

KEYSTONE VOCATIONAL SERVICES

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Black, Bashor & Porsch, LLP
CERTIFIED PUBLIC ACCOUNTANTS

KEYSTONE VOCATIONAL SERVICES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Keystone Vocational Services
1230 Stambaugh Avenue
Sharon, Pennsylvania 16146

Dear Board Members:

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying statement of financial position of Keystone Vocational Services (a non-profit organization) as of December 31, 2012, and the related statements of activities and cash flows for the year ended.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's

Keystone Vocational Services

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Keystone Vocational Services as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Black Bashor & Porsch LLP

Sharon, Pennsylvania
July 17, 2013

KEYSTONE VOCATIONAL SERVICES

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2012

A S S E T S

| | |
|--------------------------------|-------------------|
| Cash and Cash Equivalents..... | \$ 20,746 |
| Accounts Receivable..... | 12,434 |
| Inventory..... | 86,424 |
| Prepaid Expense..... | <u>294</u> |
| <u>TOTAL ASSETS:-</u> | <u>\$ 119,898</u> |

L I A B I L I T I E S

| | |
|--|-------------------|
| Accrued Payroll and Payroll Taxes..... | \$ 4,120 |
| Due to Keystone Blind Association..... | 31,625 |
| Accounts Payable..... | 11,136 |
| Note Payable..... | 79,543 |
| Commitments and Contingencies..... | <u>0</u> |
| <u>TOTAL LIABILITIES:-</u> | <u>\$ 126,424</u> |

N E T A S S E T S

| | |
|---|-------------------|
| Unrestricted..... | <u>(\$ 6,526)</u> |
| <u>TOTAL LIABILITIES AND NET ASSETS:-</u> | <u>\$ 119,898</u> |

The Accompanying Notes are an Integral Part of These Statements

Black, Bashor & Porsch, LLP
CERTIFIED PUBLIC ACCOUNTANTS

KEYSTONE VOCATIONAL SERVICES

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

REVENUES:-

| | |
|----------------------------|------------|
| Tool Income..... | \$ 45,699 |
| Miscellaneous Revenue..... | <u>361</u> |

TOTAL REVENUES:- \$ 46,060

EXPENSES:-

| | |
|--|--------------|
| Salaries, Wages, and Employee Related Costs..... | \$ 18,153 |
| Operational Expense..... | 20,922 |
| Administrative Expenses..... | 4,197 |
| Travel and Transportation..... | <u>5,278</u> |

TOTAL EXPENSES:- \$ 48,550

OPERATING INCOME (LOSS):- (\$ 2,490)

NET ASSETS AT BEGINNING OF YEAR:- (4,036)

NET ASSETS AT END OF YEAR:- (\$ 6,526)

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Black, Bashor & Porsch, LLP
CERTIFIED PUBLIC ACCOUNTANTS

KEYSTONE VOCATIONAL SERVICES

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012

| | |
|---|------------------------|
| <u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:-</u> | |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES -</u> | |
| Net Sales Income Received..... | \$ 33,265 |
| Miscellaneous Income..... | <u>361</u> |
| <u>CASH PROVIDED BY OPERATING ACTIVITIES:-</u> | \$ 33,626 |
| Cash Paid for Personnel..... | (14,033) |
| Cash Paid for Operating Activities..... | <u>(78,390)</u> |
| <u>NET CASH FLOWS FROM OPERATING ACTIVITIES:-</u> | <u>(\$ 58,797)</u> |
| <u>CASH PROVIDED BY FINANCING ACTIVITIES -</u> | |
| Drawdowns on Note..... | <u>\$ 79,543</u> |
| <u>NET INCREASE IN CASH AND CASH EQUIVALENTS:-</u> | \$ 20,746 |
| <u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR:-</u> | <u>0</u> |
| <u>CASH AND CASH EQUIVALENTS AT END OF YEAR:-</u> | <u>\$ 20,746</u> |

| | |
|---|------------------------|
| <u>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:-</u> | |
| Operating Income (Loss)..... | (\$ 2,490) |
| (Increase) Decrease in Receivable..... | (12,434) |
| Increase (Decrease) in Accrued Payroll and Payroll Tax..... | 4,120 |
| Increase (Decrease) in Due to Keystone Blind Association..... | 27,589 |
| Increase (Decrease) in Accounts Payable..... | 11,136 |
| (Increase) Decrease in Inventory..... | (86,424) |
| (Increase) Decrease in Prepaid Expense..... | <u>(294)</u> |
| <u>NET CASH FLOWS FROM OPERATING ACTIVITIES:-</u> | <u>(\$ 58,797)</u> |

The Accompanying Notes are an Integral Part of These Statements

Black, Bashor & Porsch, LLP
CERTIFIED PUBLIC ACCOUNTANTS

KEYSTONE VOCATIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BACKGROUND DATA AND INFORMATION

In fiscal year 2012, Keystone Vocational Services was re-established to handle the tooling operations of Keystone Blind Association. Prior to 2012, Keystone Vocational Services operated as an organization providing custodial services to the Army Reserve Center. These services ceased in April 2006. Keystone Vocational Services produces and assembles tools for retail sale at their facility as well as orders for federal agencies.

Keystone Vocational Services is an affiliate of the Keystone Blind Association. For purposes of reporting, Keystone Vocational Services has been separately reported upon and, as such, financial results will not be combined in the financial statements of the Keystone Blind Association. Inter-affiliate accounts are set-up to denote amounts due from and due to the Keystone Blind Association, if any.

FINANCIAL STATEMENT PRESENTATION

The Organization has adopted FASB Accounting Standards Codification (ASC) 958-205, "Financial Statements of Not-for-Profit Organizations". Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three (3) classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

RESTRICTED AND UNRESTRICTED REVENUE AND SUPPORT

All revenue and support is considered to be unrestricted.

ADOPTION OF FASB ASC 855-10

The Organization has adopted FASB ASC 855-10, "Subsequent Events", which requires an entity to recognize in the financial statements the effects of significant, material subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position. For nonrecognized subsequent events that must be disclosed to keep the financial statements from being misleading, an entity is required to disclose the nature of the event, as well as an estimate of its financial effect, or a statement that such an estimate cannot be made. In addition, FASB ASC 855-10 requires an entity to disclose the date through which subsequent events have been evaluated. The Organization has evaluated subsequent events through the issuance of its statements on July 17, 2013.

BASIS OF ACCOUNTING

The accrual basis of accounting is used by the Organization. Revenues are recognized in the accounting period in which they are earned. Expenses are recorded in the accounting period in which they are incurred.

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

KEYSTONE VOCATIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For purposes of the cash flows statement, the Organization considers all highly liquid investments purchased with a maturity of three (3) months or less, to be cash equivalents.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash. The Organization places its cash and deposits with one (1) financial institution.

Noninterest-bearing cash transaction accounts, i.e., checking accounts at individual banks, will be fully insured by the Federal Deposit Insurance Corporation (FDIC) for the period December 31, 2010 through December 31, 2012. Interest-bearing cash transaction accounts, i.e., money market checking accounts and certificates of deposit at individual banks, are currently insured by FDIC up to \$ 250,000. This listed coverage is based upon the Dodd-Frank Wall Street Reform and Consumer Protection Act of July 21, 2010. In the normal course of business, the Organization may have deposits in excess of federal insurance coverage. As of December 31, 2012, the Organization had no deposits in excess of FDIC insured limits. Beginning January 1, 2013, noninterest-bearing transaction accounts will no longer be insured separately from a depositor's other accounts at the same financial institution. Instead, noninterest-bearing transaction accounts will be added to any of a depositor's other accounts in the applicable ownership category, and the aggregate balance insured up to at least the Standard Maximum Deposit Insurance Amount (SMDIA) of \$ 250,000 per depositor, at each separately chartered financial institution.

2. INCOME TAXES

The Organization, a non-profit entity operating under Section 501(c)(3) of the Internal Revenue Code, is generally exempt from federal, state, and local income taxes and, accordingly, no provision for income taxes is included in the financial statements.

3. UNCERTAIN TAX POSITIONS

The Organization adopted the provisions of FIN 48 (FASB ASC 740), "Uncertain Tax Positions". The adoption of FIN 48 had no effect on the accompanying financial statements.

As a result of continuing evaluation of statutes, tax law changes, authoritative findings, audits, etc., management believes there are no uncertain tax positions that would result in a significant increase or

KEYSTONE VOCATIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

decrease of unrecognized tax benefits, and no accruals of interest and penalties associated with uncertain tax positions are included in the financial statements.

The Organization files an income tax return in the U.S. federal jurisdiction. There are currently no ongoing exams or audits by any taxing authority. The 990 tax returns prior to 2009 are closed.

4. INVENTORY

Inventory is stated at cost and consists of merchandise purchased for sale to the public.

5. LITIGATION

In the normal course of operations, the Organization may be involved in various civil disputes, principally regarding liability issues. Management is of the opinion that any unfavorable outcome resulting from these actions would be covered by insurance and would not have a material effect on the Organization's financial position.

6. DEBT

In fiscal year 2012, Keystone Vocational Services entered into an agreement with the National Industries for the Blind for a promissory note with a maximum draw of \$ 200,000. Terms of the note require monthly principal and interest payments beginning in July 2013 and going through March 2015. The interest rate on the note is 1.65 percent. As of December 31, 2012, \$ 79,543 had been drawdown on the note.

Subsequent to December 31, 2012 and prior to March 15, 2013, the Organization drew down more funds which set the final principal to be repaid at \$ 169,274.

Following is a schedule of repayment:

| | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|----------------|-------------------|-----------------|-------------------|
| 2013..... | \$ 47,545 | \$ 1,676 | \$ 49,221 |
| 2014..... | 97,185 | 1,256 | 98,441 |
| 2015..... | <u>24,544</u> | <u>67</u> | <u>24,611</u> |
| <u>TOTALS:</u> | <u>\$ 169,274</u> | <u>\$ 2,999</u> | <u>\$ 172,273</u> |

7. RELATED PARTY TRANSACTIONS

Due to the nature of the Organization and the relationship with the parent company, Keystone Blind Association, transactions frequently take place between the two in normal course of business.