

OAI, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

**For the Year Ended
June 30, 2006**

OAI, INC.

Annual Financial Report

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Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Board of Directors
OAI, Inc.
Chicago, IL

We have audited the accompanying statement of financial position of OAI, Inc. (a non-profit organization) as of June 30, 2006, 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 the Organization's 2005 financial statements, and, in our report dated December 16, 2005, 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 OAI, Inc. as of June 30, 2006, 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, as listed in the accompanying table of contents, is presented for the purpose 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 presented in all material respects in relation to the basic financial statements taken as a whole.

Desmond & Ahern, Ltd.

September 21, 2006
Chicago, IL

OAI, INC.
STATEMENT OF FINANCIAL POSITION
As of June 30, 2006 (with comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 184,656	\$ 453,389
Certificates of deposit	198,575	190,769
Government contributions receivable	765,820	177,794
Other receivables	78,582	17,878
Prepaid expenses	24,948	10,226
Total current assets	<u>1,252,581</u>	<u>850,056</u>
Net property and equipment	75,520	115,040
Security deposits	14,000	14,000
Total Assets	<u><u>\$ 1,342,101</u></u>	<u><u>\$ 979,096</u></u>
<u>Liabilities and Net Assets</u>		
Current Liabilities:		
Accounts payable	\$ 641,859	\$ 164,245
Accrued payroll and related taxes	47,654	47,377
Deferred revenue	99,535	225,083
Total current liabilities	<u>789,048</u>	<u>436,705</u>
Net Assets:		
Unrestricted	544,601	533,214
Temporarily restricted	8,452	9,177
Total net assets	<u>553,053</u>	<u>542,391</u>
Total Liabilities and Net Assets	<u><u>\$ 1,342,101</u></u>	<u><u>\$ 979,096</u></u>

See independent auditor's report and notes to financial statements.

OAI, INC.**STATEMENT OF ACTIVITIES****For the Year Ended June 30, 2006 (with comparative totals for 2005)**

	Unrestricted	Temporarily Restricted	2006 Total	2005 Total
<u>Public Support and Revenue</u>				
Government contributions	\$ 2,952,904	\$ -	\$ 2,952,904	\$ 2,524,874
Fees for service	27,193	-	27,193	54,301
Grants - other	54,725	-	54,725	5,443
Investment income	16,287	-	16,287	7,250
In-kind rent	46,667	-	46,667	-
Donated services	-	-	-	7,077
Net assets released from restrictions - satisfaction of purpose restriction	725	(725)	-	-
Total Public Support and Revenue	<u>3,098,501</u>	<u>(725)</u>	<u>3,097,776</u>	<u>2,598,945</u>
<u>Expenses</u>				
Program Services:				
Pre-Employment	1,566,419	-	1,566,419	-
Worker Training	1,285,293	-	1,285,293	-
Environmental Health and Safety	-	-	-	1,693,893
Education and Training	-	-	-	484,166
Workforce Development	-	-	-	205,637
Total program services	<u>2,851,712</u>	<u>-</u>	<u>2,851,712</u>	<u>2,383,696</u>
Management and general	229,976	-	229,976	213,592
Fundraising	5,426	-	5,426	3,884
Total Expenses	<u>3,087,114</u>	<u>-</u>	<u>3,087,114</u>	<u>2,601,172</u>
Change in net assets	11,387	(725)	10,662	(2,227)
Net assets, beginning of year	<u>533,214</u>	<u>9,177</u>	<u>542,391</u>	<u>544,618</u>
Net assets, end of year	<u>\$ 544,601</u>	<u>\$ 8,452</u>	<u>\$ 553,053</u>	<u>\$ 542,391</u>

See independent auditor's report and notes to financial statements.

OAI, INC.**STATEMENT OF FUNCTIONAL EXPENSES****For the Year Ended June 30, 2006 (with comparative totals for 2005)**

	Program Services	Management and General	Fundraising	2006 Total	2005 Total
<u>Functional Expenses:</u>					
Salaries	\$ 928,625	\$ 121,995	\$ 2,082	\$ 1,052,702	\$ 1,127,282
Fringe benefits and related taxes	259,894	33,982	586	294,462	303,282
Total salaries and related expenses	1,188,519	155,977	2,668	1,347,164	1,430,564
Sub-recipients	919,484	-	-	919,484	260,237
Contract services	62,785	11,002	1,522	75,309	86,076
Contractual Trainers	222,175	-	-	222,175	269,056
Professional fees	379	13,517	31	13,927	16,153
Donated services	-	-	-	-	7,077
Participant stipends	-	-	-	-	57,612
Supporting services	32,351	-	-	32,351	16,264
Client services	1,270	-	-	1,270	920
Transportation expense	69,211	3,160	361	72,732	104,535
Seminar fees	2,315	119	-	2,434	11,432
Meeting expense	1,674	1,225	-	2,899	1,416
Occupancy, other than depreciation	141,922	18,642	367	160,931	111,754
In-kind rent	46,667	-	-	46,667	-
Telephone	12,452	1,488	21	13,961	10,135
Supplies	83,414	2,108	16	85,538	113,715
Computer expense	2,269	241	4	2,514	1,371
Equipment purchases under \$5000	10,982	213	-	11,195	4,585
Equipment rental, repair and maintenance	6,145	502	11	6,658	8,984
Insurance	2,449	1,966	23	4,438	4,519
Postage and shipping	3,102	310	50	3,462	5,366
Dues and subscriptions	1,044	1,055	352	2,451	3,153
Loss on disposal of assets	-	2,469	-	2,469	-
Miscellaneous	-	1,309	-	1,309	3,057
Total expenses before depreciation	2,810,609	215,303	5,426	3,031,338	2,527,981
Depreciation	41,103	14,673	-	55,776	73,191
Total Expenses	\$ 2,851,712	\$ 229,976	\$ 5,426	\$ 3,087,114	\$ 2,601,172

See independent auditor's report and notes to financial statements.

OAI, INC.**STATEMENT OF CASH FLOWS****For the Year Ended June 30, 2006 (with comparative totals for 2005)**

<u>Cash Flows from Operating Activities:</u>	<u>2006</u>	<u>2005</u>
Change in net assets	\$ 10,662	\$ (2,227)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation of property and equipment	55,776	73,191
Loss on disposal of assets	2,469	-
(Increase) decrease in assets		
Government contributions receivable	(648,729)	76,964
Prepaid expenses	(14,723)	(910)
Security deposits	-	(11,993)
Increase in liabilities		
Accounts payable and payroll accrual	477,890	47,074
Deferred revenue	(125,548)	126,958
Net cash provided (used) by operating activities	<u>(242,203)</u>	<u>309,057</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of certificates of deposit	(198,575)	(190,000)
Proceeds from the sale of assets	13,201	-
Maturity of certificates of deposit	190,769	157,466
Purchase of property and equipment	(31,925)	(60,546)
Net cash used by investing activities	<u>(26,530)</u>	<u>(93,080)</u>
Net increase (decrease) in cash and cash equivalents	(268,733)	215,977
Cash and cash equivalents, beginning of year	<u>453,389</u>	<u>237,412</u>
Cash and cash equivalents, end of year	<u>\$ 184,656</u>	<u>\$ 453,389</u>

See independent auditor's report and notes to financial statements.

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

Organization

OAI, Inc. (the Organization) is a not-for-profit Illinois corporation exempt from Federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, and is not considered a private foundation. The Organization has been serving the Chicago metropolitan area with over 25 years of experience in comprehensive workforce development. The mission of OAI is to create a community environment in which all people who desire to do so can access education, training, work, and housing that will allow them to sustain and enjoy safe, secure, and fulfilling lives. OAI serves people with significant barriers to obtaining and retaining rewarding employment. Clients include individuals making the transition from welfare to work, at-risk youth, Empowerment Zone (EZ) residents, displaced workers, those in need of additional skills, and anyone with earnings below the poverty line.

OAI programs and services are currently organized into two divisions:

Pre-Employment Division

Our Pre-Employment division provides job training, placement and retention services to residents facing multiple challenges in New York, Dallas, Houston, Kansas City, Chicago and Washington, DC. Additionally, supplemental funding was provided to work with residents on the Gulf Coast.

Worker Training Division

OAI's Worker Training division offers cost-effective, innovative on-site training programs for a variety of industries, with a special focus on manufacturing.

These two divisions work closely together in the implementation of a nationally recognized Environmental Health and Safety Program. Funding is provided by various federal, state, local, foundation, and fee-for-service sources.

Basis of Accounting

The accounts and financial statements are maintained on the accrual basis of accounting and, accordingly, reflect all significant accounts receivable, payable, and other liabilities in conformity with accounting principles applicable to non-profit organizations.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets defined as follows:

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Unrestricted net assets are available to finance the general operations of OAI. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of OAI, the environment in which it operates and the purposes specified in its articles of incorporation. Voluntary resolutions by the Board of Directors to designate a portion of OAI's unrestricted net assets for specified purposes do not result in restricted funds. Since designations are voluntary and may be reversed by the Board of Directors at any time, designated net assets are included under the caption 'unrestricted net assets.'

Temporarily Restricted net assets result (a) from contributions and other inflows of assets, the use of which by OAI is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by action of OAI pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of OAI pursuant to those stipulations.

Permanently Restricted net assets (generally referred to as endowment funds) are assets that have donor-imposed restrictions that stipulate that the contributed resources be maintained permanently, but permit the organization to use up or expend part or all of the income or other economic benefits derived from the donated assets.

OAI does not have any permanently restricted net assets.

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 the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Accordingly, actual results could differ from those estimates.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits in federally insured accounts and bank collateralized accounts. At June 30, 2006, the Organization's cash accounts exceeded federally insured limits by approximately \$166,000.

For purposes of reporting cash flows, the Organization considers all liquid investments with an original maturity of three months or less to be cash equivalents.

Certificate of Deposit

Certificates of deposit are carried at fair value with original maturities of one year or more. Interest income is recorded when earned and reflected in the Statement of Activities.

Property and Equipment

Expenditures for property and equipment, and items which substantially increase the useful lives of existing assets, are capitalized at cost. The Organization provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over their estimated useful lives as follows:

Furniture and equipment	5 years
Computer equipment	3 years
Leasehold improvements	3 - 10 years

Support and Revenue

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 reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

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 regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Government Contributions

Support funded by government contracts, which qualify as conditional promises to give, are recognized when the condition of performing the contracted services is met. Revenue is therefore recognized as earned as the condition of eligible expenses is incurred. These expenditures are subject to audit and acceptance by the granting Organization and, as a result of such audit, adjustments could be required.

Donated Services

According to Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, contributions of services are required to be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. For the year ended June 30, 2006, there were no donated services received by the Organization that met this recognition criteria.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. In accordance with generally accepted accounting principles, the Organization records the estimated fair market value of certain in-kind donations as an expense in its financial statements, and similarly records corresponding donations by a like amount. For the year ended June 30, 2006, the Organization received \$46,667 in donated facilities.

Certain Vulnerabilities and Concentrations

During the fiscal year ending June 30, 2006, the Organization received approximately 80% of its public support and revenue funding from the National Institute of Environmental Health Sciences. Additionally, this funding source represents 86% of the government contributions receivable at June 30, 2006. Any change in this funding source may cause disruption in program activities.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 2 - Conditional Promises to Give

The Organization has received the following conditional promises to give that are not recognized as assets in the Statement of Financial Position as of June 30, 2006:

<u>Grant</u>	<u>Term</u>	<u>Conditional Promise Amount</u>	<u>Conditions Met as of June 30, 2006</u>	<u>Conditional Promises Available</u>
Conditional Promises to Give Upon Expenditures of Funds:				
National Institute of Environmental Health Sciences – Worker Health and Safety Cooperative Agreement	9/1/05 to 7/31/06	\$ 2,643,362	\$ 2,157,786	\$ 485,576
U.S. Environmental Protection Agency – Brownfields Job Training Program	10/1/04 to 9/30/06	150,000	54,143	95,857
Illinois Department of Commerce and Economic Opportunity – Job Training and Economic Development – Incumbent Worker Program	1/1/06 to 12/31/07	190,000	5,728	184,272
City of Chicago – Mayor’s Office of Workforce Development: CDBG – Earn as you Learn	1/1/06 to 12/31/06	40,700	-	40,700
TIF Works – Midwest Folding Products (fee-for-service)	10/15/05 to 10/15/06	<u>102,397</u>	<u>77,132</u>	<u>25,262</u>
		<u>\$ 3,126,459</u>	<u>\$ 2,294,789</u>	<u>\$ 831,667</u>

Note 3 - Property and Equipment

The Organization’s property and equipment at June 30, 2006 are as follows:

Furniture and equipment	\$ 88,724
Computer equipment	160,494
Leasehold improvements	<u>14,119</u>
	263,337
Accumulated depreciation	<u>(187,817)</u>
Net property and equipment	\$ <u>75,520</u>

Depreciation expense amounted to \$55,776 for the year ended June 30, 2006.

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 4 - Refundable Advances

Refundable advances as of June 30, 2006 consist of the following advances from government and non-governmental sources, which are to be expended on future programs as described by funders:

Illinois Department of Commerce and Economic Opportunity	
Job training and Economic Development –	
H.O.S.T. Partnership through 12/31/06	\$ 63,257
Eliminate the Digital Divide through 6/30/07	<u>36,278</u>
Total	\$ <u>99,535</u>

Note 5 - Lines of Credit

The Organization has a \$100,000 revolving line of credit expiring February 5, 2007. At June 30, 2006 there was no money borrowed against this line. The line is collateralized by substantially all of the Organization's assets. Interest varies with the bank's prime rate, which was 7.25% as of June 30, 2006, and would be payable monthly.

The Organization is obligated for credit cards issued in its name. At June 30, 2006, the Organization's total line of credit available related to these credit cards is \$27,000, of which \$13,529 is outstanding and included in accounts payable.

Note 6 - Leases

OAI leases an operating facility under a non-cancellable operating lease arrangement. This lease expires on October 31, 2015. Rental expense for this lease, included in the Statement of Activities for the year ended June 30 2006, was \$147,587.

Future minimum annual rental payments required under this operating lease are as follows:

<u>June 30</u>	<u>Amount</u>
2007	\$ 151,300
2008	155,082
2009	158,959
2010	162,933
2011	167,007
Thereafter	<u>773,428</u>
Total	\$ <u>1,568,709</u>

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 7 - Retirement Plan

The Organization maintains a 401(k) defined contribution plan for the benefit of all of its employees which allows for both employee and employer contributions. The Organization matches up to 50 percent of the participating employee's contribution which does not exceed six percent of their compensation. The Organization contributed and expensed \$16,897 for the year ending June 30, 2006.

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2006 are available for the Pre-Pharmacy Technician Program.

Note 9 - Sub-Recipient Awards Payable

During the year ended June 30, 2006, the Organization entered into several agreements to pass-through funding to other entities to provide the required program services. These grant awards are recognized as a payable and corresponding expense at the time of conditions, if any, imposed by the Organization are met. As of June 30, 2006, the conditions had been met for \$919,485 of these awards, with \$385,403 remaining as conditional promises to give.

SUPPLEMENTARY INFORMATION

OAI, INC.

SCHEDULE OF EXPENSES BY PROGRAM

For the Year Ended June 30, 2006 (with comparative totals for 2005)

	Pre-employment Program	Worker Training Program	2006 Total Program Services	2005 Total Program Services
Salaries	\$ 540,370	\$ 388,255	\$ 928,625	\$ 1,007,850
Fringe benefits and related taxes	150,664	109,230	259,894	270,733
Total salaries and related expenses	691,034	497,485	1,188,519	1,278,583
Sub-recipients	512,407	407,077	919,484	260,237
Contract services	27,410	35,375	62,785	74,985
Contractual trainers	65,974	156,201	222,175	269,018
Professional fees	319	60	379	762
Donated services	-	-	-	840
Participant stipends	-	-	-	57,612
Supporting services	32,351	-	32,351	16,264
Client services	1,270	-	1,270	920
Transportation expense	33,624	35,587	69,211	102,343
Seminar fees	1,547	768	2,315	11,413
Meeting expense	993	681	1,674	769
Occupancy, other than depreciation	81,349	60,573	141,922	99,535
In-kind rent	46,667	-	46,667	-
Telephone	6,540	5,912	12,452	8,972
Supplies	29,784	53,630	83,414	112,358
Computer expense	1,366	903	2,269	547
Equipment purchases under \$5,000	2,357	8,625	10,982	4,585
Equipment rental, repair and maintenance	3,822	2,323	6,145	8,457
Insurance	1,377	1,072	2,449	2,354
Postage and shipping	1,743	1,359	3,102	4,377
Dues and subscriptions	664	380	1,044	2,772
Miscellaneous	-	-	-	147
Total expenses before depreciation	1,542,598	1,268,011	2,810,609	2,317,850
Depreciation	23,821	17,282	41,103	65,846
Total Expenses	\$ 1,566,419	\$ 1,285,293	\$ 2,851,712	\$ 2,383,696

See independent auditor's report and notes to financial statements.