



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

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2021

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

**CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2021**

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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, 2021 and 2020, 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.

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, 2021 and 2020, 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 combined 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 July 29, 2022 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
July 29, 2022

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

| <u>Assets</u> | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 3,009,578 | \$ 2,704,861 |
| Operating reserve cash | 500,000 | - |
| Accounts receivable, net | 4,840,204 | 5,337,664 |
| Grants receivable, net | 824,762 | 1,005,353 |
| Other receivable | 369,977 | - |
| Prepaid expenses | 58,541 | 45,799 |
| Other assets | 26,094 | 26,094 |
| TOTAL CURRENT ASSETS | 9,629,156 | 9,119,771 |
| Property and equipment, net | 166,859 | 200,513 |
| Noncurrent assets: | | |
| Intangible assets, net | 13,821,108 | 14,568,306 |
| TOTAL NONCURRENT ASSETS | 13,821,108 | 14,568,306 |
| TOTAL ASSETS | \$ 23,617,123 | \$ 23,888,590 |
| <u>Liabilities and Net Assets</u> | | |
| Current liabilities: | | |
| Accounts payable and other current liabilities | \$ 229,289 | \$ 232,306 |
| Accrued payroll | 785,317 | 667,441 |
| Accrued interest | 6,250 | 7,500 |
| Deferred grant revenue | 589,955 | 1,000,000 |
| Line of credit | 1,480,000 | 1,510,000 |
| Current portion of notes payable | 2,532,360 | 1,845,610 |
| TOTAL CURRENT LIABILITIES | 5,623,171 | 5,262,857 |
| Noncurrent liabilities: | | |
| Notes payable, less current portion, net of unamortized debt issuance costs | 11,818,027 | 14,289,325 |
| TOTAL NONCURRENT LIABILITIES | 11,818,027 | 14,289,325 |
| TOTAL LIABILITIES | 17,441,198 | 19,552,182 |
| Net assets: | | |
| Without donor restrictions | | |
| Undesignated | 5,133,937 | 3,986,408 |
| Board designated | 500,000 | - |
| With donor restrictions | 541,988 | 350,000 |
| TOTAL NET ASSETS | 6,175,925 | 4,336,408 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 23,617,123 | \$ 23,888,590 |

See Notes to Consolidated Financial Statements.

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

| | 2021 | | | 2020 | | |
|---------------------------------------|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
| | Without donor restrictions | With donor restrictions | Total | Without donor restrictions | With donor restrictions | Total |
| Revenues and support: | | | | | | |
| Program fees | \$ 63,580,695 | \$ - | \$ 63,580,695 | \$ 55,949,835 | \$ - | \$ 55,949,835 |
| Grant income | 3,837,051 | 768,398 | 4,605,449 | 2,385,897 | 22,356 | 2,408,253 |
| Contributions | 84,127 | - | 84,127 | 94,008 | - | 94,008 |
| In-kind contributions | 128,027 | - | 128,027 | 177,289 | - | 177,289 |
| Other income | 369,977 | - | 369,977 | - | - | - |
| (Loss) on disposal of asset | - | - | - | (7,041) | - | (7,041) |
| Gain on extinguishment of debt | - | - | - | 631,420 | - | 631,420 |
| TOTAL REVENUES AND SUPPORT | 67,999,877 | 768,398 | 68,768,275 | 59,231,408 | 22,356 | 59,253,764 |
| Net assets released from restrictions | 576,410 | (576,410) | - | 372,356 | (372,356) | - |
| NET REVENUES AND SUPPORT | 68,576,287 | 191,988 | 68,768,275 | 59,603,764 | (350,000) | 59,253,764 |
| Expenses: | | | | | | |
| Program services | 65,933,580 | - | 65,933,580 | 58,847,214 | - | 58,847,214 |
| Supporting services | | | | | | |
| Management and general | 587,335 | - | 587,335 | 578,458 | - | 578,458 |
| Fundraising | 407,843 | - | 407,843 | 282,970 | - | 282,970 |
| TOTAL EXPENSES | 66,928,758 | - | 66,928,758 | 59,708,642 | - | 59,708,642 |
| CHANGE IN NET ASSETS | 1,647,529 | 191,988 | 1,839,517 | (104,878) | (350,000) | (454,878) |
| Net assets at beginning of year | 3,986,408 | 350,000 | 4,336,408 | 4,091,286 | 700,000 | 4,791,286 |
| Net assets at end of year | <u>\$ 5,633,937</u> | <u>\$ 541,988</u> | <u>\$ 6,175,925</u> | <u>\$ 3,986,408</u> | <u>\$ 350,000</u> | <u>\$ 4,336,408</u> |

See Notes to Consolidated Financial Statements.

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

| | Program Services | Supporting Services | | Total Expenses |
|---|----------------------|---------------------------|-------------------|----------------------|
| | | Management and General | Fundraising | |
| Client wages | \$ 54,003,857 | \$ - | \$ - | \$ 54,003,857 |
| Other direct program expenses | 4,109,641 | 2,259 | 5,743 | 4,117,643 |
| Payroll expense | 3,869,799 | 250,759 | 283,485 | 4,404,043 |
| Insurance | 371,404 | 2,948 | 7,578 | 381,930 |
| Telephone | 86,578 | 1,410 | 3,000 | 90,988 |
| Professional fees | 368,111 | 237,589 | 11,135 | 616,835 |
| In-kind professional fees | 128,027 | - | - | 128,027 |
| Supplies | 45,148 | 2,480 | 2,155 | 49,783 |
| Occupancy | 308,902 | 5,871 | 5,215 | 319,988 |
| Operations | 45,144 | 1,602 | 2,321 | 49,067 |
| Equipment rental and maintenance | 42,215 | 486 | 600 | 43,301 |
| Travel and meetings | 142,934 | 10,055 | 9,689 | 162,678 |
| Other | 92,003 | 2,830 | 52,646 | 147,479 |
| Donations | 98,227 | - | - | 98,227 |
| Bad debt expense | 303,681 | 55,200 | - | 358,881 |
| Total expenses before interest, depreciation, and amortization | <u>64,015,671</u> | <u>573,489</u> | <u>383,567</u> | <u>64,972,727</u> |
| Interest expense | 1,100,794 | 12,093 | 23,399 | 1,136,286 |
| Depreciation of property and equipment | 69,917 | 1,753 | 877 | 72,547 |
| Amortization of intangible assets | 747,198 | - | - | 747,198 |
| Total expenses | <u>\$ 65,933,580</u> | <u>\$ 587,335</u> | <u>\$ 407,843</u> | <u>\$ 66,928,758</u> |

See Notes to Consolidated Financial Statements.

FIRST STEP STAFFING, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

| | Program Services | Supporting Services | | Total Expenses |
|---|----------------------|---------------------------|-------------------|----------------------|
| | | Management and General | Fundraising | |
| Client wages | \$ 46,377,431 | \$ - | \$ - | \$ 46,377,431 |
| Enhanced wrap-around services | 633,750 | - | - | 633,750 |
| Other direct program expenses | 4,727,175 | 16,545 | 177 | 4,743,897 |
| Payroll expense | 3,706,385 | 268,322 | 229,222 | 4,203,929 |
| Insurance | 420,220 | 4,026 | 9,685 | 433,931 |
| Telephone | 97,902 | 2,338 | 2,389 | 102,629 |
| Professional fees | 152,637 | 231,428 | 2,628 | 386,693 |
| In-kind professional fees | 177,289 | - | - | 177,289 |
| Supplies | 58,094 | 1,834 | 1,260 | 61,188 |
| Occupancy | 289,458 | 5,354 | 3,697 | 298,509 |
| Operations | 57,051 | 2,227 | 1,195 | 60,473 |
| Equipment rental and maintenance | 45,091 | 729 | 867 | 46,687 |
| Travel and meetings | 87,988 | 2,809 | 5,596 | 96,393 |
| Expansion expenses | 99,000 | - | - | 99,000 |
| Other | 190,319 | 9,081 | 6,757 | 206,157 |
| Donations | 30,000 | - | - | 30,000 |
| Bad debt expense | 40,500 | 16,900 | - | 57,400 |
| Total expenses before interest, depreciation, and amortization | <u>57,190,290</u> | <u>561,593</u> | <u>263,473</u> | <u>58,015,356</u> |
| Interest expense | 869,599 | 15,183 | 18,656 | 903,438 |
| Depreciation of property and equipment | 59,409 | 1,682 | 841 | 61,932 |
| Amortization of intangible assets | 727,916 | - | - | 727,916 |
| Total expenses | <u>\$ 58,847,214</u> | <u>\$ 578,458</u> | <u>\$ 282,970</u> | <u>\$ 59,708,642</u> |

See Notes to Consolidated Financial Statements.

FIRST STEP STAFFING, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ 1,839,517 | \$ (454,878) |
| Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities: | | |
| Depreciation and amortization | 819,745 | 790,340 |
| Bad debt expense | 358,881 | 33,400 |
| Loss on sale of property and equipment | - | 7,041 |
| (Gain) on forgiveness of PPP loan | - | (631,420) |
| Interest expense from amortization of debt issuance costs | 25,237 | 26,170 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | 138,579 | 1,038,356 |
| Decrease in grants receivable | 180,591 | 829,557 |
| (Increase) in other receivable | (369,977) | - |
| Decrease (increase) in prepaid expenses | (12,742) | 200,497 |
| Decrease in other assets | - | 122,279 |
| (Decrease) in accounts payable | (3,017) | (2,448,905) |
| Increase (decrease) in accrued payroll | 117,876 | (30,095) |
| (Decrease) in accrued interest | (1,250) | (1,250) |
| (Decrease) increase in deferred revenue | (410,045) | (639,719) |
| Net cash and cash equivalents provided by (used in) operating activities | <u>2,683,395</u> | <u>(1,158,627)</u> |
| INVESTING ACTIVITIES | | |
| Purchase of intangible assets | - | (286,918) |
| Proceeds from sale of property and equipment | - | 14,419 |
| Purchases of property and equipment | <u>(38,893)</u> | <u>(123,673)</u> |
| Net cash and cash equivalents (used in) investing activities | <u>(38,893)</u> | <u>(396,172)</u> |
| FINANCING ACTIVITIES | | |
| Proceeds from line of credit | - | 11,860,000 |
| Payments on line of credit | (30,000) | (11,393,451) |
| Proceeds from notes payable | - | 756,420 |
| Payments on notes payable | (1,809,785) | (1,219,396) |
| Payments for debt issuance costs | <u>-</u> | <u>(4,507)</u> |
| Net cash and cash equivalents (used in) financing activities | <u>(1,839,785)</u> | <u>(934)</u> |
| Net increase (decrease) in cash and cash equivalents | 804,717 | (1,555,733) |
| Cash and cash equivalents, beginning of year | <u>2,704,861</u> | <u>4,260,594</u> |
| Cash and cash equivalents, end of year | <u>\$ 3,509,578</u> | <u>\$ 2,704,861</u> |
| CLASSIFIED AS: | | |
| Operating | 3,009,578 | 2,704,861 |
| Operating reserve cash | 500,000 | - |
| Cash, end of year | <u>\$ 3,509,578</u> | <u>\$ 2,704,861</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Interest paid | <u>\$ 1,112,334</u> | <u>\$ 893,675</u> |

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 Atlanta”) 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 Atlanta 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 Atlanta, First Step Philadelphia, and First Step Los Angeles help 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.”

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. An allowance for uncollectible receivables is provided based on management’s evaluation of potential uncollectible amounts at year end following write-offs. At December 31, 2021 and 2020, the allowance for uncollectible receivables was recorded at \$92,733 and \$78,451, respectively.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants Receivable and Promises to Give

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, 2021 and 2020, there was no discount on the present value of unconditional promises to give that needed to be recorded. As of December 31, 2020 and 2020 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 4, 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 \$541,988 and \$350,000 in net assets with donor restrictions at December 31, 2021 and 2020, 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 \$128,027 and \$177,289 for the years ended December 31, 2021 and 2020, respectively.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization. The Organization received approximately 100 and 150 volunteer hours for each of the years ended December 31, 2021 and 2020 which are not reflected in the financial statements because the criteria for recognition of such efforts under GAAP have not been satisfied.

Income Taxes

First Step Atlanta 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 Atlanta.

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.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 expense, 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.

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.

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, 2021 and 2020:

| | 2021 | 2020 |
|---------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 2,559,578 | \$ 1,759,861 |
| Accounts receivable, net | 4,840,204 | 5,337,664 |
| Grants receivable, net | 282,774 | 655,353 |
| Other receivable | 369,977 | - |
| | \$ 8,052,533 | \$ 7,752,878 |

The Organization maintains all cash balances, including amounts in excess of daily requirements, in deposit accounts at major financial institutions. Balances included on the consolidated statements of financial position that are excluded from the above table as of December 31, 2021 and 2020 consist of \$500,000 and \$-, respectively, of cash and cash equivalents subject to board designation, \$650,000 of cash and cash equivalents held by a financial institution as collateral for funded debt, and \$541,988 and \$350,000, respectively, of grants receivable that are subject to donor-imposed restrictions.

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

NOTE 4. ACQUISITIONS

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. The transaction constituted a business combination. To assist with the financing of the purchase, First Step Atlanta obtained debt financing from financial institutions, enterprise funds, and charitable organizations, and First Step Atlanta also received purpose-restricted contributions and grants from individuals and charitable organizations.

In 2018, First Step Philadelphia acquired a customer list and accounts receivable from a staffing agency in Philadelphia, PA for \$7,250,000. The transaction constituted an asset acquisition. To assist with financing the purchase, First Step Philadelphia obtained debt financing from social impact lenders, a community development financial institution, and secured seller financing. First Step Philadelphia also received purpose-restricted contributions from individuals and charitable organizations.

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. The transaction constituted an asset acquisition. To assist with financing the purchase, First Step Los Angeles obtained \$6,500,000 in debt financing from a community development financial institutions fund.

NOTE 5. PROPERTY AND EQUIPMENT

As of December 31, 2021 and 2020, property and equipment consisted of the following:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Vehicles | \$ 42,757 | \$ 42,757 |
| Computers and office equipment | 207,868 | 171,468 |
| Furniture | 34,971 | 34,971 |
| Computer software | 64,662 | 64,662 |
| Leasehold improvements | <u>133,835</u> | <u>131,343</u> |
| | 484,093 | 445,201 |
| Less accumulated depreciation and amortization | <u>317,234</u> | <u>244,688</u> |
| Property and equipment, net | <u>\$ 166,859</u> | <u>\$ 200,513</u> |

Depreciation and amortization expense for property and equipment for the years ended December 31, 2021 and 2020 was \$72,547 and \$61,932, respectively.

NOTE 6. INTANGIBLE ASSETS

As of December 31, 2021 and 2020, intangible assets consisted of the following:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------------|----------------------|----------------------|
| Service contracts and customer lists | \$ 14,558,306 | \$ 14,558,306 |
| Goodwill | 2,000,000 | 2,000,000 |
| Less accumulated amortization | <u>(2,737,198)</u> | <u>(1,990,000)</u> |
| Intangible assets, net | <u>\$ 13,821,108</u> | <u>\$ 14,568,306</u> |

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

NOTE 6. INTANGIBLE ASSETS (Continued)

Amortization expense for intangible assets totaled \$747,198 and \$727,916 for each of the years ended December 31, 2021 and 2020, respectively. Estimated future amortization is as follows for the years ending December 31:

| | | |
|------------|----|---------------|
| 2022 | \$ | 727,916 |
| 2023 | | 727,916 |
| 2024 | | 727,916 |
| 2025 | | 727,916 |
| 2026 | | 727,916 |
| Thereafter | | 8,181,528 |
| | | \$ 11,821,108 |
| | | \$ 11,821,108 |

NOTE 7. LEASE COMMITMENTS

First Step entered into operating agreements for office spaces in Atlanta, GA, Nashville, TN, Philadelphia, PA, California, corporate housing, and for office equipment. Future minimum lease payments are as follows for the years ending December 31:

| | | |
|------|----|------------|
| 2022 | \$ | 209,177 |
| 2023 | | 133,517 |
| 2024 | | 62,894 |
| 2025 | | 14,364 |
| | | \$ 419,952 |
| | | \$ 419,952 |

Rent expense was \$275,606 and \$270,959 for the years ended December 31, 2021 and 2020, respectively.

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

NOTE 8. LONG-TERM DEBT

Notes payable consisted of the following at December 31, 2021 and 2020:

| | 2020 | 2019 |
|--|----------------------|---------------|
| 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. | \$ 5,372,357 | \$ 6,089,623 |
| Note payable with interest at 6.56%; principal and interest monthly payments of \$57.2k through maturity; unpaid principal due at maturity; matures February 2023; secured by all assets. | 3,573,442 | 4,025,346 |
| Note payable with interest at 6.59%; principal and interest monthly payments of \$34,202 through maturity; unpaid principal matures December 2026. | 2,626,341 | 2,855,429 |
| Note payable with interest at 8.0%; variable monthly payments through maturity, ranging from \$29,656 to \$63,089; matures February 2023; secured by all property. | 725,000 | 1,025,000 |
| Note payable with interest at 10.0%; interest-only quarterly payments of \$40,999 through maturity; unpaid principal due at maturity; matures January 2024; unsecured. | 1,575,000 | 1,575,000 |
| Note payable with interest at 7.5%; monthly payments of interest and principal of \$5,472 through maturity; unpaid principal matures December 2022; unsecured. | 237,498 | 286,579 |
| Note payable with interest at 2%; interest-only annual payments and scheduled principal payments (\$31.25k/yr 2019 to 2022, \$125k at maturity); matures January 2023; unsecured. | 156,250 | 187,500 |
| Note payable with interest at 2%; interest-only annual payments and scheduled principal payments (\$31.25k/yr 2019 to 2022, \$125k at maturity); matures January 2023; unsecured. | 156,250 | 187,500 |
| | 14,422,138 | 16,231,977 |
| Less current maturities | (2,532,360) | (1,845,610) |
| Unamortized debt issuance costs | (71,751) | (97,042) |
| | \$ 11,818,027 | \$ 14,289,325 |

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

NOTE 8. LONG-TERM DEBT (Continued)

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

| | | |
|---------------------------------|----|---------------|
| 2022 | \$ | 2,532,360 |
| 2023 | | 4,583,058 |
| 2024 | | 3,911,768 |
| 2025 | | 1,881,113 |
| 2026 | | 326,906 |
| Thereafter | | 1,186,933 |
| Unamortized debt issuance costs | | (71,751) |
| | | \$ 14,350,387 |

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

NOTE 9. LINE OF CREDIT

First Step has a \$2,250,000 revolving line of credit with a financial institution to provide for working capital. Interest is payable monthly at 3.5% plus LIBOR (4.25% at December 31, 2021). First Step Atlanta also pays an annual commitment fee totaling 0.35% of the average unused amount of the line. The line matures in September 2022 and is secured by all property of the Organization. The balance outstanding at December 31, 2021 and 2020 was \$1,480,000 and \$1,510,000, respectively.

NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2021 and 2020, net assets with donor restrictions were available for the following purposes:

| | 2021 | 2020 |
|--|------------|------------|
| Satisfaction of purpose restrictions: | | |
| Staffing and benefits | \$ 42,386 | \$ 350,000 |
| Subject to the passage of time: | | |
| Grant activities | 499,602 | - |
| Total net assets with donor restrictions | \$ 541,988 | \$ 350,000 |

Net assets with donor restrictions consist of the following at December 31, 2021 and 2020:

| | 2021 | 2020 |
|-------------------|------------|------------|
| Grants receivable | \$ 541,988 | \$ 350,000 |

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

NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

For the years ended December 31, 2021 and 2020, 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:

| | 2021 | 2020 |
|-----------------------|------------|------------|
| Staffing and benefits | \$ 226,410 | \$ 372,356 |
| Passage of time | 350,000 | - |
| | \$ 576,410 | \$ 372,356 |

NOTE 11. GRANT INCOME

Grant income in the consolidated statements of activities was awarded from the following sources for the years ended December 31, 2021 and 2020:

| | 2021 | 2020 |
|--------------------------|--------------|--------------|
| Governmental funding | \$ 2,196,795 | \$ 1,420,206 |
| Charitable organizations | 2,408,654 | 988,047 |
| | \$ 4,605,449 | \$ 2,408,253 |

NOTE 12. EMPLOYEE RETENTION CREDIT

First Step Staffing, Inc. 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 \$369,977. This income has been recognized on the statements of income in other income for the year ended December 31, 2021. As of December 31, 2021, \$- of these credits have been received and the balance of \$369,977 is included in other receivable on the balance sheet at December 31, 2021.

NOTE 13. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events occurring through July 29, 2022, the date on which the financial statements were available to be issued.

On February 15, 2022, First Step Philadelphia entered into a \$500,000 loan agreement. On February 16, 2022, First Step Philadelphia refinanced the \$725,000 note payable described in Note 8.

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

**CONSOLIDATED SUPPLEMENTAL SCHEDULES OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

| | <u>2021</u> | <u>2020</u> |
|---|----------------------------|----------------------------|
| Revenues and support | | |
| Program fees | \$ 63,580,695 | \$ 55,949,835 |
| Grant income | 4,605,449 | 2,408,253 |
| Contributions | 84,127 | 94,008 |
| In-kind contributions | 128,027 | 177,289 |
| Other income | 369,977 | - |
| (Loss) on disposal of asset | - | (7,041) |
| Gain on extinguishment of debt | - | 631,420 |
| TOTAL REVENUES AND SUPPORT | <u>68,768,275</u> | <u>59,253,764</u> |
| Operating expenses | | |
| Client wages | 54,003,857 | 46,377,431 |
| Enhanced wrap-around services | - | 633,750 |
| Other direct program expenses | 4,117,643 | 4,743,897 |
| Payroll expense | 4,404,043 | 4,203,929 |
| Insurance | 381,930 | 433,931 |
| Telephone | 90,988 | 102,629 |
| Professional fees | 616,835 | 386,693 |
| In-kind professional fees | 128,027 | 177,289 |
| Supplies | 49,783 | 61,188 |
| Occupancy | 319,988 | 298,509 |
| Operations | 49,067 | 60,473 |
| Equipment rental and maintenance | 43,301 | 46,687 |
| Travel and meetings | 162,678 | 96,393 |
| Expansion expenses | - | 99,000 |
| Other | 147,479 | 206,157 |
| Donations | 98,227 | 30,000 |
| Bad debt expense | 358,881 | 57,400 |
| TOTAL OPERATING EXPENSES | <u>64,972,727</u> | <u>58,015,356</u> |
| CHANGE IN NET ASSETS FROM OPERATIONS | <u>\$ 3,795,548</u> | <u>\$ 1,238,408</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, 2021

| | <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> | 42700-040-0000096742 | 10.561 | \$ 306,209 |
| <i>Passthrough: Georgia Department of Human Services</i> | 42700-040-0000103629 | 10.561 | 275,317 |
| <i>Passthrough: Georgia Department of Human Services</i> | 42700-040-0000097238 | 10.561 | 68,753 |
| <i>Passthrough: Georgia Department of Human Services</i> | 42700-040-0000097238 | 10.561 | 8,297 |
| <i>Passthrough: Pennsylvania Department of Human Services</i> | 42700-040-0000103629 | 10.561 | 182,857 |
| Total U.S. Department of Agriculture | | | 841,433 |
| U.S. Department of Health and Human Services | | | |
| Block Grants for Community Mental Health Services | | | |
| <i>Passthrough: City of Philadelphia, PA</i> | 19-20567-02 | 93.958 | 306,091 |
| Community Services Block Grant | | | |
| <i>Passthrough: City of Philadelphia, PA</i> | 2020554-01 | 93.569 | 250,000 |
| Temporary Assistance for Needy Families (TANF) | | | |
| <i>Passthrough: Georgia Department of Human Services</i> | 42700-040C-NS22-0000000646 | 93.558 | 24,475 |
| Total U.S. Department of Health and Human Services | | | 580,566 |
| U.S. Department of Housing and Urban Development | | | |
| Home Investment Partnerships Program | | | |
| <i>Passthrough: City of Philadelphia, PA</i> | 2120531 | 14.239 | 87,954 |
| Community Development Block Grants/Entitlement Grants (CDBG – Entitlement Grants Cluster) | | | |
| <i>Passthrough: Bucks County, PA</i> | B-20-UW-42-0004 | 14.218 | 51,924 |
| <i>Passthrough: City of Orlando, FL</i> | B-20-MW-12-0015 | 14.218 | 22,830 |
| <i>Passthrough: Orange County, CA</i> | B-21-UC-12-0003 | 14.218 | 31,000 |
| <i>Passthrough: Gwinnett County, GA</i> | B-20-UW-13-0004 | 14.218 | 43,318 |
| | | | 149,072 |
| Emergency Solutions Grant Program | | | |
| <i>Passthrough: City of Philadelphia, PA</i> | 2120564 | 14.231 | 131,888 |
| Total U.S. Department of Housing and Urban Development | | | 368,914 |
| | | | \$ 1,790,913 |

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021. 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 financial statements of **First Step Staffing, Inc. and Subsidiaries**, which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 29, 2022.

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 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 have not been 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*.

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
July 29, 2022



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, 2021. 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, 2021.

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
July 29, 2022

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021

I. SUMMARY OF INDEPENDENT AUDITOR’S RESULTS:

Financial Statements:

| | | |
|---|-------------------|----------------------|
| Type of auditors’ report issued | <u>Unmodified</u> | |
| | <u>Yes</u> | <u>No</u> |
| Internal control over financial reporting: | | |
| Material weaknesses identified? | _____ | <u>X</u> |
| Significant deficiencies identified not considered to be material weaknesses? | _____ | <u>None Reported</u> |
| Noncompliance material to the financial statements noted? | _____ | <u>X</u> |

Federal Awards:

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

Identification of major programs:

10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Cluster)
93.958 Block Grants for Community Mental Health Services

| | | |
|---|-------------------|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs | <u>\$ 750,000</u> | |
| | <u>Yes</u> | <u>No</u> |
| Auditee qualified as low-risk auditee? | _____ | <u>X</u> |
| Financial Statement Findings? | _____ | <u>X</u> |
| Federal Award Findings Questioned Costs? | _____ | <u>X</u> |

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021

II. FINANCIAL STATEMENT FINDINGS:

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

NONE