Cincinnati Works, Inc.

Financial Statements

December 31, 2018

With Independent Auditors' Report

CLARK SCHAEFER HACKETT
CPAS & ADVISORS

TABLE OF CONTENTS

CLARK SCHAEFER HACKETT
CPAS & ADVISORS

One East Fourth Street, Suite 1200, Cincinnati, Ohio 45202
P. 513.241.3111 | F. 513.241.1212 | cshco.com

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Cincinnati Works, Inc.

Report on the financial statements
We have audited the accompanying financial statements of Cincinnati Works, Inc. (a not-for-profit organization), which comprise the statement of financial position as of December 31, 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. 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 Cincinnati Works, Inc. as of December 31, 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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
March 5, 2019

Cincinnati Works, Inc.
Statement of Financial Position
December 31, 2018

Assets:		
Cash and cash equivalents	$	1,104,438
Investments		957,067
Accounts receivable		38,263
Contributions receivable, net		1,906,840
Prepaid expenses and other assets		36,573
Furniture and equipment, net		156,628
Total assets	$	4,199,809
Liabilities and net assets		
Liabilities:		
Accounts payable	$	16,715
Accrued expenses		55,244
Total liabilities		71,959
Net assets:		
Without donor restrictions		1,705,282
With donor restrictions		2,422,568
Total net assets		4,127,850
Total liabilities and net assets	$	4,199,809

See accompanying notes to the financial statements.

Cincinnati Works, Inc.
Statement of Activities
Year Ended December 31, 2018

Changes in net assets without donor restrictions		
Revenues, gains and other support:		
Contributions and grants	$	726,892
Investment return		(62,254)
Contributed goods and services		102,894
Workforce connection		78,678
Other income		125,152
Net assets released from donor restrictions		2,458,084
Total revenues and other support		3,429,446
Expenses:		
Workforce development		1,850,718
Workforce connection		421,254
The Network		201,852
Total program services		2,473,824
Management and general		614,674
Fundraising		340,479
Total support services		955,153
Total expenses		3,428,977
Change in net assets without donor restrictions		469
Changes in net assets with donor restrictions		
Revenues and other support:		
Contributions and grants-National Replication		200,000
Other contributions and grants		2,031,022
Net assets release from restrictions		(2,458,084)
Change in net assets with donor restrictions		(227,062)
Change in net assets		(226,593)
Net assets, beginning of year		4,354,443
Net assets, end of year	$	4,127,850

See accompanying notes to the financial statements.

		Program						
		Workforce Development	Workforce Connection	The Network	Total	Management and General	Fundraising	Total Expenses
Salaries, wages and benefits	$	1,554,132	365,796	157,421	2,077,349	457,968	217,713	2,753,030
Occupancy and utilities		137,806	14,002	12,196	164,004	69,320	17,682	251,006
Equipment and supplies		28,247	7,026	5,058	40,331	8,423	4,666	53,420
Professional services		42,783	7,122	14,874	64,779	47,806	39,694	152,279
Direct job seeker and advancement expenses		59,006	13,061	-	72,067	-	-	72,067
Marketing		10,342	5,510	3,145	18,997	1,393	55,671	76,061
Other		18,402	8,737	9,158	36,297	29,764	5,053	71,114
	$	1,850,718	421,254	201,852	2,473,824	614,674	340,479	3,428,977

See accompanying notes to the financial statements.

Cincinnati Works, Inc.
Statement of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities:	
Change in net assets	$ (226,593)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Discount on contributions receivable	414
Depreciation	32,766
Net realized and unrealized gain on investments	53,089
Changes in assets and liabilities:	
Accounts receivable	(38,263)
Contributions receivable	448,626
Prepaid expenses and other assets	15,988
Accounts payable	5,404
Accrued expenses	(113)
Net cash provided by operating activities	291,318
Cash flows from investing activities:	
Purchases of furniture and equipment	(146,237)
Purchases of investments	(767,742)
Sales and maturities of investments	577,020
Net cash used by investing activities	(336,959)
Net change in cash and cash equivalents	(45,641)
Cash and cash equivalents at beginning of year	1,150,079
Cash and cash equivalents at end of year	$ 1,104,438

See accompanying notes to the financial statements.

1. NATURE OF OPERATIONS:

Cincinnati Works, Inc. (the “Organization”) is a not-for-profit corporation serving the Greater Cincinnati community, whose mission is to partner with all willing and capable people living in poverty to assist them in advancing to economic self-sufficiency through employment. The Organization’s revenue and other support are derived principally from contributions and grants.

The Organization serves the Greater Cincinnati community through its Workforce Development programs that provide job seekers with soft skills, access to employers, and lifetime coaching to be successful, promotable employees.

Workforce Connection is a fee-based service that assists local employers and their employees to improve employee retention through the use of on-site employment coaches that facilitate job retention services, work supports, education and training.

The Network provides consulting, training, and a forum for other communities working on eliminating poverty throughout the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation
The financial statements of the Organization are presented on the accrual basis of accounting. Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

With donor restrictions – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization, or the passage of time. Certain net assets are subject to donor-imposed stipulations that must be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general purposes.

Contributions, including certain grants from foundations, corporations, and government agencies, are recorded in the appropriate net asset class when the promise to give is received. For grants where the receipt of payment is conditional, revenue is recognized as contractual services are performed and the eligible expenses are incurred. When a donor stipulated time or purpose restriction ends, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts and investment income with donor- imposed restrictions for which the restriction is met in the same period are recorded as with donor restricted and then released from restriction.

Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue. Allowance is made for uncollectible contributions based upon management’s judgment and the creditworthiness of the donor. No allowance was recorded in 2018.

Contributions of services are recognized as revenue at their estimated fair value only when the services received require specialized skills possessed by the individuals providing the service and their service would typically need to be purchased if not donated. Recorded contributed services are primarily related to counseling services and are recorded in salaries and wages.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Adoption of new accounting standards

During 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard 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 investment return and functional expenses, including allocation methodologies and presentation of a statement of functional expenses as part of the basic financial statements. The Organization has adjusted the presentation of these financial statements accordingly.

Cash and cash equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. The Organization maintains cash in deposit accounts, which, at times, may exceed federally ensured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Cash in excess of federally insured limits is approximately $590,000 on December 31, 2018.

Accounts receivable

Accounts receivable are stated at the original invoiced amount less an allowance for doubtful accounts. On a periodic basis, the Organization evaluates its receivables and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. The Organization believes all receivables are fully collectible at December 31, 2018.

Investments

Investments in marketable and debt securities with readily determinable fair values are valued at their fair values in the statement of financial position. Dividends, interest income, realized gains and losses on security transactions, unrealized holding gains or losses on investments and investment expenses are included as investment return on the statement of activities.

Furniture and equipment

The Organization's policy is to capitalize furniture and equipment purchased or donated having a cost in excess of $1,000. All items are recorded at cost less accumulated depreciation. Computer equipment, software and licenses are depreciated on a straight-line basis over a three-year period. Furniture is depreciated on a straight-line basis over a five-year period.

Income taxes
The Organization is exempt from federal income tax under Internal Revenue Code (the “Code’) section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. The Organization has accrued a tax liability of approximately $7,000 for unrelated business income taxes as of December 31, 2018.

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. Certain costs have been allocated among the benefited programs and supporting services based on direct identification, time studies and other methods. The following functional expense categories are allocated based on monthly time studies: salaries, wages and benefits, occupancy and utilities, equipment and supplies, marketing and other expenses.

Concentration of credit risk
Concentrations within revenue and receivables exist when an individual donor equals or exceeds 10% of total revenue and receivables, respectively. During 2018, two donors accounted for 31% of total contribution revenue while four donors accounted for 71% of total contributions receivable.

Subsequent events
The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through March 5, 2019, the date on which the financial statements were available to be issued.

3. CONTRIBUTIONS RECEIVABLE, NET:

Contributions receivable at December 31, 2018 consisted of the following:

Due within one year	$ 1,464,677
Due in one to five years	456,841
	1,921,518
Less unamortized discount, 2.46%	14,678
	$ 1,906,840

4. FURNITURE AND EQUIPMENT:

Furniture and equipment consist of the following at December 31, 2018:

Furniture	$ 42,933
Software	139,148
Equipment	96,936
	279,017
Less accumulated depreciation	122,389
Furniture and equipment, net	$ 156,628

5. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions exist for the following purposes as of December 31, 2018:

Subject to the passage of time	$ 739,700
Subject to expenditures for specific purpose:	
Workforce Development	973,961
Workforce Connection	225,000
The Network	416,786
Other	37,746
	1,653,493
Investment held in perpetuity	29,375
Total net assets with donor restrictions	$ 2,422,568

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the passage of time. A summary of restrictions satisfied is as follows for the year ending December 31, 2018:

Time restriction expired	$ 561,825
Satisfaction of purpose restrictions:	
Workforce Development	1,294,755
Workforce Connection	276,098
The Network	208,259
Other	117,146
	1,896,259
Total net assets released from donor restrictions	$ 2,458,084

6. FAIR VALUE MEASUREMENTS:

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

> Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
>
> Level 2: Inputs for the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
>
> Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Fair value methods and assumptions on investments consisting of cash and cash equivalents, fixed income, equities, alternative strategies and real assets are valued on Level 1 inputs.

The preceding methods described may provide a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the Organization's assets at December 31, 2018 that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments:				
Cash and cash equivalents	$ 52,860	52,860	-	-
Fixed income	187,225	187,225	-	-
Equities:				
Large cap global and domestic	300,359	300,359	-	-
Small and mid-cap domestic	69,817	69,817	-	-
Developing international	109,376	109,376	-	-
Emerging markets	56,837	56,837	-	-
Alternative strategies funds	113,526	113,526	-	-
Real estate funds	67,067	67,067	-	-
	$ 957,067	957,067	-	-

7. OFFICE LEASE:

The Organization leases office space under various noncancelable operating leases which are subject to terms of renewal and escalation clauses. As of December 31, 2018, the Organization has a liability totaling $18,168 related to the escalating lease payments. Rent expense for 2018 totaled $161,783. Future minimum lease payments due in 2019 total $120,873.

During 2018, a board member subleased certain office space and reimbursed the Organization for this and certain other office expenses totaling $8,303.

8. RETIREMENT PLAN:

The Organization has a defined contribution plan (the "Plan") covering substantially all employees. Under the terms of the Plan, the Organization has the discretion to make contributions to the Plan. In addition, employees may elect to participate in the salary deferral portion of the Plan. Participants vest in employer contributions at a rate of 33.3% each year and are fully vested after three years. During 2018, employer contributions totaled $183,115.

9. LIQUIDITY:

The goal of the Organization is generally to maintain financial assets to meet at least 90 days of operating expenses. The Organization is substantially supported by contributions and grants, and invests excess cash in short-term investment accounts to earn interest.

The following table presents the financial assets available to meet cash needs for general expenditures within one year at December 31, 2018:

Financial assets:		
Cash and cash equivalents	$	1,104,438
Investments		957,067
Accounts receivable		38,263
Contributions receivable		1,464,677
Financial assets available at year-end		3,564,445
Less those unavailable for general expenditures within one year due to:		
Contributions receivable with purpose restrictions		332,500
Restricted investments unavailable for operations		29,375
Cash with donor restrictions		523,604
		885,479
Financial assets available to meet cash needs for general expenditures within one year	$	2,678,966

10. UPCOMING PRONOUNCEMENTS:

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contract with customers. This standard will be effective for the Organization's fiscal year ending December 31, 2019.

In June 2018, FASB issued, ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* The standard will assist entities in determining whether transactions should be recorded as a contribution (nonreciprocal transaction) or as an exchange (reciprocal transaction). The standard also provides expanded guidance on determining whether or not a contribution is conditional. This standard will be effective for the Organization's year ending December 31, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of the lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Organization's year ending December 31, 2020.

The Organization is currently in the process of evaluating the impact of adoption of these ASU's on the financial statements.