

**Partnerships With Industry**

**Financial Statements and  
Independent Auditor's Report**

**June 30, 2019 and 2018**

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# Partnerships With Industry

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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, 2019 and 2018, 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, 2019 and 2018, 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.



Sacramento, California  
December 5, 2019

**Partnerships With Industry**  
**Statements of Financial Position**  
**June 30, 2019 and 2018**

Assets

	2019	2018
Cash and cash equivalents	\$ 409,011	\$ 804,383
Investments	127,415	254,865
Accounts receivable, net	776,416	755,548
Prepaid expenses and other assets	24,279	22,407
Property and equipment, net	224,365	255,809
Deposits	44,342	54,445
 Total assets	 \$ 1,605,828	 \$ 2,147,457

Liabilities and Net Assets

<b>Liabilities</b>		
Accounts payable	\$ 17,785	\$ 24,544
Accrued expenses	253,954	270,191
Deferred rent	32,808	35,424
Note payable	118,671	164,132
 Total liabilities	 423,218	 494,291
 <b>Net assets</b>		
Net assets without donor restrictions	1,182,610	1,652,372
Net assets with donor restrictions	-	794
 Total net assets	 1,182,610	 1,653,166
 Total liabilities and net assets	 \$ 1,605,828	 \$ 2,147,457

See Notes to Financial Statements.

## Partnerships With Industry

### Statement of Activities and Changes in Net Assets Year Ended June 30, 2019

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Revenue and support			
Fees for service	\$ 4,399,754	\$ -	\$ 4,399,754
Employer contracts	1,628,258	-	1,628,258
Donations and other support	300,638	-	300,638
Investment income	7,894	-	7,894
Net assets released from restrictions			
Satisfaction of program restrictions	794	(794)	-
Total revenue and support	<u>6,337,338</u>	<u>(794)</u>	<u>6,336,544</u>
Expenses			
Program services - instruction, training and placement	5,400,552	-	5,400,552
Supporting services			
General and administrative	1,175,110	-	1,175,110
Fundraising	231,438	-	231,438
Total expenses	<u>6,807,100</u>	<u>-</u>	<u>6,807,100</u>
Change in net assets	(469,762)	(794)	(470,556)
Net assets, beginning	<u>1,652,372</u>	<u>794</u>	<u>1,653,166</u>
Net assets, end	<u>\$ 1,182,610</u>	<u>\$ -</u>	<u>\$ 1,182,610</u>

See Notes to Financial Statements.

## Partnerships With Industry

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

	Net assets without donor restrictions	Net assets with donor restrictions	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			
Administrative and general	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

### Statements of Functional Expenses Years Ended June 30, 2019 and 2018

June 30, 2019	Program services	General and administrative	Fundraising	Total
Payroll and related costs	\$ 4,292,948	\$ 389,376	\$ 158,612	\$ 4,840,936
Office	696,948	48,830	1,435	747,213
Insurance	116,837	46,996	1,937	165,770
Staff training and reimbursement	140,371	35,021	4,703	180,095
Supplies	83,878	54,046	29,006	166,930
Professional services	30	426,930	23,364	450,324
Vehicle expense	53,260	877	-	54,137
Depreciation	-	129,801	-	129,801
Other	16,280	43,233	12,381	71,894
<b>Total</b>	<b>\$ 5,400,552</b>	<b>\$ 1,175,110</b>	<b>\$ 231,438</b>	<b>\$ 6,807,100</b>
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
<b>Total</b>	<b>\$ 5,385,367</b>	<b>\$ 1,024,403</b>	<b>\$ 126,605</b>	<b>\$ 6,536,375</b>

See Notes to Financial Statements.

**Partnerships With Industry**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (470,556)	\$ 7,981
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	129,801	110,900
Realized gain on investments	(2,350)	(70)
(Increase) decrease in assets		
Accounts receivable	(20,868)	(84,376)
Prepaid expenses	(1,872)	1,466
Deposits	10,103	(4,927)
(Decrease) increase in liabilities		
Accounts payable	(6,759)	(16,624)
Accrued expenses	(16,237)	(8,313)
Deferred rent	(2,616)	7,786
	(381,354)	13,823
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Proceeds from investments	129,800	105,863
Purchases of property and equipment	(98,357)	(91,719)
	31,443	14,144
Net cash provided by investing activities		
Cash flows from financing activities		
Payments on notes payable	(45,461)	(43,463)
	(45,461)	(43,463)
Net cash used in financing activities		
Net decrease in cash and cash equivalents	(395,372)	(15,496)
Cash and cash equivalents at beginning of year	804,383	819,879
Cash and cash equivalents at end of year	\$ 409,011	\$ 804,383
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 7,207	\$ 9,153

See Notes to Financial Statements.



## Partnerships With Industry

### Notes to Financial Statements June 30, 2019 and 2018

#### 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Furthermore, information is required to segregate program service expenses from management and general and administrative expenses.

##### **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, 2019 and 2018, the allowance for doubtful accounts is \$27,000 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, 2019 and 2018.

## **Partnerships With Industry**

### **Notes to Financial Statements June 30, 2019 and 2018**

#### **Revenue recognition**

Revenues are recognized using the accrual method 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 net assets without donor restrictions or net assets with donor restrictions depending on the nature of the restrictions. All transactions and balances in these financial statements are reported within net assets without donor restrictions and net assets with donor restrictions.

#### **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, 2019 and 2018. 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 2016 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.

#### **Change in accounting principles**

During 2019, the Organization adopted the provisions of Accounting Standards Update 2016-14, Presentation of Financial Statements of Not-for-Profit Entities ("ASU 2016-14"). The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU 2016-14 has been applied on a retrospective basis.

## Partnerships With Industry

### Notes to Financial Statements June 30, 2019 and 2018

#### Note 2 – Liquidity and availability

The Organization has \$1,337,121 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$409,011, accounts receivable of \$776,416, short-term investments of \$127,415 and prepaid and miscellaneous current assets of \$24,279.

#### Note 3 - Investments

As of June 30, 2019 and 2018, the value of the certificates of deposits are \$127,415 and \$254,865, respectively. As of June 30, 2019, all investments are invested in cash accounts. The investments have the following maturity:

July 2019	<u>\$ 127,415</u>
	<u><u>\$ 127,415</u></u>

#### Note 4 - Property and equipment

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 220,182	\$ 220,182
Leasehold improvements	446,461	442,760
Furniture and fixtures	83,676	83,676
IT Infrastructure	365,711	245,493
Vehicles	32,055	32,055
Work in progress	<u>-</u>	<u>25,562</u>
	1,148,085	1,049,728
Less accumulated depreciation	<u>(923,720)</u>	<u>(793,919)</u>
Total	<u><u>\$ 224,365</u></u>	<u><u>\$ 255,809</u></u>

Depreciation expense was \$129,801 and \$110,900 for the years ended June 30, 2019 and 2018, respectively.

#### Note 5 - 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 \$591,638 and \$603,173 as of June 30, 2019 and 2018, respectively, and are included in office on the statements of functional expenses.

## Partnerships With Industry

### Notes to Financial Statements June 30, 2019 and 2018

Future aggregate minimum lease payments under non-cancelable operating leases for each of the next three years subsequent to June 30, 2019 are as follows:

2020	\$	438,991
2021		229,015
2022		<u>190,778</u>
Total	\$	<u>858,784</u>

#### Note 6 - 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 \$7,207 and \$9,153 respectively, for the years ended June 30, 2019 and 2018 and is included in other expenses in the statements of functional expenses. As of June 30, 2019 and 2018, notes payable is \$118,671 and \$164,132 respectively.

Estimated future principal payments on the above note payable for each of the next three years subsequent to June 30, 2019 are as follows:

2020	\$	47,548
2021		49,733
2022		<u>21,390</u>
Total	\$	<u>118,671</u>

#### Note 7 - 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, 2019 and 2018, the Organization has not drawn on the line of credit or incurred any interest expense.

#### Note 8 - Net assets with donor restrictions

Net assets with donor restrictions consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Spanish language materials	\$ -	\$ 478
Translation project	-	<u>316</u>
Total	<u>\$ -</u>	<u>\$ 794</u>

#### Note 9 - 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.

## Partnerships With Industry

### Notes to Financial Statements June 30, 2019 and 2018

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

	2019	2018
Computer lab	\$ -	\$ 1,050
Computers	-	15,180
Spanish language materials	478	-
FDD Training materials	316	279
Total	<u>\$ 794</u>	<u>\$ 16,509</u>

#### Note 10 - Retirement plans

During the years ended June 30, 2019 and 2018, 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, 2019 and 2018, the Organization made contributions of \$20,555 and \$10,114, 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, 2019 and 2018, the Organization made contributions of \$2,500 and \$5,250, respectively, to the plan.

#### Note 11 - 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, 2019 and 2018 were \$4,399,754 and \$4,363,778, respectively. Accounts receivable at June 30, 2019 and 2018 includes \$548,949 and \$494,942, respectively, from DDS.

#### Note 12 - 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, 2019.

#### Note 13 - Related party transactions

The Organization may utilize the services of a board member's staffing business. During the years ended June 30, 2019 and 2018, no amount was paid to the company.

**Partnerships With Industry**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 14 - Subsequent events**

Events that occur after the statement of financial position date, June 30, 2019 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, 2019 are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after June 30, 2019, require disclosure in the accompanying notes. Management evaluated the activity of the Organization through December 5, 2019, 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.



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