

The SkillSource Group, Inc.

Financial Report
June 30, 2015

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RSM US LLP

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, 2015, the related statements of activities 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 the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 SkillSource'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 SkillSource'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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The SkillSource Group, Inc.'s 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 2, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
November 6, 2015

The SkillSource Group, Inc.

Statement of Financial Position

June 30, 2015

(With Comparative Totals for 2014)

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Assets | | |
| Cash and Cash Equivalents | \$ 504,353 | \$ 588,921 |
| Cash and Cash Equivalents – Funds Held for Others | 167,745 | 168,071 |
| | 672,098 | 756,992 |
| Grants Receivable | 1,376,402 | 1,441,701 |
| Prepaid Expenses | 37,781 | 23,521 |
| Equipment, Net | 17,984 | - |
| | \$ 2,104,265 | \$ 2,222,214 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 1,167,037 | \$ 1,233,670 |
| Deferred revenue | 19,679 | 1,044 |
| Funds held for others | 167,745 | 168,071 |
| | 1,354,461 | 1,402,785 |
| Commitments and Contingencies (Notes 2, 4, 5, and 6) | | |
| Net Assets | | |
| Unrestricted | 725,313 | 787,911 |
| Temporarily restricted | 24,491 | 31,518 |
| | 749,804 | 819,429 |
| | \$ 2,104,265 | \$ 2,222,214 |

See Notes to Financial Statements.

The SkillSource Group, Inc.

Statement of Activities
Year Ended June 30, 2015
(With Comparative Totals for 2014)

| | 2015 | | | 2014 Total |
|---------------------------------------|------------------|---------------------------|------------------|------------------|
| | Unrestricted | Temporarily Restricted | Total | |
| Revenue and Support | | | | |
| Federal grants | \$ 7,153,447 | \$ - | \$ 7,153,447 | \$ 7,270,242 |
| Non-federal grants and contracts | 165,968 | 187,526 | 353,494 | 619,440 |
| Contributions | 10,124 | 12,500 | 22,624 | 97,219 |
| Rental income | 437,668 | - | 437,668 | 446,781 |
| Interest income | 5,558 | - | 5,558 | 5,712 |
| Net assets released from restrictions | 207,053 | (207,053) | - | - |
| Total revenue and support | 7,979,818 | (7,027) | 7,972,791 | 8,439,394 |
| Expenses | | | | |
| Program services | 7,557,056 | - | 7,557,056 | 7,930,110 |
| Management and general | 345,028 | - | 345,028 | 467,556 |
| Fundraising | 140,332 | - | 140,332 | 107,715 |
| Total expenses | 8,042,416 | - | 8,042,416 | 8,505,381 |
| Change in net assets | (62,598) | (7,027) | (69,625) | (65,987) |
| Net Assets | | | | |
| Beginning | 787,911 | 31,518 | 819,429 | 885,416 |
| Ending | \$ 725,313 | \$ 24,491 | \$ 749,804 | \$ 819,429 |

See Notes to Financial Statements.

The SkillSource Group, Inc.

Statement of Cash Flows
Year Ended June 30, 2015
(With Comparative Totals for 2014)

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ (69,625) | \$ (65,987) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 2,925 | 138 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Grants receivable | 65,299 | (156,830) |
| Prepaid expenses | (14,260) | (13,162) |
| Prepaid training licenses | - | 192,504 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (66,633) | 308,652 |
| Deferred revenue | 18,635 | (7,340) |
| Funds held for others | (326) | (55,991) |
| Net cash provided by (used in) operating activities | (63,985) | 201,984 |
| Cash Flows Used In Investing Activities | | |
| Purchases of property and equipment | (20,909) | - |
| Net cash used in investing activities | (20,909) | - |
| Net (decrease) increase in cash and cash equivalents | (84,894) | 201,984 |
| Cash and Cash Equivalents | | |
| Beginning | 756,992 | 555,008 |
| Ending | \$ 672,098 | \$ 756,992 |

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 nonprofit 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. Unconditional support is recognized when notification of the contribution is received

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, 2015 or 2014.

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.

Receivables: 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, 2015.

Equipment: Equipment is stated at cost or, if donated, at fair market value at the date of receipt. SkillSource follows the practice of capitalizing all expenditures for equipment in excess of \$5,000. SkillSource depreciates equipment using the straight-line method over the estimated useful life of the asset.

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)

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.

SkillSource also receives grants from the Commonwealth of Virginia and private grantors as well as enters into contracts for various purposes. The grants and contracts provide for the development and support of SkillSource's programs and materials. Revenue from the non-federal grants and contracts are recognized when allowable costs are incurred or services have been provided.

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 (including related common area charges) is recognized when earned in accordance with the terms of sublease agreements.

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 program 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, 2015.

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 2011.

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 year financial information: 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with SkillSource's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Subsequent events: SkillSource evaluated subsequent events through November 6, 2015, which is the date the financial statements were available to be issued.

The SkillSource Group, Inc.

Notes to Financial Statements

Note 2. 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 \$274,082 for the year ended June 30, 2015.

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

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|----------------------------|
| 2016 | \$ 285,271 |
| 2017 | 247,959 |
| 2018 | 254,158 |
| 2019 | 260,512 |
| 2020 | 109,661 |
| | <u><u>\$ 1,157,561</u></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 subleased 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 sublease:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|----------------------------|
| 2016 | \$ 221,397 |
| 2017 | 226,932 |
| 2018 | 232,605 |
| 2019 | 238,420 |
| 2020 | 100,362 |
| | <u><u>\$ 1,019,716</u></u> |

The SkillSource Group, Inc.

Notes to Financial Statements

Note 3. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets consist of the following as of and for the year ended June 30, 2015:

| | Balance | | | Balance | |
|---|------------------|-------------------|-------------------|------------------|--|
| | July 1, 2014 | Additions | Releases | June 30, 2015 | |
| Metropolitan Washington Council of Governments | \$ - | \$ 17,236 | \$ 2,925 | \$ 14,311 | |
| U.S. Department of Labor – Jobs for Veterans | - | 7,500 | - | 7,500 | |
| United Way of the National Capital Area – Northern Virginia Veterans Employment Initiative | 28,472 | 12,500 | 40,972 | - | |
| Consolidated Community Funding Pool | - | 50,621 | 50,621 | - | |
| Educating Youth through Employment | | | | | |
| Summer 2014 | 3,046 | 109,489 | 112,535 | - | |
| Summer 2015 | - | 2,680 | - | 2,680 | |
| | <u>\$ 31,518</u> | <u>\$ 200,026</u> | <u>\$ 207,053</u> | <u>\$ 24,491</u> | |

Note 4. Pension Plan

SkillSource sponsors 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. Total pension expense for the year ended June 30, 2015, was \$111,213.

Note 5. Concentration of Revenue and Contingencies

For the year ended June 30, 2015, approximately 48% of total revenue was from grants funded by the U.S. Department of Labor (DOL) under the Workforce Investment Act (WIA) and 87% of the total revenue came from the DOL. Reduction of WIA and DOL funding would have a significant impact on the operations of SkillSource.

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.

Note 6. Line of Credit

On October 31, 2014, SkillSource renewed a \$100,000 line of credit with a local financial institution bearing interest at the Prime Rate as issued in the Wall Street Journal. The rate at June 30, 2015, was 3.25%. The line of credit is collateralized by all business assets of SkillSource, and expires on October 31, 2015. The line of credit contains various restrictive and financial covenants, including a minimum debt service ratio requirement and a limitation on the incurrence of additional debt. SkillSource was in compliance with these covenants for the year ended June 30, 2015.

There was no amount outstanding under the line of credit as of June 30, 2015.