

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2023



MAULDIN & JENKINS

CPAs & ADVISORS



**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
First Step Staffing, Inc. and Subsidiaries
Atlanta, Georgia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of **First Step Staffing, Inc. and Subsidiaries** (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Step Staffing, Inc. and Subsidiaries as of December 31, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of First Step Staffing, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of First Step Staffing, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about First Step Staffing, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and consolidated supplemental schedules of operations are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 May 31, 2024 on our consideration of First Step Staffing, Inc. and Subsidiaries' 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 solely 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 effectiveness of First Step Staffing, Inc. and Subsidiaries' 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 First Step Staffing, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
May 31, 2024

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 597,344	\$ 2,119,986
Operating reserve cash	2,500,650	3,722,654
Accounts receivable, net	6,973,516	5,216,890
Grants receivable	276,063	491,145
Other receivable	45,705	512,366
Prepaid expenses	117,136	54,011
Other assets	35,740	23,506
TOTAL CURRENT ASSETS	10,546,154	12,140,558
Noncurrent assets:		
Property and equipment, net	103,625	106,507
Right-of-use asset	1,019,561	143,091
Intangible assets, net	12,365,276	13,093,192
TOTAL NONCURRENT ASSETS	13,488,462	13,342,790
TOTAL ASSETS	\$ 24,034,616	\$ 25,483,348
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and other current liabilities	\$ 320,244	56,748
Accrued payroll	1,295,544	947,564
Accrued interest	-	5,000
Deferred grant revenue	3,387,970	1,564,784
Line of credit	3,508,451	1,380,000
Current portion of notes payable	828,001	4,954,593
Current portion of operating lease liability	229,029	136,973
TOTAL CURRENT LIABILITIES	9,569,239	9,045,662
Noncurrent liabilities:		
Notes payable, less current portion, net of unamortized debt issuance costs	4,509,733	7,952,110
Operating lease liability, less current portion	794,670	5,438
TOTAL NONCURRENT LIABILITIES	5,304,403	7,957,548
TOTAL LIABILITIES	14,873,642	17,003,210
Net assets:		
Without donor restrictions		
Undesignated	5,380,520	3,766,340
Board designated	2,500,650	3,722,654
With donor restrictions	1,279,804	991,144
TOTAL NET ASSETS	9,160,974	8,480,138
TOTAL LIABILITIES AND NET ASSETS	\$ 24,034,616	\$ 25,483,348

See Notes to Consolidated Financial Statements.

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023			2022		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues and support:						
Program fees	\$ 56,961,382	\$ -	\$ 56,961,382	\$ 55,332,651	\$ -	\$ 55,332,651
Grant income	4,925,490	1,788,473	6,713,963	4,828,076	991,144	5,819,220
Contributions	167,217	-	167,217	68,606	-	68,606
In-kind contributions	57,167	-	57,167	71,994	-	71,994
Other income	932	-	932	414,268	-	414,268
(Loss) on disposal of asset	-	-	-	(33,102)	-	(33,102)
TOTAL REVENUES AND SUPPORT	62,112,188	1,788,473	63,900,661	60,682,493	991,144	61,673,637
Net assets released from restrictions	1,499,813	(1,499,813)	-	541,988	(541,988)	-
NET REVENUES AND SUPPORT	63,612,001	288,660	63,900,661	61,224,481	449,156	61,673,637
Expenses:						
Program services	62,217,831	-	62,217,831	58,166,985	-	58,166,985
Supporting services						
Management and general	503,168	-	503,168	749,015	-	749,015
Fundraising	498,826	-	498,826	453,424	-	453,424
TOTAL EXPENSES	63,219,825	-	63,219,825	59,369,424	-	59,369,424
CHANGE IN NET ASSETS	392,176	288,660	680,836	1,855,057	449,156	2,304,213
Net assets at beginning of year	7,488,994	991,144	8,480,138	5,633,937	541,988	6,175,925
Net assets at end of year	<u>\$ 7,881,170</u>	<u>\$ 1,279,804</u>	<u>\$ 9,160,974</u>	<u>\$ 7,488,994</u>	<u>\$ 991,144</u>	<u>\$ 8,480,138</u>

See Notes to Consolidated Financial Statements.

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Client wages	\$ 50,528,240	\$ -	\$ -	\$ 50,528,240
Other direct program expenses	1,912,955	473	32,865	1,946,293
Payroll expense	5,668,385	382,027	382,812	6,433,224
Insurance	534,901	-	-	534,901
Telephone	107,663	1,014	1,050	109,727
Professional fees	291,529	88,760	-	380,289
In-kind professional fees	57,167	-	-	57,167
Supplies	137,105	864	25,847	163,816
Occupancy	330,355	-	-	330,355
Operations	108,776	1,443	17,705	127,924
Equipment rental and maintenance	33,329	-	-	33,329
Travel and meetings	309,138	21,802	21,699	352,639
Other	109,398	5,559	16,235	131,192
Total expenses before interest, depreciation, and amortization	<u>60,128,941</u>	<u>501,942</u>	<u>498,213</u>	<u>61,129,096</u>
Interest expense	1,312,070	-	-	1,312,070
Depreciation of property and equipment	48,904	1,226	613	50,743
Amortization of intangible assets	727,916	-	-	727,916
Total expenses	<u>\$ 62,217,831</u>	<u>\$ 503,168</u>	<u>\$ 498,826</u>	<u>\$ 63,219,825</u>

See Notes to Consolidated Financial Statements.

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Client wages	\$ 49,226,238	\$ -	\$ -	\$ 49,226,238
Other direct program expenses	1,269,695	1,676	14,345	1,285,716
Payroll expense	3,905,636	300,695	354,319	4,560,650
Insurance	432,361	2,697	12,867	447,925
Telephone	92,437	1,260	2,838	96,535
Professional fees	85,696	232,353	18,946	336,995
In-kind professional fees	71,994	-	-	71,994
Supplies	57,474	1,628	3,939	63,041
Occupancy	284,140	4,570	4,038	292,748
Operations	51,796	1,334	2,298	55,428
Equipment rental and maintenance	39,720	239	493	40,452
Travel and meetings	149,127	13,149	15,724	178,000
Expansion	397,868	-	-	397,868
Other	268,886	2,181	3,743	274,810
Bad debt expense	-	178,103	-	178,103
Total expenses before interest, depreciation, and amortization	<u>56,333,068</u>	<u>739,885</u>	<u>433,550</u>	<u>57,506,503</u>
Interest expense	1,043,146	7,608	19,113	1,069,867
Depreciation of property and equipment	62,855	1,522	761	65,138
Amortization of intangible assets	727,916	-	-	727,916
Total expenses	<u>\$ 58,166,985</u>	<u>\$ 749,015</u>	<u>\$ 453,424</u>	<u>\$ 59,369,424</u>

See Notes to Consolidated Financial Statements.

FIRST STEP STAFFING, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
OPERATING ACTIVITIES		
Change in net assets	\$ 680,836	\$ 2,304,213
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	778,659	793,054
Bad debt expense	20,323	178,103
Loss on sale of property and equipment	-	33,102
Interest expense from amortization of debt issuance costs	127,720	53,946
Changes in assets and liabilities:		
Accounts receivable	(1,776,949)	(554,789)
Grants receivable	215,082	333,617
Other receivable	466,661	(142,389)
Prepaid expenses	(63,125)	4,530
Other assets	(12,234)	2,588
Accounts payable	263,496	(172,541)
Accrued payroll	347,980	162,247
Accrued interest	(5,000)	(1,250)
Deferred revenue	1,823,186	974,829
Operating lease liability, net	4,818	(680)
Net cash and cash equivalents provided by operating activities	2,871,453	3,968,580
INVESTING ACTIVITIES		
Purchases of property and equipment	(47,861)	(37,888)
Net cash and cash equivalents (used in) investing activities	(47,861)	(37,888)
FINANCING ACTIVITIES		
Proceeds from line of credit	3,508,451	-
Payments on line of credit	(1,380,000)	(100,000)
Proceeds from notes payable	4,500,000	1,150,700
Payments on notes payable	(11,987,233)	(2,604,744)
Payments for debt issuance costs	(209,456)	(43,586)
Net cash and cash equivalents (used in) financing activities	(5,568,238)	(1,597,630)
Net (decrease) increase in cash and cash equivalents	(2,744,646)	2,333,062
Cash and cash equivalents, beginning of year	5,842,640	3,509,578
Cash and cash equivalents, end of year	\$ 3,097,994	\$ 5,842,640
CLASSIFIED AS:		
Operating	\$ 597,344	\$ 2,119,986
Operating reserve cash	2,500,650	3,722,654
Cash, end of year	\$ 3,097,994	\$ 5,842,640
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 1,180,026	\$ 1,023,733

See Notes to Consolidated Financial Statements.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

First Step Staffing, Inc. (“First Step”) was incorporated in Georgia in 2006 as a not-for-profit organization for the purpose of providing companies with a socially responsible alternative to typical staffing agencies, while offering meaningful employment opportunities for individuals who are in transition. First Step is the sole owner of First Step Staffing Philadelphia, LLC (“First Step Philadelphia”), organized on November 3, 2017 under the laws of the state of Delaware and First Step Staffing Los Angeles, LLC (“First Step Los Angeles”), organized on December 6, 2019 under the laws of the state of Delaware.

First Step helps people obtain income through two signature programs - First Step Staffing, a program that contracts with employers for jobs and then hires people with barriers to workforce reentry to fill the positions, providing them with supportive services such as transportation, coaching, uniforms, etc., and First Step Benefits - a fast track to securing Social Security Disability income and Medicaid.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of First Step Staffing, Inc. and its wholly-owned subsidiaries First Step Staffing Philadelphia, LLC and First Step Los Angeles, LLC. All significant inter-organization accounts and transactions have been eliminated in consolidation. First Step Staffing, Inc. and Subsidiaries are collectively referred to as “First Step” or the “Organization.” In 2023, First Step Staffing, Inc. acquired the assets and liabilities of wholly owned subsidiaries First Step Staffing Philadelphia, LLC and First Step Staffing Los Angeles, LLC.

Basis of Presentation

First Step prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This basis of presentation involves the application of accrual accounting; consequently, revenues are recognized when earned, and expenses are recognized when incurred.

Cash and Cash Equivalents

For purposes of reporting cash flows, First Step considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents. At times, cash and cash equivalent balances may exceed federally insured amounts. The Organization believes it mitigates any risks by depositing cash and investing in cash equivalents with major financial institutions.

Accounts Receivable

Accounts receivable represents amounts due to First Step for program and operating costs from various funding sources. Management relies heavily on the results of detailed reviews of historical write-offs and collections that represent a majority of revenues and accounts receivable (the “hindsight analysis”) as a primary source of information in estimating collectability of accounts receivable. The hindsight analysis is performed quarterly, using rolling 12 month accounts receivable collection and write-off data. Changes in quarterly estimates have not resulted in material adjustments to the valuations of accounts receivable or results of operations. At December 31, 2023 and 2022, the allowance for credit losses of \$39,362 and \$40,017, respectively, had been recorded as reductions to accounts receivable balances to enable recorded revenue and accounts receivable to be reflected at the estimated amounts expected to be collected.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable (Continued)

First Step's rollforward of the allowance for credit losses is as follows:

Balance as of January 1, 2023	\$ 40,017
Provision for expected credit losses	19,668
Write-offs charged against allowance	<u>(20,323)</u>
Balance as of December 31, 2023	<u>\$ 39,362</u>

Grants Receivable

Grants receivable represent amounts due from grantors. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. At December 31, 2023 and 2022, there was no discount on the present value of unconditional promises to give needed to be recorded. As of December 31, 2023 and 2022 management did not consider any amounts to be uncollectible.

Property and Equipment

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets ranging from three to seven years. First Step capitalizes all expenditures for fixed assets in excess of \$1,000. Gains and losses on disposals are included in other revenues and expenses on the consolidated statement of activities.

Intangible Assets and Goodwill

First Step amortizes intangible assets on a straight-line basis over their estimated useful lives. Intangible assets include service contracts and customer lists resulting from the business and asset acquisitions outlined in Note 5, which are being amortized using the straight-line method over twenty years. Goodwill is reviewed for impairment annually or more frequently when an event occurs or circumstances change that indicate that the carrying value may not be recoverable.

Net Assets

Net assets, revenues, and support are classified based on the existence or absence of donor-or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions. At times, the governing board may review its financial standing and designate sums from net assets without donor restrictions for specific operating activities.

Net Assets With Donor Restrictions – Net assets subject to donor-or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. There were \$1,279,804 and \$991,144 in net assets with donor restrictions at December 31, 2023 and 2022, respectively.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenue is recognized when earned. Program fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

The Organization recognizes program fees and payments, included in program fees, in the accompanying statements of activities, in accordance with FASB ASC Topic 606. Program fees and payments are recognized in the period the services occur.

Donated Materials and Services

Contributed goods and services are recognized if they create or enhance nonfinancial assets or if they require specialized skills and would typically be purchased if not provided by donation. The Organization received in kind contributions totaling \$57,167 and \$71,994 for the years ended December 31, 2023 and 2022, respectively.

Income Taxes

First Step is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, First Step is not required to pay federal taxes on income, and contributions to First Step qualify for the charitable contributions deduction to the extent provided by Section 170 of the Internal Revenue Code. First Step Philadelphia and First Step Los Angeles are included in the consolidated tax return of First Step Staffing, Inc.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires First Step to report information regarding its exposure to various tax positions taken by First Step. Management believes that First Step has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Management is not aware of any circumstances or transactions that would jeopardize its tax exempt status.

All tax exempt entities are subject to review and audit by federal, state, and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes. There currently are no audits of First Step's returns in progress.

Functional Allocation of Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Program services includes Staffing and Benefits activities and Strategic and Programmatic Growth activities.

Certain categories of expenses are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include payroll expenses, professional fees, supplies, and travel which are allocated on the basis of estimates of time and effort. Occupancy, operations, and interest are allocated by estimated usage of office space.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the consolidated financial statements, as well as the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

On January 1, 2023, the Organization adopted ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables, loan commitments, leases, financial guarantees, and held to maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities that management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Organization adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. There was no material impact to the estimate of credit losses as a result of adoption of ASC 326.

NOTE 3. LIQUIDITY AND AVAILABILITY

The Organization manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures and meeting its liabilities and other obligations as they become due. Cash needs of the Organization are expected to be met on a monthly basis from the staffing revenues generated, as well as public support and other grants and contracts. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 597,344	\$ 2,119,986
Operating reserve cash	2,500,650	3,722,654
Accounts receivable, net	6,973,516	4,716,892
Grants receivable, net	276,063	491,145
Other receivable	45,705	512,366
Total financial assets	<u>10,393,278</u>	<u>11,563,043</u>
Less donor and Board-imposed restrictions		
Purpose restricted cash	(1,425,615)	(170,314)
Board designated cash	(2,500,650)	(3,722,654)
Time restricted grants receivable	<u>(122,359)</u>	<u>(991,144)</u>
Financial assets available to meet cash needs for expenditures within one year	<u>\$ 6,344,654</u>	<u>\$ 6,678,931</u>

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. PROPERTY AND EQUIPMENT

As of December 31, 2023 and 2022, property and equipment consisted of the following:

	<u>2023</u>	<u>2022</u>
Vehicles	\$ 42,757	\$ 42,757
Computers and office equipment	267,624	239,856
Furniture	42,708	34,971
Computer software	64,663	64,662
Leasehold improvements	<u>94,578</u>	<u>82,223</u>
	512,330	464,469
Less accumulated depreciation and amortization	<u>408,705</u>	<u>357,962</u>
Property and equipment, net	<u>\$ 103,625</u>	<u>\$ 106,507</u>

Depreciation and amortization expense for property and equipment for the years ended December 31, 2023 and 2022 was \$50,743 and \$65,138, respectively.

NOTE 5. INTANGIBLE ASSETS

In 2015, First Step Atlanta acquired the Atlanta, GA operations of a staffing agency for \$7,170,000, including equipment, accounts receivable, employees, and intangible assets, which included service contracts and customer lists.

In 2018, First Step Philadelphia acquired a customer list and accounts receivable from a staffing agency in Philadelphia, PA for \$7,250,000.

In 2019, First Step Los Angeles acquired a customer list and accounts receivable from a staffing agency in Los Angeles, CA for approximately \$6,000,000.

As of December 31, 2023 and 2022, intangible assets consisted of the following:

	<u>2023</u>	<u>2022</u>
Service contracts and customer lists	\$ 14,558,306	\$ 14,558,306
Goodwill	2,000,000	2,000,000
Less accumulated amortization	<u>(4,193,030)</u>	<u>(3,465,114)</u>
Intangible assets, net	<u>\$ 12,365,276</u>	<u>\$ 13,093,192</u>

Amortization expense for intangible assets totaled \$727,916 for each of the years ended December 31, 2023 and 2022, respectively. Estimated future amortization is as follows for the years ending December 31:

2024	\$ 727,916
2025	727,916
2026	727,916
2027	727,916
2028	727,916
Thereafter	<u>6,725,696</u>
	<u>\$ 10,365,276</u>

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT

Notes payable consisted of the following at December 31, 2023 and 2022:

	2023	2022
Note payable with interest at 6.00%; principal and interest monthly payments of \$86,998 through maturity; matures April 2028; secured by all property.	\$ 3,981,232	\$ -
Note payable with interest at 10.0%; interest-only quarterly payments of \$40,999 through maturity; unpaid principal due at maturity; matures May 2028; unsecured.	1,575,000	1,575,000
Note payable with interest at 6.50% interest; principal and interest monthly payments of \$96.5k through maturity; unpaid principal due at maturity; matures December 2024; secured by all assets.	-	4,892,671
Note payable with interest at 6.56%; principal and interest monthly payments of \$57.2k through maturity; unpaid principal due at maturity; matured February 2023; secured by all assets.	-	3,131,936
Note payable with interest at 6.59%; principal and interest monthly payments of \$34,202 through maturity; unpaid principal matures December 2026.	-	2,381,692
Non-interest bearing note payable with monthly principal payments of \$8,333 through maturity; unpaid principal due at maturity, matures May 1, 2027; secured by certain security documents.	-	441,667
Note payable with interest at 7.5%; monthly payments of interest and principal of \$5,472 through maturity; unpaid principal matured April 2023; unsecured.	-	184,608
Note payable with interest at 2%; interest-only annual payments and scheduled principal payments (\$31.25k/yr. 2019 to 2022, \$125k at maturity); matured January 2023; unsecured.	-	125,000
Note payable with interest at 2%; interest-only annual payments and scheduled principal payments (\$31.25k/yr. 2019 to 2022, \$125k at maturity); matured January 2023; unsecured.	-	125,000
Note payable with interest at 5.08%; equal monthly principal and interest payments through maturity; matured February 2023; unsecured.	-	110,520
	5,556,232	12,968,094
Less current maturities	(828,001)	(4,954,593)
Unamortized debt issuance costs	(218,498)	(61,391)
	\$ 4,509,733	\$ 7,952,110

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT (Continued)

Annual principal payments for the notes payable are as follows for the years ending December 31:

	\$	
2024		828,001
2025		879,071
2026		933,290
2027		990,853
2028		1,925,017
Unamortized debt issuance costs		(218,498)
	<u>\$</u>	<u>5,337,734</u>

First Step has agreed to certain restrictive and financial covenants relating to the debt.

NOTE 7. LINE OF CREDIT

First Step has a \$7,000,000 revolving line of credit with a financial institution to provide for working capital. Interest is payable monthly at 3.5% plus LIBOR (7.35% at December 31, 2023). First Step also pays an annual commitment fee totaling 0.35% of the average unused amount of the line. The line matures in September 2024 and is secured by all property of the Organization. The balance outstanding at December 31, 2023 and 2022 was \$3,508,451 and \$1,380,000, respectively.

NOTE 8. LEASES

First Step entered into operating agreements for office spaces and equipment in Atlanta, GA, Augusta, GA, Nashville, TN, Philadelphia, PA, and Los Angeles, CA. Total rent expense amounted to \$330,355 and \$292,750 for the years ended December 31, 2023 and 2022.

In 2022, First Step adopted FASB Accounting Standards Update (ASU) No. 2016-02, ASC 842, *Leases*, which requires the recognition of a right-of-use asset and a lease liability based on the present value of the remaining lease payments. First Step's incremental borrowing rate of 8.50% was used as the discount rate in order to determine present value. First Step elects to apply the short-term lease measurement and recognition exemption for all operating lease agreements with maturity dates of less than twelve months.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. LEASES (Continued)

The following is a schedule by years of minimum future rentals on noncancelable operating leases and the amortization of the net present value (NPV) of the lease liability as of December 31, 2023:

	<u>Minimum annual lease payments</u>	<u>Amortization of right-of- use asset</u>	<u>Amortization of operating lease liability</u>
For the year ending December 31:			
2024	\$ 302,375	\$ 231,176	\$ 229,029
2025	280,054	223,385	223,116
2026	257,209	216,991	218,944
2027	237,375	213,879	217,421
2028	131,697	126,093	127,152
Thereafter	<u>8,037</u>	<u>8,037</u>	<u>8,037</u>
Total	<u>\$ 1,216,747</u>	<u>\$ 1,019,561</u>	<u>\$ 1,023,699</u>

The following summarizes the weighted average remaining lease term and discount rate for operating leases as of December 31, 2023:

Weighted average remaining lease term	4.2 years
Weighted average discount rate	8.50%

NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2023 and 2022, net assets with donor restrictions were available for the following purposes:

	<u>2023</u>	<u>2022</u>
Satisfaction of purpose restrictions:		
Staffing and benefits	\$ -	\$ 52,606
Expansion	<u>1,157,445</u>	<u>500,000</u>
Subject to the passage of time:		
Grant activities	<u>122,359</u>	<u>438,538</u>
Total net assets with donor restrictions	<u>\$ 1,279,804</u>	<u>\$ 991,144</u>

Net assets with donor restrictions consist of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash	\$ 1,157,445	\$ -
Accounts receivable	-	500,000
Grants receivable	<u>122,359</u>	<u>491,144</u>
	<u>\$ 1,279,804</u>	<u>\$ 991,144</u>

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

For the years ended December 31, 2023 and 2022, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by the donors as follows:

	2023	2022
Staffing and benefits	\$ 143,720	\$ 42,386
Expansion	917,555	-
Passage of time	438,538	499,602
	\$ 1,499,813	\$ 541,988

NOTE 10. GRANT INCOME

Grant income in the consolidated statements of activities was awarded from the following sources for the years ended December 31, 2023 and 2022:

	2023	2022
Governmental funding	\$ 1,099,675	\$ 2,014,420
Charitable organizations	5,614,288	3,804,800
	\$ 6,713,963	\$ 5,819,220

NOTE 11. IN-KIND CONTRIBUTIONS

First Step recognized contributed nonfinancial assets within revenue for contributed legal services in the amounts of \$57,167 and \$71,994 for the years ended December 31, 2023 and 2022, respectively. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

In valuing contributed legal services, First Step estimated fair value based on current rates for similar services.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization. The Organization received approximately 100 volunteer hours for the years ended December 31, 2023 and 2022 which are not reflected in the financial statements because the criteria for recognition of such efforts under GAAP have not been satisfied.

NOTE 12. EMPLOYEE RETENTION CREDIT

First Step was eligible for and participated in the Employee Retention Credit program initially established under the CARES ACT of 2020. This credit is based on qualifying wages paid to employees and is received through a reduction of federal employment tax. The company has claimed through the original and amended quarterly Form 941 returns credits totaling \$784,245. \$- and \$414,268 of this income has been recognized on the statements of income in other income for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, \$39,129 and \$512,366, respectively, is included in other receivable on the statement of financial position.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events occurring through May 31, 2024, the date on which the financial statements were available to be issued.

In March 2024, the Organization entered in to an approximately \$8 million New Market Tax Credit transaction with Truist Bank. The transaction will assist with funding future operations around Atlanta area in the amount of approximately \$9.9 million.

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**
CONSOLIDATED SUPPLEMENTAL SCHEDULES OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Revenues and support		
Program fees	\$ 56,961,382	\$ 55,332,651
Grant income	6,713,963	5,819,220
Contributions	167,217	68,606
In-kind contributions	57,167	71,994
Other income	932	414,268
(Loss) on disposal of asset	-	(33,102)
TOTAL REVENUES AND SUPPORT	<u>63,900,661</u>	<u>61,673,637</u>
Operating expenses		
Client wages	50,528,240	49,226,238
Other direct program expenses	1,946,293	1,285,716
Payroll expense	6,433,224	4,560,650
Insurance	534,901	447,925
Telephone	109,727	96,535
Professional fees	380,289	336,995
In-kind professional fees	57,167	71,994
Supplies	163,816	63,041
Occupancy	330,355	292,748
Operations	127,924	55,428
Equipment rental and maintenance	33,329	40,452
Travel and meetings	352,639	178,000
Expansion expenses	-	397,868
Other	131,192	274,810
Bad debt expense	-	178,103
TOTAL OPERATING EXPENSES	<u>61,129,096</u>	<u>57,506,503</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>\$ 2,771,565</u>	<u>\$ 4,167,134</u>

See Independent Auditor's Report on Supplemental Information.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Passthrough Identifying Number</u>	<u>Assistance Listing Number</u>		<u>Federal Expenditures</u>
U.S. Department of Agriculture				
State Administrative Matching Grants For The Supplemental Nutrition Assistance Program (SNAP Cluster)				
<i>Passthrough: Georgia Department of Human Services</i>	42700- 040- 0000107748	10.561	\$	142,069
<i>Passthrough: Georgia Department of Human Services</i>	42700-040-0000112819	10.561		85,282
<i>Passthrough: Georgia Department of Human Services</i>	42700-040-0000112817	10.561		2,007
<i>Passthrough: Pennsylvania Department of Human Services</i>	4100084395 - #4	10.561		319,129
Total U.S. Department of Agriculture				548,487
U.S. Department of Health and Human Services				
Block Grants for Community Mental Health Services				
<i>Passthrough: City of Philadelphia, DBHIDS</i>	PA – 2 # 23 20181	93.958		285,000
Community Services Block Grant				
<i>Passthrough: City of Philadelphia, CEO Office</i>	22 20716-01	93.569		124,164
Total U.S. Department of Health and Human Services				409,164
U.S. Department of Housing and Urban Development				
Community Development Block Grants/Entitlement Grants (CDBG – Entitlement Grants Cluster)				
<i>Passthrough: Bucks County, PA</i>	B-20-UW-42-0004 #2	14.218		13,663
<i>Passthrough: Fulton County, GA</i>	BOC#23-0350	14.218		25,000
<i>Passthrough: Orange County, CA</i>	B-21-UC-12-0003	14.218		17,242
				55,905
Emergency Solutions Grant Program				
<i>Passthrough: City of Philadelphia, Homeless Services</i>	2120564-02	14.231		20,280
Total U.S. Department of Housing and Urban Development				76,185
				\$ 1,033,836

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of First Step Staffing, Inc. and Subsidiaries under programs of the federal government for the year ended December 31, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule presents only a selected portion of the operations of First Step Staffing, Inc. and Subsidiaries, it is not intended to and does not present the financial position, changes in net assets, or cash flows of First Step Staffing, Inc. and Subsidiaries.

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 the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3. INDIRECT COST RATE

First Step Staffing, Inc. and Subsidiaries has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



**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
First Step Staffing, Inc. and Subsidiaries**

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 consolidated financial statements of **First Step Staffing, Inc. and Subsidiaries**, which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 31, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered First Step Staffing, Inc. and Subsidiaries' internal control over financial reporting (internal control) as a basis for determining audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of First Step Staffing, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of First Step Staffing, Inc. and Subsidiaries' 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 the entity'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether First Step Staffing, Inc. and Subsidiaries' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

First Step Staffing, Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on First Step Staffing, Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. First Step Staffing, Inc.'s response was not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Mauldin & Jenkins, LLC

Atlanta, Georgia

May 31, 2024



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

To the Board of Directors
First Step Staffing, Inc. and Subsidiaries

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited First Step Staffing, Inc. and Subsidiaries' compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of First Step Staffing, Inc. and Subsidiaries' major federal programs for the year ended December 31, 2023. First Step Staffing, Inc. and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, First Step Staffing, Inc. and Subsidiaries 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 December 31, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to First Step Staffing, Inc. and Subsidiaries' federal programs.

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

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

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

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

Mauldin & Jenkins, LLC

Atlanta, Georgia
May 31, 2024

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:

Financial Statements:

	Unmodified	
	Yes	No
Type of auditor's report issued		
Internal control over financial reporting:		
Material weaknesses identified?		X
Significant deficiencies identified not considered to be material weaknesses?		None Reported
Noncompliance material to the financial statements noted?		X

Federal Awards:

Internal controls over major programs:		
Material weaknesses identified?		X
Significant deficiencies identified not considered to be material weaknesses?		None Reported
Type of auditor's report issued on compliance for major programs	Unmodified	
Audit findings required to be reported in accordance with 2 CFR Section 200.516(a)		X

Identification of major programs:

10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Cluster)		
	Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000	
		Yes	No
	Auditee qualified as low-risk auditee?	X	
	Financial Statement Findings?		X
	Federal Award Findings Questioned Costs?		X

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023

II. FINANCIAL STATEMENT FINDINGS:

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

NONE

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

I. FINANCIAL STATEMENT FINDINGS:

NONE

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

NONE