WORKSYSTEMS, INC.

FINANCIAL STATEMENTS

Year Ended June 30, 2018

(With Comparative Totals for the Year Ended June 30, 2017)

KERN THOMPSON
CERTIFIED PUBLIC ACCOUNTANTS

WORKSYSTEMS, INC.

FINANCIAL STATEMENTS

Year Ended June 30, 2018

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Worksystems, Inc.
Portland, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of Worksystems, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 Worksystems, Inc. as of June 30, 2018, 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.

Kern & Thompson, LLC | 1800 SW First Avenue, Suite 410 | Portland, Oregon 97201 | Phone: (503) 222-3338 | www.kern-thompson.com

KERN THOMPSON
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Worksystems, Inc.

Other Reporting Requirement by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of Worksystems, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Worksystems, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Worksystems, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Worksystems, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kern & Thompson, LLC

Portland, Oregon
December 10, 2018

WORKSYSTEMS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2018
(With Comparative Totals as of June 30, 2017)

ASSETS

	2018	2017
Cash and cash equivalents	$ 2,723,673	$ 1,545,365
Restricted cash, revolving loan fund	257,109	350,527
Accounts receivable	3,502,772	4,771,840
Prepaid expenses and deposits	265,455	285,373
Loans receivable, revolving loan fund	166,460	132,656
Equipment, net	33,366	45,465
Total assets	$ **6,948,835**	**$ 7,131,226**

LIABILITIES AND NET ASSETS

	2018	2017
Liabilities		
Accounts payable	$ 4,167,147	$ 4,689,728
Accrued compensation costs	939,062	744,423
Deferred revenues	437,975	541,319
Revolving loan fund	424,682	471,060
Total liabilities	**5,968,866**	**6,446,530**
Net assets		
Unrestricted net assets	979,969	684,696
Total net assets	**979,969**	**684,696**
Total liabilities and net assets	**$ 6,948,835**	**$ 7,131,226**

See notes to financial statements.

WORKSYSTEMS, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	2018	2017
Revenues and other support:		
Federal grants	$ 19,570,985	$ 16,385,267
State and local grants and contracts	6,652,034	7,503,309
Contributions	244,440	380,491
Interest earnings	994	796
Stand-in, federal leveraged resources and third party match contributions	1,989,901	2,418,536
Total revenues and other support	**28,458,354**	**26,688,399**
Expenses		
Program services	26,476,167	24,918,655
Management and general	1,686,914	1,589,148
Total expenses	**28,163,081**	**26,507,803**
Change in net assets, all unrestricted	**295,273**	**180,596**
Net assets, beginning of year	684,696	504,100
Net assets, end of year	**$ 979,969**	**$ 684,696**

See notes to financial statements.

WORKSYSTEMS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	Program Services	Management and General	Total 2018	Total 2017
Personnel expenses	$ 3,173,562	$ 1,232,444	$ 4,406,006	$ 3,975,316
Depreciation and amortization	20,812	-	20,812	2,251
Fees and other expenses	50	-	50	4,862
Insurance	-	24,979	24,979	20,109
Travel and parking	80,520	17,114	97,634	103,399
Occupancy and equipment	205,395	1,320	206,715	232,657
Office	65,633	11,960	77,593	78,363
Outreach and promotion	60,301	19,736	80,037	87,833
Professional fees and legal fees	81,356	155,871	237,227	378,629
Professional memberships	546	37,767	38,313	57,750
Staff and board development	10,286	35,745	46,031	58,099
Subcontracted community services	18,891,638	-	18,891,638	17,632,351
Technology	277,183	15,420	292,603	324,136
Third party match and stand-in costs	2,189,255	-	2,189,255	2,418,536
Training and placement subcontracted services	1,543,502	313	1,543,815	1,133,512
Allocation and other	(123,872)	134,245	10,373	-
Total expenses	**$ 26,476,167**	**$ 1,686,914**	**$ 28,163,081**	**$ 26,507,803**

See notes to financial statements.

WORKSYSTEMS, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 295,273	$ 180,596
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	20,812	2,251
Net changes in:		
Accounts receivable	1,269,068	(1,598,718)
Prepaid expenses and deposits	19,918	(76,024)
Accounts payable	(522,581)	1,449,985
Accrued compensation costs	194,639	(541,569)
Deferred revenue	(103,344)	95,649
Revolving loan fund payable	(46,378)	(39,134)
Net cash provided by (used in) operating activities	**1,127,407**	**(526,964)**
Cash flows from investing activities:		
Purchase of property and equipment	(8,713)	(27,437)
Net change in restricted cash, revolving loan fund	93,418	33,169
Net change in loans receivable, revolving loan fund	(33,804)	2,903
Net cash provided by (used in) investing activities	**50,901**	**8,635**
Net change in cash and cash equivalents	**1,178,308**	**(518,329)**
Cash and cash equivalents, beginning of year	1,545,365	2,063,694
Cash and cash equivalents, end of year	**$ 2,723,673**	**$ 1,545,365**

See notes to financial statements.

NOTE A – DESCRIPTION OF AGENCY

Worksystems, Inc. (the Organization), an Oregon not-for-profit corporation, is a collaboration of public and private leaders that establishes policy and provides leadership for the development and support of a workforce investment system within jurisdictions of Multnomah County, Washington County, and the City of Portland, and carries out programs designed to enhance employment opportunities for the region's citizens.

The Organization and its partners are working to:

- Develop a better understanding of how the regional labor market is evolving;
- Advocate for improved local, state, and national workforce policies;
- Align existing public and private education and training efforts into a more coordinated regional system;
- Establish performance measures to analyze the system's effectiveness and communicate the value of an excellent workforce system.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Financial statement presentation follows the requirements of accounting principles generally accepted in the United States of America (GAAP). Under these provisions, all balances and transactions are presented 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:

- **Unrestricted net assets** – Net assets not subject to donor-imposed stipulations.
- **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. The Organization has no temporarily restricted net assets.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated time period has elapsed) are reported as net assets released from restrictions.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and net assets, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and other support and expenses during the reporting period. Actual results could vary from the estimates used.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For financial reporting purposes, the Organization considers all highly liquid short-term investments with a maturity of three months or less when purchased to be cash equivalents.

Concentration of Credit Risk

Cash and cash equivalents of the Organization include bank deposits and money market mutual funds in excess of federally insured limits. To limit credit risk, the Organization places its cash and cash equivalents with high credit quality financial institutions.

Accounts Receivable

Generally accounts receivable are due 30 days after the issuance of the invoice. Receivables past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the grantor. Amounts older than 90 days at June 30, 2018 totaled $10,935. No allowance for doubtful accounts was deemed necessary as of June 30, 2018.

Equipment

Equipment is capitalized at cost when purchased, or at fair value at date of gift when donated, as long as original cost basis or fair value is $5,000 or more. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, which range from 2 to 8 years. Normal repairs and maintenance are charged to operations as incurred.

Revenue Recognition

The Organization's revenue is primarily derived from cost reimbursable grants and contracts. Funds received are deemed to be earned and are reported as revenue when the Organization has incurred expenditures in compliance with the specific contract or grant restrictions. Amounts received but not yet earned are reported as deferred revenue.

In-Kind Contributions

In-kind contributions are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of the Organization's activities.

Contributions of services that create or enhance nonfinancial assets or that require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market values in the period received.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stand-In, Federal Leveraged Resources and Third Party Match In-Kind Contributions

Contributions of services and expenditures in support of program activities in excess of reimbursable costs (as defined by specific grant and contract terms) are reported to the Organization by subrecipient contractors and others, and are reported by the Organization to its grantors.

Compensation Costs

Employees are entitled to paid and accrued vacation, sick days, and severance leave. Vacation and sick time vest as accrued. Severance leave is payable under specific conditions and is subject to a maximum number of hours per employee. The Organization has accrued approximately $764,000 as of June 30, 2018.

Income Taxes

The Organization has been approved as a tax-exempt organization under the Internal Revenue Code section 501(c)(3) and applicable state laws. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization does not believe it has unrelated trade or business income in excess of $1,000.

Prior Year Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or natural expense classification by function. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2017, from which the summarized information was derived.

NOTE C – ACCOUNTS RECEIVABLE

The Organization's receivable balance consists of grant receivables from federal, state, and local governments. Major grantors include the State of Oregon and the U.S. Department of Labor.

At year-end the following receivables were outstanding:

Due from the State of Oregon Office of the Higher Education Coordinating Commission	$	1,268,838
Due from the U.S. Department of Labor ETA (DOL)		619,288
Due from other federal, state, and local government agencies		1,383,773
Miscellaneous		230,873
	$	3,502,772

NOTE D – REVOLVING LOAN FUND – RESTRICTED CASH, LOANS RECEIVABLE AND PAYABLE

The Oregon Legislature has provided $636,000 in general funds in support of a project to train new truck drivers to meet industry needs. The funds were set aside for an indefinite-term revolving fund for tuition loans to students attending trucking schools that meet the industry's Professional Truck Driver Certification standards.

The Organization is the fiscal agent for the truck driver loan program, and works with two other agencies to administer the program. The Oregon Trucking Association manages state-wide deployment and quality assurance. This includes determining industry criteria for drivers, approving participating schools, and approving loan applications. Applications are approved based on evaluation of the borrower’s financial condition and character. After approval, the Organization funds the loans and submits to TFC Credit Corporation for servicing. Loans require monthly payments of principal and interest at 10% over 36 months. Past due loans are monitored based on a combination of the Organization's established policies and prescribed methodologies.

The Organization is required to segregate the cash for the truck driver loan program in a separate bank account, and new loans made, defaults, and loan servicing costs reduce the funds available in the account. Principal and interest payments received are deposited to the dedicated account. Restricted cash for the truck driver loan program totaled $257,109 at June 30, 2018. The Organization is required to repay to the state any unused loan funds when the program is terminated.

At June 30, 2018, outstanding loans receivable totaled $166,460. This represents loans due from individuals who borrowed for tuition costs at approved trucking schools.

The revolving loan fund is required to be maintained indefinitely. The balance of the revolving loan fund payable was $424,682 at June 30, 2018.

NOTE E – EQUIPMENT, NET

Property and equipment consists of the following:

Computer equipment and software	$	128,900
Less accumulated depreciation and amortization		(95,534)
	$	33,366

Federal and state agencies have a reversionary interest in substantially all equipment.

NOTE F – RELATED PARTY TRANSACTIONS

The Organization has many members of its Board who are employed by or represent entities that disburse grant funds to the Organization and/or receive grant funds and other related expense reimbursements from the Organization. At June 30, 2018, the accounts payable balances to these related parties were approximately $1,524,000, and the accounts receivable balances from these related parties were approximately $563,000. For the year ended June 30, 2018, the Organization received approximately $6,684,000 from these related parties and paid approximately $7,509,000 to these related parties.

NOTE G – RETIREMENT PLAN

The Organization has a Flexible Standardized 401(k) Profit Sharing Plan, which is a defined contribution plan. Substantially all Organization employees are participants in the Plan, and all new employees are eligible to participate on their date of hire. Benefits are fully vested at the time contributions are made to the Plan. Unless otherwise elected, the payment of benefits begins on the earlier of the date the participant attains age 59½ or the date the participant terminates employment with the Organization. The Plan provides for employer matching of employee contributions at 100% of up to six percent of employee gross wages. Contributions made by the Organization to the Plan totaled approximately $182,000 for the year ended June 30, 2018.

NOTE H – OPERATING LEASE COMMITMENTS

The Organization has entered into various leases and subleases for office space. These leases expire at various dates through March 2025. The main office lease comprises the majority of the lease obligation, and contains a five year renewal option. Lease expense was approximately $233,000 for the year ended June 30, 2018.

The following is a schedule of future minimum lease payments required under noncancelable operating leases for office space:

Year Ending June 30,	
2019	$ 254,688
2020	262,329
2021	270,198
2022	278,301
2023	286,653
Thereafter	521,637
	$ 1,873,806

NOTE I – CONCENTRATION OF REVENUE

The Organization received approximately 54% of total revenues, exclusive of stand-in, federal leveraged resources, and third-party matching contributions, from one grantor, the U.S. Department of Labor, during the year ended June 30, 2018.

NOTE J – CONTINGENT LIABILITY

A significant portion of the Organization's revenues and other support is earned under contracts with the U.S. Department of Labor through the State of Oregon. Amounts received or receivable from these contracting agencies are subject to audit and potential adjustment by contracting agencies. Any disallowed claims, including amounts already collected, would become a liability of the Organization if so determined in the future. As of the date of this report, management does not believe that there will by any potential adjustments or disallowed claims.

NOTE K – AVAILABLE LINE OF CREDIT

The Organization has a $750,000 line of credit (secured by substantially all assets) with interest at the greater of 5.25% or the Bank Base Rate plus 0.25%. No amounts were outstanding as of the audit report date.

NOTE L – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 10, 2018, which is the date the financial statements were available to be issued.