



## **AUDIT REPORT**

### **FINANCIAL AND FEDERAL AWARD COMPLIANCE EXAMINATION**

**FOR THE YEAR ENDED JUNE 30, 2017**

THE SKILLSOURCE GROUP, INC.

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## **FINANCIAL STATEMENTS**



**FOR THE YEAR ENDED JUNE 30, 2017  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2016**

**THE SKILLSOURCE GROUP, INC.**

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### INDEPENDENT AUDITOR'S REPORT

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

#### Report on the Financial Statements

We have audited the accompanying financial statements of The SkillSource Group, Inc. (SkillSource), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements.

#### 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 financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 auditor considers internal control relevant to the entity's 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 present fairly, in all material respects, the financial position of SkillSource as of June 30, 2017, 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.

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

## Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from SkillSource's 2016 financial statements, which were audited by other auditors and, in their report dated November 18, 2016, they expressed an unmodified opinion on those statements.

### Other Matter

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-(12 - 13) 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-(14 - 15), 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 September 26, 2017 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.



September 26, 2017

## THE SKILLSOURCE GROUP, INC.

**STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2017**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

**ASSETS**

|  | <u>2017</u>                | <u>2016</u>                |
|--|----------------------------|----------------------------|
| Cash and cash equivalents                              | \$ 619,707                 | \$ 258,210                 |
| Cash and cash equivalents - funds held for others      | 317,001                    | 413,865                    |
| Grants receivable                                      | 1,099,729                  | 1,575,757                  |
| Prepaid expenses                                       | 33,357                     | 34,985                     |
| Equipment, net of accumulated depreciation of \$26,475 | <u>14,785</u>              | <u>22,110</u>              |
| <b>TOTAL ASSETS</b>                                    | <b><u>\$ 2,084,579</u></b> | <b><u>\$ 2,304,927</u></b> |

**LIABILITIES AND NET ASSETS****LIABILITIES**

|                                       |                  |                  |
|---------------------------------------|------------------|------------------|
| Accounts payable and accrued expenses | \$ 789,058       | \$ 1,097,083     |
| Deferred revenue                      | 29,587           | 21,771           |
| Funds held for others                 | <u>317,001</u>   | <u>413,865</u>   |
| Total liabilities                     | <u>1,135,646</u> | <u>1,532,719</u> |

**NET ASSETS**

|   |                            |                            |
|---|----------------------------|----------------------------|
| Unrestricted                            | 918,295                    | 762,386                    |
| Temporarily restricted                  | <u>30,638</u>              | <u>9,822</u>               |
| Total net assets                        | <u>948,933</u>             | <u>772,208</u>             |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <b><u>\$ 2,084,579</u></b> | <b><u>\$ 2,304,927</u></b> |

## THE SKILLSOURCE GROUP, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2017  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

|  | 2017                     |                           |                          | 2016                     |
|--|--------------------------|---------------------------|--------------------------|--------------------------|
|  | Unrestricted             | Temporarily<br>Restricted | Total                    | Total                    |
| <b>SUPPORT AND REVENUE</b>                     |                          |                           |                          |                          |
| Federal grants                                 | \$ 5,790,126             | \$ -                      | \$ 5,790,126             | \$ 6,936,568             |
| Rental income                                  | 476,869                  | -                         | 476,869                  | 464,199                  |
| Non-Federal grants and contracts               | 508,992                  | 127,499                   | 636,491                  | 440,884                  |
| Contributions                                  | 14,303                   | -                         | 14,303                   | 5,631                    |
| Interest income                                | 5,040                    | -                         | 5,040                    | 4,706                    |
| Net assets released from donor<br>restrictions | <u>106,683</u>           | <u>(106,683)</u>          | <u>-</u>                 | <u>-</u>                 |
| Total support and<br>revenue                   | <u>6,902,013</u>         | <u>20,816</u>             | <u>6,922,829</u>         | <u>7,851,988</u>         |
| <b>EXPENSES</b>                                |                          |                           |                          |                          |
| Program Services                               | <u>6,286,846</u>         | <u>-</u>                  | <u>6,286,846</u>         | <u>7,274,855</u>         |
| Supporting Services:                           |                          |                           |                          |                          |
| Management and General                         | 408,337                  | -                         | 408,337                  | 506,965                  |
| Fundraising                                    | <u>50,921</u>            | <u>-</u>                  | <u>50,921</u>            | <u>47,764</u>            |
| Total supporting<br>services                   | <u>459,258</u>           | <u>-</u>                  | <u>459,258</u>           | <u>554,729</u>           |
| Total expenses                                 | <u>6,746,104</u>         | <u>-</u>                  | <u>6,746,104</u>         | <u>7,829,584</u>         |
| Change in net assets                           | 155,909                  | 20,816                    | 176,725                  | 22,404                   |
| Net assets at beginning of year                | <u>762,386</u>           | <u>9,822</u>              | <u>772,208</u>           | <u>749,804</u>           |
| <b>NET ASSETS AT END OF YEAR</b>               | <b><u>\$ 918,295</u></b> | <b><u>\$ 30,638</u></b>   | <b><u>\$ 948,933</u></b> | <b><u>\$ 772,208</u></b> |



## THE SKILLSOURCE GROUP, INC.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

|   | <u>2017</u>              | <u>2016</u>              |
|---|--------------------------|--------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                          |                          |
| Change in net assets  | \$ 176,725               | \$ 22,404                |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                          |                          |
| Depreciation  | 7,325                    | 5,035                    |
| Decrease (increase) in:   |                          |                          |
| Grants receivable   | 476,028                  | (199,355)                |
| Prepaid expenses  | 1,628                    | 2,796                    |
| (Decrease) increase in:   |                          |                          |
| Accounts payable and accrued expenses   | (308,025)                | (69,954)                 |
| Deferred revenue  | 7,816                    | 2,092                    |
| Funds held for others   | <u>(96,864)</u>          | <u>246,120</u>           |
| Net cash provided by operating activities   | <u>264,633</u>           | <u>9,138</u>             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                          |                          |
| Purchase of equipment   | <u>-</u>                 | <u>(9,161)</u>           |
| Net cash used by investing activities   | <u>-</u>                 | <u>(9,161)</u>           |
| Net increase (decrease) in cash and cash equivalents  | 264,633                  | (23)                     |
| Cash and cash equivalents at beginning of year  | <u>672,075</u>           | <u>672,098</u>           |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>   | <b><u>\$ 936,708</u></b> | <b><u>\$ 672,075</u></b> |

**THE SKILLSOURCE GROUP, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**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 the Northern Virginia Workforce Development Board (NVWDB) and to promote and implement NVWDB 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 FASB ASC 958, *Not-for-Profit Entities*.

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, 2016, 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. 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 receivable -

Grants 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.

Equipment -

Equipment in excess of \$5,000 is capitalized and stated at cost and is depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation expense for the year ended June 30, 2017 totaled \$7,325.

THE SKILLSOURCE GROUP, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

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, 2017, 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.

Deferred revenue -

Deferred revenue consists of program fees. SkillSource recognizes revenue when the related activity has occurred.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of SkillSource and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of SkillSource and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Revenue recognition -

SkillSource receives funding under grants from the federal government as well as from the Commonwealth of Virginia for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Unrestricted and temporarily restricted contributions and non-federal grants and contracts are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants and contracts are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

**THE SKILLSOURCE GROUP, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

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.

New accounting pronouncements (not yet adopted) -

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets.

The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of SkillSource's financial statements, it is not expected to alter SkillSource's reported financial position.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied retrospectively in the year the ASU is first applied.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 31, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

THE SKILLSOURCE GROUP, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

2. LINE OF CREDIT

SkillSource has a \$100,000 line of credit, which matures March 10, 2018. Amounts borrowed under this agreement bear interest at the prime rate as issued in The Wall Street Journal. As of June 30, 2017, the rate was 4.25%. 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, 2017, there were no outstanding borrowings on the line of credit.

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2017:

|  |           |                      |
|--|-----------|----------------------|
| Metropolitan Washington Council of Governments | \$        | 5,638                |
| Community Foundation (NVITE)                   |           | <u>25,000</u>        |
| <b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b> | <b>\$</b> | <b><u>30,638</u></b> |

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

|  |           |                       |
|--|-----------|-----------------------|
| Metropolitan Washington Council of Governments           | \$        | 4,184                 |
| Consolidated Community Funding Pool                      |           | 70,499                |
| Third Sector Pay for Performance                         |           | <u>32,000</u>         |
| <b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b> | <b>\$</b> | <b><u>106,683</u></b> |

4. LEASE COMMITMENTS

SkillSource leases office space through two separate leasing arrangements. The first lease is an annual lease that is renewed each year. Base rent is \$42,360 per year. The second lease is for additional office space under a ten-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 following is a schedule of the future minimum lease payments:

| <u>Year Ending June 30,</u> |                          |
|-----------------------------|--------------------------|
| 2018                        | \$ 290,261               |
| 2019                        | 254,099                  |
| 2020                        | <u>128,618</u>           |
|                             | <b>\$ <u>672,978</u></b> |

Rent expense for the year ended June 30, 2017 was \$242,910.

SkillSource subleases a portion of its office space in Woodbridge, Virginia, whereby approximately 88% of the leased space in Woodbridge was subleased to several organizations. The subleases include annual rental escalations of 2.5% and expire in 2020.

THE SKILLSOURCE GROUP, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

4. LEASE COMMITMENTS (Continued)

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

| <u>Year Ending June 30,</u> |                   |
|-----------------------------|-------------------|
| 2018                        | \$ 218,153        |
| 2019                        | 223,607           |
| 2020                        | <u>113,184</u>    |
|                             | <u>\$ 554,944</u> |

Rental income for the year ended June 30, 2017 was \$476,869.

5. RETIREMENT PLAN

SkillSource provides a defined contribution tax-deferred 401(k) pension plan (the Plan). All employees are eligible to participate in the Plan and are fully vested upon their 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, 2017 totaled \$123,912.

6. CONCENTRATION OF REVENUE

For the year ended June 30, 2017, approximately 68% 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 78% 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.

7. CONTINGENCY

SkillSource receives grants from various agencies of the United States Government. Beginning for fiscal year ended June 30, 2016, 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 2017. 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.

8. SUBSEQUENT EVENTS

In preparing these financial statements, SkillSource has evaluated events and transactions for potential recognition or disclosure through September 26, 2017, the date the financial statements were issued.

## **SUPPLEMENTAL INFORMATION**

**THE SKILLSOURCE GROUP, INC.**

**STATEMENT OF GRANTS, AWARDS, AND ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

|  | US DOL              |                |                          |                   | Pass-Through            |                   |
|--|---------------------|----------------|--------------------------|-------------------|-------------------------|-------------------|
|  | Total               | Indirect Costs | ETA WIF Entrepreneurship | STEER             | Fairfax County, VA WIOA | VCCS WIOA         |
| <b>Personnel Expenses:</b>                         |                     |                |                          |                   |                         |                   |
| SkillSource salaries and wages                     | \$ 1,218,615        | \$ 125,531     | \$ 1,541                 | \$ 10,884         | \$ 585,706              | \$ 70,746         |
| SkillSource fringe benefits                        | 385,608             | 33,382         | 884                      | 2,563             | 196,812                 | 23,447            |
| SkillSource total compensation                     | 1,604,223           | 158,913        | 2,425                    | 13,447            | 782,518                 | 94,193            |
| One-Stop operator wages                            | 1,450,880           | -              | -                        | 73,983            | 1,296,686               | -                 |
| One-Stop operator fringe benefits                  | 651,918             | -              | -                        | 37,526            | 582,830                 | -                 |
| One-Stop operator compensation                     | 2,102,798           | -              | -                        | 111,509           | 1,879,516               | -                 |
| <b>Total Personnel Expenses</b>                    | <b>3,707,021</b>    | <b>158,913</b> | <b>2,425</b>             | <b>124,956</b>    | <b>2,662,034</b>        | <b>94,193</b>     |
| <b>Non-Personnel Expenses:</b>                     |                     |                |                          |                   |                         |                   |
| Customer training and services                     | 1,856,138           | -              | 120,285                  | 53,992            | 1,541,834               | 23,107            |
| Depreciation                                       | 7,325               | -              | -                        | -                 | 3,141                   | -                 |
| Facilities supplies and services                   | 319,380             | 22,685         | -                        | -                 | 24,287                  | -                 |
| Insurance  | 12,238              | 11,442         | -                        | -                 | -                       | -                 |
| Office supplies and services                       | 76,174              | 16,163         | -                        | 65                | 7,306                   | 1,623             |
| Outreach and communication                         | 108,064             | 37,017         | -                        | 1,475             | 35,117                  | 1,871             |
| Professional services                              | 624,239             | 115,801        | 381,025                  | -                 | 36,956                  | -                 |
| Travel, meetings and conferences                   | 30,399              | 796            | -                        | -                 | 17,487                  | 3,351             |
| Other  | 5,126               | -              | -                        | -                 | 2,976                   | 150               |
| <b>Total Non-Personnel Expenses</b>                | <b>3,039,083</b>    | <b>203,904</b> | <b>501,310</b>           | <b>55,532</b>     | <b>1,669,104</b>        | <b>30,102</b>     |
| Total expenses before indirect costs               | 6,746,104           | 362,817        | 503,735                  | 180,488           | 4,331,138               | 124,295           |
| Allocation of indirect costs                       | -                   | (362,817)      | 248                      | 12,778            | 272,210                 | 9,632             |
| <b>Total Expenses per Financial Statements</b>     | <b>\$ 6,746,104</b> | <b>\$ -</b>    | <b>\$ 503,983</b>        | <b>\$ 193,266</b> | <b>\$ 4,603,348</b>     | <b>\$ 133,927</b> |
| Less: Program income offset against grant expenses | 3,604               | -              | -                        | -                 | 3,604                   | -                 |
| <b>Total Net Expenses</b>                          | <b>\$ 6,742,500</b> | <b>\$ -</b>    | <b>\$ 503,983</b>        | <b>\$ 193,266</b> | <b>\$ 4,599,744</b>     | <b>\$ 133,927</b> |



Non-Federal Awards and Activities

| US DOT<br>MwCOG  | US HHS<br>TANF<br>Employment | US HHS<br>Together | Project<br>Education<br>Youth through<br>Employment | Virginia<br>Department<br>of<br>Corrections | Fairfax County<br>Incarceration<br>Employment | P4P              | Other<br>Awards<br>and<br>Programs | Total Non-<br>Federal<br>Awards | Fund-raising     |
|------------------|------------------------------|--------------------|---|---|---|------------------|------------------------------------|---------------------------------|------------------|
| \$ 42,282        | \$ 132,222                   | \$ 246             | \$ 85,951   | \$ -  | \$ 47,456                                     | \$ -             | \$ 89,513                          | \$ 222,920                      | \$ 26,537        |
| 12,393           | 56,151                       | 70                 | 7,339   | -   | 9,896   | -                | 29,366                             | 46,601                          | 13,305           |
| 54,675           | 188,373                      | 316                | 93,290  | -   | 57,352  | -                | 118,879                            | 269,521                         | 39,842           |
| -                | -                            | 20,609             | 1,312   | 58,290                                      | -   | -                | -                                  | 59,602                          | -                |
| -                | -                            | 6,455              | 676   | 24,431                                      | -   | -                | -                                  | 25,107                          | -                |
| -                | -                            | 27,064             | 1,988   | 82,721                                      | -   | -                | -                                  | 84,709                          | -                |
| <b>54,675</b>    | <b>188,373</b>               | <b>27,380</b>      | <b>95,278</b>                                       | <b>82,721</b>                               | <b>57,352</b>                                 | <b>-</b>         | <b>118,879</b>                     | <b>354,230</b>                  | <b>39,842</b>    |
| 7,536            | 39,226                       | -                  | 8,189   | 35,895                                      | -   | -                | 26,074                             | 70,158                          | -                |
| -                | -                            | -                  | -   | -   | -   | -                | 4,184                              | 4,184                           | -                |
| -                | -                            | -                  | 377   | -   | -   | -                | 272,031                            | 272,408                         | -                |
| 395              | -                            | -                  | -   | -   | 401   | -                | -                                  | 401                             | -                |
| -                | 5,530                        | 204                | 145   | -   | 2,967   | -                | 40,534                             | 43,646                          | 1,637            |
| -                | 3,917                        | 300                | 7,174   | -   | 809   | -                | 16,929                             | 24,912                          | 3,455            |
| -                | 600                          | -                  | 3,924   | -   | 1,900   | 54,470           | 29,528                             | 89,822                          | 35               |
| -                | 3,342                        | -                  | 153   | -   | 662   | -                | 3,234                              | 4,049                           | 1,374            |
| -                | 75                           | -                  | -   | -   | -   | -                | 1,422                              | 1,422                           | 503              |
| <b>7,931</b>     | <b>52,690</b>                | <b>504</b>         | <b>19,962</b>                                       | <b>35,895</b>                               | <b>6,739</b>                                  | <b>54,470</b>    | <b>393,936</b>                     | <b>511,002</b>                  | <b>7,004</b>     |
| 62,606           | 241,063                      | 27,884             | 115,240   | 118,616                                     | 64,091  | 54,470           | 512,815                            | 865,232                         | 46,846           |
| 5,591            | 19,262                       | 2,800              | 9,743   | 8,459                                       | 5,865   | -                | 12,154                             | 36,221                          | 4,075            |
| <b>\$ 68,197</b> | <b>\$ 260,325</b>            | <b>\$ 30,684</b>   | <b>\$ 124,983</b>                                   | <b>\$ 127,075</b>                           | <b>\$ 69,956</b>                              | <b>\$ 54,470</b> | <b>\$ 524,969</b>                  | <b>\$ 901,453</b>               | <b>\$ 50,921</b> |
| -                | -                            | -                  | -   | -   | -   | -                | -                                  | -                               | -                |
| <b>\$ 68,197</b> | <b>\$ 260,325</b>            | <b>\$ 30,684</b>   | <b>\$ 124,983</b>                                   | <b>\$ 127,075</b>                           | <b>\$ 69,956</b>                              | <b>\$ 54,470</b> | <b>\$ 524,969</b>                  | <b>\$ 901,453</b>               | <b>\$ 50,921</b> |

## THE SKILLSOURCE GROUP, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017

| <u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>           | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Pass-Through to Subrecipients</u> | <u>Total Federal Expenditures</u> |
|--|----------------------------|---|--------------------------------------|-----------------------------------|
| <b>U.S. Department of Labor (DOL)</b>  |                            |   |                                      |                                   |
| Workforce Innovation and Opportunity Act Cluster:                              |                            |   |                                      |                                   |
| Pass-through from Virginia Community College System:                           |                            |   |                                      |                                   |
| Dislocated Worker Formula Grants   | 17.278                     | LWA 11-15-03, LWA 11-16-03                    | \$ 979,232                           | \$ 1,713,282                      |
| Dislocated Worker Formula Grants   | 17.278                     | LWA 11-14-04TN                                | -                                    | 7,453                             |
| Dislocated Worker Formula Grants   | 17.278                     | LWA 11-14-INC02                               | -                                    | 4,538                             |
| Sub-total CFDA 17.278  |                            |   | <u>979,232</u>                       | <u>1,725,273</u>                  |
| Youth Activities   | 17.259                     | LWA 11-15-02, LWA 11-16-01                    | 1,111,247                            | 1,404,339                         |
| Adult Program  | 17.258                     | LWA 11-15-03, LWA 11-16-03                    | 1,206,435                            | 1,433,366                         |
| Dislocated Worker National Reserve Technical Assistance and Training           | 17.281                     | LWDA 11-15-01 NR                              | -                                    | 14,654                            |
| WIA Dislocated Workers   | 17.260                     | LWIA-11-15-01-IWTRR                           | <u>13,261</u>                        | <u>22,112</u>                     |
| Sub-total Workforce Innovation and Opportunity Act Cluster                     |                            |   | <u>3,310,175</u>                     | <u>4,599,744</u>                  |
| Re-entry Employment Opportunities  | 17.270                     | N/A   | 153,076                              | 193,266                           |
| Workforce Innovation Fund  | 17.283                     | N/A   | 494,948                              | 503,983                           |
| Pass-through from Virginia Community College System: Workforce Innovation Fund | 17.283                     | IF-26351-14-60-A51                            | -                                    | 133,927                           |
| <b>Total U.S. Department of Labor (DOL)</b>                                    |                            |   | <u><b>3,958,199</b></u>              | <u><b>5,430,920</b></u>           |

THE SKILLSOURCE GROUP, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017

| <u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>  | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Pass-Through to Subrecipients</u> | <u>Total Federal Expenditures</u> |
|---|----------------------------|---|--------------------------------------|-----------------------------------|
| <b>U.S. Department of Health and Human Services (DHHS):</b>   |                            |   |                                      |                                   |
| Pass-through from Commonwealth of Virginia, Department of Social Services: Temporary Assistance for Needy Families                  | 93.558                     | BEN-16-047-023                                | \$ -                                 | \$ 260,325                        |
| Pass-through from Virginia Polytechnic Institute and State University: Healthy Marriage Promotion and Responsible Fatherhood Grants | 93.086                     | 90FM0077-01-00                                | <u>27,064</u>                        | <u>30,684</u>                     |
| <b>Total U.S. Department of Health and Human Services (DHHS)</b>  |                            |   | <b><u>27,064</u></b>                 | <b><u>291,009</u></b>             |
| <b>U.S. Department of Transportation (DOT):</b>   |                            |   |                                      |                                   |
| Pass-through from Metropolitan Washington Council of Governments: Job Access And Reverse Commute Program                            | 20.516                     | 15-012  | -                                    | 40,238                            |
| Pass-through from Metropolitan Washington Council of Governments: Job Access And Reverse Commute Program                            | 20.516                     | 17-031  | <u>-</u>                             | <u>27,959</u>                     |
| <b>Total U.S. Department of Transportation (DOT)</b>  |                            |   | <b><u>-</u></b>                      | <b><u>68,197</u></b>              |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>   |                            |   | <b><u>\$ 3,985,263</u></b>           | <b><u>\$ 5,790,126</u></b>        |

**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, 2017. The information in this Schedule is presented in accordance with the 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)*. Because the Schedule presents only a selected portion of the operations of SkillSource, 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 not 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, 2017

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:

| CFDA Number(s)                         | Name of Federal Program or Cluster               |
|--|--|
| 17.278, 17.258, 17.259, 17.281, 17.260 | 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, 2017**

**Section II - Financial Statement Findings**

There were no reportable findings.

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

There were no reportable findings.

**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**

**Independent Auditor's Report**

To the Board of Directors  
The SkillSource Group, Inc.  
Washington, D.C.

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, 2017, and the related notes to the financial statements, which collectively comprise SkillSource's basic financial statements, and have issued our report thereon dated September 26, 2017.

**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) to determine the 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.

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## 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 determination of financial statement amounts. 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. 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".

September 26, 2017



### REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE 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)

#### Independent Auditor's Report

To the Board of Directors  
The SkillSource Group, Inc.  
Washington, D.C.

#### **Report on Compliance for Each Major Federal Program**

We have audited The SkillSource Group, Inc.'s compliance with the types of compliance requirements described 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, 2017. SkillSource's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### **Management's Responsibility**

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of SkillSource's major Federal programs based on our audit of the types of compliance requirements referred to above. 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)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SkillSource's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of SkillSource's compliance.

#### **Opinion on Each Major Federal Program**

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, 2017.

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## Report on Internal Control Over Compliance

Management of SkillSource is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SkillSource's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SkillSource's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



September 26, 2017