WORKFORCE OUTSOURCE SERVICES, INC. d/b/a WORKFORCE OPPORTUNITY SERVICES

FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

WORKFORCE OUTSOURCE SERVICES, INC. d/b/a WORKFORCE OPPORTUNITY SERVICES SEPTEMBER 30, 2012 AND 2011

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Donalee R. Berard, C.P.A. John T. Donahue, C.P.A.

INDEPENDENT AUDITOR'S REPORT

The Board of Directors of Workforce Outsource Services, Inc.

We have audited the accompanying Statement of Financial Position of Workforce Outsource Services, Inc. (a non-profit organization) as of September 30, 2012 and the related statements of Activities and Cash Flows for the year then ended. These financial statements are the responsibility of Workforce Outsource Services, Inc.'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 our 2011 audit dated December 29, 2011 and 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. 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 Workforce Outsource Services, Inc. as of September 30, 2012 and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Science Oris PC Suffern, New York January 14, 2013

www.berarddonahue.com

Workforce Outsource Services, Inc. Statement of Financial Position September 30, 2012 and 2011

	2012	2011
CURRENT ASSETS Cash and Cash Equivalents Accounts Receivable	\$ 2,900,447 946,925	\$ 1,521,474 832,421
OTHER CURRENT ASSETS Prepaid Expenses	407	35,591
Short Term Loan Advances Security Deposits	5,205 2,510	4,579 1,314
TOTAL CURRENT ASSETS	3,855,494	2,395,379
FURNITURE, FIXTURES & EQUIPMENT Furniture & Fixtures Machinery & Equipment Equipment In Kind Contribution Web Site Development Accumulated Depreciation NET PROPERTY, PLANT & EQUIPMENT	2,441 3,646 30,000 35,700 (57,656) 14,131	2,441 2,449 30,000 35,700 (45,179) 25,411
INTANGIBLE ASSETS Organization Expense Accumulated Amortization NET INTANGIBLE ASSETS TOTAL ASSETS	8,149 (2,902) 5,247 \$ 3,874,872	8,149 (2,359) 5,790 \$ 2,426,580
CURRENT LIABILITIES Accounts Payable Payroll and Payroll Tax Liabilities TOTAL CURRENT LIABILITIES TOTAL LIABILITIES	\$ 122,387 203,486 325,873	\$ 174,160 203,570 377,730
	325,873	377,730
NET ASSETS Unrestricted Board Designated- Operating Reserve Board Designated- Expansion Unrestricted Temporarily Restricted Permanently Restricted	1,525,525 2,023,474 3,548,999 - - - 3,548,999	1,500,000 548,850 2,048,850 - - 2,048,850
TOTAL LIABILITIES AND NET ASSETS	\$ 3,874,872	\$ 2,426,580

Workforce Outsource Services, Inc. Statement of Activities Years Ended September 30, 2012 and 2011

	Unrestricted	oorarily tricted	nanently stricted	2012 Total	2011 Total
REVENUES AND OTHER SUPPORT					
Charitable Contributions-Corporations	\$ 2,518,079	\$ -	\$ -	\$ 2,518,079	\$ 1,929,979
Charitable Contributions-Other	29,986	-	_	29,986	4,862
Fundraising Revenue	116,862		-	116,862	86,500
Fundraising Expense	(73,911)		-	(73,911)	(34,504)
Inkind Office Space	143,284		_	143,284	150,960
Services Rendered	5,817,619	-	-	5,817,619	3,863,903
Interest Income	4,489	 	-	4,489	2,662
TOTAL REVENUES & OTHER SUPPORT	\$ 8,556,408	 -	 _	\$ 8,556,408	\$ 6,004,362
EXPENSES					
Program Expenses	6,637,422	-	-	6,637,422	4,832,621
Fundraising Expenses	26,177	-	-	26,177	25,000
Management & General	392,660	 -	 _	392,660	407,706
TOTAL EXPENSES	7,056,259	 	 	7,056,259	5,265,327
Changes in Net Assets	1,500,149	-	-	1,500,149	739,035
Net Assets, Beginning	2,048,850	 		2,048,850	1,309,815
NET ASSETS, ENDING	\$ 3,548,999	\$ 	\$ 	\$ 3,548,999	\$ 2,048,850

Workforce Outsource Services, Inc. Statement of Cash Flows Years Ended September 30, 2012 and 2011

	2012		2011	
CASH FLOWS FROM OPERATING ACTIVITIES Change in Net Assets	\$	1,500,149	\$	739,035
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation & Amortization Change in Receivables Change in Prepaid Expenses Change in Short-Term Loans Change in Accounts Payable and Payroll Liabilities Net Cash Provided/(Used) by Operating Activities		13,020 (114,502) 35,184 (626) (51,857) 1,381,368		12,058 (313,507) (35,591) (4,629) 174,311 571,677
CASH FLOWS FROM FINANCING ACTIVITIES None				
CASH FLOWS FROM INVESTING ACTIVITIES		-		
Security Deposits Purchase of Equipment and Organization Cost Net Cash Provided/(Used) by Investing Activities		(1,196) (1,198) (2,394)		(1,314) (16,943) (18,257)
Net Increase in Cash and Cash Equivalents		1,378,974		553,420
Cash and Cash Equivalents- Beginning		1,521,474		968,054
Cash and Cash Equivalents- Ending	\$	2,900,447	\$	1,521,474
NON-CASH ITEMS: In-kind contributions		143,284		150,960
Supplemental Information:				
Taxes Paid Interest Paid		NA NA		NA NA

Workforce Outsource Services, Inc. Statement of Functional Expenses Years Ended September 30, 2012 and 2011

	Program Expenses	Management and General	Fundraising Expenses	2012 Total Expenses	2011Total Expenses
		and Contolar	Exponedo		Exponses
Salaries	\$ 4,992,702	\$ 239,750	\$ 19,500	\$ 5,251,952	\$ 3,794,135
Payroll Taxes	481,798	35,987	1,950	519,735	343,973
Employee Benefits	302,666	26,521	1,227	330,414	219,458
Total Salaries & Related Expenses	\$ 5,777,166	\$ 302,258	\$ 22,677	\$ 6,102,101	\$ 4,357,566
Student Transportation	33,885	-	-	33,885	58,613
Student Education and Programs	486,260	-	-	486,260	473,724
Student Equipment and Supplies	21,127	-	-	21,127	17,842
Accounting and Legal	-	42,990	-	42,990	25,359
Depreciation & Amortization	12,587	433	-	13,020	12,058
Travel	72,135	5,015	3,000	80,150	67,290
Contributions	250	-	-	250	2,800
Insurance	8,299	2,000	-	10,299	9,451
Inkind Rent	143,284		-	143,284	150,960
Office Expenses	28,668	9,556	-	38,224	30,296
Research	14,651	-	-	14,651	5,748
Marketing & Public Relations	10,875	-	-	10,875	18,267
Payroll Service	-	16,415		16,415	14,137
Consulting Fees	-	10,800	-	10,800	-
Occupancy	16,902	1,878	-	18,780	14,072
Telephone & Computer	11,333	1,315	500	13,148	7,144
Total Expenses	\$ 6,637,422	\$ 392,660	\$ 26,177	\$ 7,056,259	\$ 5,265,327

WORKFORCE OUTSOURCES SERVICES, INC. d/b/a WORKFORCE OPPORTUNITY SERVICES NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2012 and 2011

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES

Workforce Outsource Services, Inc. is a non-profit agency, organized October 24, 2005 to provide educational training, professional development and employment to communities including low income and veteran. During 2012 the organization received 68% of its support from program revenue and 32% from contributions compared to 66% and 34%, respectively, for 2011.

BASIS OF PRESENTATION

Workforce Outsource Services, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

FUNCTIONAL EXPENSES

Expenses are charged to each program based on expenditures incurred. Any program expenditures not directly chargeable are allocated to a program based on units of service.

INCOME TAX STATUS

The Organization is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deductions under Section 170(b) (1) (A) and has been classified as an organization other than a private foundation under Section 509(a) (2).

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.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

WORKFORCE OUTSOURCES SERVICES, INC. d/b/a WORKFORCE OPPORTUNITY SERVICES NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2012 and 2011

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Cont'd)

UNCERTAINTY IN INCOME TAXES

Workforce Outsource Services, Inc. has adopted the provisions of FIN 48 (ASC 740) Under FIN 48; an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained upon examination by a taxing authority. The implementation of FIN 48 had no impact on Workforce Outsource Services, Inc. Workforce Outsource Services, Inc. does not believe they have taken any material uncertain tax positions and, accordingly they have not recorded any liability for unrecognized tax benefits. Workforce Outsource Services, Inc. has filed for and received income tax exemptions in the jurisdictions where required to do so.

The Organization's Federal Return of Organization Exempt from Income Tax Returns 2010, 2009 and 2008 are subject to examination by the IRS, generally three years after they are filed.

Additionally, it has filed Internal Revenue Service Form 990 informational returns, as required, and all other applicable returns in jurisdictions where so required. For the years ended September 30, 2012 and 2011 there was no interest or penalties recorded or included in the statement of activities.

SUBSEQUENT EVENTS

Management has evaluated subsequent events after the balance sheet date through January 14, 2013, the date of issuance of our financial statements.

DONATED SERVICES AND MATERIALS

The Organization signed an extension of lease agreement with Prudential on August 30, 2012. The terms of the lease specified that 6,033 square feet of Office Space will be donated to the organization. Donated space based on the fair market value amounted to \$143,284, as displayed on the Financial Statement.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

WORKFORCE OUTSOURCE SERVICES, INC. d/b/a WORKFORCE OPPORTUNITY SERVICES NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2012 and 2011

Note 2: CONCENTRATIONS OF RISKS

The Organization maintains cash balances in two banks, Citibank and J. P. Morgan Chase Bank. The balances at each financial institution are insured by the Federal Deposit Insurance Corporation limit of up to \$250,000 through December 31, 2013. At September 30, 2012 the balance in both cash accounts exceeded the insured balance by \$2,650,447 and \$1,271,474, respectively.

Note 3: DESCRIPTION OF PROGRAMS

Workforce Outsource Services, Inc. trains and employs inner-city, rural and 'underserved' populations. The Organization also provided services for returning enlisted post 9-11 military veterans. The Organization forms strategic relationships with corporations, institutes of higher education, social-ventures and government agencies for training and jobs. The Organization has started expanding to other inner-cities across the country. To date services the organization has expanded their operation from New York in a number of states such as Florida Pennsylvania, North Carolina, Ohio and New Jersey. Products and services include Software Engineering - Technical Specifications and Quality Assurance, Project Management, Benefits Coding, Database Design, Call Center Operations, Network Administration, and E-Commerce Systems.

Workers at the Organization can receive extensive training in all of the above areas through concentrations programs at Columbia University, Rutgers, Penn State, University of Akron, North Carolina Charlotte and the University of North Florida. Workforce Outsource Services, Inc. is engaged in research activities and reporting that measure the intellectual, social, and self-esteem of its students engaged in the program.

The research results are reported in aggregate and used solely towards the general awareness of how under-served populations respond to assistance and higher education. Research results are also published in academic peer-reviewed journals.

Note 4: FUND RAISING

For the year ended September 30, 2012 \$42,951 was netted to fundraising activities.

WORKFORCE OUTSOURCE SERVICES, INC. d/b/a WORKFORCE OPPORTUNITY SERVICES NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2012 and 2011

Note 5: PROPERTY, PLANT AND EQUIPMENT and ORGANIZATIONAL COSTS

Equipment is recorded at cost if purchased or the fair market value at date of contribution. Assets with a cost of \$1,000 or greater are capitalized. Depreciation of equipment is provided on a straight-line basis over the estimated useful lives of the assets. Equipment, furniture and fixtures and the web site are depreciated over three to seven years. At September 30, 2012 the cost or fare market value of such assets were as follows:

•	<u>9/3</u> 0/2012	<u>9/30/2011</u>
Equipment	\$ 2,449	\$ 2,449
Furniture and fixtures	2,441	2,441
Computers Donated	30,000	30,000
Web Site Development	35,700	35,700
Less: Accumulated depreciation	<u>(57,656)</u>	(45,179)
Net Assets	<u>\$ 14,131</u>	<u>\$ 25,411</u>

Depreciation expense was \$13,020 and \$12,058 for the fiscal years ended September 30, 2012 and 2011, respectively.

Organizational costs of \$8,149 are being amortized on a straight-line basis over 15 years. Amortization expense for the years ended September 30, 2012 and 2011 was \$543. Accumulated amortization at September 30, 2012 was \$2,902 and \$2,359 for the year ended September 30, 2011.

Note 6: OPERATING RESERVE

The Organization has determined that it needs cash for operating reserves to cover at least three month's payroll which is paid in advance of billings. In addition, it needs reserves for other operating expenses paid prior to receipt of revenues. The organization has set a goal of three months expenses in reserve.

Note 7: LINE OF CREDIT

The Organization has a \$1,500,000 line of credit with JP Morgan Chase which is collateralized with the assets for the organization. The balance at September 30, 2012 is -0-. Interest is payable at the LIBOR rate plus 2.858 percent.

Note 8: CONCENTRATION

A significant portion of the organization revenue is received from one donor. Contributions received from this donor totaled approximately 53% of the organization's total contributions and 35% of the organization's total revenue for 2012 fiscal year.

A significant decrease in funding from this donor could have a material effect on the organization's financial statements and could negatively impact the organization's ability to carry out its programs.