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**SE WORKS, INC.**

**FINANCIAL STATEMENTS**

**Year Ended June 30, 2004**

**with**

**Independent Auditors' Report**

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**SE WORKS, INC.**

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## Independent Auditors' Report

The Board of Directors  
SE Works, Inc.

We have audited the statement of financial position of SE Works, Inc. as of June 30, 2004 and the related statements of activities, functional expenses, and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from SE Works, Inc.'s 2003 financial statements and, in our report dated September 3, 2003, we expressed an unqualified opinion on those financial statements.

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 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 audit provides 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 SE Works, Inc. as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 2, 2004 on our consideration of SE Works, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Hoffman, Stewart & Schmidt, P.C.*

September 2, 2004

**SE WORKS, INC.**

**Statement of Financial Position**

<b>June 30, 2004</b> <i>(With Comparative Amounts for 2003)</i>	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
Cash	\$ 7,297	\$ -
Investments <i>(Note 3)</i>	4,285	4,031
Accounts receivable <i>(Notes 4 and 13)</i>	183,806	145,268
Prepaid expenses	8,105	3,878
Property and equipment - net <i>(Note 5)</i>	<u>175,195</u>	<u>220,484</u>
<b>Total assets</b>	<b><u>\$ 378,688</u></b>	<b><u>\$ 373,661</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Cash overdraft	\$ -	\$ 8,105
Accounts payable	70,883	27,685
Accrued vacation	26,380	23,562
Notes payable <i>(Note 6)</i>	<u>49,800</u>	<u>66,112</u>
<b>Total liabilities</b>	<b>147,063</b>	<b>125,464</b>
Commitments and contingencies <i>(Notes 10 and 11)</i>		
<b>Net assets:</b>		
Unrestricted:		
Investment in property and equipment	125,395	146,872
Undesignated	<u>44,671</u>	<u>93,825</u>
Total unrestricted	170,066	240,697
Temporarily restricted <i>(Note 7)</i>	<u>61,559</u>	<u>7,500</u>
<b>Total net assets</b>	<b><u>231,625</u></b>	<b><u>248,197</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 378,688</u></b>	<b><u>\$ 373,661</u></b>

*The accompanying notes are an integral part of the financial statements.*

**SE WORKS, INC.**  
**Statement of Activities**

**Year Ended June 30, 2004** (With Comparative Totals for 2003)

	Unrestricted	Temporarily Restricted	Total	
			2004	2003
<b>Support and revenue:</b>				
Government grants and contracts (Notes 8 and 13)	\$ 1,057,903	\$ -	\$ 1,057,903	\$ 1,040,710
Grants	-	70,000	70,000	34,500
Donations	5,625	-	5,625	6,542
Program fees	49,732	-	49,732	17,740
Resource sharing income	24,643	-	24,643	11,688
Interest	7	-	7	70
Special events	12,367	-	12,367	11,459
Unrealized gain on investments	254	-	254	156
Other revenue	3,350	-	3,350	501
Net assets released from restrictions (Note 7)	15,941	(15,941)	-	-
<b>Total support and revenue</b>	<b>1,169,822</b>	<b>54,059</b>	<b>1,223,881</b>	<b>1,123,366</b>
<b>Expenses:</b>				
Program services:				
Neighborhood Jobs Center	131,539	-	131,539	243,321
Advocacy/Training	610,202	-	610,202	307,745
Youth Services	319,013	-	319,013	340,113
Employer Services	117,370	-	117,370	132,725
Total program services	1,178,124	-	1,178,124	1,023,904
Support services:				
Management and general	56,583	-	56,583	40,949
Fund raising	5,746	-	5,746	4,298
Total support services	62,329	-	62,329	45,247
<b>Total expenses</b>	<b>1,240,453</b>	<b>-</b>	<b>1,240,453</b>	<b>1,069,151</b>
<b>Increase (decrease) in net assets</b>	<b>(70,631)</b>	<b>54,059</b>	<b>(16,572)</b>	<b>54,215</b>
Net assets at beginning of year	240,697	7,500	248,197	193,982
<b>Net assets at end of year</b>	<b>\$ 170,066</b>	<b>\$ 61,559</b>	<b>\$ 231,625</b>	<b>\$ 248,197</b>

The accompanying notes are an integral part of the financial statements.

**SE WORKS, INC.**

**Statement of Functional Expenses**

**Year Ended June 30, 2004** (With Comparative Totals for 2003)

	<b>Program Services</b>			
	<b>Neighborhood Jobs Center</b>	<b>Advocacy/ Training</b>	<b>Youth Services</b>	<b>Employer Services</b>
Salaries	\$ 81,791	\$ 252,133	\$ 166,905	\$ 66,833
Payroll taxes and employee benefits	13,524	51,357	33,227	11,692
Professional services	-	1,700	7,819	1,411
Occupancy	-	-	-	-
Telephone	-	-	-	290
Education and training	-	88	1,114	-
Direct training/supplies/tools	-	15,933	7,106	-
Office supplies	3,024	461	1,683	1,321
Postage and printing	-	-	676	-
Utilities	-	-	-	-
Mileage, parking, travel	-	1,756	3,577	958
Insurance	-	-	-	-
Advertising	-	-	-	-
Subscriptions, fees and dues	483	-	55	244
Interest	-	-	-	-
Equipment rental and maintenance	1,094	-	-	2,616
Subcontractors	-	81,071	-	-
Support services	1,349	73,940	18,876	-
Board and meeting expenses	-	30	627	430
Miscellaneous	-	-	11	-
Total expenses before depreciation and amortization and joint cost allocation	101,265	478,469	241,676	85,795
Depreciation and amortization	6,007	28,902	14,313	7,747
Joint cost allocation	24,267	102,831	63,024	23,828
	<b><u>\$ 131,539</u></b>	<b><u>\$ 610,202</u></b>	<b><u>\$ 319,013</u></b>	<b><u>\$ 117,370</u></b>

*The accompanying notes are an integral part of the financial statements.*

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<b>Support Services</b>					
<b>Management and General</b>	<b>Fund Raising</b>	<b>Joint Costs</b>	<b>Total</b>		
			<b>2004</b>	<b>2003</b>	
\$ 54,539	\$ -	\$ -	\$ 622,201	\$ 589,250	
9,548	-	-	119,348	109,897	
21,046	3,590	6,772	42,338	72,261	
906	500	48,158	49,564	56,693	
1,071	-	22,757	24,118	25,643	
1,374	-	-	2,576	5,130	
-	-	-	23,039	31,095	
14,227	1,121	19,261	41,098	23,647	
1,654	-	22,638	24,968	15,734	
-	-	11,627	11,627	10,809	
2,375	73	-	8,739	4,863	
-	-	10,101	10,101	7,185	
639	-	610	1,249	1,069	
1,814	462	272	3,330	2,293	
2,415	-	-	2,415	1,879	
3,691	-	4,506	11,907	6,783	
-	-	-	81,071	-	
-	-	-	94,165	44,442	
1,911	-	-	2,998	5,180	
759	-	-	770	286	
117,969	5,746	146,702	1,177,622	1,014,139	
5,862	-	-	62,831	55,012	
(67,248)	-	(146,702)	-	-	
<b>\$ 56,583</b>	<b>\$ 5,746</b>	<b>\$ -</b>	<b>\$ 1,240,453</b>	<b>\$ 1,069,151</b>	

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**SE WORKS, INC.**

**Statement of Cash Flows**

<b>Year Ended June 30, 2004</b> <i>(With Comparative Totals for 2003)</i>	<b>2004</b>	<b>2003</b>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ (16,572)	\$ 54,215
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	62,831	55,012
Unrealized gain on investments	(254)	(156)
Loss on disposition of assets	-	381
Changes in:		
Accounts receivable	(38,538)	15,444
Prepaid expenses	(4,227)	(3,878)
Accounts payable	43,198	9,471
Accrued vacation	2,818	(3,518)
Deferred revenue	-	(10,000)
<b>Net cash provided by operating activities</b>	<b>49,256</b>	<b>116,971</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(17,542)	(212,745)
<b>Net cash used by investing activities</b>	<b>(17,542)</b>	<b>(212,745)</b>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in cash overdraft	(8,105)	8,105
Proceeds from notes payable	-	45,000
Payments on notes payable	(16,312)	(13,740)
<b>Net cash provided (used) by financing activities</b>	<b>(24,417)</b>	<b>39,365</b>
<b>Net increase (decrease) in cash</b>	<b>7,297</b>	<b>(56,409)</b>
Cash at beginning of year	-	56,409
<b>Cash at end of year</b>	<b>\$ 7,297</b>	<b>\$ -</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	\$ 2,415	\$ 1,879

*The accompanying notes are an integral part of the financial statements.*

## SE WORKS, INC.

### Notes to Financial Statements

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#### 1. Organization

SE Works, Inc. (the organization), which began independent operations on July 1, 1998, was incorporated under the laws of the State of Oregon as a nonprofit corporation. The mission of the organization is to increase the economic health and well-being of Southeast Portland neighborhoods by enhancing business and community access to employment resources.

To achieve the organizational mission, SE Works, Inc. offers the following programs to the general public:

- Neighborhood Jobs Center: drop-in employment resource center for résumé development, job search assistance, social services referrals and basic technology skills enhancement.
- Advocacy/Training: support services, case management, and employment related training. Eligibility requirements frequently apply for specific programs.
- Youth Services: employment placement assistance, support services and GED completion classes.
- Employer Services: employee recruitment and screening for regional and local employers and industry-specific employment training.

In addition to providing programs, the organization provides office space and resources to employment and social service providers.

#### 2. Summary of Significant Accounting Policies

The significant accounting policies followed by the organization are described below to enhance the usefulness of the financial statements to the reader.

**Basis of Presentation** - Net assets and 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.

SE WORKS, INC.

Notes to Financial Statements - Continued

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2. Summary of Significant Accounting Policies - Continued

**Basis of Presentation - Continued** - 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 purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

**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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Contribution Recognition** - Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

The organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 are reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the year of receipt are reported as unrestricted contributions.

The organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the organization reports expirations of donor restrictions over the estimated useful lives of the related long-lived assets.

**Property and Equipment** - The organization follows the practice of capitalizing major expenditures for buildings and equipment at cost or estimated fair market value at date of donation. Depreciation and amortization are calculated using the straight-line method over the following estimated useful lives:

Leasehold improvements	5 - 7 years
Furniture and equipment	2 - 5 years

## SE WORKS, INC.

### Notes to Financial Statements - Continued

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#### 2. Summary of Significant Accounting Policies - Continued

**Cash and Cash Equivalents** - The organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. Cash balances are insured by the Federal Deposit Insurance Corporation up to \$100,000.

**Receivables** - Receivables are recognized as services are provided. The organization does not assess finance charges on past due amounts.

The organization uses the allowance method to account for uncollectible accounts receivable. The allowance for doubtful accounts is estimated by management based on various factors, including past history and current economic conditions. Such allowance was not considered necessary at June 30, 2004 and 2003.

**Investments** - Investments are stated at market value.

**Donated Services** - Donated services have not been reflected in the accompanying financial statements since the appropriate criteria for recording these services have not been met. Nevertheless, a number of volunteers have donated their time to the organization's program and supporting services.

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

**Advertising** - The organization charges all nondirect advertising costs to expense as incurred.

**Income Taxes** - The organization is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law.

**Summarized Financial Information for 2003** - The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2003, from which the summarized information was derived.

**Reclassifications** - Certain reclassifications have been made in the 2003 information to conform with the 2004 presentation.

## SE WORKS, INC.

### Notes to Financial Statements - Continued

#### 3. Investments

During the year ended June 30, 2002, the organization received common stock as a result of the demutualization of Principal Financial Group. At June 30, 2004 and 2003, the fair market value of the stock was \$4,285 and \$4,031, respectively.

#### 4. Accounts Receivable

Accounts receivable mostly represent outstanding billings to various agencies for expenses incurred or services performed prior to year end. The receivable from United Way represents an unconditional promise to give due within one year. Accounts receivable consist of the following at June 30:

	2004	2003
worksystems, inc.	\$ 72,455	\$ 85,937
United Way	50,000	-
City of Portland	32,603	2,246
Multnomah County	7,015	11,659
Oregon Health Sciences University	-	19,054
Other	<u>21,733</u>	<u>26,372</u>
	<u>\$ 183,806</u>	<u>\$ 145,268</u>

#### 5. Property and Equipment

	2004	2003
Leasehold improvements	\$ 293,284	\$ 289,651
Furniture and equipment	<u>147,921</u>	<u>134,012</u>
	441,205	423,663
Less accumulated depreciation and amortization	<u>(266,010)</u>	<u>(203,179)</u>
	<u>\$ 175,195</u>	<u>\$ 220,484</u>

**SE WORKS, INC.**

**Notes to Financial Statements - Continued**

<b>6. Notes Payable</b>	<b>2004</b>	<b>2003</b>
Notes payable consist of the following at June 30, 2004 and 2003:		
Note payable to the Portland Development Commission in monthly installments of \$483 including interest at 3 percent per annum. Secured by property. Due January, 2009.	\$ 25,561	\$ 30,052
Note payable to Sisters of Loretto in monthly installments of \$300 including interest at 2 percent per annum. Due May, 2005.	3,345	6,840
Note payable to Sisters of Charity, BVM in monthly installments of \$300 including interest at 2 percent per annum. Due May, 2005.	3,350	6,845
Note payable to Seton Enablement Fund, Inc. in monthly installments of \$180 including interest at 3 percent per annum. Due September, 2007.	6,669	8,594
Note payable to Sisters of St. Francis of Philadelphia in monthly installments of \$263 including interest at 2 percent per annum. Due January, 2008.	<u>10,875</u>	<u>13,781</u>
	<u>\$ 49,800</u>	<u>\$ 66,112</u>

Future principal maturities of long-term debt are as follows:

<b>Years Ending June 30</b>	<b>Amount</b>
2005	\$ 16,763
2006	10,344
2007	10,628
2008	7,938
2009	<u>4,126</u>
	<u>\$ 49,800</u>

**SE WORKS, INC.**

**Notes to Financial Statements - Continued**

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<b>7. Temporarily Restricted Net Assets</b>	<b>2004</b>	<b>2003</b>
Donated leasehold improvements <sup>A</sup>	\$ -	\$ 7,500
PGE Foundation	1,559	-
Staples Foundation for Learning	5,000	-
Juan Young Trust	5,000	-
United Way	<u>50,000</u>	<u>-</u>
	<u>\$ 61,559</u>	<u>\$ 7,500</u>

<sup>A</sup> Temporarily restricted net assets include the net book value of leasehold improvements that were funded with a restricted contribution from the Portland Development Commission. The release of this temporarily restricted net asset is recorded over the estimated useful life of the leasehold improvements. Net assets released from restrictions of \$15,941 represents current year amortization expense of \$7,500 on the donated leasehold improvements and \$8,441 used to support the Neighborhood Jobs Center.

**8. Government Grants and Contracts**

The majority of the organization's government grants and contracts are derived from worksystems, inc. A portion of these funds are passed through from Federal and state sources.

**9. Line of Credit**

The organization has an unsecured line of credit of \$60,000 with Wells Fargo Bank. At June 30, 2004, the interest rate on the line of credit was 7 percent (prime plus 2.75 percent). There was no balance outstanding at June 30, 2004 and 2003.

**10. Contingencies**

Amounts received or receivable from various contracting agencies are subject to audit and potential adjustment by the contracting agencies. Any disallowed claims, including amounts already collected, would become a liability of the organization if so determined in the future. It is management's belief that no material amounts received or receivable will be required to be returned in the future that have not already been provided for.

**SE WORKS, INC.**

**Notes to Financial Statements - Continued**

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**11. Commitments**

The organization leases property and equipment under various operating leases which expire through October, 2008. Future minimum payments due under these leases are as follows:

<b>Years Ending June 30</b>	<b>Amount</b>
2005	\$ 44,979
2006	46,158
2007	37,207
2008	36,840
2009	<u>9,210</u>
	<u>\$ 174,394</u>

Rent expense for the years ended June 30, 2004 and 2003 was \$46,571 and \$41,986, respectively.

**12. Retirement Plan**

The organization sponsors a SIMPLE IRA retirement plan, which replaced the 403(b) retirement plan previously sponsored by the organization. The SIMPLE IRA plan covers all eligible employees who elect to have retirement plan contributions withheld from their regular salary. Prior to July 1, 2002, the organization also made contributions of 2 percent of eligible salaries for all employees who earned at least \$5,000 during the year. The organization determined that it had not yet made required contributions to the Plan for the fiscal years ended June 30, 2003 and 2004. As such, a liability of \$24,594 has been included in accounts payable on the statement of financial position as of June 30, 2004 for contribution amounts due.

**13. Related Parties**

One of the organization's major sources of revenue is worksystems, inc. Heidi Soderberg, Executive Director, is a Board member of worksystems, inc. The organization earned \$773,449 from worksystems, inc. during the year ended June 30, 2004, which is included in the heading "government grants and contracts" on the statement of activities. The organization had billings under worksystems, inc.'s programs of \$72,455, which are included in accounts receivable on the statement of financial position at June 30, 2004.