

SKILLSOURCE

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2015 AND 2014

**SKILLSOURCE
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INDEPENDENT AUDITORS' REPORT

Board of Directors
SkillSource
Wenatchee, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of SkillSource (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audits 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 auditors' 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 SkillSource as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of governor's discretionary revenue and expenditures is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of governor's discretionary revenue and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 December 9, 2015, on our consideration of SkillSource'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 result 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 SkillSource's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Wenatchee, Washington
December 9, 2015

SKILLSOURCE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

| ASSETS | 2015 | 2014 |
|--|------------------|------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents: | | |
| Cash | \$ 522,668 | \$ 420,516 |
| Vacation Reserve | 114,929 | 103,344 |
| Certificates of Deposit | 12,311 | 12,268 |
| Total Cash and Cash Equivalents | 649,908 | 536,128 |
| Trade Receivables | 80,223 | 75,134 |
| Due from Government | 70,182 | 1,210 |
| Prepaid Expenses | 38,646 | 29,777 |
| Current Portion of Note Receivable | 25,000 | 40,000 |
| Total Current Assets | 863,959 | 682,249 |
| PROPERTY AND EQUIPMENT | | |
| Land | 813,351 | 813,351 |
| Land Improvements | 717,889 | 717,889 |
| Buildings and Equipment | 4,023,712 | 4,009,022 |
| Total | 5,554,952 | 5,540,262 |
| Less Accumulated Depreciation | 1,845,628 | 1,706,136 |
| Total Property and Equipment | 3,709,324 | 3,834,126 |
| OTHER ASSETS | | |
| USDA Reserve | 126,980 | 111,117 |
| Loan Fees, Net of Accumulated Amortization of \$6,600 and \$6,471, Respectively | 644 | 773 |
| Note Receivable, Net of Current Portion | - | 25,000 |
| Total Other Assets | 127,624 | 136,890 |
| Total Assets | \$ 4,700,907 | \$ 4,653,265 |

See accompanying Notes to Financial Statements.

| LIABILITIES AND NET ASSETS | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 72,494 | \$ 46,105 |
| Accrued Wages and Benefits | 13,880 | 8,803 |
| Accrued Vacation | 114,929 | 103,344 |
| Accrued Interest | 3,277 | 3,765 |
| Due to Subrecipients | 31,546 | 29,984 |
| Current Portion of Long-Term Debt | <u>51,992</u> | <u>49,900</u> |
| Total Current Liabilities | 288,118 | 241,901 |
| | | |
| LONG-TERM DEBT , Net of Current Portion | <u>2,879,287</u> | <u>2,931,909</u> |
| | | |
| Total Liabilities | 3,167,405 | 3,173,810 |
| | | |
| COMMITMENTS AND CONTINGENCIES | | |
| | | |
| NET ASSETS | | |
| Unrestricted | <u>1,533,502</u> | <u>1,479,455</u> |
| | | |
| Total Liabilities and Net Assets | <u>\$ 4,700,907</u> | <u>\$ 4,653,265</u> |

SKILLSOURCE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|---|----------------------------|----------------------------|
| REVENUES | | |
| Adult Program | \$ 702,361 | \$ 671,391 |
| Youth Program | 673,941 | 639,201 |
| Dislocated Worker Program | 433,461 | 530,960 |
| Basic Education | 859,513 | 711,366 |
| Governor's Discretionary Revenue | 24,340 | 69,488 |
| Rapid Response Revenue | 412,294 | 193,813 |
| Administration | 290,730 | 324,805 |
| National Emergency Dislocated Worker Grants | 164,731 | 171,183 |
| Senior Community Service Employment Program Revenue | 46,993 | 48,054 |
| Air Washington | 31,608 | 29,364 |
| Rental Income | 153,902 | 153,984 |
| Interest Income | 2,044 | 1,890 |
| Miscellaneous | 21,275 | 28,018 |
| Total Revenues | <u>3,817,193</u> | <u>3,573,517</u> |
| EXPENSES | | |
| Adult Program | 473,673 | 414,460 |
| Youth Program | 505,379 | 474,229 |
| Dislocated Worker Program | 316,059 | 359,526 |
| Governor's Discretionary Expense | 21,027 | 52,298 |
| Rapid Response Expense | 318,045 | 146,046 |
| Senior Community Service Employment Program Expense | 46,993 | 48,055 |
| National Emergency Dislocated Worker Grants | 124,729 | 132,633 |
| Air Washington | 26,154 | 13,200 |
| Partner Facilities Expense | 153,902 | 146,651 |
| Miscellaneous | 50,296 | 62,410 |
| Basic Education | 901,002 | 849,164 |
| Payments to Subrecipients | 535,157 | 537,058 |
| Administration | 290,730 | 332,137 |
| Total Expenses | <u>3,763,146</u> | <u>3,567,867</u> |
| CHANGES IN NET ASSETS | 54,047 | 5,650 |
| Net Assets - Beginning of Year | <u>1,479,455</u> | <u>1,473,805</u> |
| NET ASSETS - END OF YEAR | <u><u>\$ 1,533,502</u></u> | <u><u>\$ 1,479,455</u></u> |

See accompanying Notes to Financial Statements.

**SKILLSOURCE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015**

| | Adult Program | Youth Program | Dislocated Worker Program | Other Programs | Total Program Services | Administration | Total |
|------------------------------------|------------------|------------------|---------------------------------|-------------------|------------------------------|----------------|--------------|
| Salaries | \$ 185,504 | \$ 261,203 | \$ 138,648 | \$ 184,925 | \$ 770,280 | \$ 169,850 | \$ 940,130 |
| Payroll Taxes and Benefits | 50,443 | 58,631 | 36,986 | 43,653 | 189,713 | 44,045 | 233,758 |
| Supplies | 8,336 | 12,851 | 5,895 | 8,162 | 35,244 | 5,114 | 40,358 |
| Travel | 3,459 | 3,486 | 2,537 | 2,616 | 12,098 | 2,231 | 14,329 |
| Facilities | 42,234 | 44,406 | 29,210 | 232,031 | 347,881 | 14,832 | 362,713 |
| Equipment | 2,971 | 2,918 | 2,570 | 2,651 | 11,110 | 1,526 | 12,636 |
| Telephone and Communications | 3,422 | 3,318 | 2,354 | 2,994 | 12,088 | 3,297 | 15,385 |
| Other Expenses | 16,443 | 12,565 | 10,827 | 21,101 | 60,936 | 48,331 | 109,267 |
| Staff Training | 5,527 | 5,303 | 3,412 | 4,306 | 18,548 | 1,504 | 20,052 |
| Specific Assistance to Individuals | 155,334 | 100,698 | 83,620 | 238,707 | 578,359 | - | 578,359 |
| Total | 473,673 | 505,379 | 316,059 | 741,146 | 2,036,257 | 290,730 | 2,326,987 |
| Basic Education | 97,062 | 44,841 | 44,921 | 714,178 | 901,002 | - | 901,002 |
| Payments to Subrecipients | 131,850 | 123,945 | 72,706 | 206,656 | 535,157 | - | 535,157 |
| Total Expenses | \$ 702,585 | \$ 674,165 | \$ 433,686 | \$ 1,661,980 | \$ 3,472,416 | \$ 290,730 | \$ 3,763,146 |
| Percentage | 18.67% | 17.91% | 11.52% | 44.16% | 92.27% | 7.73% | 100.00% |

See accompanying Notes to Financial Statements.

**SKILLSOURCE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014**

| | Adult Program | Youth Program | Dislocated Worker Program | Other Programs | Total Program Services | Administration | Total |
|------------------------------------|------------------|------------------|---------------------------------|-------------------|------------------------------|----------------|--------------|
| Salaries | \$ 181,743 | \$ 249,287 | \$ 168,180 | \$ 132,504 | \$ 731,714 | \$ 202,150 | \$ 933,864 |
| Payroll Taxes and Benefits | 49,066 | 57,795 | 44,147 | 29,093 | 180,101 | 39,769 | 219,870 |
| Supplies | 4,662 | 9,727 | 5,902 | 4,299 | 24,590 | 6,635 | 31,225 |
| Travel | 2,132 | 2,409 | 2,323 | 590 | 7,454 | 5,307 | 12,761 |
| Facilities | 35,646 | 42,553 | 39,015 | 225,783 | 342,997 | 24,982 | 367,979 |
| Equipment | 4,481 | 6,238 | 5,144 | 5,495 | 21,358 | 2,080 | 23,438 |
| Telephone and Communications | 3,290 | 3,228 | 3,045 | 1,287 | 10,850 | 3,367 | 14,217 |
| Other Expenses | 15,845 | 17,933 | 14,137 | 15,515 | 63,430 | 47,847 | 111,277 |
| Staff Training | 1,434 | 1,366 | 1,135 | 2,319 | 6,254 | - | 6,254 |
| Specific Assistance to Individuals | 116,161 | 83,693 | 76,498 | 184,408 | 460,760 | - | 460,760 |
| Total | 414,460 | 474,229 | 359,526 | 601,293 | 1,849,508 | 332,137 | 2,181,645 |
| Basic Education | 101,426 | 60,311 | 77,238 | 610,189 | 849,164 | - | 849,164 |
| Payments to Subrecipients | 156,231 | 105,387 | 94,923 | 180,517 | 537,058 | - | 537,058 |
| Total Expenses | \$ 672,117 | \$ 639,927 | \$ 531,687 | \$ 1,391,999 | \$ 3,235,730 | \$ 332,137 | \$ 3,567,867 |
| Percentage | 18.84% | 17.94% | 14.90% | 39.01% | 90.69% | 9.31% | 100.00% |

See accompanying Notes to Financial Statements.

SKILLSOURCE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|---|------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in Net Assets | \$ 54,047 | \$ 5,650 |
| Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 139,492 | 156,460 |
| Loan Fee Amortization | 129 | 129 |
| Gain on Disposal of Assets | - | (2,943) |
| (Increase) Decrease in Assets: | | |
| Trade Receivables | (5,089) | (38,870) |
| Due from Government | (68,972) | 14,468 |
| Prepaid Expenses | (8,869) | 32,101 |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | 26,389 | (16,385) |
| Accrued Wages and Benefits | 5,077 | 1,763 |
| Accrued Vacation | 11,585 | 12,748 |
| Accrued Interest | (488) | 3,765 |
| Due to Subrecipients | 1,562 | (7,016) |
| Net Cash Provided by Operating Activities | 154,863 | 161,870 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Property and Equipment Purchases | (14,690) | (13,719) |
| Additions to Cash Reserves | (15,863) | (15,845) |
| Payments Received on Note Receivable | 40,000 | 15,000 |
| Net Cash Provided (Used) by Investing Activities | 9,447 | (14,564) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long-Term Debt | (50,530) | (72,264) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 113,780 | 75,042 |
| Cash and Cash Equivalents - Beginning of Year | 536,128 | 461,086 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 649,908 | \$ 536,128 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Interest Paid | \$ 122,415 | \$ 130,362 |

See accompanying Notes to Financial Statements.

SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

SkillSource (the Organization), a nonprofit corporation, tax-exempt under section 501(c)(3) of the Internal Revenue Code (IRC), was organized to administer Title 1B Workforce Investment Act grants. The Organization is the designated fiscal agent for the Workforce Development Area comprised of Chelan, Douglas, Grant, Adams, and Okanogan counties. Okanogan workforce investment services are delivered independently by the State of Washington Employment Security Department under contract from the Organization. A majority of the Organization's financial support is federal grant money passed through the State of Washington Employment Security Department. The Organization acts as both fiscal agent and service provider, except for Okanogan County.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Further, the Organization reports contributions received as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence or nature of any donor restrictions. Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets – Unrestricted net assets are funds controlled and designated by the board of directors that include the general, operating, and equipment accounts.

Temporarily Restricted Net Assets – Temporarily restricted net assets are controlled by law or donor-imposed restrictions that allow use of the assets as specified either by the passage of time or by actions of the Organization. As of June 30, 2015 and 2014, the Organization had no temporarily restricted net assets.

Permanently Restricted Net Assets – Permanently restricted net assets are controlled by law or donor-imposed restrictions which state that they be maintained in perpetuity by the Organization. As of June 30, 2015 and 2014, the Organization had no permanently restricted net assets.

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Contributions

The Organization accounts for contributions in accordance with the provisions of the Financial Accounting Standards Board *Accounting Standards Codification* Topic 958, *Not-for-Profit Entities Presentation of Financial Statements*. In accordance with Topic 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending upon the existence and/or nature of any donor restrictions.

SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

Contributions are considered to be unrestricted unless restricted by the donor. Proceeds from governmental grants and contracts whose restrictions are met in the same reporting period are reported as unrestricted revenue.

Revenue Recognition-Grant Agreements

As the Organization incurs expenses in compliance with the restrictions of the grantor, the funds are considered to be earned and are reported as revenues. Any excess of expenses incurred over cash received is recorded as a receivable.

Revenue Recognition-Fee-for-Service Contracts

Revenues for service contracts are earned and recorded when the services are provided. Revenues earned as a result of services performed but not yet received are recorded as receivables.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents.

The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses on such accounts. The Organization believes it is not exposed to any significant credit risk with respect to cash and cash equivalents.

Certificates of Deposit

As part of its cash management program, the Organization from time to time maintains a portfolio of short-term certificates of deposit. These securities are carried at cost and are included in cash equivalents.

Receivables

Receivables primarily represent amounts due for services provided to various organizations and are stated at net realizable value. All receivables are considered to be collectible and no allowance for uncollectible accounts has been provided.

SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Fees

Loan fees are being amortized on a straight-line basis over the period of the mortgage note. Amortization expense for each of the years ended June 30, 2015 and 2014 was \$129.

Accrued Vacation Payable

The Organization has established a separate reserve account for the accrued vacation payable amount that will come due in the future. The reserve is deposited in an interest-bearing account.

Property and Equipment

Property and equipment purchases in excess of \$5,000 or improvements that substantially enhance the useful life of an asset are recorded at cost. Expenditures for renewals and betterments are capitalized while repairs and maintenance costs are charged to expense. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts, and any gain or loss is reflected in the changes in net assets. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, ranging from five to fifty years.

Advertising

Advertising costs are expensed when incurred. Total advertising costs were \$4,012 and \$5,455 for the years ended June 30, 2015 and 2014, respectively.

Income Taxes

The Organization is exempt from federal income taxes under IRC Section 501(c)(3).

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs. Expenses that can be identified with a specific program are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various bases.

Interest Expense

The Organization recognized interest expense of \$121,927 and \$130,362 during the years ended June 30, 2015 and 2014, respectively.

Fundraising Expenses

The Organization did not incur any fundraising expenses for the years ended June 30, 2015 and 2014.

SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification

Certain amounts in the 2014 financial statements have been reclassified to conform with the 2015 financial statement presentation with no effect on previously reported changes in net assets.

Uncertainty in Income Tax

No provision for income taxes is shown in the financial statements because the Organization is a nonprofit organization. As such, the Organization is exempt from federal income tax. The Organization has not identified any uncertainty in income tax positions that would jeopardize the entity's status as a nonprofit entity.

Subsequent Events

Subsequent events have been evaluated through December 9, 2015, which is the date the financial statements were available to be issued.

NOTE 2 USDA RESERVE

In accordance with the U.S. Department of Agriculture (USDA) loan agreement, the Organization is required to establish a cash reserve. The Organization makes monthly contributions of \$1,302 to the reserve until the balance reaches \$156,192. For the years ended June 30, 2015 and 2014, the reserve balance was \$126,980 and \$111,117, respectively, and is included in the USDA reserve balance on the accompanying statements of financial position.

NOTE 3 AMOUNTS DUE TO/FROM GOVERNMENT

Support from grant funds is earned as expenditures are made. The amounts due from government are for expenditures for which reimbursement has not yet been received at June 30, 2015 and 2014. The amounts due to government are for advances for which expenditures had not been incurred at June 30, 2015 and 2014.

NOTE 4 PROPERTY

The land, land improvements, and buildings located in Wenatchee, Washington were purchased with nonfederal funds and are, therefore, owned by the Organization. A combination of nonfederal and federal funds was used to construct the Moses Lake One-Stop Center (the Center) (Note 12). The land improvements and buildings in Wenatchee and Moses Lake, Washington are capitalized, at cost, and depreciated over the useful life of the asset using straight-line and accelerated methods. Depreciation expense for the years ended June 30, 2015 and 2014 was \$139,492 and \$156,460, respectively.

SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 5 EQUIPMENT

Under the Workforce Investment Act, the granting authority reimburses the Organization for the purchase of certain equipment used for the programs. The granting authority holds title of the equipment purchased with grant funds. Equipment acquisitions purchased with grant funds are treated as current period expenditures. Proceeds of \$5,000 or more from the disposition of equipment purchased with grant funds are returned to the granting authority.

The following schedule represents the historical cost of equipment purchases which are owned by the granting authority and held by the Organization as of June 30:

| | 2015 | 2014 |
|-------------------------------|------------|------------|
| Equipment - Beginning of Year | \$ 714,016 | \$ 724,306 |
| Additions | 23,029 | 37,398 |
| Deletions | (40,272) | (47,688) |
| Equipment - End of Year | \$ 696,773 | \$ 714,016 |

NOTE 6 LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

| | 2015 | 2014 |
|---|--------------|--------------|
| Note Payable to Banner Bank, Payable in Monthly Installments of \$1,596, Including Interest at 4.25% Until July 5, 2020, at Which Time the Entire Balance of the Note is Due; Secured by Real Estate Located in Wenatchee, Washington | \$ 212,031 | \$ 221,810 |
| Note Payable to the United States Department of Agriculture, Due in Monthly Payments of \$12,776, Including Interest at 4.125% Until June 20, 2047, at Which Time the Entire Balance of the Note is Due; Secured by Real Estate in Moses Lake, Washington | 2,719,248 | 2,759,999 |
| Total | 2,931,279 | 2,981,809 |
| Less Current Portion | 51,992 | 49,900 |
| Total Long-Term Debt | \$ 2,879,287 | \$ 2,931,909 |

SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 6 LONG-TERM DEBT (CONTINUED)

Future maturities of long-term debt are as follows:

| Year Ending June 30, | Amount |
|----------------------|--------------|
| 2016 | \$ 51,992 |
| 2017 | 54,222 |
| 2018 | 56,521 |
| 2019 | 58,918 |
| 2020 | 61,399 |
| Thereafter | 2,648,227 |
| Total | \$ 2,931,279 |

NOTE 7 RELATED-PARTY TRANSACTIONS

A member of the Organization's board of directors is an owner of LocalTel. During the year ended June 30, 2015, the Organization paid LocalTel for phone, internet and IT consulting services. The Organization also received funding from and purchased services from Wenatchee Valley College, Big Bend Community College, Department of Vocational Rehabilitation, Employment Security Department, Department of Social and Health Services, and the Moses Lake School District during the year ended June 30, 2015. Individuals employed at these organizations also serve as members of the Organization's board of directors.

NOTE 8 CONCENTRATIONS

During the years ended June 30, 2015 and 2014, the Organization received approximately 71% and 73%, respectively, of its annual revenues from the Workforce Investment Act, administered by the Department of Labor.

NOTE 9 LEASE COMMITMENTS

The Organization entered into a five-year operating lease for office space in Adams County, Washington which expired in August 2011. Monthly payments under the operating lease were \$1,700. The Organization received credit equal to the cost of renovations and repairs made during the term of the lease totaling \$108,054. As of June 30, 2014, the Organization had a remaining credit of \$-0-. During September 2011, the Organization extended the lease. The extension commenced on September 11, 2011, and will terminate on August 31, 2016. Monthly payments under the operating lease are \$-0-.

The Organization estimates that the value of the donated use of the office space was \$20,400 for the years ended June 30, 2015 and 2014. The donated use of the office space is included in miscellaneous income in the statements of activities and changes in net assets.

**SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 9 LEASE COMMITMENTS (CONTINUED)

There was no lease expense for the years ended June 30, 2015 and 2014.

There are no future minimum lease payments associated with this lease, as monthly payments are \$-0-.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Operating Leases

The Organization leases office space to various lessees. The leases expire in 2017 and 2020. They include various renewal options.

Minimum future rental income on these operating leases is as follows:

| Year Ending June 30, | Amount |
|----------------------|------------|
| 2016 | \$ 141,812 |
| 2017 | 123,433 |
| 2018 | 31,536 |
| 2019 | 31,536 |
| 2020 | 26,280 |
| Total | \$ 354,597 |

Funding

Funding for the Organization's operations is primarily from government grants. Continued existence of the Organization depends upon the continuation of such grants. The Organization has been granted the following amounts from governmental agencies:

| Grantor | Period | Contract | Amount |
|---|-------------------|--------------|-----------|
| Department of Labor - Adult Program | 07/2014 - 06/2016 | 6108-7104 | \$ 60,789 |
| Department of Labor - Adult Program | 10/2014 - 06/2016 | 6108-1105 | 699,418 |
| Department of Labor - Youth Program | 04/2014 - 06/2017 | 6108-7005 | 637,015 |
| Department of Labor - Youth Program | 04/2014 - 06/2016 | 6108-7004 | 626,107 |
| Department of Labor - Dislocated Worker | 07/2014 - 06/2016 | 6108-7204 | 56,582 |
| Department of Labor - Dislocated Worker | 07/2014 - 06/2016 | 6108-1205 | 384,790 |
| Department of Labor - Dislocated Worker - Rapid Response Additional Assistance | 06/2014 - 04/2016 | 6108-7503-12 | 430,403 |
| Department of Labor - Dislocated Worker - Rapid Response Long Term Unemployed | 05/2014 - 03/2016 | 6108-7503-11 | 166,129 |
| Department of Labor - Administrative Cost Pool | 10/2014 - 06/2016 | 6108-1305 | 120,468 |
| Department of Labor - Administrative Cost Pool | 04/2014 - 06/2016 | 6108-7304 | 82,608 |
| Department of Labor - Administrative Cost Pool | 04/2015 - 06/2017 | 6108-7305 | 89,515 |
| Department of Labor - National Emergency Grant | 07/2014 - 07/2016 | 6108-7533-02 | 292,532 |
| Department of Labor - Implementation Planning | 05/2015 - 06/2016 | 6108-7494-02 | 42,250 |
| Department of Labor - Youth Works | 01/2015 - 06/2016 | 6108-7624-03 | 89,434 |
| Trade Adjustment Assistance Community College and Career Training - Air Washington | 03/2012 - 09/2015 | 461 | 138,221 |

SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 11 RETIREMENT PLAN

The Organization maintains a retirement plan for all eligible employees. The plan provides that employee contributions are matched dollar for dollar up to 5.5% of employee salaries. Contributions paid by the Organization for the years ended June 30, 2015 and 2014, were \$56,542 and \$59,789, respectively.

NOTE 12 MOSES LAKE ONE-STOP CENTER

The Organization constructed a One-Stop Center (Center) in Moses Lake, Washington, and a majority of the funding for the project was from a combination of the Organization's net assets and loan funds. However, a portion of the Center was funded with Workforce Investment Act resources. The Organization requested and received approval from their oversight agency for the use of Workforce Investment Act funds for certain items for the Center. Normally, Workforce Investment Act funds are not allowed for the construction or purchase of facilities or buildings. The oversight agency approved the request because the oversight agency interpreted the items requested by the Organization as equipment, maintenance, or improvements for the accessibility for persons with disabilities, which are all allowable costs.

Generally accepted accounting principles require all costs that are directly and clearly associated with the construction of the Center be capitalized. Therefore, the Organization has capitalized the majority of the costs paid for with Workforce Investment Act funds that were approved by their oversight agency. The capitalized costs will be depreciated over their estimated useful lives using the straight-line method. The Organization will not seek reimbursement from the Workforce Investment Act program for the depreciation associated with any item funded by the Workforce Investment Act program.

SKILLSOURCE
SCHEDULE OF GOVERNOR'S DISCRETIONARY REVENUE AND EXPENDITURES
YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|--|-----------|-----------|
| GOVERNOR'S DISCRETIONARY REVENUE | | |
| Career Readiness | \$ 10,012 | \$ 17,488 |
| State 5% Sequestration Mitigation | - | 50,000 |
| Performance Incentive | - | 2,000 |
| Youth Works | 14,328 | - |
| | \$ 24,340 | \$ 69,488 |
| GOVERNOR'S DISCRETIONARY EXPENDITURES | | |
| Career Readiness | \$ 10,013 | \$ 17,488 |
| State 5% Sequestration Mitigation | - | 32,810 |
| Performance Incentive | - | 2,000 |
| Youth Works | 11,014 | - |
| Total Governor's Discretionary Expenditures | 21,027 | 52,298 |
| Payments to Subrecipients | 3,314 | 17,189 |
| Gross Governor's Discretionary Expenditures | \$ 24,341 | \$ 69,487 |

**INDEPENDENT AUDITORS' 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**

Board of Directors
SkillSource
Wenatchee, Washington

We have audited, 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, the financial statements of SkillSource, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, 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 December 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SkillSource'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 SkillSource's internal control. Accordingly, we do not express an opinion on the effectiveness of SkillSource'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 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SkillSource’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.



CliftonLarsonAllen LLP

Wenatchee, Washington
December 9, 2015



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
SkillSource
Wenatchee, Washington

Report on Compliance for Each Major Federal Program

We have audited SkillSource's 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 SkillSource's major federal program for the year ended June 30, 2015. SkillSource's major federal program is identified in the summary of auditors' results section of the accompanying schedule of audit 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for SkillSource's major federal program 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 SkillSource'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 the major federal program. However, our audit does not provide a legal determination of SkillSource's compliance.

Opinion on Each Major Federal Program

In our opinion, SkillSource complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of SkillSource 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 SkillSource'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 SkillSource'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 result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Wenatchee, Washington
December 9, 2015

**SKILLSOURCE
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

| | | | | |
|--|-------|-----|------------------|---------------|
| Material weakness(es) identified? | _____ | yes | <u> X </u> | no |
| Significant deficiency(ies) identified not considered to be material weakness(es)? | _____ | yes | <u> X </u> | none reported |
| Noncompliance material to financial statements noted? | _____ | yes | <u> X </u> | no |

Federal Awards

Internal control over major programs:

| | | | | |
|--|-------|-----|------------------|---------------|
| Material weakness(es) identified? | _____ | yes | <u> X </u> | no |
| Significant deficiency(ies) identified not considered to be material weakness(es)? | _____ | yes | <u> X </u> | none reported |

Type of auditors’ report issued on compliance for major programs: Unmodified

| | | | | |
|---|-------|-----|------------------|----|
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | _____ | yes | <u> X </u> | no |
|---|-------|-----|------------------|----|

Identification of Major Programs:

| | |
|-----------------------|---|
| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
| 17.258, .259, .278 | Workforce Investment Act Cluster |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

| | | | | |
|--|------------------|-----|-------|----|
| Auditee qualified as low-risk auditee? | <u> X </u> | yes | _____ | no |
|--|------------------|-----|-------|----|

SKILLSOURCE
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SKILLSOURCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

| U.S. DEPARTMENT OF LABOR: Pass-through from State of Washington Employment Security Department: | CFDA Number | Contract Period | Contract Number | Contract Amount | Expenditures |
|--|--------------------|--------------------|--------------------|---------------------|---------------------|
| Workforce Investment Act Adult Program | 17.258 | 10/2013 - 06/2015 | 6108-1104 | \$ 611,403 | \$ 75,881 |
| Workforce Investment Act Adult Program | 17.258 | 07/2014 - 06/2016 | 6108-7104 | 60,789 | 60,789 |
| Workforce Investment Act Adult Program | 17.258 | 10/2014 - 06/2016 | 6108-1105 | 699,418 | 565,916 |
| Workforce Investment Act Youth Activities Program | 17.259 | 04/2013 - 06/2015 | 6108-7003 | 643,482 | 95,331 |
| Workforce Investment Act Youth Activities Program | 17.259 | 04/2014 - 06/2016 | 6108-7004 | 626,107 | 578,835 |
| Workforce Investment Act Dislocated Worker | 17.278 | 10/2013 - 06/2015 | 6108-1204 | 524,623 | 111,682 |
| Workforce Investment Act Dislocated Worker | 17.278 | 07/2014 - 06/2016 | 6108-7204 | 56,582 | 56,582 |
| Workforce Investment Act Dislocated Worker | 17.278 | 10/2014 - 06/2016 | 6108-1205 | 384,790 | 265,422 |
| Workforce Investment Act Administrative Cost Pool | 17.258, .278 | 10/2013 - 06/2015 | 6108-1304 | 126,225 | 106,430 |
| Workforce Investment Act Administrative Cost Pool | 17.258, .259, .278 | 04/2014 - 06/2016 | 6108-7304 | 82,608 | 82,608 |
| Workforce Investment Act Administrative Cost Pool | 17.258, .278 | 10/2014 - 06/2016 | 6108-1305 | 120,468 | 44,150 |
| Career Readiness | 17.258, .259, .278 | 11/2013 - 06/2015 | 6108-7403-05 | 27,500 | 10,012 |
| Long-Term Unemployed | 17.278 | 05/2014 - 03/2016 | 6108-7503-11 | 166,129 | 141,031 |
| Rapid Response Additional Assistance | 17.278 | 06/2014 - 04/2016 | 6108-7503-12 | 430,403 | 271,263 |
| Youth Works | 17.258, .259, .278 | 01/2015 - 06/2016 | 6108-7624-03 | 89,434 | 14,328 |
| Total | | | | <u>4,649,961</u> | <u>2,480,260</u> |
| National Emergency Grant - Dislocated Worker Training | 17.277 | 09/2013 - 04/2015 | 6108-7533-02 | 112,781 | 61,090 |
| National Emergency Grant - Job Driven | 17.277 | 07/2014 - 07/2016 | 6108-7564-02 | 292,532 | 115,784 |
| Total | | | | <u>405,313</u> | <u>176,874</u> |
| Total Pass-through from State of Washington Employment Security Department | | | | 5,055,274 | 2,657,134 |
| Pass-through from State of Washington Department of Social and Health Services: | | | | | |
| Senior Community Service Employment Program | 17.235 | 07/2014 - 06/2015 | 1412-15630 | 48,193 | 48,193 |
| Pass-through from Big Bend Community College: Trade Adjustment Assistance Community College and Career Training - Air Washington | 17.282 | 03/2012 - 09/2015 | 461 | 138,221 | 31,608 |
| Total U.S. Department of Labor | | | | <u>5,241,688</u> | <u>2,736,935</u> |
| Total Federal Awards | | | | <u>\$ 5,241,688</u> | <u>\$ 2,736,935</u> |

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**SKILLSOURCE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE 2 SUBRECIPIENTS

The Organization subcontracted federal awards to subrecipients as follows:

| Program Name | Federal CFDA Number | Amount Provided |
|------------------------------------|---------------------------|--------------------|
| Department of Labor: | | |
| Title IB, Adult | 17.258 | \$ 131,850 |
| Title IB, Youth | 17.259 | 123,948 |
| Title IB, Dislocated Worker | 17.278 | 164,466 |
| Title IB, Governor's Discretionary | 17.258, 259, 278 | 3,314 |
| Air Washington | 17.282 | 5,454 |
| Total Federal Expenditures | | <u>\$ 429,032</u> |

**SKILLSOURCE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015**

There are no prior year audit findings to report.