Presentation of the Audit Results to the Finance Committee of Partner4Work

For the year ended June 30, 2018

March 25, 2019

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Summary of Audit Objectives and Results

Audit Objectives

Our audit objectives were as follows:

- Express an opinion on Partner4Work's consolidated financial statements
- Complete communications required under various professional standards
- Align our performance with finance committee and management expectations
- Provide proactive and timely communication of significant and/or required matters to the finance committee and management
- Perform timely fieldwork to meet both organizational and regulatory deadlines

Audit Results

We executed the audit in accordance with the above audit objectives presented to you on August 29, 2018:

- Pending approval from the finance committee, completion of our keep-current procedures, and receipt of the management representation letter, we are prepared to issue unmodified opinions on the consolidated financial statements and on the SEFA as of, and for the year ended, June 30, 2018.
- Required communications under Statement of Auditing Standards (SAS) AU-C 260 & 265
  - A summary of required communications is included on Page 4.
  - We will address internal control matters on Page 7.
- We have discussed observations with management over the course of our procedures. We believe that the nature and extent of such conversations are appropriate.
- Further, we affirm that we remain independent in accordance with the relevant standards.

Summary of Required Communications and Audit Considerations

- Qualitative aspects of accounting practices
  - Consistency of accounting policies
  - Significant estimates and disclosures
    - Note 2 - Pledges and Contributions Receivable
    - Note 3 - Net Assets and Accounting for Contributions
    - Note 7 - Federal Grants

- No Corrected and uncorrected misstatements

- There were no difficulties encountered or disagreements with management.

A full text of these comments can be found in Appendices B and C, which begins on Page 19.

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Outlook of the Sector

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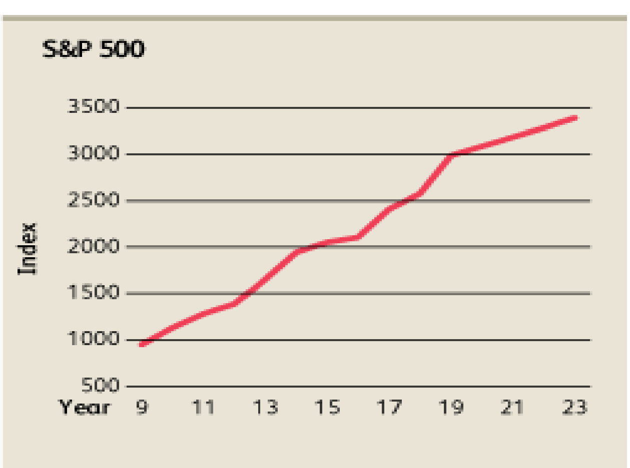
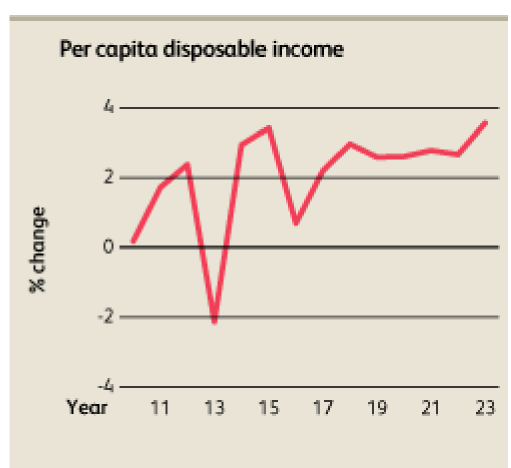
Slow improvement in contributions mitigated by investment returns

- Corporate profit is forecasted to grow at an annualized rate of 2.2% through 2023.
- Per capita disposable income is anticipated to rise at an annualized rate of 2.8% over the same period.
- S&P 500 index is projected to continue to perform well, growing at an annualized 5.6%, while the yield on the 10-year Treasury note is expected to rebound from historic lows.

Key success factors

- Ability to attract local support
- Ability to educate the wider community
- Effective quality control
- Having a good reputation
- Superior financial management and debt management





Outlook of the Sector
(Continued)

Modern civic engagement

- Traditional forms of civic engagement, including group and union membership, have decreased among millennials.
- According to the Bureau of Labor Statistics, individuals with college degrees are twice as likely to volunteer for and be involved with civic organizations. Therefore, the increase in college students has the potential to increase participation rates if industry organizations are successful in repositioning recruitment strategies to appeal to younger generations.

Benefits and challenges of technology

- Younger generations are simply finding new channels to engage. Millennials volunteer and engage in consumer activism and are spurring the use of social media for civic causes at higher rates than older generations.
- Organizations will increasingly leverage social media for recruiting and fundraising purposes.
- Organizations are expected to increasingly use social media to keep their community members engaged and grow their member and donor base.

Internal Control Related Matters

- The design or operation of a control does not allow management, or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
- A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- A deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose of designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting (internal control). Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control. The audit was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, we did not identify any deficiencies in internal control over financial reporting or over compliance that we consider to be material weaknesses. However, material weaknesses might exist that have not been identified.

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Internal Control Related Matters

Comment	Level of Deficiency	Communicated in prior years?	Improve Operations/ Reporting	Reduce Risk of Fraud
Due to system limitations of Quickbooks, certain password requirements cannot be configured	Best Practice	X	-	-
Privileged accounts should only be assigned to individuals in the IT dept. responsible for administering IT systems	Best Practice	X	-	-
There is no formal business continuity or IT disaster recovery plan	Best Practice	X	-	-
The VPN requires only a username and password for remote access and does not require a second form of authentication	Best Practice	X	-	-
External penetration tests on the network are not performed	Best Practice	X	-	-

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Recent Accounting Updates

	NFP Bond Obligor	Other NFP
	Effective Date	
ASU 2014-09: Revenue from Contracts with Customers	Years beginning after December 15, 2017	Years beginning after December 15, 2018
ASU 2016-14: NFP Reporting Model	Years beginning after December 15, 2017	
ASU 2018-08: Contributions	Years beginning after June 15, 2018	Years beginning after December 15, 2018
ASU 2016-02: Leases	Years beginning after December 15, 2018	Years beginning after December 15, 2019

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Recent Accounting Updates (Continued)

Accounting Standards Update (ASU) 2014-09: Revenue from Contracts with Customers

- Impacts accounting for exchange transactions
- Requires increased disclosures surrounding the revenue recognition process
- Early adoption is permitted
- Retrospective or modified retrospective application is permitted.

ASU 2016-14: Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities

- Changes net asset classification to ‘with’ and ‘without’ donor restriction
- Requires functional and natural expense schedule
- Requires additional disclosures on liquidity and availability of resources
- Early adoption is permitted
- Should be applied on a retrospective basis (except for functional expenses and liquidity and availability of resources disclosures)
- NEXT STEP: Prepare pro forma financial statements, consider necessary changes to organization or board-approved policies and present to stakeholders for feedback. (See Appendix A for AICPA Examples.)

Recent Accounting Updates (Continued)

ASU 2018-08: Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

- Should assist organizations in:
  - Evaluating whether transactions should be accounted for as contributions or as exchange transactions
  - Determining whether a contribution is conditional
- For a contribution to be considered conditional, the agreement must have a right of return/release AND include a barrier
- Administrative tasks that do not relate to the purpose of the agreement are not considered a barrier
- Early adoption is permitted
- Should be applied on a modified prospective basis to agreements that were completed or entered into after the effective date
- Retrospective application is permitted

ASU 2016-02: Leases

- Requires both operating and finance leases to be recognized on the statement of financial position of the lessee
- Requires improved disclosures to help financial statement readers better understand the amount, timing and uncertainty of cash flows arising from leases
- Recommend assessing the impact of this change on bank or other financial-related covenants

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Cybersecurity Matters

"Boards struggle today with how to provide oversight for cybersecurity because they feel like they need to be experts. Board members just need to be enlightened enough to know what questions to ask."

- 58% of board members named cyber-related issues as the most challenging risks they are expected to oversee.
- Cybersecurity policies and defenses were the number-one corporate governance technology challenge cited in a global study.

How can Schneider Downs help?

- *Cybersecurity Maturity Analysis and Gap Assessment* – These assessments assist our clients in evaluating "where they are" versus "where they want to be" from a cyber-risk perspective.
- *Penetration Testing* – Our penetration tests simulate the actions of a malicious hacker and will attempt to exploit vulnerabilities and misconfigurations in critical systems to gain access to your most sensitive data.
- *Phishing Exercises* – These exercises simulate real-world phishing attacks, specific to your organization, industry and the services you provide.

EXPERIENCE

The security team at Schneider Downs really changed my thinking of what a penetration test was.

"Our engagement team was very professional, **easily accessible** and willing to adjust the testing approach as new risks were uncovered. You guys know client service."

RISK FOCUSED

Schneider Downs **uncovered risks** in our environment that previous penetration testers missed each of the last three years. We certainly had a false sense of security.

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Appendices

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AICPA Not-for-Profit Reporting Model Examples

The FASB issued ASU No. 2016-14 —Not-for-Profit Entities (Topic 958):
Presentation of Financial Statements of Not-for-Profit Entities, which is the most substantial change to financial reporting for all not-for-profit entities in more than 30 years.

The overall objective of this standard is to improve the usefulness of information provided to users and reduce complexities for preparers. This standard does not change any of the existing accounting, except in limited cases, but rather is designed to refresh the presentation of the financial statements with a focus on additional transparency about restrictions and liquidity.

Some of the key provisions of this standard include:

- Changing the presentation of net assets to net assets with donor restrictions and net assets without donor restrictions. This will also result in enhanced disclosure of the composition of net assets and how donor restrictions can affect the usage of those assets.
- The amount and purpose of board-designated restrictions and other self-imposed limitations at each reporting period.
- The following illustrative example from the AICPA shows how net assets may be presented:

Net Assets [The level of detail presented here is not required, however if the information presented on the face is not sufficiently detailed, it must be included in the notes]

Without donor restrictions		
Undesignated	$ 3,057,607	$ 1,370,401
Designated by the Board for operating reserve	300,000	250,000
Designated by the Board for endowment	15,511,186	14,912,222
Invested in property and equipment net of related debt	21,150,885	20,193,878
	40,019,678	36,726,501
With donor restrictions		
Perpetual in nature	22,864,750	22,450,146
Purpose restrictions	14,228,316	10,351,233
Time-restricted for future periods	1,391,825	1,279,636
Underwater endowments	-	(42,677)
	38,484,891	34,038,338
Total net assets	78,504,569	70,764,839
Total liabilities and net assets	$ 94,314,447	$ 86,137,541

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AICPA Not-for-Profit Reporting Model Examples (Continued)

Some of the key provisions of this standard include (Continued):

- Enhanced disclosure of underwater endowment funds, including disclosure of the entity's policy for spending these funds, the aggregate fair value of any funds under water; the original amount of the gift or corpus that is required to be maintained in perpetuity; and the amount of net assets under water that are classified as part of net assets with donor restrictions.
- The following illustrative example from the AICPA shows how under water endowments may be disclosed:

> From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 201X, funds with original gift values of $19,882,738, fair values of $19,841,061, and deficiencies of $42,677 were reported in net assets with donor restrictions. These amounts were fully recovered during 201X due to favorable market fluctuations.

- The presentation of the organization's expenses by functional and natural classification, either as a component of the statement of activities, a separate statement or within the accompanying notes to the financial statements. Comparative disclosure of this information is not required in period of adoption.
- The following illustrative example from the AICPA shows how expenses may be presented:

[All NFPs are required to report information about expenses in one location, either on the face of the statement of activities, as a schedule in the notes to the financial statements, or as a separate financial statement. Presenting this information as supplementary information does not meet the requirement.]

Save Our Charities
Consolidated Statement of Functional Expenses
Year Ended December 31, 201X

	Program Services			Management and General	Fundraising and Development	Cost of Goods Sold	Total
	Advisory	Training	Total				
Grants and other assistance	$ 294,261	$ -	$ 294,261	$ -	$ -	$ -	$ 294,261
Salaries and wages	6,769,754	1,061,585	7,831,339	370,234	254,176	-	8,455,749
Employee benefits	1,398,503	310,865	1,709,368	99,963	26,222	-	1,835,553
Payroll taxes	541,580	84,927	626,507	29,619	19,823	-	675,949
Professional services	1,306,807	87,197	1,394,004	12,780	1,704	-	1,408,488
Accounting fees	-	-	-	40,073	-	-	40,073
Legal fees	-	7,939	7,393	-	-	-	7,939
Advertising and promotion	33,085	21,006	54,091	79,261	132,478	-	265,830
Office expenses	87,01	56,654	143,725	9,867	22,794	-	176,386
Information technology	37,858	606,535	644,393	12,399	14,653	-	671,445
Occupancy	446,601	29,799	474,400	14,918	55,427	-	546,745
Travel	170,957	18,283	189,240	149,292	-	-	338,532
Conferences, conventions and meetings	32,516	66,287	98,803	11,505	-	-	110,308
Interest	387,428	-	387,428	-	9,457	-	396,885
Insurance	198,174	12,556	210,730	5,443	1,022	-	217,195

- Changes to the presentation of the statement of cash flows, including permitting the direct method to be utilized for the presentation of net cash provided by operating activities without a reconciliation to indirect method.
- Updates to investment return reporting, which will permit recording the entity's investments return net of either internal or external investment management fees without disclosure.

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AICPA Not-for-Profit Reporting Model Examples (Continued)

Some of the key provisions of this standard include (Continued):

- This update will also require the use of the placed-in-service approach for any donor-restricted asset related to capital assets. Any amounts not yet released utilizing the existing practice of releasing over the expected useful life of the asset will need to be released at adoption and the prior period will be restated.
- The presentation of qualitative information on cash flow/liquidity management as of the statement of financial position date, which will better communicate the availability of an entity's financial assets at the statement of financial position date to meet cash needs for *general* expenditures within one year of the financial position date. Comparative disclosure of this information is not required in period of adoption.
- The following illustrative example from the AICPA shows how liquidity may be disclosed:

Note 2 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and equivalents	$ 4,851,231
Accounts receivable	312,216
Operating investments	723,006
Promises to give	965,846
Distributions from assets held under split-interest agreements	145,000
Distributions from beneficial interests in assets held by others	180,110
Endowment spending-rate distributions and appropriations	1,115,664
	$ 8,293,073

Our endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Our board-designated endowment of $15,511,186 is subject to an annual spending rate of 4.5 percent as described in Note 9. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments, CDs, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was $300,000 as of December 201X.

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AICPA Not-for-Profit Reporting Model Examples (Continued)

- **As your organization begins to prepare to implement this ASU 2016-14, we recommend that your organization perform the following steps:**
  - Review key significant agreements that may impact your organization's liquidity or flexibility to spend its resources
    - Bond/loan agreements
    - Affiliation agreements
    - Donor agreements
    - Contracts with state or federal agencies
  - Review expense allocation methodologies
    - Review current policies and methodologies (compare to mission)
    - Examine the impact of any new programmatic or mission changes
  - Identify any changes needed to existing systems or processes to capture the additional information now required
    - Capabilities of general ledger versus Excel schedules
  - Share the story
    - Evaluate possible presentation options and disclosures for preferred method
  - Prepare pro forma financial statements and footnotes under the new guidance and share them with key stakeholders
    - Board members
    - Key funders/donors
    - Auditors/accountants

Required Communications

Subject	Comments
Qualitative Aspects of Accounting Practices	Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 2 to the consolidated financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.
Accounting Estimates	Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: • Valuation of receivables • Allocation of functional expenses We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the consolidated financial statements taken as a whole.

Required Communications (Continued)

Subject	Comments
Significant Disclosures	Certain consolidated financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the consolidated financial statements were: • Note 3 – Restrictions on Net Assets The consolidated financial statements disclosures are neutral, consistent and clear.
Difficulties Encountered in Performing the Audit	We encountered no significant difficulties in dealing with management in performing and completing our audit.
Corrected and Uncorrected Misstatements	Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, then communicate them to the appropriate level of management. No such misstatements were identified.
Disagreements with Management	For purposes of this communication, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

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Required Communications (Continued)

Subject	Comments
Management Representations	We will request certain representations from management that will be included in the management representation letter.
Management Consultation with Other Independent Accountants	In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's consolidated financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.
Other Audit Findings or Issues	We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.
Other Matters	With respect to the supplementary information accompanying the consolidated financial statements, we made certain inquiries of management, and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

Areas of Audit Emphasis

Key Risk Areas		Procedures
Internal Controls Over Financial Reporting	***Objectives*:** Existence Completeness Valuation	Obtain and document an understanding of internal control over financial reporting related to significant processes, including the following: Entity-Level, Financial Statement Close Process, General IT Controls, Cash Receipts, Cash Disbursements and Payroll.
Contractual Revenue Receivables	***Objectives:*** Existence Completeness Valuation	We challenged amounts recorded for collectability and reviewed management's methodology for recording the allowances for doubtful accounts. We reviewed underlying pledge documentation to ensure proper recording of the pledges and any associated restriction (if applicable).
Property, Plant and Equipment	***Objectives:*** Existence Completeness Valuation	We reviewed assets for consistency of application of the assignment of useful lives and performed analytical review procedures.
Accounts Payable and Accrued Liabilities	***Objectives:*** Completeness Valuation Obligations	We reviewed and substantiated all significant accrual balances and performed a search for unrecorded liabilities.
Net Assets and Accounting for Contributions	***Objectives:*** Valuation Existence	We obtained and tested the net asset activity for the year, validating that contributions and expenditures were appropriately recorded or released based on donor intent.
Revenue and Expenses	***Objectives:*** Completeness Valuation Obligations	We tested revenue recognition in accordance with policy and various contract requirements, and performed analytical review procedures to ensure that amounts are properly reflected in the consolidated financial statements. We performed testing procedures on significant expense items and performed analytical review procedures on general and administrative expenses. In addition, we performed testing procedures with respect to executive travel and expense reimbursements, including review of supporting documentation (i.e., receipts, documentation of business purpose, and appropriate review and approval).

Areas of Audit Emphasis (Continued)

Key Risk Areas		Procedures
Fraud Procedures in Accordance with SAS AU-C 240: Consideration of Fraud in a Financial Audit	***Objectives:*** Completeness Existence Obligations	AU-C 240 was issued to heighten auditors' awareness to the potential for fraud when planning and executing audits. In order to meet the audit requirements of AU-C 240, our procedures included a discussion among team members during the planning phase of the audit in order to identify areas related to the Organization's consolidated financial statements that might be susceptible to fraud. During the course of the audit, we made inquiries of members of management and others about the risks of fraud, and their knowledge of any specific fraud. In addition, we addressed key risk areas, such as segregation of duties, revenue recognition, payroll and cash disbursements. We also reviewed nonstandard journal entries recorded throughout the year for evidence of inappropriate financial reporting and noted no such matters in our sample tested.
Related-Party Transactions	***Objectives:*** Completeness Disclosure	We reviewed the journal entry detail for the year, as well as the accounts receivable and accounts payable detail (and corresponding cash receipts and cash disbursements logs) in connection with the related parties listing provided by management, to identify completeness. Based on our procedures, we reviewed the consolidated financial statement disclosures for completeness and appropriateness. Additionally, as part of our procedures, we annually obtain your conflict-of-interest policy and completed Board and Committee annual disclosure to ensure compliance with the Organization's policy.
Commitment and Contingencies	***Objectives:*** Obligations Completeness	In order to assess the reasonableness and completeness of contingent matters affecting the Organization, we inquired of management as to the outstanding matters of which they are aware, reviewed legal invoice activity for the year, and received a letter from counsel representing the Organization on specific matters. Commitments disclosed in the notes to the consolidated financial statements relate to outstanding commitments under leases.

Areas of Audit Emphasis (Continued)

Key Risk Areas		Procedures
Reporting and Disclosures	***Objectives:*** Completeness	We reviewed the consolidated financial statement disclosure checklist to ensure completeness and appropriateness of amounts and items disclosed in the consolidated financial statements, and the adequacy of disclosures pertaining to related-party transactions. We evaluated the disclosures as they relate to the Organization's financial instruments under Fair Value Measurement, including the methods used to establish fair value as defined in a hierarchy established by the Fair Value Measurement Topic (i.e., Level I, Level II or Level III). See Note 2 to the financial statements.
Uniform Guidance	***Objectives:*** Compliance	In connection with our audit of the Organization's compliance with the Uniform Guidance, we performed detailed testing procedures related to the Organization's major programs, including the WIA/WIOA Cluster. Specifically, we tested for compliance in the following areas: • Activities Allowed or Unallowed • Allowable Costs • Cash Management • Eligibility • Reporting • Subrecipient Monitoring We noted no reportable compliance matters or questioned costs during our testing with regard to compliance during 2018.