,414 which is included in the statement of activities for the year ended June 30, 2017.

Note 14 - Subsequent events

Events that occur after the statement of financial position date, June 30, 2018 but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at June 30, 2018 are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after June 30, 2018, require disclosure in the accompanying notes. Management evaluated the activity of the Organization through October 22, 2018, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

CohnReznick

Accounting • Tax • Advisory

Independent Member of Nexia International

cohnreznick.com