

The SkillSource Group, Inc.

Financial Report
June 30, 2011

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Independent Auditor's Report

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

We have audited the accompanying statement of financial position of The SkillSource Group, Inc. (SkillSource) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of SkillSource's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the 2010 financial statements, which were audited by other auditors whose report dated November 8, 2010, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the 2011 financial statements referred to above present fairly, in all material respects, the financial position of SkillSource, as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated, November 8, 2011, on our consideration of SkillSource's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of those reports 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2011, is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Vienna, Virginia
November 8, 2011

The SkillSource Group, Inc.

Statement Of Financial Position

June 30, 2011

(With Comparative Totals For 2010)

Assets	2011	2010
Cash And Cash Equivalents	\$ 463,973	\$ 629,365
Cash And Cash Equivalents – Funds Held For Others	388,461	212,843
	<u>852,434</u>	<u>842,208</u>
Restricted Cash	-	40,308
Accounts Receivable	64,844	32,858
Grants Receivable	611,424	558,392
Prepaid Expenses	43,787	20,868
Property And Equipment, net	1,339	413
	<u>\$ 1,573,828</u>	<u>\$ 1,495,047</u>
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 613,378	\$ 706,572
Deferred revenue	10,249	23,315
Funds held for others	388,461	212,843
	<u>1,012,088</u>	<u>942,730</u>
Commitments And Contingencies (Notes 3, 5, and 7)		
Net Assets		
Unrestricted	561,740	512,009
Temporarily restricted	-	40,308
	<u>561,740</u>	<u>552,317</u>
	<u>\$ 1,573,828</u>	<u>\$ 1,495,047</u>

See Notes To Financial Statements.

The SkillSource Group, Inc.

Statement Of Activities
Year Ended June 30, 2011
(With Comparative Totals For 2010)

	2011			2010 Total
	Unrestricted	Temporarily Restricted	Total	
Revenue and support:				
Grants	\$ 4,006,654	\$ -	\$ 4,006,654	\$ 3,487,036
Contributions	70,079	65,556	135,635	161,371
Rental income	405,625	-	405,625	104,779
Interest income	144	7	151	182
Net assets released from restrictions	105,871	(105,871)	-	-
Total revenue and support	4,588,373	(40,308)	4,548,065	3,753,368
Expenses:				
Program services	4,161,154	-	4,161,154	3,578,594
Management and general	370,079	-	370,079	165,789
Fundraising	7,409	-	7,409	-
Total expenses	4,538,642	-	4,538,642	3,744,383
Change in net assets	49,731	(40,308)	9,423	8,985
Net assets:				
Beginning	512,009	40,308	552,317	543,332
Ending	\$ 561,740	\$ -	\$ 561,740	\$ 552,317

See Notes To Financial Statements.

The SkillSource Group, Inc.

**Statement Of Cash Flows
Year Ended June 30, 2011
(With Comparative Totals For 2010)**

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	\$ 9,423	\$ 8,985
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	736	475
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(31,986)	(32,419)
Grants receivable	(53,032)	110,283
Prepaid expenses	(22,919)	(12,057)
Increase (decrease) in:		
Accounts payable and accrued expenses	(93,194)	148,776
Deferred revenue	(13,066)	1,395
Funds held for others	175,618	(399,051)
Net cash used in operating activities	(28,420)	(173,613)
Cash Flows From Investing Activities		
Use of restricted cash	40,308	2,124
Proceeds from sale/maturities of investments	-	200,000
Purchases of property and equipment	(1,662)	-
Net cash provided by investing activities	38,646	202,124
Net increase in cash and cash equivalents	10,226	28,511
Cash And Cash Equivalents		
Beginning	842,208	813,697
Ending	\$ 852,434	\$ 842,208

See Notes To Financial Statements.

The SkillSource Group, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: The SkillSource Group, Inc. (SkillSource) is a not-for-profit organization organized to support the workforce and economic development policies and programs determined by the Northern Virginia Workforce Investment Board (NVWIB) and to promote and implement NVWIB activities in the northern Virginia region. SkillSource was established in March 2002 and began operations in January 2003.

A summary of SkillSource's significant accounting policies follows:

Basis of accounting: The financial statements are prepared on the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: SkillSource reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. SkillSource had no permanently restricted net assets at June 30, 2011.

Cash and cash equivalents: For purposes of the statement of cash flows, SkillSource considers all cash accounts that are not subject to withdrawal restrictions or penalties and all highly liquid debt instruments purchased with a maturity of less than three months to be cash equivalents.

Financial risk: SkillSource maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. SkillSource has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash.

Accounts receivable: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. The majority of SkillSource's receivables are reimbursable expenditures incurred on federal grants. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. There was no provision for doubtful accounts at June 30, 2011.

Property and equipment: Property and equipment are stated at cost or, if donated, at fair market value at the date of receipt. SkillSource follows the practice of capitalizing all expenditures for property and equipment in excess of \$500. SkillSource depreciates property and equipment using the straight-line method over the estimated useful life of the asset. Leasehold improvements are depreciated over the lesser of the lease term or the estimated useful lives of the assets.

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 treated as an agency liability in the accompanying financial statements.

The SkillSource Group, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Valuation of long-lived assets: SkillSource accounts for the valuation of long-lived assets by reviewing the assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Revenue recognition: Revenue from federal grants is recognized as related reimbursable expenses are incurred. Allowable expenses incurred in excess of cumulative reimbursements are reported within grant receivables.

Contribution revenue is recognized at the time an unconditional promise to give is received. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions.

Rental income is recognized on a straight-line basis over the life of the lease.

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes: SkillSource is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision is made for income taxes. In addition, SkillSource has been determined by the Internal Revenue Service not to be a private foundation. Income, which is not related to its exempt purpose, less applicable deductions, is subject to federal and state corporate income taxes. SkillSource had no unrelated business income for the year ended June 30, 2011.

Management evaluated SkillSource's tax positions and concluded that SkillSource has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, SkillSource is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

Use of estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior period information: The financial statements include certain prior year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with ServiceSource's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Reclassification: Certain items in the June 30, 2010, financial statements have been reclassified to comply with the current year presentation. These reclassifications had no effect on previously reported change in net assets.

Subsequent events: SkillSource evaluated subsequent events through November 8, 2011, which is the date the financial statements were available to be issued.

The SkillSource Group, Inc.

Notes To Financial Statements

Note 2. Property And Equipment

Property and equipment consist of the following at June 30, 2011:

Equipment	\$ 11,190
Less accumulated depreciation	(9,851)
	<u>\$ 1,339</u>

Depreciation expense was \$736 for the year ended June 30, 2011.

Note 3. Leasing Arrangements

SkillSource leases office space through two separate leasing arrangements. The first lease is an annual lease that is renewed each year. The second lease is for additional office space in Woodbridge, Virginia, which expires in 2020. SkillSource has the option to terminate this lease in December 2016. The lease includes annual rental escalations of 2.5%. Total rental expense under these two leases was \$208,121 for the year ended June 30, 2011.

The following is a schedule by years of future minimum lease payments under the operating leases:

Years Ending June 30,	
2012	\$ 218,709
2013	224,177
2014	229,782
2015	235,526
2016	241,414
2017	122,197
	<u>\$ 1,271,805</u>

SkillSource has entered into several sublease arrangements for the office space in Woodbridge, Virginia, whereby approximately 88% of the leased space in Woodbridge was sub-leased to several organizations. These subleases expire in 2020 and include annual rental escalations of 2.5%.

The following is a schedule by years of future minimum receipts under the sub-lease:

Years Ending June 30,	
2012	\$ 200,162
2013	205,167
2014	210,296
2015	215,553
2016	220,942
2017 – 2020	111,835
	<u>\$ 1,163,955</u>

The SkillSource Group, Inc.

Notes To Financial Statements

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following donor-restricted programs at June 30, 2011:

	Balance July 1, 2010	Additions	Releases	Balance June 30, 2011
NoVA Career Assistance Loan Program	\$ 40,308	\$ 7	\$ 40,315	\$ -
Project E.Y.E.	-	65,556	65,556	-
	<u>\$ 40,308</u>	<u>\$ 65,563</u>	<u>\$ 105,871</u>	<u>\$ -</u>

Note 5. Pension Plan

SkillSource sponsors a defined contribution tax-deferred 401(k) pension plan (the Plan). All full-time employees are eligible to participate in the Plan after 30 days of service. SkillSource matches employee contributions for up to 10.4% of gross salaries. Total pension expense for the year ended June 30, 2011, was \$54,881.

Note 6. Concentration Of Revenue

For the year ended June 30, 2011, approximately 79% of total revenue was from grants funded by the U.S. Department of Labor under the Workforce Investment Act (WIA). Reduction of WIA funding would have a significant impact on the operations of SkillSource.

Note 7. Contingencies

SkillSource receives a majority of its revenue from U.S. government funded grants, all of which are subject to audit. The ultimate determination of amounts received under these programs is generally based upon allowable costs reported to and subject to audit by sponsoring agencies. There exists a contingency to refund any amounts received in excess of allowable costs. Management believes that disallowed costs, if any, will be immaterial to the financial statements.



**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 the financial statements of The SkillSource Group, Inc. (SkillSource) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 8, 2011. 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.

Internal Control Over Financial Reporting

Management of SkillSource is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered SkillSource's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SkillSource's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SkillSource's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether SkillSource's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Vienna, Virginia
November 8, 2011



**Independent Auditor's Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133**

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

Compliance

We have audited the compliance of The SkillSource Group, Inc.'s (SkillSource) with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2011. SkillSource's major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of SkillSource's management. Our responsibility is to express an opinion on SkillSource's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on SkillSource's compliance with those requirements.

In our opinion, SkillSource complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

Management of SkillSource is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered SkillSource's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Foundation'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 for 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Vienna, Virginia
November 8, 2011

The SkillSource Group, Inc.

**Schedule Of Expenditures Of Federal Awards
Year Ended June 30, 2011**

Federal Granting Agency And Program Title	CFDA Number	Expenditures
U.S. Department of Labor (DOL)		
Employment Programs for People with Disabilities	17.720	<u>\$ 63,208</u>
Pass-through from Virginia Community College System:		
<i>Workforce Investment Act Cluster:</i>		
Adult Program	17.258	549,016
Adult Program (ARRA Funded)	17.258	192,490
Youth Activities	17.259	388,966
Youth Activities (ARRA Funded)	17.259	142,685
Dislocated Workers	17.260	822,041
Dislocated Workers (ARRA Funded)	17.260	318,707
Incentive Award	17.260	70,000
BRAC	17.260	795,052
NoVA Gate Initiative	17.260	228,599
Americorps: Virginia Workforce Connection	17.260	<u>15,767</u>
		<u>3,523,323</u>
Total DOL Expenditures		<u><u>3,586,531</u></u>
U.S. Department of Transportation (DoT)		
Pass-through from Metropolitan Washington Council of Governments:		
Job Access Reverse Commute	20.516	<u>13,518</u>
Total DoT Expenditures		<u>13,518</u>
U.S. Department of Health and Human Services (DHHS)		
Pass-through from Fairfax County:		
Temporary Assistance for Needy Families (TANF) (ARRA Funded)	93.716	<u>251,849</u>
Total DHHS Expenditures		<u>251,849</u>
Total Expenditures of Federal Awards		<u><u>\$ 3,851,898</u></u>

See Note To Schedule Of Expenditures Of Federal Awards.

The SkillSource Group, Inc.

Note To Schedule Of Expenditures Of Federal Awards

Note 1. Basis Of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The SkillSource Group, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The SkillSource Group, Inc.

**Schedule Of Findings And Questioned Costs
Year Ended June 30, 2011**

Section I. Summary Of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:
▪ Material weakness(es) identified? Yes X No
▪ Significant deficiency(ies) identified that are
not considered to be material weakness(es)? Yes X None Reported
Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
▪ Material weakness(es) identified? Yes X No
▪ Significant deficiency(ies) identified that are
not considered to be material weakness(es)? Yes X None Reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any auditor findings disclosed that are required
to be reported in accordance with Section 510(a)
of OMB Circular A-133? Yes X No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
Workforce Investment Act Cluster	17.258, 17.259, 17.260

Dollar threshold used to distinguish between
Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

(Continued)

The SkillSource Group, Inc.

Schedule Of Findings And Questioned Costs (Continued)
Year Ended June 30, 2011

Section II. Financial Statement Findings

None reported.

Section III. Findings And Questioned Costs For Federal Awards

None reported.

The SkillSource Group, Inc.

**Summary Schedule Of Prior Audit Findings
Year Ended June 30, 2011**

There were no findings reported for the year ended June 30, 2010.