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November 9, 2017

To the Board of Directors and Management of
Partnerships for a Skilled Workforce, Inc.:

We have audited the financial statements of Partnerships for a Skilled Workforce, Inc. (PSW, Inc.) for the year ended June 30, 2017, and have issued our report thereon dated November 9, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 27, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Required Communications

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by PSW, Inc. are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by PSW, Inc. during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The collectability of accounts receivable, which is based on collection history with the donor/grantor.

- The allocation of indirect costs, which is based on management's estimate of the percentage attributable to each program.

- The useful life of the website, which is based on management's estimate of the period the website will be used.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties dealing with management in performing and completing our audit.

Required Communications (Continued)

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We are pleased to report that there were no such audit adjustments.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 9, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to PSW, Inc.'s financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as PSW, Inc.'s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Best Practice Recommendation

Following is a best practice recommendation for your consideration.

Risk Assessment Plan

PSW, Inc. should develop a formal, written risk assessment and monitoring program. The risk assessment should identify risks within PSW, Inc., including any internal control risks, risks regarding certain account balances, fraud risks, and risks over the physical safeguarding of PSW, Inc.'s assets. The development of the monitoring program will allow management to ensure that existing risks are identified and addressed as appropriate.

Other Matters for Your Information

New Financial Reporting Requirements for NFPs

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities to reduce the cost and complexity associated with reporting requirements and* better communicate their financial performance and condition to their donors, grantors, creditors, and other stakeholders. ASU 2016-14 applies to all not-for-profit entities (NFPs) and is effective for fiscal years beginning after December 15, 2017. NFPs should apply the amendments on a retrospective basis for all years presented. However, nonprofits will have the option to omit the analysis of expenses by both functional and natural classification and the liquidity disclosures for any years presented before the year of adoption if presenting comparative financial statements. Early adoption is permitted.

The main provisions of the ASU 2016-14 require NFPs to:

- Present amounts in two classes of net assets, "net assets with donor restrictions" and "net assets without donor restrictions", instead of three classes, on the face of the statement of financial position.
- Present changes in each of the two classes of net asset (noted above) on the face of the statement of activities.
- Continue to present operating cash flows using either the direct or indirect method. If NFPs choose to use the direct method, they are no longer required to do an indirect reconciliation.
- Disclose the amounts and purposes of board-designated net assets.
- Provide quantitative and qualitative information about financial assets available at the balance sheet date to meet cash flow needs for general expenditures within one year of the balance sheet date.
- Disclose expenses by natural and functional classification either on the face of the statement of activities, in the statement of functional expenses or in the notes to financial statements. Disclosures about the method(s) used to allocate costs among program and support functions.

FASB issued this ASU to complete the phase one of the two-phase project to improve the presentation of financial statements for NFPs. The deliberations of the phase two is expected to begin soon. We will continue to follow FASB's deliberations closely and keep you apprised of additional developments.

New Lease Accounting

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842) to increase transparency and comparability of lease transactions. This ASU applies to all entities that enter into a lease. There is no significant change to the lessor accounting. The most significant change is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under existing generally accepted accounting standards and principles (GAAP). Other significant changes resulting from the new ASU are as follows:

- For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities, and recognize the lease expense generally on a straight-line basis over the lease term.

Other Matters for Your Information (Continued)

New Lease Accounting (Continued)

- The new standard makes a distinction between "operating leases" and "finance leases." For operating leases, the lessees will recognize a "right-of-use" asset and a lease liability, initially at the present value of the lease payments, which represents the right to use the underlying asset for the lease term. The lease cost is calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis. For finance leases, the lessee will similarly record the right-of-use asset and a lease liability, again at the present value of the lease payments. However, interest on the lease liability is recognized separately from the amortization of the right-of-use asset. The cash payments related to operating leases are reflected in the operating section of the statements of cash flow. Cash payments related to the principal portion of a financing lease is classified in the financing activities, and payments of interest are reflected within operating activities of the statement of cash flows.

This change takes effect for fiscal years beginning after December 15, 2019, for non-public companies. Early application will be permitted for all organizations.

In order to estimate how this change will affect your business, you should summarize all of your operating leases and consider the impact they will have on your financial statements. If the impact on your balance sheet is potentially significant, you may want to:

- Look at the impact of these changes to your expenses and the subsequent impact on any contracts, compensation agreements, etc.
- Consider if it still makes sense to lease instead of buying the asset.
- Estimate the effect of this change on the timing of your expenses and re-forecast your financial results to see the full impact of the change.

With respect to the transition to the new guidance, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented in the financial statements, using what is termed: a "modified retrospective approach." The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. We recommend that you consult us for further details.

Proposed Changes to NFP Grant and Contribution Accounting

On August 3, 2017, the FASB issued a proposed Accounting Standards Update (ASU) entitled *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* to clarify and reduce the current diversity in practice in accounting for grants and contributions. This proposed ASU will primarily affect non-profits that receive government or foundation grants and contracts, but also provides clarity to other non-profits and business entities that receive or make contributions.

This proposed ASU assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and in distinguishing between conditional and unconditional contributions. Distinguishing between contributions and exchange transactions determines which revenue recognition guidance is to be applied. Exchange transactions entered into by not-for-profit organizations will be accounted within the scope of ASC 606, *Revenue from Contracts with Customers,* or other applicable guidance, while the guidance related to accounting for contributions received is included in Subtopic 958-605, *Not-for-Profit Entities – Revenue Recognition*.

Other Matters for Your Information (Continued)

Proposed Changes to NFP Grant and Contribution Accounting (Continued)

The proposed effective date follows the same effective dates as the new revenue recognition standards. For public business and non-profits with publicly traded securities, the update would be effective for fiscal years beginning after December 15, 2017. For all other entities, the update would be effective for fiscal years beginning after December 15, 2018.

This update could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current GAAP. Although this update has not been finalized, you should begin to evaluate your current contracts and grant agreements using the proposed criteria to determine the potential effect on your financial reporting. As the project moves closer to implementation, we will keep you apprised of additional developments.

This information is intended solely for the use of the Finance Committee, Board of Directors and management of PSW, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Alexander, Aronson, Finning & Co., P.C.

ALEXANDER, ARONSON, FINNING & CO., P.C.
Certified Public Accountants