

PARTNERSHIPS WITH INDUSTRY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2005 and 2004

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Partnerships With Industry
San Diego, California

We have audited the accompanying statements of financial position of Partnerships With Industry (a California non-profit Public Benefit Corporation) as of June 30, 2005 and 2004, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Partnerships With Industry as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The analysis of expenses on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Grice, Lund & Tarkington LLP

Carlsbad, California
August 26, 2005

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PARTNERSHIPS WITH INDUSTRY
STATEMENTS OF FINANCIAL POSITION
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,460,566	\$ 1,178,603
Accounts receivable, net of allowance for doubtful accounts of \$9,985 (2005) and \$50,000 (2004)	645,122	761,255
Prepaid expenses	<u>54,399</u>	<u>76,216</u>
TOTAL CURRENT ASSETS	2,160,087	2,016,074
PROPERTY AND EQUIPMENT, net	45,635	56,526
DEPOSITS	<u>35,268</u>	<u>38,027</u>
TOTAL ASSETS \$	<u><u>2,240,990</u></u>	<u><u>2,110,627</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 29,617	\$ 20,362
Accrued expenses	<u>186,237</u>	<u>193,987</u>
TOTAL CURRENT LIABILITIES	215,854	214,349
NET ASSETS		
Unrestricted	2,020,825	1,886,772
Temporarily restricted	<u>4,311</u>	<u>9,506</u>
TOTAL NET ASSETS	<u>2,025,136</u>	<u>1,896,278</u>
TOTAL LIABILITIES AND NET ASSETS \$	<u><u>2,240,990</u></u>	<u><u>2,110,627</u></u>

See notes to financial statements.

PARTNERSHIPS WITH INDUSTRY**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Rehabilitation Department	\$ 3,558,130	\$ -	\$ 3,558,130
Employer contracts	1,089,569	-	1,089,569
Donations and other support	42,174	1,200	43,374
Other income	17,144	-	17,144
Net assets released from restrictions, satisfaction of program restrictions	<u>6,395</u>	<u>(6,395)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	4,713,412	(5,195)	4,708,217
EXPENSES			
Program services - instruction, training and placement	4,059,133	-	4,059,133
Administrative and general	514,986	-	514,986
Fundraising	<u>5,240</u>	<u>-</u>	<u>5,240</u>
TOTAL EXPENSES	<u>4,579,359</u>	<u>-</u>	<u>4,579,359</u>
INCREASE (DECREASE) IN NET ASSETS	134,053	(5,195)	128,858
NET ASSETS AT BEGINNING OF YEAR	<u>1,886,772</u>	<u>9,506</u>	<u>1,896,278</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,020,825</u>	<u>\$ 4,311</u>	<u>\$ 2,025,136</u>

See notes to financial statements.

PARTNERSHIPS WITH INDUSTRY**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Rehabilitation Department	\$ 3,681,153	\$ -	\$ 3,681,153
Employer contracts	1,056,941	-	1,056,941
Donations and other support	83,899	6,605	90,504
Other income	19,652	-	19,652
Net assets released from restrictions, satisfaction of program restrictions	<u>9,230</u>	<u>(9,230)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	4,850,875	(2,625)	4,848,250
EXPENSES			
Program services - instruction, training and placement	4,060,246	-	4,060,246
Administrative and general	508,926	-	508,926
Fundraising	<u>70,144</u>	<u>-</u>	<u>70,144</u>
TOTAL EXPENSES	<u>4,639,316</u>	<u>-</u>	<u>4,639,316</u>
INCREASE (DECREASE) IN NET ASSETS	211,559	(2,625)	208,934
NET ASSETS AT BEGINNING OF YEAR	<u>1,675,213</u>	<u>12,131</u>	<u>1,687,344</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,886,772</u>	<u>\$ 9,506</u>	<u>\$ 1,896,278</u>

See notes to financial statements.

PARTNERSHIPS WITH INDUSTRY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2005

	<u>Program Services</u>	<u>Administrative and General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll and related costs	\$ 2,993,250	\$ 334,526	\$ -	\$ 3,327,776
Office expenses	516,268	59,657	5,057	580,982
Insurance	282,602	26,937	-	309,539
Staff training and reimbursement	118,519	5,365	-	123,884
Professional services	6	79,045	-	79,051
Supplies	86,341	11,049	183	97,573
Vehicles, including depreciation of \$2,034	30,450	-	-	30,450
Depreciation	-	24,326	-	24,326
Other	31,697	(25,919)	-	5,778
	<u>\$ 4,059,133</u>	<u>\$ 514,986</u>	<u>\$ 5,240</u>	<u>\$ 4,579,359</u>

See notes to financial statements.

PARTNERSHIPS WITH INDUSTRY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2004

	Program Services	Administrative and General	Fundraising	Total
Payroll and related costs	\$ 3,082,764	\$ 291,303	\$ 503	\$ 3,374,570
Office expenses	507,806	56,730	4,761	569,297
Insurance	259,744	27,368	(70)	287,042
Staff training and reimbursement	93,015	2,607	652	96,274
Professional services	371	32,607	-	32,978
Supplies	70,100	11,151	64,298	145,549
Vehicles, including depreciation of \$10,324	43,112	-	-	43,112
Depreciation	-	48,907	-	48,907
Other	3,334	38,253	-	41,587
	<u>\$ 4,060,246</u>	<u>\$ 508,926</u>	<u>\$ 70,144</u>	<u>\$ 4,639,316</u>

See notes to financial statements.

PARTNERSHIPS WITH INDUSTRY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 128,858	\$ 208,934
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	26,360	59,231
Gain on disposal of equipment	-	(4,800)
Decrease in operating assets:		
Accounts receivable	116,133	46,801
Prepaid expenses	21,817	9,952
Increase (decrease) in operating liabilities:		
Accounts payable	9,255	6,716
Accrued expenses	<u>(7,750)</u>	<u>(53,201)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	294,673	273,633
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(15,469)	(1,433)
Proceeds from the sale of equipment	-	17,000
Decrease in deposits	<u>2,759</u>	<u>756</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(12,710)</u>	<u>16,323</u>
NET INCREASE IN CASH	281,963	289,956
CASH AT BEGINNING OF YEAR	<u>1,178,603</u>	<u>888,647</u>
CASH AT END OF YEAR	<u>\$ 1,460,566</u>	<u>\$ 1,178,603</u>

See notes to financial statements.

PARTNERSHIPS WITH INDUSTRY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Partnerships With Industry (Organization) is a California nonprofit Public Benefit Corporation providing instruction, training, and placement to persons with disabilities to develop their self-care, independence and vocational capabilities in San Diego, Riverside and San Bernardino Counties.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

There were no permanently restricted net assets during the years ended June 30, 2005 and 2004.

Accounts Receivable

The accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts.

Property and Equipment

Acquisitions of property and equipment of \$1,000 or more are capitalized. Property and equipment are recorded at cost or, if donated, at approximate value at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of five to six years. Amortization of leasehold improvements is included in depreciation expense.

PARTNERSHIPS WITH INDUSTRY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2005 and 2004

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization, however, may be subject to tax on income which is not related to its exempt purpose. For the years ended June 30, 2005 and 2004, the Organization is reporting no such unrelated business taxable income and, therefore, no provision for income taxes has been made. The Organization is not a private foundation.

NOTE 2. CONCENTRATION OF CREDIT RISK

At various times the Organization maintains cash balances in bank accounts in excess of the Federal Deposit Insurance Corporation insurable limits. The Organization manages the risk by using only high quality financial institutions.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2005</u>	<u>2004</u>
Equipment	\$ 338,020	\$ 324,847
Leasehold improvements	137,689	135,393
Furniture and fixtures	<u>28,726</u>	<u>28,726</u>
	504,435	488,966
Less accumulated depreciation	<u>(458,800)</u>	<u>(432,440)</u>
	<u>\$ 45,635</u>	<u>\$ 56,526</u>

NOTE 4. OPERATING LEASE COMMITMENTS

The Organization has various operating lease agreements for their office locations and copiers with aggregate monthly rent of \$35,866. The equipment leases expire at various dates through April 2008. The office leases expire at various dates through February 2010. At June 30, 2005, the aggregate minimum rental commitments under non-cancelable operating leases are as follows:

PARTNERSHIPS WITH INDUSTRY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 4. OPERATING LEASE COMMITMENTS (Continued)

Year Ending June 30,		
2006	\$	353,394
2007		267,166
2008		175,812
2009		129,518
2010		41,856
Thereafter		-
	\$	<u>967,746</u>

Total rent expense for the years ended June 30, 2005 and 2004 was \$441,108 and \$433,230, respectively.

NOTE 5. LINE OF CREDIT

The Organization has a line of credit with a bank in the amount of \$100,000. Interest only is payable monthly at 1.25% above the bank's prime rate, with unpaid principal due July 2006. The note is collateralized by all business assets. The Organization had no amounts outstanding at June 30, 2005 and 2004.

NOTE 6. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2005	2004
County Quality Enhancement Project	\$ 211	\$ 5,706
Translation project	2,000	2,000
Spanish language materials	900	900
Community Service Association: CS Work Tables/Chairs	-	900
EC general	300	-
Software and books	900	-
	<u>\$ 4,311</u>	<u>\$ 9,506</u>

NOTE 7. THIRD PARTY REIMBURSEMENTS

The Organization depends significantly on revenue received from the Department of Developmental Services (DDS). Under the terms of this arrangement, the Organization is classified as a vendor and submits monthly invoices for reimbursement, based on the participants' enrollment and activities according to DDS's funding policies. Accounts receivable at June 30, 2005 and 2004 includes \$491,662 and \$624,068, respectively, due from DDS.

NOTE 8. RETIREMENT PLAN

The Organization has a 403(b) employer contributory tax deferred annuity plan covering all employees who have met certain service agreements, other than employers who are covered under a collective bargaining agreement. The Organization matches employee elective deferrals up to 4% of the employee's salary. The Organization contributed \$24,122 and \$11,118 to the plan during the years ended June 30, 2005 and 2004, respectively.

PARTNERSHIPS WITH INDUSTRY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 9. 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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 10. OTHER

The Organization may periodically be a party in legal cases incidental to its activities. While any litigation or investigation has an element of uncertainty, management believes that the outcome of any of these matters will not have a materially adverse effect on its financial position, changes in assets, or liquidity.

SUPPLEMENTARY INFORMATION

PARTNERSHIPS WITH INDUSTRY**ANALYSIS OF EXPENSES**

Years Ended June 30, 2005 and 2004

	2005	2004
PAYROLL AND RELATED COSTS		
Staff wages	\$ 2,289,950	\$ 2,328,095
Consumer wages	736,570	736,707
Payroll taxes and benefits	301,256	309,768
	<u>3,327,776</u>	<u>3,374,570</u>
OFFICE EXPENSES		
Rent and utilities	478,858	469,505
Program and office supplies	5,311	12,979
Telephone	26,775	25,767
Equipment rental	23,378	23,399
Repairs and maintenance	46,660	37,647
	<u>580,982</u>	<u>569,297</u>
INSURANCE		
Workers' compensation	288,076	265,587
General liability and other	21,463	21,455
	<u>309,539</u>	<u>287,042</u>
STAFF TRAINING AND REIMBURSEMENT		
Auto mileage	57,885	51,611
Staff recruitment	34,799	27,212
Staff meals and entertainment	24,629	12,834
Staff training and other	6,571	4,617
	<u>123,884</u>	<u>96,274</u>
PROFESSIONAL SERVICES		
Payroll	18,713	22,273
Accounting	8,892	7,677
Legal	32,978	2,170
Other consulting	18,468	858
	<u>79,051</u>	<u>32,978</u>
SUPPLIES		
Dues and subscriptions	3,048	1,492
Supplies	86,573	64,384
Printing and postage	7,952	15,723
Public relations	-	63,950
	<u>97,573</u>	<u>145,549</u>
VEHICLES		
Vehicle mileage and gas	13,993	12,067
Vehicle insurance	3,479	4,103
Vehicle depreciation	2,034	10,324
Vehicle licenses and fees	959	998
Vehicle repairs and maintenance	9,985	15,620
	<u>30,450</u>	<u>43,112</u>
DEPRECIATION		
Equipment, furniture and fixtures	14,040	30,244
Leasehold improvements	10,286	18,663
	<u>24,326</u>	<u>48,907</u>
OTHER		
Bad debts	(6,012)	33,278
Miscellaneous	11,790	8,309
	<u>5,778</u>	<u>41,587</u>
TOTAL EXPENSES	<u>\$ 4,579,359</u>	<u>\$ 4,639,316</u>

See independent auditors' report.