

OAI, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

**For the Year Ended
June 30, 2005**

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, 2005, 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.

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, 2005, 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.

December 16, 2005
Chicago, IL

OAI, INC.
STATEMENT OF FINANCIAL POSITION
As of June 30, 2005

Assets

Current Assets:

Cash and cash equivalents	\$ 453,389
Certificates of deposit	190,769
Government contributions receivable	177,794
Other receivables	17,878
Prepaid expenses	<u>10,226</u>
Total current assets	850,056

Net property and equipment	115,040
Security deposits	<u>14,000</u>
Total Assets	<u><u>\$ 979,096</u></u>

Liabilities and Net Assets

Current Liabilities:

Accounts payable	\$ 164,245
Accrued payroll and related	47,377
Deferred revenue	<u>225,083</u>
Total current liabilities	<u>436,705</u>

Net Assets:

Unrestricted	533,214
Temporarily restricted	<u>9,177</u>
Total net assets	<u>542,391</u>

Total Liabilities and Net Assets	<u><u>\$ 979,096</u></u>
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See independent auditor's report and notes to financial statements.

OAI, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Public Support and Revenue</u>			
Government contributions	\$ 2,524,874	\$ -	\$ 2,524,874
Fees for service	54,301	-	54,301
Grants - other	5,443	-	5,443
Investment income	7,250	-	7,250
Donated Services	7,077	-	7,077
Net assets released from restrictions - satisfaction of purpose restriction	823	(823)	-
Total Public Support and Revenue	<u>2,599,768</u>	<u>(823)</u>	<u>2,598,945</u>
<u>Expenses</u>			
Program Services:			
Environmental Health and Safety	1,693,893	-	1,693,893
Education and Training	484,166	-	484,166
Workforce Development	205,637	-	205,637
Total program services	<u>2,383,696</u>	<u>-</u>	<u>2,383,696</u>
Management and general	213,592	-	213,592
Fundraising	3,884	-	3,884
Total Expenses	<u>2,601,172</u>	<u>-</u>	<u>2,601,172</u>
Change in net assets	(1,404)	(823)	(2,227)
Net assets, beginning of year, as restated	<u>534,618</u>	<u>10,000</u>	<u>544,618</u>
Net assets, end of year	<u>\$ 533,214</u>	<u>\$ 9,177</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, 2005

	Program Services	Management and General	Fundraising	Total
<u>Functional Expenses:</u>				
Salaries	\$ 1,007,850	\$ 118,078	\$ 1,354	\$ 1,127,282
Fringe benefits and related taxes	270,733	32,202	347	303,282
Total salaries and related expenses	1,278,583	150,280	1,701	1,430,564
Sub-recipients	260,237	-	-	260,237
Contract services	74,985	10,057	1,034	86,076
Contractual Trainers	269,018	21	17	269,056
Professional fees	762	15,391	-	16,153
Donated services	840	5,901	336	7,077
Participant stipends	57,612	-	-	57,612
Supporting services	16,264	-	-	16,264
Client services	920	-	-	920
Transportation expense	102,343	1,905	287	104,535
Seminar fees	11,413	19	-	11,432
Meeting expense	769	647	-	1,416
Occupancy, other than depreciation	99,535	12,104	115	111,754
Telephone	8,972	1,159	4	10,135
Supplies	112,358	1,348	9	113,715
Computer expense	547	824	-	1,371
Equipment purchases under \$500	4,585	-	-	4,585
Equipment rental, repair and maintenance	8,457	521	6	8,984
Insurance	2,354	2,165	-	4,519
Postage and shipping	4,377	964	25	5,366
Dues and subscriptions	2,772	31	350	3,153
Miscellaneous	147	2,910	-	3,057
Total expenses before depreciation	2,317,850	206,247	3,884	2,527,981
Depreciation	65,846	7,345	-	73,191
Total Expenses	\$ 2,383,696	\$ 213,592	\$ 3,884	\$ 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, 2005

Cash Flows from Operating Activities:

Change in net assets	\$ (2,227)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation of property and equipment	73,191
(Increase) decrease in assets	
Government contributions receivable	76,964
Prepaid expenses	(910)
Security deposits	(11,993)
Increase in liabilities	
Accounts payable and payroll accrual	47,074
Deferred revenue	126,958
Net cash provided by operating activities	<u>309,057</u>

Cash Flows from Investing Activities:

Purchase of certificates of deposit	(190,000)
Maturity of certificates of deposit	157,466
Purchase of property and equipment	<u>(60,546)</u>
Net cash used by investing activities	<u>(93,080)</u>

Net increase in cash and cash equivalents	215,977
Cash and cash equivalents, beginning of year	<u>237,412</u>
Cash and cash equivalents, end of year	<u><u>\$ 453,389</u></u>

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

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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 provides innovative employment, training, career advancement, and workforce development services for economically disadvantaged individuals and communities, while providing employers with new talent and training resources.

Program Descriptions

Environmental Health and Safety

Development and delivery of training services focusing on environmental remediation, hazardous materials safety, emergency response, and Occupational Safety and Health Act (OSHA) compliance. Courses include Hazardous Waste Operations and Emergency Response (HAZWOPER), confined space entry, lock-out/tag-out, lead abatement, asbestos abatement, mold awareness, and brownfields cleanup.

Education and Training

Pre-employment services include outreach and recruitment, screening and testing, basic employability skills training, access to OAI Community Technology Center (CTC) and post-placement mentoring and career guidance. Work directly with employers to develop and deliver customized training for specific positions leading to full-time employment upon successful completion.

Workforce Development

Consult with employers to design and provide incumbent worker training to reduce skill gaps in language, math and computer literacy, technical skills for manufacturing, OSHA safety training, and professional development leading to increased wages for the workers (a key measure of success). Employers identify the skill deficiencies and contribute paid release time and space for training and perform evaluations and reports of the effectiveness of the training.

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.

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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: unrestricted, temporarily restricted, and permanently restricted net assets, if applicable.

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 diminishment 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.

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits in federally insured accounts and bank collateralized accounts. At June 30, 2005, the Organization's cash accounts exceeded federally insured limits by approximately \$270,000.

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 properly stated 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
Vehicles	5 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, 2005

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, 2005, the Organization received donated services consisting of legal, grant writing, and teaching services valued at \$7,077.

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. The Organization did not receive any in-kind contributions for the year ended June 30, 2005.

Certain Vulnerabilities and Concentrations

During the fiscal year ending June 30, 2005, the Organization received approximately 69%, 11% and 10% of its public support and revenue funding from the National Institute of Environmental Health Sciences, City of Chicago – Mayor’s Office of Workforce Development and the U.S. Department of Housing and Urban Development, respectively. Additionally, these funding sources represent 82%, 7% and 3%, respectively of the government contributions receivable at June 30, 2005. Any changes in these three funding sources 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, 2005

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, 2005:

<u>Grant</u>	<u>Term</u>	<u>Conditional Promise Amount</u>	<u>Conditions Met as of June 30, 2005</u>	<u>Conditional Promises Available</u>
Conditional Promises to Give Upon Expenditures of Funds:				
National Puerto Rican Forum, Inc. – Worker Health and Safety Cooperative Agreement	9/1/04 to 8/31/05	\$ 1,723,276	\$ (1,406,328)	\$ 316,948
Office of Rural Housing and Economic Development – Youth Build Implementation Program	6/10/03 to 12/09/05	399,982	(254,421)	145,561
U.S. Environmental Protection Agency – Brownfields Job Training Program	10/1/04 to 9/30/06	150,000	(15,379)	134,621
Illinois Department of Commerce and Economic Opportunity – Job Training and Economic Development – Incumbent Worker Program	1/0/05 to 12/31/06	100,000	(11,966)	88,034
City of Chicago – Mayor’s Office of Workforce Development: CDBG – Earn as you Learn	1/1/05 to 12/31/05	46,000	(7,000)	39,000
TIF Works – Magid Glove (Fee for service)	9/15/03 to 9/15/05	174,150	(79,521)	94,629
TIF Works – Last Minute Gourmet (Fee for service)	7/1/04 to 7/1/05	<u>117,630</u>	<u>(62,742)</u>	<u>54,888</u>
		<u>\$ 2,711,038</u>	<u>\$ (1,837,357)</u>	<u>\$ 873,681</u>

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3 - Property and Equipment

The Organization's property and equipment at June 30, 2005 are as follows:

Furniture and equipment	\$ 78,548
Computer equipment	152,687
Leasehold improvements	20,629
Vehicles	<u>46,655</u>
	298,519
Accumulated depreciation	<u>(183,479)</u>
Net property and equipment	\$ <u>115,040</u>

Depreciation expense amounted to \$73,191 for the year ended June 30, 2005.

Note 4 - Refundable Advances

Refundable advances as of June 30, 2005 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 3/31/06	\$ 28,640
Job training and Economic Development – H.O.S.T. Partnership through 12/31/06	100,000
Job training and Economic Development – Incumbent Worker Program through 3/31/06	66,856
Eliminate the Digital Divide through 6/30/06	<u>29,587</u>
Total	\$ <u>225,083</u>

Note 5 - Lines of Credit

The Organization has a \$100,000 revolving line of credit expiring February 2, 2006. At June 30, 2005 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 6.25% as of June 30, 2005, and is payable monthly.

The Organization is obligated for credit cards issued in its name. At June 30, 2005, the Organization's total line of credit available related to these credit cards is \$27,000, of which \$1,524 is outstanding and included in accounts payable.

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 6 - Leases

OAI leases an operating facility under a non-cancellable operating lease arrangement. This lease expires on March 31, 2015. Rental expense for this lease, included in the Statement of Activities for the year ended June 30 2005, was \$38,508.

Minimum annual rental payments required under the operating lease, which have remaining terms in excess of one year as of June 30, 2005, are as follows:

<u>June 30</u>	<u>Amount</u>
2006	\$ 154,998
2007	158,880
2008	162,843
2009	166,914
2010	171,090
Thereafter	<u>987,468</u>
Total	\$ <u>1,802,193</u>

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 contribution. 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 \$7,818 for the year ending June 30, 2005.

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2005 are available for the Pre-Pharmacy Technician Program.

Note 9 - Related Party Transactions

For the year ended June 30, 2005, a Board member provided training services to OAI in the amount of \$29,600.

OAI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 10 - Prior Period Adjustment to Restate Net Assets at Beginning of Year

The net assets at the beginning of the year ended June 30, 2005 have been restated for a prior period adjustment to restate revenue and accounts receivable for \$14,787. Revenue of \$12,300 and \$2,487 was not recorded at June 30, 2004 for the National Puerto Rican Forum and the U.S. Environmental Protection Agency, respectively.

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Net assets, beginning of year, as previously reported	\$ 519,831	\$ 10,000	\$ 529,831
Prior period adjustment	<u>14,787</u>	<u>-</u>	<u>14,787</u>
Net assets, beginning of year, as restated	<u>\$ 534,618</u>	<u>\$ 10,000</u>	<u>\$ 544,618</u>

SUPPLEMENTARY INFORMATION

OAI, INC.
SCHEDULE OF EXPENSES BY PROGRAM
For the Year Ended June 30, 2005

	Environmental Health and Safety	Education and Training	Workforce Development	Total Program Services
Salaries	\$ 684,275	\$ 209,378	\$ 114,197	\$ 1,007,850
Fringe benefits and related taxes	184,178	56,282	30,273	270,733
Total salaries and related expenses	868,453	265,660	144,470	1,278,583
Sub-recipients	200,418	59,819	-	260,237
Contract services	63,191	7,729	4,065	74,985
Contractual Trainers	195,485	37,068	36,465	269,018
Professional fees	589	117	56	762
Donated services	-	840	-	840
Participant stipends	-	57,612	-	57,612
Supporting services	13,439	2,825	-	16,264
Client services	-	920	-	920
Transportation expense	91,974	4,254	6,115	102,343
Seminar fees	11,257	75	81	11,413
Meeting expense	561	91	117	769
Occupancy, other than depreciation	69,459	19,327	10,749	99,535
Telephone	6,362	1,511	1,099	8,972
Supplies	103,558	7,326	1,474	112,358
Computer expense	418	74	55	547
Equipment purchases	3,490	1,095	-	4,585
Equipment rental, repair and maintenance	7,164	851	442	8,457
Insurance	1,555	516	283	2,354
Postage and shipping	3,830	418	129	4,377
Dues and subscriptions	2,648	87	37	2,772
Miscellaneous	147	-	-	147
Total expenses before depreciation	1,643,998	468,215	205,637	2,317,850
Depreciation	49,895	15,951	-	65,846
Total Expenses	\$ 1,693,893	\$ 484,166	\$ 205,637	\$ 2,383,696

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