Cincinnati Works, Inc.

Financial Statements

December 31, 2019 and 2018

With Independent Auditors' Report

CLARK SCHAEFER HACKETT
CPAs & ADVISORS

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CLARK SCHAEFER HACKETT
CPAs & Advisors

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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 statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, 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.

Auditors' 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 audits 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 Cincinnati Works, Inc. as of December 31, 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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 27, 2020

	2019	2018
Assets:		
Cash and cash equivalents	$ 1,282,543	1,104,438
Investments	929,466	957,067
Accounts receivable	29,781	38,263
Contributions receivable, net	1,535,640	1,906,840
Prepaid expenses and other assets	46,489	36,573
Furniture and equipment, net	265,360	156,628
Total assets	$ 4,089,279	4,199,809
Liabilities and net assets		
Liabilities:		
Accounts payable	$ 23,558	16,715
Accrued expenses	25,718	55,244
Total liabilities	49,276	71,959
Net assets:		
Without donor restrictions	1,824,807	1,705,282
With donor restrictions	2,215,196	2,422,568
Total net assets	4,040,003	4,127,850
Total liabilities and net assets	$ 4,089,279	4,199,809

See accompanying notes to the financial statements.

Cincinnati Works, Inc.
Statements of Activities
Years Ended December 31, 2019 and 2018

		2019	2018
Changes in net assets without donor restrictions			
Revenues, gains and other support:			
Contributions and grants	$	909,616	726,892
Investment return, net		181,236	(62,254)
Contributed goods and services		107,114	102,894
Employer fees		242,615	78,678
Other income		157,398	125,152
Acquisition of Beacon of Hope		103,787	-
Net assets released from restrictions		2,547,238	2,458,084
Total revenues and other support		4,249,004	3,429,446
Expenses:			
Workforce development		2,139,481	1,850,718
Workforce connection		603,692	421,254
Transportation		138,269	-
The Network		207,913	201,852
Total program services		3,089,355	2,473,824
Management and general		645,999	614,674
Fundraising		394,125	340,479
Total support services		1,040,124	955,153
Total expenses		4,129,479	3,428,977
Change in net assets without donor restrictions		119,525	469
Changes in net assets with donor restrictions			
Revenues and other support:			
Contributions and grants - The Network		30,000	200,000
Other contributions and grants		2,309,866	2,031,022
Net assets released from restrictions		(2,547,238)	(2,458,084)
Change in net assets with donor restrictions		(207,372)	(227,062)
Change in net assets		(87,847)	(226,593)
Net assets, beginning of year		4,127,850	4,354,443
Net assets, end of year	$	4,040,003	4,127,850

See accompanying notes to the financial statements.

	Program							
	Workforce Development	Workforce Connection	Transportation	The Network	Total	Management and General	Fundraising	Total Expenses
Salaries, wages and benefits	$ 1,780,240	529,108	109,532	175,381	2,594,261	466,441	236,805	3,297,507
Occupancy and utilities	137,009	25,965	-	12,429	175,403	97,545	18,064	291,012
Equipment and supplies	29,032	9,214	1,295	2,601	42,142	7,639	6,370	56,151
Professional services	43,039	10,167	10,728	8,988	72,922	49,114	75,303	197,339
Direct job seeker and advancement	114,228	1,212	8,526	-	123,966	-	-	123,966
Marketing	11,849	9,203	-	1,079	22,131	2,235	50,390	74,756
Other	24,084	18,823	8,188	7,435	58,530	23,025	7,193	88,748
	$ 2,139,481	603,692	138,269	207,913	3,089,355	645,999	394,125	4,129,479

	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	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.

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	(87,847)	(226,593)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Discount on contributions receivable		6,123	414
Depreciation		62,953	32,766
Net realized and unrealized (gain) loss on investments		(146,168)	53,089
Acquisition of Beacon of Hope		(103,787)	-
Changes in assets and liabilities:			
Accounts receivable		16,982	(38,263)
Contributions receivable		365,077	448,626
Prepaid expenses and other assets		(9,916)	15,988
Accounts payable		(13,318)	5,404
Accrued expenses		(29,526)	(113)
Net cash provided by operating activities		60,573	291,318
Cash flows from investing activities:			
Purchases of furniture and equipment		(121,771)	(146,237)
Cash from acquisition		65,534	-
Purchases of investments		(1,230,553)	(767,742)
Sales and maturities of investments		1,404,322	577,020
Net cash provided by investing activities		117,532	(336,959)
Net change in cash and cash equivalents		178,105	(45,641)
Cash and cash equivalents at beginning of year		1,104,438	1,150,079
Cash and cash equivalents at end of year	$	1,282,543	1,104,438
Supplemental disclosures:			
Acquisition of Beacon of Hope non-cash assets and liabilities:			
Accounts receivable	$	8,500	-
Accounts payable		(20,161)	-
Furniture and equipment		49,914	-
	$	38,253	-

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 Organization provides fee-based transportation services to assist its members to reach employer partner locations that lie beyond traditional bus lines.

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 in perpetuity 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 statements 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 restriction 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 deemed necessary in 2019 or 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.

The Organization's revenue from contracts with customers are included in employer fees on the statements of activities and consists of revenue earned for ongoing services provided to other organizations related to coaching and mentoring. Contracts typically have short durations and are considered to be earned over a period of time. Revenue is earned and billed when the performance obligation of the contract is completed.

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

On January 1, 2019, the Organization adopted Accounting Standards Update (ASU) 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets. The majority of the Organization's revenues come from contributions and grants, that are outside the scope of ASC 606. Services within the scope of ASC 606 include workforce connection employer fees paid to the Organization.

The Organization adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy generally accepted accounting principles. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

On January 1, 2019, the Organization adopted ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The standard assists 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.

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 $742,000 and $590,000 on December 31, 2019 and 2018, respectively.

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, 2019 and 2018.

Investments

Investments in marketable and debt securities with readily determinable fair values are reported at their fair values in the statements 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 statements 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.

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 2019, two donors accounted for 37% of total contribution revenue and while three donors accounted for 50% of total contributions receivable. 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 February 27, 2020, the date on which the financial statements were available to be issued.

3. CONTRIBUTIONS RECEIVABLE, NET:

Contributions receivable at December 31 consisted of the following:

	2019	2018
Due within one year	$ 1,138,280	1,464,677
Due in one to five years	405,915	456,841
	1,544,195	1,921,518
Less unamortized discount, 1.62% and 2.46%	8,555	14,678
	$ 1,535,640	1,906,840

4. FURNITURE AND EQUIPMENT:

Furniture and equipment consist of the following at December 31:

	2019	2018
Furniture	$ 86,398	42,933
Software	190,339	139,148
Equipment	148,834	96,936
	425,571	279,017
Less accumulated depreciation	160,211	122,389
Furniture and equipment, net	$ 265,360	156,628

5. NET ASSETS WITH DONOR RESTRICTIONS:

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

	2019	2018
Subject to the passage of time	$ 949,000	739,700
Subject to expenditures for specific purpose:		
Workforce Development	932,366	973,961
Workforce Connection	204,455	225,000
The Network	100,000	416,786
Other	-	37,746
	2,185,821	2,393,193
Investment held in perpetuity	29,375	29,375
Total net assets with donor restrictions	$ 2,215,196	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 years ending December 31:

	2019	2018
Time restriction expired	$ 602,719	561,825
Satisfaction of purpose restrictions:		
Workforce Development	1,308,985	1,294,755
Workforce Connection	337,118	276,098
Transportation	50,000	-
The Network	196,786	208,259
Other	51,630	117,147
	1,944,519	1,896,259
Total net assets released from donor restrictions	$ 2,547,238	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, 2019 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	$ 43,361	43,361	-	-
Fixed income funds	289,621	289,621	-	-
Equities:				
Large cap global and domestic	336,910	336,910	-	-
Small and mid-cap domestic	36,646	36,646	-	-
Developing international	129,919	129,919	-	-
Emerging markets	56,563	56,563	-	-
Real estate funds	36,446	36,446	-	-
	$ 929,466	929,466	-	-

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 funds	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. Rent expense for 2019 and 2018 totaled $166,960 and $161,783, respectively. As of December 31, 2018, the Organization has a liability totaling $18,168 related to the escalating lease payments. The lease expired on December 31, 2019. On August 30, 2019, the Organization extended the office space operating lease from January 2020 through 2026.

Future minimum lease payments as of December 31, 2019 are as follows:

2020	$ 199,500
2021	205,240
2022	211,260
2023	217,280
2024	223,720
Thereafter	467,040
	$ 1,524,040

The Organization has the option to terminate the lease after five years. If exercised, the Organization will be subject to termination fee of $45,000.

During 2019 and 2018, a board member subleased certain office space and reimbursed the Organization for this and certain other office expenses totaling $8,139 and $8,303, respectively.

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 2019 and 2018, employer contributions totaled $219,815 and 183,115, respectively.

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:

	2019	2018
Financial assets:		
Cash and cash equivalents	$ 1,282,543	1,104,438
Investments	929,466	957,067
Accounts receivable	29,781	38,263
Contributions receivable, current	1,138,280	1,464,677
Financial assets available at year-end	3,380,070	3,564,445
Less those unavailable for general expenditures within one year due to:		
Contributions receivable with purpose restrictions	323,540	332,500
Restricted investments unavailable for operations	29,375	29,375
Cash with donor restrictions	243,346	523,604
	596,261	885,479
Financial assets available to meet cash needs for general expenditures within one year	$ 2,783,809	2,678,966

10. BEACON OF HOPE BUSINESS ALLIANCE INC. ACQUISITION:

Effective August 1, 2019, Cincinnati Works, Inc. acquired Beacon of Hope Business Alliance Inc. ("Beacon of Hope") to improve its member experience. As a result, Beacon of Hope's assets, liabilities and net assets have been added to the Organization's statement of financial position. Below is a listing of assets and liabilities of Beacon of Hope that were received as part of the acquisition as of August 1, 2019, with no consideration paid and recorded at estimated fair value:

Cash	$ 65,534
Accounts receivable	8,500
Furniture and equipment, net	49,914
Accounts payable	(20,161)
Net assets without donor restrictions	$ 103,787

11. UPCOMING PRONOUNCEMENTS:

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, 2021.

Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements, which is expected to have a significant impact on the financial statements and disclosures.