



AUDIT REPORT

FINANCIAL AND FEDERAL AWARD COMPLIANCE EXAMINATION

FOR THE YEAR ENDED JUNE 30, 2022

THE SKILLSOURCE GROUP, INC.

CONTENTS

	PAGE NO.
I. Financial Section	
Financial Statements, for the Year Ended June 30, 2022, with Summarized Financial Information for 2021, Including the Schedules of Expenditures of Federal Awards and Findings and Questioned Costs	I-(1 - 24)
II. Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	II-(1 - 2)
III. Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	III-(1 - 3)

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED JUNE 30, 2022
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2021**

THE SKILLSOURCE GROUP, INC.

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	I-(3 - 5)
EXHIBIT A - Statement of Financial Position, as of June 30, 2022, with Summarized Financial Information for 2021	I-6
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended June 30, 2022, with Summarized Financial Information for 2021	I-7
EXHIBIT C - Statement of Functional Expenses, for the Year Ended June 30, 2022, with Summarized Financial Information for 2021	I-8
EXHIBIT D - Statement of Cash Flows, for the Year Ended June 30, 2022, with Summarized Financial Information for 2021	I-9
NOTES TO FINANCIAL STATEMENTS	I-(10 - 15)
SUPPLEMENTAL INFORMATION	
SCHEDULE 1 - Schedule of Grants, Awards and Activities, for the Year Ended June 30, 2022	I-(16 - 19)
SCHEDULE 2 - Schedule of Expenditures of Federal Awards, for the Year Ended June 30, 2022	I-(20 - 22)
SCHEDULE 3 - Schedule of Findings and Questioned Costs, for the Year Ended June 30, 2022	I-(23 - 24)



CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The SkillSource Group, Inc.
Vienna, Virginia

Opinion

We have audited the accompanying financial statements of The SkillSource Group, Inc. (SkillSource), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SkillSource as of June 30, 2022, and the change 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SkillSource and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SkillSource's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

4550 MONTGOMERY AVENUE · SUITE 800 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · WWW.GRFCPA.COM

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 SkillSource's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SkillSource's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited SkillSource's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Grants, Awards and Activities on pages I-(16 - 19) is presented for purposes of additional analysis and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards on pages I-(20 - 22), as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2022 on our consideration of SkillSource's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SkillSource's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

October 14, 2022

THE SKILLSOURCE GROUP, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021

ASSETS		<u>2022</u>	<u>2021</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	331,616	\$ 219,528
Cash and cash equivalents - funds held for others		165,933	165,933
Grants and accounts receivable		1,232,123	1,168,072
Prepaid expenses		<u>44,092</u>	<u>38,396</u>
Total current assets		<u>1,773,764</u>	<u>1,591,929</u>
FIXED ASSETS			
Equipment		32,099	32,099
Leasehold improvements		<u>29,782</u>	<u>29,782</u>
		61,881	61,881
Less: Accumulated depreciation and amortization		<u>(49,575)</u>	<u>(47,580)</u>
Net fixed assets		<u>12,306</u>	<u>14,301</u>
OTHER ASSETS			
Security deposits		<u>10,787</u>	<u>10,787</u>
TOTAL ASSETS	\$	<u>1,796,857</u>	\$ <u>1,617,017</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$	859,782	\$ 782,464
Deferred revenue		12,290	13,755
Funds held for others		<u>165,933</u>	<u>165,933</u>
Total liabilities		<u>1,038,005</u>	<u>962,152</u>
NET ASSETS			
Without donor restrictions		446,622	485,386
With donor restrictions		<u>312,230</u>	<u>169,479</u>
Total net assets		<u>758,852</u>	<u>654,865</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>1,796,857</u>	\$ <u>1,617,017</u>

THE SKILLSOURCE GROUP, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Federal grants	\$ 5,844,529	\$ -	\$ 5,844,529	\$ 5,656,629
Rental income	791,590	-	791,590	722,535
Non-Federal grants and contracts	359,731	-	359,731	374,824
Contributions	172	315,868	316,040	205,278
Interest income	1,791	-	1,791	1,999
Net assets released from donor restrictions	<u>173,117</u>	<u>(173,117)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>7,170,930</u>	<u>142,751</u>	<u>7,313,681</u>	<u>6,961,265</u>
EXPENSES				
Program Services	<u>6,769,890</u>	<u>-</u>	<u>6,769,890</u>	<u>6,765,277</u>
Supporting Services:				
Management and General	438,888	-	438,888	446,158
Fundraising	<u>916</u>	<u>-</u>	<u>916</u>	<u>7,166</u>
Total supporting services	<u>439,804</u>	<u>-</u>	<u>439,804</u>	<u>453,324</u>
Total expenses	<u>7,209,694</u>	<u>-</u>	<u>7,209,694</u>	<u>7,218,601</u>
Change in net assets	(38,764)	142,751	103,987	(257,336)
Net assets at beginning of year	<u>485,386</u>	<u>169,479</u>	<u>654,865</u>	<u>912,201</u>
NET ASSETS AT END OF YEAR	<u>\$ 446,622</u>	<u>\$ 312,230</u>	<u>\$ 758,852</u>	<u>\$ 654,865</u>

THE SKILLSOURCE GROUP, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

	2022				2021	
	Supporting Services			Total Supporting Services	Total Expenses	Total Expenses
	Program Services	Management and General	Fundraising			
Personnel	\$ 1,534,355	\$ 269,120	\$ 14	\$ 269,134	\$ 1,803,489	\$ 1,731,744
Customer training and services	2,233,632	-	-	-	2,233,632	2,432,793
Contractual personnel and operations	2,199,861	-	-	-	2,199,861	1,811,948
Facilities supplies and services	534,487	28,001	-	28,001	562,488	550,861
Professional services	53,068	104,755	5	104,760	157,828	372,099
Office supplies and services	98,861	7,467	31	7,498	106,359	50,375
Outreach and communication	94,046	10,338	865	11,203	105,249	99,114
Insurance	6,660	18,146	1	18,147	24,807	27,552
Professional development	8,943	900	-	900	9,843	1,452
Travel, meetings and conferences	3,982	161	-	161	4,143	1,649
Depreciation and amortization	1,995	-	-	-	1,995	1,996
Rapid response reimbursement - supplies	-	-	-	-	-	137,018
TOTAL	\$ 6,769,890	\$ 438,888	\$ 916	\$ 439,804	\$ 7,209,694	\$ 7,218,601

THE SKILLSOURCE GROUP, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 103,987	\$ (257,336)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,995	1,996
(Increase) decrease in:		
Grants and accounts receivable	(64,051)	156,284
Prepaid expenses	(5,696)	(12,901)
Increase (decrease) in:		
Accounts payable and accrued expenses	77,318	113,547
Deferred revenue	(1,465)	(2,412)
Funds held for others	<u>-</u>	<u>(80,000)</u>
Net cash provided (used) by operating activities	<u>112,088</u>	<u>(80,822)</u>
Net increase (decrease) in cash and cash equivalents	112,088	(80,822)
Cash and cash equivalents at beginning of year	<u>385,461</u>	<u>466,283</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 497,549</u>	<u>\$ 385,461</u>

THE SKILLSOURCE GROUP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The SkillSource Group, Inc. (SkillSource) is a non-profit organization, incorporated in the State of Virginia and located in Vienna, Virginia. SkillSource was organized to support the workforce and economic development policies and programs determined by Virginia Career Works - Northern (VCWN) and to promote and implement VCWN activities in the Northern Virginia region. SkillSource was established in March 2002 and began operations in January 2003.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

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 SkillSource's financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Cash and cash equivalents -

SkillSource considers all cash and other highly liquid investments with initial maturities of three months or less to be cash and cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, SkillSource maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Funds held for others -

SkillSource has an agreement with the Northern Virginia Health Care Work Force Alliance (NoVaHealthFORCE) to act as its fiscal agent. SkillSource receives funds and makes disbursements on behalf of NoVaHealthFORCE.

THE SKILLSOURCE GROUP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Funds held for others (continued) -

SkillSource has no control over the decision making process for NoVaHealthFORCE disbursements and accordingly, these funds are considered restricted cash, with a corresponding agency liability in the accompanying financial statements.

Grants and accounts receivable -

Grants and accounts receivable approximate fair value. Management considers all amounts to be fully collectible within one year. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets -

Fixed assets in excess of \$5,000 are capitalized and stated at cost, and are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended June 30, 2022 totaled \$1,995.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to the Statement of Activities and Change in Net Assets, to its current fair value.

Income taxes -

SkillSource is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. SkillSource is not a private foundation.

Uncertain tax positions -

For the year ended June 30, 2022, SkillSource has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Support and revenue -

Grants and contributions -

The majority of SkillSource's activities are supported by grants and contributions with the U.S. Government and other private entities. These awards are for various activities performed by SkillSource. Grants and contributions are recognized in the appropriate category of net assets in the period received. SkillSource performs an analysis of the individual grant or contribution to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

THE SKILLSOURCE GROUP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Support and revenue (continued) -

Grants and contributions (continued) -

For grants and contributions qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Grants and contributions qualifying as contributions that are unconditional and have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

Grants and contributions qualifying as conditional contributions contain a right of return from obligation provision that limits SkillSource on how funds transferred should be spent. Additionally, a barrier is present that is related to the purpose of the agreement. Revenue is recognized when the condition or conditions on which they depend are substantially met. Most grant awards from the United States Government and other entities are for direct and indirect program costs. These transactions are nonreciprocal and classified as conditional and are therefore recognized as contributions when the revenue becomes unconditional. SkillSource recognizes revenue for these conditional grants and contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred). Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances. For grants and contributions treated as conditional contributions, SkillSource had approximately \$2,800,000 in unrecognized conditional awards as of June 30, 2022.

Contracts classified as exchange transactions follow ASU 2014-09, *Revenue from Contracts With Customers*, and are recorded as revenue at a point in time when the performance obligations are met. SkillSource has elected to opt out of all (or certain) disclosures not required for nonpublic entities. Transaction price is based on cost. Funding received in advance of satisfying performance obligations are recorded as deferred revenue.

Rental income -

Rental income is recognized as revenue over the lease period on a straight line basis.

Use of estimates -

The preparation of the 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

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

THE SKILLSOURCE GROUP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Functional allocation of expenses (continued) -

Expenses directly attributed to a specific functional area of SkillSource are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of actual time and effort or other reasonable basis.

New accounting pronouncement (not yet adopted) -

ASU 2019-01, *Leases* (Topic 842), changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosure of key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non-public entities for fiscal years beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

SkillSource plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

2. **LINE OF CREDIT**

SkillSource has a \$100,000 line of credit, which matures on demand. The next review will be on or before May 13, 2024. Amounts borrowed under this agreement bear interest at 3.875%. The line of credit is secured by all business assets of SkillSource and also contains various restrictive and finance covenants, including a minimum debt service ratio requirement and a limitation on the incurrence of additional debt. As of June 30, 2022, there were no outstanding borrowings on the line of credit.

3. **NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following at June 30, 2022:

Community Foundation (NVITE)	\$ 31,858
United Way Financial Education Center	252,928
TANF4	<u>27,444</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 312,230</u>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses which satisfied the restricted purposes specified by the donors:

Consolidated Community Funding Pool	\$ 56,452
Community Foundation (NVITE)	16,210
United Way Financial Education Center	<u>100,455</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 173,117</u>

THE SKILLSOURCE GROUP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

4. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 331,616
Grants and accounts receivable	<u>1,232,123</u>
Subtotal financial assets available within one year	1,563,739
Less: Donor restricted funds	<u>(312,230)</u>

**FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS
FOR GENERAL EXPENDITURES WITHIN ONE YEAR** **\$ 1,251,509**

SkillSource has a policy to structure its financial assets to be available and liquid as its obligations become due. In addition, SkillSource has a line of credit agreement (as further discussed in Note 2) which allows for additional available borrowings up to \$100,000.

5. LEASE COMMITMENTS

SkillSource leases office space through three separate leasing arrangements. The first lease is an annual lease that is renewed each year. Base rent is \$36,224 per year. The second lease is for additional office space under a fourteen-year agreement in Woodbridge, Virginia, which originated in January 2010. Base rent is \$205,976 per year, increasing by a factor of 2.5% per year. The third lease is for office space under a 126-month agreement in Alexandria, Virginia, which originated in October 2017. Base rent is \$129,444 per year, increasing by a factor of 2.75% per year.

The following is a schedule of the future minimum lease payments:

<u>Year Ending June 30,</u>	
2023	\$ 462,305
2024	437,097
2025	299,241
2026	157,949
2027	162,293
Thereafter	<u>195,053</u>
	<u>\$ 1,713,938</u>

Rent expense for the year ended June 30, 2022 was \$468,188 and is included in the Statement of Functional Expenses as part of facilities supplies and services.

SkillSource subleases a portion of its office spaces in Woodbridge and Alexandria, Virginia, whereby approximately 88% of the leased space in Woodbridge and Alexandria were subleased to several organizations. The subleases include annual rental escalations of 2.5% and expire in 2023.

The following is a schedule of the future minimum rental income:

Year Ending June 30, 2023	<u>\$ 374,951</u>
----------------------------------	--------------------------

Rental income for the year ended June 30, 2022 was \$791,590.

THE SKILLSOURCE GROUP, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

6. RETIREMENT PLAN

SkillSource provides a defined contribution tax-deferred 401(k) pension plan (the Plan). All fulltime employees (no trainees) are eligible to participate in the Plan and are fully vested upon their fourth month of employment. SkillSource contributes 3% of gross salaries, plus a discretionary contribution, and matches up to \$520 of employee deferrals. Contributions to the Plan during the year ended June 30, 2022 totaled \$155,583.

7. CONCENTRATION OF REVENUE

For the year ended June 30, 2022, approximately 50% of SkillSource's revenue was derived from grants awarded by the U.S. Department of Labor (DOL) under the Workforce Innovation and Opportunity Act (WIOA) and 73% of the total revenue came from DOL.

SkillSource has no reason to believe that its relationship with DOL will be discontinued in the foreseeable future. However, any interruption of this relationship (i.e., the failure to renew grant agreements or withholding of funds) would adversely affect SkillSource's ability to finance ongoing operations.

8. CONTINGENCY

SkillSource receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2022. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

9. SUBSEQUENT EVENTS

In preparing these financial statements, SkillSource has evaluated events and transactions for potential recognition or disclosure through October 14, 2022, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

THE SKILLSOURCE GROUP, INC.

SCHEDULE OF GRANTS, AWARDS AND ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	Pass-Through						
	Total	Indirect Costs	VCCS WIOA	VCCS American Job Center Security	Area 14 CAREER	VCCS Covid CHW	VCCS Covid DWG
Personnel Expenses	\$ 1,803,489	\$ 88,635	\$ 694,481	\$ -	\$ 171	\$ -	\$ 44,486
Non-Personnel Expenses:							
Customer training and services	2,233,632	-	764,669	-	660	-	30,358
Contractual personnel and operations	2,199,861	-	1,600,715	140,866	-	63,325	173,791
Facilities supplies and services	562,488	3,862	25,509	-	-	-	-
Professional services	157,828	95,486	20,806	-	-	-	-
Office supplies and services	106,359	12,348	12,826	-	-	-	153
Outreach and communication	105,249	966	30,527	-	1,706	-	136
Insurance	24,807	19,974	-	-	-	-	-
Professional development	9,843	250	650	-	-	-	-
Travel, meetings and conferences	4,143	11	192	-	-	-	-
Depreciation and amortization	1,995	-	-	-	-	-	-
Rapid response reimbursement - supplies	-	-	-	-	-	-	-
Total Non-Personnel Expenses	5,406,205	132,897	2,455,894	140,866	2,366	63,325	204,438
Total expenses before indirect costs	7,209,694	221,532	3,150,375	140,866	2,537	63,325	248,924
Allocation of indirect costs	-	(221,532)	81,020	-	1,021	-	5,478
TOTAL EXPENSES PER FINANCIAL STATEMENTS	\$ 7,209,694	\$ -	\$ 3,231,395	\$ 140,866	\$ 3,558	\$ 63,325	\$ 254,402

THE SKILLSOURCE GROUP, INC.

**SCHEDULE OF GRANTS, AWARDS AND ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022**

Pass-Through (Continued)

	VCCS Return to Earn	NCOA SCSEP	ICF H1B	MWCOG	TANF/ESLA	SNAP	DARS SEAL
Personnel Expenses	\$ -	\$ 28,344	\$ 84,779	\$ -	\$ 257,589	\$ 3,456	\$ 1,123
Non-Personnel Expenses:							
Customer training and services	214,500	1,060,514	-	900	82,500	4,127	614
Contractual personnel and operations	-	111,155	-	-	47,851	-	2,616
Facilities supplies and services	-	6,068	-	-	11,763	-	-
Professional services	-	26,325	40	-	27	-	-
Office supplies and services	-	692	48,305	-	1,982	-	-
Outreach and communication	16,759	1,115	916	-	2,817	1,425	-
Insurance	-	-	-	-	-	-	-
Professional development	-	600	-	-	-	-	-
Travel, meetings and conferences	-	-	-	-	380	-	-
Depreciation and amortization	-	-	-	-	-	-	-
Rapid response reimbursement - supplies	-	-	-	-	-	-	-
Total Non-Personnel Expenses	231,259	1,206,469	49,261	900	147,320	5,552	3,230
Total expenses before indirect costs	231,259	1,234,813	134,040	900	404,909	9,008	4,353
Allocation of indirect costs	1,676	8,208	13,404	-	28,771	488	1,112
TOTAL EXPENSES PER FINANCIAL STATEMENTS	\$ 232,935	\$ 1,243,021	\$ 147,444	\$ 900	\$ 433,680	\$ 9,496	\$ 5,465

THE SKILLSOURCE GROUP, INC.

**SCHEDULE OF GRANTS, AWARDS AND ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022**

	Pass-Through (Continued)				
	Prince William ELEVATE	City of Manassas GRADUATE	Fairfax County REV	VEC PPE	Total Pass- Through
Personnel Expenses	\$ 6,139	\$ 3,828	\$ -	\$ -	\$ 1,124,396
Non-Personnel Expenses:					
Customer training and services	10,268	25,313	9,000	-	2,203,423
Contractual personnel and operations	-	-	-	-	2,140,319
Facilities supplies and services	-	-	-	825	44,165
Professional services	-	400	-	-	47,598
Office supplies and services	1,492	-	-	4,127	69,577
Outreach and communication	3,095	10,690	-	-	69,186
Insurance	-	-	-	-	-
Professional development	-	-	-	-	1,250
Travel, meetings and conferences	-	-	-	-	572
Depreciation and amortization	-	-	-	-	-
Rapid response reimbursement - supplies	-	-	-	-	-
Total Non-Personnel Expenses	14,855	36,403	9,000	4,952	4,576,090
Total expenses before indirect costs	20,994	40,231	9,000	4,952	5,700,486
Allocation of indirect costs	1,385	1,482	-	-	144,045
TOTAL EXPENSES PER FINANCIAL STATEMENTS	\$ 22,379	\$ 41,713	\$ 9,000	\$ 4,952	\$ 5,844,531

THE SKILLSOURCE GROUP, INC.

SCHEDULE OF GRANTS, AWARDS AND ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	Non-Federal Awards and Activities							
	EYE	CCFP	GO Virginia	UW FEC	NVITE	Other Awards and Programs	Total Non-Federal Awards	Fundraising
Personnel Expenses	\$ 400	\$ 46,060	\$ 176,319	\$ 13,146	\$ 5,245	\$ 349,274	\$ 590,444	\$ 14
Non-Personnel Expenses:								
Customer training and services	21,250	-	-	7,408	-	1,551	30,209	-
Contractual personnel and operations	-	-	-	59,542	-	-	59,542	-
Facilities supplies and services	-	500	-	16,174	-	497,787	514,461	-
Professional services	-	-	270	-	8,000	6,474	14,744	-
Office supplies and services	-	3,348	1,263	173	1,492	18,127	24,403	31
Outreach and communication	-	1,411	1,147	40	-	31,634	34,232	865
Insurance	-	-	4,832	-	-	-	4,832	1
Professional development	-	-	8,240	-	-	98	8,338	5
Travel, meetings and conferences	-	-	635	-	-	2,925	3,560	-
Depreciation and amortization	-	-	-	-	-	1,995	1,995	-
Rapid response reimbursement - supplies	-	-	-	-	-	-	-	-
Total Non-Personnel Expenses	21,250	5,259	16,387	83,337	9,492	560,591	696,316	902
Total expenses before indirect costs	21,650	51,319	192,706	96,483	14,737	909,865	1,286,760	916
Allocation of indirect costs	40	5,132	19,271	3,972	1,474	47,598	77,487	-
TOTAL EXPENSES PER FINANCIAL STATEMENTS	\$ 21,690	\$ 56,451	\$ 211,977	\$ 100,455	\$ 16,211	\$ 957,463	\$ 1,364,247	\$ 916

THE SKILLSOURCE GROUP, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Pass-Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of Labor (DOL):				
Workforce Innovation and Opportunity Act Cluster:				
Pass-through from Virginia Community College System:				
Dislocated Worker Formula Grants	17.278	LWDA 11-20-04	\$ 267,498	\$ 418,531
Dislocated Worker Formula Grants	17.278	LWDA 11-21-04	413,265	777,283
Return to Earn	17.278	RTE 11-19-01	-	232,935
COVID - CHW Discretionary	17.278	CHW LWDA 11-21-01	<u>63,325</u>	<u>63,325</u>
Sub-total CFDA 17.278			<u>744,088</u>	<u>1,492,074</u>
Youth Activities Formula Grants	17.259	LWDA 11-20-04	61,931	84,208
Youth Activities Formula Grants	17.259	LWDA 11-21-04	<u>590,005</u>	<u>802,599</u>
Sub-total CFDA 17.259			<u>651,936</u>	<u>886,807</u>
Adult Program Formula Grants	17.258	LWDA 11-21-04	886,117	1,148,774
American Job Center Security	17.258	SECURE-11-20-02	<u>140,866</u>	<u>140,866</u>
Sub-total CFDA 17.258			<u>1,026,983</u>	<u>1,289,640</u>
Sub-total Workforce Innovation and Opportunity Act Cluster			<u>2,423,007</u>	<u>3,668,521</u>
Pass-through from Virginia Community College System: COVID-19 - National Dislocated Worker Grants / WIA National Emergency Grants	17.277	DWG COVID 11-02	204,149	254,401
Pass-through from Hampton Roads Workforce Council (Area 14)	17.277	NDWGC-LWDA11-2021-01	<u>660</u>	<u>3,558</u>
Sub-total CFDA 17.277			<u>204,809</u>	<u>257,959</u>
Pass-through from National Council on Aging: Senior Community Service Employment Program	17.235	AD-35218-20-60-A-51-85	<u>133,856</u>	<u>1,243,021</u>
Pass-through from ICF Incorporated, LLC: H-1B Job Training Grants	17.268	2100448639	-	<u>147,444</u>
Total U.S. Department of Labor (DOL)			<u>2,761,672</u>	<u>5,316,945</u>

THE SKILLSOURCE GROUP, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services (DHHS):				
Pass-through from Commonwealth of Virginia, Department of Social Services: Temporary Assistance for Needy Families	93.558	BEN-21-021-07	\$ -	\$ 109,285
Pass-through from Commonwealth of Virginia, Department of Social Services: Temporary Assistance for Needy Families	93.558	BEN-19-024-18	-	131,099
Pass-through from Commonwealth of Virginia, Department of Social Services: Temporary Assistance for Needy Families	93.558	BEN-17-056-16	<u>47,851</u>	<u>193,296</u>
Total U.S. Department of Health and Human Services (DHHS)			<u>47,851</u>	<u>433,680</u>
U.S. Department of Transportation (DOT):				
Pass-through from Metropolitan Washington Council of Governments: Job Access And Reverse Commute Program	20.516	17-033	<u>-</u>	<u>900</u>
Total U.S. Department of Transportation (DOT)			<u>-</u>	<u>900</u>
U.S. Department of Agriculture (USDA):				
Pass-through from Commonwealth of Virginia, Department of Social Services	10.561	BEN-21-085-04	<u>-</u>	<u>9,496</u>
Total U.S. Department of Agriculture (USDA)			<u>-</u>	<u>9,496</u>
U.S. Department of Education (ED) :				
Pass-through from Commonwealth of Virginia, Department for Aging and Rehabilitative Services	84.126		<u>-</u>	<u>5,464</u>
Total U.S. Department of Education (ED)			<u>-</u>	<u>5,464</u>
U.S. Department of the Treasury (TREAS) :				
Pass-through from Virginia Employment Commission: COVID-19 - Coronavirus Relief Fund	21.019	102500183	-	4,952
Pass-through from City of Manassas Department of Economic Development: COVID-19 - Coronavirus Relief Fund	21.019	210147	-	41,713
Pass-through from Virginia Employment Commission: Re-employ Virginians Educational Vouchers	21.019	4400010233	<u>-</u>	<u>9,000</u>
Total U.S. Department of the Treasury (TREAS)			<u>-</u>	<u>55,665</u>
Pass-through from Prince William County Department of Economic Development	21.027	50595540	<u>10,268</u>	<u>22,379</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,819,791</u>	<u>\$ 5,844,529</u>

THE SKILLSOURCE GROUP, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of SkillSource under programs of the Federal Government for the year ended June 30, 2022. Information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. The Schedule presents only a selected portion of the operations of SkillSource; accordingly, it is not intended to and does not present the financial position, changes in net assets or cash flows of SkillSource.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. SkillSource has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

THE SKILLSOURCE GROUP, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

1). Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP on the accrual basis of accounting: Unmodified

2). Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

3). Noncompliance material to financial statements noted? Yes No

Federal Awards

4). Internal control over major Federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

5). Type of auditor's report issued on compliance for major Federal programs: Unmodified

6). Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

7). Identification of major Federal programs:

<u>Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
17.278, 17.259, 17.258	Workforce Innovation and Opportunity Act Cluster:

8). Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

9). Auditee qualified as a low-risk auditee? Yes No

THE SKILLSOURCE GROUP, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a))

None

Section IV - Prior Year Findings with Current Year Status

None



CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
The SkillSource Group, Inc.
Vienna, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The SkillSource Group, Inc. (SkillSource) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise SkillSource's basic financial statements, and have issued our report thereon dated October 14, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SkillSource's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SkillSource's internal control. Accordingly, we do not express an opinion on the effectiveness of SkillSource's internal control.

A *deficiency in internal control* exists when 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of SkillSource's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether SkillSource's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

4550 MONTGOMERY AVENUE · SUITE 800 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · WWW.GRFCPA.COM

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

October 14, 2022



CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
The SkillSource Group, Inc.
Vienna, Virginia

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The SkillSource Group, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of SkillSource's major Federal programs for the year ended June 30, 2022. SkillSource's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, SkillSource complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of SkillSource's and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major Federal program. Our audit does not provide a legal determination of SkillSource's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to SkillSource's Federal programs.

4550 MONTGOMERY AVENUE · SUITE 800 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · WWW.GRF CPA.COM

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on SkillSource's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about SkillSource's compliance with the requirements of each major Federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding SkillSource's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of SkillSource's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of SkillSource's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gelman Rosenberg & Freedman

October 14, 2022