Per Scholas, Inc.

Financial Statements and
Supplementary Schedule of
Expenditures of Federal Awards
Year Ended December 31, 2013

Per Scholas, Inc.

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Supplementary Schedule of
Expenditures of Federal Awards
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Per Scholas, Inc.

Contents

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Independent Auditor's Report

The Board of Directors
Per Scholas, Inc.
Bronx, New York

We have audited the accompanying financial statements of Per Scholas, Inc. ("Per Scholas"), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Per Scholas, Inc. as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Per Scholas's 2012 financial statements, and our report dated September 9, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2014 on our consideration of Per Scholas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Per Scholas's internal control over financial reporting and compliance.

BDO USA, LLP

September 9, 2014

Per Scholas, Inc.

Statement of Financial Position
(2013 With Comparative Totals for 2012)

December 31,	**2013**	2012
Assets		
Current Assets:		
Cash and cash equivalents (Note 2)	**$1,521,686**	$1,159,797
Investments at fair value (Notes 2 and 3)	**1,354**	1,221
Accounts receivable, net (Note 4)	**55,066**	84,062
Contributions and government receivable (Notes 2 and 5)	**983,789**	605,268
Inventory	**-**	860
Prepaid expenses and other assets	**40,304**	22,935
Total Current Assets	**2,602,199**	1,874,143
Fixed Assets, Net (Notes 2 and 6)	**1,611,464**	4,000,562
	$4,213,663	$5,874,705
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 140,752**	$ 265,860
Accrued payroll and related expenses	**85,771**	63,527
Deferred rent (Note 2)	**331,251**	271,221
Lines of credit (Note 7)	**-**	291,000
Current portion of mortgages payable (Note 8)	**-**	289,847
Total Current Liabilities	**557,774**	1,181,455
Mortgages Payable, Less Current Maturities (Note 8)	**-**	1,618,962
Total Liabilities	**557,774**	2,800,417
Commitments and Contingencies (Notes 7 and 11)		
Net Assets (Notes 2 and 9):		
Unrestricted	**3,339,139**	2,643,671
Temporarily restricted	**316,750**	430,617
Total Net Assets	**3,655,889**	3,074,288
	$4,213,663	$5,874,705

See accompanying notes to financial statements.

Per Scholas, Inc.

Statement of Activities
(2013 With Comparative Totals for 2012)

Year ended December 31,

	Unrestricted	Temporarily Restricted	**2013**	2012
Support and Operating Revenues:				
Foundation and other contributions	$3,677,948	$ 316,750	**$3,994,698**	$2,957,210
Government and contract revenue	1,236,911	-	**1,236,911**	760,687
Sales	315,190	-	**315,190**	256,612
Less: Cost of goods sold	-	-	**-**	(10,797)
Less: Other costs	-	-	**-**	(10,244)
Net assets released from restrictions (Note 10)	430,617	(430,617)	**-**	-
Net Income From Operations	5,660,666	(113,867)	**5,546,799**	3,953,468
Program Operations:				
Columbus	411,085	-	**411,085**	144,294
Training	3,154,061	-	**3,154,061**	2,272,228
Cincinnati	125,474	-	**125,474**	-
Silver Spring	14,552	-	**14,552**	-
Recycling	220,542	-	**220,542**	321,823
Total Program Operations	3,925,714	-	**3,925,714**	2,738,345
Supporting Operations:				
Administration	628,729	-	**628,729**	717,240
Fundraising	740,961	-	**740,961**	639,551
Total Supporting Operations	1,369,690	-	**1,369,690**	1,356,791
Total Operating Expenses	5,295,404	-	**5,295,404**	4,095,136
Net Income (Loss) Before Nonoperating Activity and Discontinued Operations	365,262	(113,867)	**251,395**	(141,668)
Nonoperating Activity:				
Unrealized gains on investments	133	-	**133**	361
Miscellaneous income (Note 12)	330,073	-	**330,073**	1,057,934
Total Nonoperating Activity	330,206	-	**330,206**	1,058,295
Net Income (Loss) Before Discontinued Operations	695,468	(113,867)	**581,601**	916,627
Discontinued Operations:				
Comp2Kids, Comp2Seniors and Access	-	-	**-**	111,771
Miami	-	-	**-**	37,104
Total Discontinued Operations	-	-	**-**	148,875
Change in Net Assets	695,468	(113,867)	**581,601**	767,752
Net Assets, Beginning of Year	2,643,671	430,617	**3,074,288**	2,306,536
Net Assets, End of Year	**$3,339,139**	**$ 316,750**	**$3,655,889**	$3,074,288

See accompanying notes to financial statements.

Per Scholas, Inc.

Statement of Cash Flows
(2013 With Comparative Totals for 2012)

Year ended December 31,	**2013**	2012
Cash Flows From Operating Activities:		
Change in net assets	**$ 581,601**	$ 767,752
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**238,209**	265,831
Gain on sale of building	**(52,838)**	-
Unrealized gains on investments	**(133)**	(361)
(Increase) decrease in assets:		
Accounts receivable	**28,996**	44,778
Contributions and government receivable	**(378,521)**	39,531
Inventory	**860**	16,916
Prepaid expenses and other assets	**(17,369)**	(7,938)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	**(125,108)**	(224,227)
Accrued payroll and related expenses	**22,244**	11,534
Deferred rent	**60,030**	54,506
Net Cash Provided By Operating Activities	**357,971**	968,322
Cash Flows From Investing Activities:		
Proceeds from sale of building	**2,300,000**	-
Purchases of fixed assets	**(96,273)**	(95,037)
Net Cash Provided By (Used In) Investing Activities	**2,203,727**	(95,037)
Cash Flows From Financing Activities:		
Proceeds from mortgages payable	**-**	200,000
Drawdown on lines of credit	**-**	12,159
Repayment of lines of credit	**(291,000)**	(12,000)
Repayment of mortgages payable	**(1,908,809)**	(100,764)
Net Cash (Used In) Provided By Financing Activities	**(2,199,809)**	99,395
Net Increase in Cash and Cash Equivalents	**361,889**	972,680
Cash and Cash Equivalents, Beginning of Year	**1,159,797**	187,117
Cash and Cash Equivalents, End of Year	**$ 1,521,686**	$1,159,797
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	**$ 54,580**	$ 134,759

See accompanying notes to financial statements.

1. Description of the Organization

Per Scholas, Inc. (the "Organization") is a national nonprofit organization committed to providing free high quality technology job training, job placement and career development services to individuals from underserved communities. The asset recovery program partners with leading asset disposition vendors to offer a complete IT asset disposition solution for retired computer equipment to corporations.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis. In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

(b) Financial Statement Presentation

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

(i) **Permanently Restricted -** Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that they be maintained permanently by the Organization. There were no permanently restricted net assets at December 31, 2013.

(ii) **Temporarily Restricted** – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

(iii) **Unrestricted** – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(c) Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents are recorded at cost which approximates fair market value.

(d) Investments at Fair Value

The Organization follows the guidance included in ASC 820, "Fair Value Measurement". ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 establishes a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 - Inputs are unadjusted quoted prices for identical assets in active markets.

Level 2 - Inputs are observable quoted prices for similar assets in active markets.

Level 3 - Inputs are unobservable and reflect management's best estimate of what market participants would use as fair value.

(e) Investments in Investment Partnerships and Investment Companies

The Organization's investments in investment entities are accounted for under the equity method. These investments are stated at fair value based upon the Organization's equity interest reported by the investment entities.

(f) Fixed Assets and Depreciation

Fixed assets are stated at cost. Expenditures for additions, renewals and betterments are capitalized; expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed on the straight-line method over the estimated useful lives of the assets and is reported for financial statement purposes as follows:

Per Scholas's policy is to capitalize expenditures in excess of $500, which represent new purchases, or extend the life of existing fixed assets.

Building	39 years
Leasehold improvements	Lease term
Furniture and fixtures	5 years
Computers, equipment and software	3-20 years

(g) Deferred Rent

The Organization records rent expense for the 804 East 138th Street location under a straight-line basis over the life of the lease in accordance with Accounting Standards Codification ("ASC") 840, "Accounting for Leases". Total deferred rent in the amount of $331,251 was recorded on the Organization's statements of financial position as of December 31, 2013.

(h) Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Temporarily restricted contributions are classified as unrestricted on the statement of activities if the restrictions are met within the fiscal year. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

(i) Revenue Recognition

The Organization receives most of its revenues from contributions and government contracts. In addition, the Organization earns revenue from the recycling of end-of-life computer equipment.

Government grants and other contracts designated for use in specific activities are recognized as revenue in unrestricted net assets when expenditures have been incurred in compliance with the grantor's restrictions or when deliverable results specified in the grant have been achieved, and as requisitions for payments are submitted. Advances are received under certain grant agreements to assist Per Scholas with expenditures incurred in the first several months of the grant period. Cash received in excess of revenue recognized is recorded as deferred revenue.

Contributions are recorded as revenue when either unrestricted cash is received or when donors make a promise to give. Contributions and promise to give are classified as either unrestricted temporarily restricted or permanently restricted.

Revenue from recycling end-of-life computer equipment is recorded when billed.

(j) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(k) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(l) Comparative Financial Information

The financial statements include certain prior year summarized comparative information. With respect to the statement of activities, the prior year information is presented in total not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the prior year financial statements from which the summarized information was derived.

(m) Income Taxes

The Organization was incorporated in the commonwealth of Massachusetts and is a charitable organization that is exempt from Federal, state and local income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), and therefore has made no provision for income taxes in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service ("IRS") not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for 2013.

The Organization follows the provisions of ASC 740, "Income Taxes", which state that an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained upon examination by a taxing authority. The implementation of ASC 740 had no impact on the Organization's financial statements. The Organization does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. The Organization has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, The Organization has filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. No tax provision was recorded as of December 31, 2013. For the year ended December 31, 2013, there was no interest or penalties recorded or included in the statement of activities. The Organization is subject to routine audits by a taxing authority. As of December 31, 2013, the Organization was not subject to any examination by a taxing authority. Management believes it is no longer subject to income tax examination for the years prior to 2010.

3. Investments at Fair Value

The investments at fair value at December 31, 2013 are for a limited partnership which amounted to $1,354. Investment valuations at December 31, 2013 are summarized as follows:

December 31, 2013

	Fair Value Measurement at Report Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2013
Investments at fair value:				
Limited partnership	$ -	$ -	$1,354	$1,354

Activity for Level 3 investments is summarized as follows:

December 31, 2013	
Fair value at December 31, 2012	$1,221
Realized and unrealized gains	133
Fair value at December 31, 2013	$1,354

4. Accounts Receivable, Net

Accounts receivable consist of the following:

December 31, 2013	
Accounts receivable	$56,282
Less: Allowance for uncollectible amounts	(1,216)
Accounts receivable, net	$55,066

A provision for doubtful accounts receivable has been set up by management based on its assessment of individual receivables from customers.

5. Contributions and Government Receivable

Contributions and government receivable totaling $983,789 at December 31, 2013 represent commitments to the Organization, to be collected in 2014, for training, recycling and general operations. The amounts related to contributions and grant receivable are listed as follows:

December 31, 2013		
Foundations and donors:		
The Robin Hood Foundation	$250,000	Training / general
Fifth & Pacific Foundation	95,000	Training
The New York Women's Foundation	30,000	Training
Dell Computers	15,000	Training
VirtUSA	2,500	Training
Various other	49,770	Training / general
Total foundations and donors	442,270	
Government receivables:		
Social Innovation Fund Subgrantee	63,815	Training
Department of Youth Development	46,674	Training
Consortium For Worker Education Eppy	45,552	Training
Consortium For Worker Education	138,574	Training
Office of Temp/Disability Assistance	15,750	Training
NYC Dept. of Small Business Services	200,824	Training
City of Columbus	15,742	Training
Tekmart (Alternate Staffing)	14,588	Training
Total government receivables	541,519	
Total	$983,789	

6. Fixed Assets, Net

Fixed assets consist of the following:

December 31, 2013	
Furniture and fixtures	$ 340,011
Computers, equipment and software	349,691
Leasehold improvements	1,712,839
	2,402,541
Less: Accumulated depreciation and amortization	(791,077)
Fixed assets, net	$1,611,464

In April 2013, the Organization sold its building at 1575 Bronx River Avenue and used the proceeds to pay off the outstanding balances on its mortgages payable and lines of credit.

7. Line of Credit

The Organization has a line of credit with a financial institution for $250,000 with an interest rate of prime plus 1%. As of December 31, 2013, there was no outstanding balance on the line of credit and the prime rate was at 3.25%.

8. Mortgages Payable

The Organization paid off all mortgages payable on May 15, 2013. As of December 31, 2013, there was no balance in mortgages payable.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 amounted to $316,750 and are restricted for training programs.

10. Net Assets Released From Restrictions

During the year ended December 31, 2013, temporarily restricted net assets were released for training programs in the amount of $430,617.

11. Commitments and Contingencies

Operating Leases

Rental expense included in the statement of activities for all operating leases (rental of 804 East 138th Street and 112 Jefferson, Columbus, OH) was approximately $285,000 in 2013.

Future minimum annual lease payments are as follows:

Year ending December 31,	
2014	$ 246,134
2015	244,862
2016	223,996
2017	231,836
2018	239,951
Thereafter	2,913,479
	$4,100,258

12. Settlement

During the year ended December 31, 2013, the Organization recognized income of $208,069 related to the settlement of a class action lawsuit brought against various sellers of SRAM components for violation of antitrust laws. The income associated with this settlement was included in miscellaneous income in the accompanying statement of activities.

13. Subsequent Events

On June 18, 2014, management entered into an amendment to its lease contract for additional space effective July 1, 2014. Rental payments for the additional space will commence on January 1, 2015.

The Organization's management has performed subsequent events procedures through September 9, 2014, which is the date the financial statements were available to be issued. There were no subsequent events requiring adjustment to or disclosure in the financial statements.

Per Scholas, Inc.

Schedule of Expenditures of Federal Awards

Year ended December 31, 2013

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Identifying/Contract Number	Federal Expenditures
U.S. Department of Labor:			
Passed Through New York City Department of Small Business Services:			
Research Foundation of CUNY on Behalf of Borough of Manhattan Community College:			
WIA Adult Program	17.258	57998 A	**$170,120**
Total U.S. Department of Labor			**170,120**
U.S. Department of Health and Human Services:			
Passed Through New York State Office of Temporary Disability and Assistance:			
Temporary Assistance For Needy Families	93.558	CO20872	**3,000**
Total U.S. Department of Health and Human Services			**3,000**
U.S. Department of Agriculture:			
Passed Through New York State Office of Temporary Disability Assistance:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C021198	**81,500**
Total U.S. Department of Agriculture			**81,500**
Corporation for National and Community Service:			
Passed Through New York City Center for Economic Opportunity:			
Social Innovation Fund	94.019	*	**261,147**
Total Corporation for National and Community Service			**261,147**
Total Federal Expenditures			**$515,767**

* Pass-through contract number not available

See accompanying notes to schedule of expenditures of federal awards.

1. Basis of Presentation

The accompanying schedule of federal awards (the "schedule") includes the federal grant activity of Per Scholas for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of Per Scholas, it is not intended to and does not present the financial position, changes in net assets or cash flows of Per Scholas. Therefore, some amounts presented in the schedule may differ from amounts presented in the financial statements.

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 principle contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying or contract numbers are presented where available.

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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*

The Board of Directors
Per Scholas, Inc.
Bronx, New York

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 Per Scholas, Inc. ("Per Scholas"), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Per Scholas's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Per Scholas's internal control. Accordingly, we do not express an opinion on the effectiveness of Per Scholas's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

BDO USA, LLP

September 9, 2014

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Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

The Board of Directors
Per Scholas, Inc.
Bronx, New York

Report on Compliance for Each Major Federal Program

We have audited Per Scholas Inc.'s ("Per Scholas") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Per Scholas's major federal programs for the year ended December 31, 2013. Per Scholas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Per Scholas's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Per Scholas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Per Scholas 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, 2013.

Report on Internal Control Over Compliance

Management of Per Scholas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Per Scholas's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Per Scholas's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

September 9, 2014

Per Scholas, Inc.

Schedule of Findings and Questioned Costs

December 31, 2013

Section 1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiency(ies) identified?	☐ Yes	☒ None reported
• Noncompliance material to financial statements noted?	☐ Yes	☒ No

Federal Awards Section

Internal control over major programs:		
• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiency(ies) identified?	☐ Yes	☒ None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, section .510(a)?	☐ Yes	☒ No

Identification of major programs:

[CFDA Number/Contract Number]	Name of Federal Program or Cluster
94.019	Social Innovation Fund
17.258	WIA Adult Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	☐ Yes	☒ No

Section 2. Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards.

December 31, 2013

Section 3. Federal Award Findings and Questioned Costs

There were no findings and questioned costs for federal awards (as defined in section .510(a) of the Circular A-133) that are required to be reported.