WORKSYSTEMS, INC.

FINANCIAL STATEMENTS

Year Ended June 30, 2015

(With Comparative Totals
for the Year Ended June 30, 2014)

WORKSYSTEMS, INC.

FINANCIAL STATEMENTS

Year Ended June 30, 2015

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KERN & THOMPSON, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
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, 2015, 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, 2015, 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.

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To the Board of Directors of
Worksystems, Inc.

Other Matters

Other Reporting Requirement by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2016, 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 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 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 Worksystems, Inc.'s June 30, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 19, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kern & Thompson, LLC

Portland, Oregon
January 22, 2016

WORKSYSTEMS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2015
(With Comparative Totals as of June 30, 2014)

ASSETS

	2015	2014
Cash and cash equivalents	$ 1,262,733	$ 1,509,108
Restricted cash, revolving loan fund	94,570	220,406
Accounts receivable	4,082,145	3,007,779
Prepaid expenses and deposits	103,471	33,504
Loans receivable, revolving loan fund	216,410	170,204
Equipment, net	23,518	27,734
Total assets	$ **5,782,847**	**$ 4,968,735**

LIABILITIES AND NET ASSETS

	2015	2014
Liabilities		
Accounts payable	$ 2,875,155	$ 2,655,651
Accrued compensation costs	1,266,725	1,117,497
Deferred revenues	790,028	287,957
Revolving loan fund	314,674	369,701
Total liabilities	**5,246,582**	**4,430,806**
Net assets		
Unrestricted net assets	516,265	517,929
Temporarily restricted net assets	20,000	20,000
Total net assets	**536,265**	**537,929**
Total liabilities and net assets	**$ 5,782,847**	**$ 4,968,735**

See notes to financial statements.

WORKSYSTEMS, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	Unrestricted	Temporarily Restricted	Total 2015	Total 2014
Revenues and other support:				
Federal grants	$ 16,215,410	$ -	$ 16,215,410	$ 14,809,621
State and local grants and contracts	5,522,935	-	5,522,935	3,633,971
Contributions	20,209	-	20,209	99,367
Interest earnings	744	-	744	469
Stand-in, federal leveraged resources and third party match contributions	7,432,623	-	7,432,623	5,804,932
Total operating revenues, gains, and other support	**29,191,921**	**-**	**29,191,921**	**24,348,360**
Expenses				
Program services	27,845,828	-	27,845,828	22,798,363
Management and general	1,347,757	-	1,347,757	1,340,276
Total expenses	**29,193,585**	**-**	**29,193,585**	**24,138,639**
Change in net assets	**(1,664)**	**-**	**(1,664)**	**209,721**
Net assets, beginning of year	517,929	20,000	537,929	328,208
Net assets, end of year	**$ 516,265**	**$ 20,000**	**$ 536,265**	**$ 537,929**

See notes to financial statements.

WORKSYSTEMS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	Program Services	Management and General	Total 2015	Total 2014
Personnel expenses	$ 2,525,876	$ 968,469	$ 3,494,345	$ 3,334,705
Depreciation and amortization	4,216	-	4,216	4,216
Fees and other expenses	-	2,869	2,869	3,093
Insurance	2,793	19,598	22,391	24,418
Local travel and parking	52,524	4,183	56,707	56,958
Occupancy and equipment	202,021	571	202,592	206,477
Office	50,413	2,827	53,240	52,265
Outreach and promotion	103,797	25,108	128,905	52,763
Professional fees and legal fees	44,500	84,612	129,112	160,401
Professional memberships	5,788	39,305	45,093	38,225
Staff and board development	27,118	62,114	89,232	122,321
Subcontracted community services	16,333,038	-	16,333,038	13,355,330
Technology	173,589	18,139	191,728	235,929
Third party match and stand-in costs	7,432,623	-	7,432,623	5,804,932
Training and placement subcontracted services	1,002,230	5,264	1,007,494	686,606
Allocation and other	(114,698)	114,698	-	-
Total expenses	**$ 27,845,828**	**$ 1,347,757**	**$ 29,193,585**	**$ 24,138,639**

See notes to financial statements.

WORKSYSTEMS, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ (1,664)	$ 209,721
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,216	4,216
Net changes in:		
Accounts receivable	(1,074,366)	106,165
Prepaid expenses and deposits	(69,967)	(5,836)
Accounts payable	219,504	(70,424)
Accrued compensation costs	149,228	152,498
Deferred revenue	502,071	(14,144)
Revolving loan fund payable	(55,027)	(16,299)
Net cash provided by (used in) operating activities	**(326,005)**	**365,897**
Cash flows from investing activities:		
Purchase of equipment	-	(27,042)
Net change in restricted cash, revolving loan fund	125,836	138,579
Net change in loans receivable, revolving loan fund	(46,206)	(142,984)
Net cash provided by (used in) investing activities	**79,630**	**(31,447)**
Net change in cash and cash equivalents	**(246,375)**	**334,450**
Cash and cash equivalents, beginning of year	1,509,108	1,174,658
Cash and cash equivalents, end of year	**$ 1,262,733**	**$ 1,509,108**

See notes to financial statements.

WORKSYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 our 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.

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, 2015 were trivial. No allowance for doubtful accounts was deemed necessary as of June 30, 2015.

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 $1,192,000 as of June 30, 2015.

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, 2014, 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 Department of Community Colleges and Workforce Development (CCWD)	$ 1,744,739
Due from the U.S. Department of Labor ETA (DOL)	448,769
Due from other federal, state, and local government agencies	1,445,526
Miscellaneous	443,111
	$ 4,082,145

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

In 2013, the Oregon Legislature provided $386,000 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 $94,570 at June 30, 2015. The Organization is required to repay to the state any unused loan funds when the program is terminated.

At June 30, 2015, outstanding loans receivable totaled $216,410. 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 $314,674 at June 30, 2015.

NOTE E – EQUIPMENT, NET

Property and equipment consists of the following:

Computer equipment and software	$	309,470
Less accumulated depreciation and amortization		(285,952)
	$	23,518

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

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of $20,000 at June 30, 2015 were available for the purpose of the JP Morgan Workforce Innovation Fund Program Support.

NOTE G – 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, 2015, the accounts payable balances to these related parties were approximately $998,000, and the accounts receivable balances from these related parties were approximately $1,310,000. For the year ended June 30, 2015, the Organization received approximately $3,804,000 from these related parties and paid approximately $5,775,000 to these related parties.

NOTE H – 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 $133,000 for the year ended June 30, 2015.

NOTE I – OPERATING LEASE COMMITMENTS

The Organization has entered into various leases and subleases for office space. These leases expire at various dates through March 2018. The main office lease comprises the majority of the lease obligation, and contains a 5 year renewal option, as well as a one-time right to terminate the lease as of March 31, 2016 for a fee. Lease expense was approximately $197,000 for the year ended June 30, 2015.

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

Year Ending June 30,	
2016	$ 215,168
2017	221,021
2018	165,989
	$ 602,178

NOTE J – CONCENTRATION OF REVENUE

The Organization received approximately 67% 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, 2015.

NOTE K – 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.

NOTE L – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 22, 2016, which is the date the financial statements were available to be issued.

The Organization was awarded a Department of Health and Human Services grant of approximately 2.4 million during the first year, with an additional four years of funding contingent upon approval for Health Connections pathways and occupations.