

SKILLSOURCE

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2016 AND 2015

**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, 2016 and 2015, 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, 2016 and 2015, 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 audits were 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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 audits 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 March 21, 2017, 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

CliftonLarsonAllen LLP

Wenatchee, Washington
March 21, 2017

SKILLSOURCE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents:		
Cash	\$ 424,110	\$ 522,668
Vacation Reserve	136,721	114,929
Certificates of Deposit	12,329	12,311
Total Cash and Cash Equivalents	573,160	649,908
Trade Receivables	106,704	80,223
Other Receivables	14,008	-
Due from Government	246,162	70,182
Current Portion of Prepaid Expenses	58,471	38,646
Current Portion of Note Receivable	-	25,000
Total Current Assets	998,505	863,959
PROPERTY AND EQUIPMENT		
Land	813,351	813,351
Land Improvements	711,965	717,889
Buildings and Equipment	4,148,782	4,023,712
Total	5,674,098	5,554,952
Less: Accumulated Depreciation	1,969,607	1,845,628
Total Property and Equipment	3,704,491	3,709,324
OTHER ASSETS		
USDA Reserve	142,875	126,980
Prepaid Expenses, Net of Current Portion	31,287	-
Loan Fees, Net of Accumulated Amortization of \$6,730 and \$6,600, Respectively	514	644
Total Other Assets	174,676	127,624
 Total Assets	 \$ 4,877,672	 \$ 4,700,907

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 155,782	\$ 72,494
Accrued Wages and Benefits	10,913	13,880
Accrued Vacation	136,745	114,929
Accrued Interest	3,590	3,277
Due to Subrecipients	-	31,546
Current Portion of Long-Term Debt	54,222	51,992
Total Current Liabilities	<u>361,252</u>	<u>288,118</u>
LONG-TERM DEBT , Net of Current Portion	<u>2,825,041</u>	<u>2,879,287</u>
Total Liabilities	3,186,293	3,167,405
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	<u>1,691,379</u>	<u>1,533,502</u>
Total Liabilities and Net Assets	<u><u>\$ 4,877,672</u></u>	<u><u>\$ 4,700,907</u></u>

SKILLSOURCE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
REVENUES		
Adult Program	\$ 722,977	\$ 702,361
Youth Program	643,942	673,941
Dislocated Worker Program	531,096	433,461
Basic Education	1,073,378	859,513
Governor's Discretionary Revenue	115,478	24,340
Rapid Response Revenue	377,195	412,294
Administration	237,669	290,730
National Emergency Dislocated Worker Grants	366,759	164,731
Senior Community Service Employment Program Revenue	57,103	46,993
Air Washington	4,230	31,608
Rental Income	161,230	153,902
Interest Income	1,138	2,044
Miscellaneous	28,150	21,275
Total Revenues	4,320,345	3,817,193
EXPENSES		
Adult Program	496,685	473,673
Youth Program	498,977	505,379
Dislocated Worker Program	385,913	316,059
Governor's Discretionary Expense	76,813	21,027
Rapid Response Expense	322,091	318,045
Senior Community Service Employment Program Expense	51,232	46,993
National Emergency Dislocated Worker Grants	281,705	124,729
Air Washington	4,230	26,154
Partner Facilities Expense	161,230	153,902
Miscellaneous	37,639	50,296
Basic Education	960,819	901,002
Payments to Subrecipients	539,237	535,157
Administration	345,897	290,730
Total Expenses	4,162,468	3,763,146
CHANGES IN NET ASSETS	157,877	54,047
Net Assets - Beginning of Year	1,533,502	1,479,455
NET ASSETS - END OF YEAR	\$ 1,691,379	\$ 1,533,502

See accompanying Notes to Financial Statements.

**SKILLSOURCE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016**

	Adult Program	Youth Program	Dislocated Worker Program	Other Programs	Total Program Services	Administration	Total
Salaries	\$ 202,583	\$ 243,859	\$ 341,554	\$ 53,149	\$ 841,145	\$ 186,728	\$ 1,027,873
Payroll Taxes and Benefits	52,464	56,946	89,849	12,282	211,541	35,217	246,758
Supplies	7,246	10,428	13,215	1,462	32,351	5,094	37,445
Travel	4,650	3,637	7,469	203	15,959	974	16,933
Facilities	42,780	33,863	51,483	205,754	333,880	7,459	341,339
Equipment	6,449	5,094	10,595	369	22,507	2,234	24,741
Telephone and Communications	3,493	2,969	4,433	167	11,062	4,535	15,597
Other Expenses	23,144	15,205	28,691	(4,150)	62,890	100,656	163,546
Staff Training	394	1,019	568	499	2,480	3,000	5,480
Specific Assistance to Individuals	153,482	125,957	441,852	61,409	782,700	-	782,700
Total	<u>496,685</u>	<u>498,977</u>	<u>989,709</u>	<u>331,144</u>	<u>2,316,515</u>	<u>345,897</u>	<u>2,662,412</u>
Basic Education	97,091	42,781	67,067	753,880	960,819	-	960,819
Payments to Subrecipients	<u>129,198</u>	<u>102,178</u>	<u>184,277</u>	<u>123,584</u>	<u>539,237</u>	<u>-</u>	<u>539,237</u>
 Total Expenses	 <u>\$ 722,974</u>	 <u>\$ 643,936</u>	 <u>\$ 1,241,053</u>	 <u>\$ 1,208,608</u>	 <u>\$ 3,816,571</u>	 <u>\$ 345,897</u>	 <u>\$ 4,162,468</u>
 Percentage	 <u>17.37%</u>	 <u>15.47%</u>	 <u>29.82%</u>	 <u>29.04%</u>	 <u>91.69%</u>	 <u>8.31%</u>	 <u>100.00%</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	\$ 266,731	\$ 56,841	\$ 770,279	\$ 169,850	\$ 940,129
Payroll Taxes and Benefits	50,443	58,631	67,353	13,286	189,713	44,045	233,758
Supplies	8,336	12,851	10,548	3,510	35,245	5,114	40,359
Travel	3,459	3,486	4,405	747	12,097	2,231	14,328
Facilities	42,234	44,406	47,310	213,930	347,880	14,832	362,712
Equipment	2,971	2,918	4,405	816	11,110	1,526	12,636
Telephone and Communications	3,422	3,318	4,475	870	12,085	3,297	15,382
Other Expenses	16,443	12,565	25,412	6,518	60,938	48,331	109,269
Staff Training	5,527	5,303	6,655	1,063	18,548	1,504	20,052
Specific Assistance to Individuals	155,334	100,698	196,810	125,518	578,360	-	578,360
Total	<u>473,673</u>	<u>505,379</u>	<u>634,104</u>	<u>423,099</u>	<u>2,036,255</u>	<u>290,730</u>	<u>2,326,985</u>
Basic Education	97,062	44,841	60,706	698,393	901,002	-	901,002
Payments to Subrecipients	<u>131,850</u>	<u>123,945</u>	<u>151,171</u>	<u>128,193</u>	<u>535,159</u>	<u>-</u>	<u>535,159</u>
 Total Expenses	 <u>\$ 702,585</u>	 <u>\$ 674,165</u>	 <u>\$ 845,981</u>	 <u>\$ 1,249,685</u>	 <u>\$ 3,472,416</u>	 <u>\$ 290,730</u>	 <u>\$ 3,763,146</u>
 Percentage	 <u>18.67%</u>	 <u>17.91%</u>	 <u>22.48%</u>	 <u>33.21%</u>	 <u>92.27%</u>	 <u>7.73%</u>	 <u>100.00%</u>

See accompanying Notes to Financial Statements.

SKILLSOURCE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 157,877	\$ 54,047
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	123,979	139,492
Loan Fee Amortization	130	129
(Increase) Decrease in Assets:		
Trade Receivables	(26,481)	(5,089)
Other Receivables	(14,008)	-
Due from Government	(175,980)	(68,972)
Prepaid Expenses	(51,112)	(8,869)
Increase (Decrease) in Liabilities:		
Accounts Payable	83,288	26,389
Accrued Wages and Benefits	(2,967)	5,077
Accrued Vacation	21,816	11,585
Accrued Interest	313	(488)
Due to Subrecipients	(31,546)	1,562
Net Cash Provided by Operating Activities	85,309	154,863
 CASH FLOWS FROM INVESTING ACTIVITIES		
Property and Equipment Purchases	(119,146)	(14,690)
Additions to Cash Reserves	(15,895)	(15,863)
Payments Received on Note Receivable	25,000	40,000
Net Cash Provided (Used) by Investing Activities	(110,041)	9,447
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(52,016)	(50,530)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(76,748)	113,780
Cash and Cash Equivalents - Beginning of Year	649,908	536,128
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 573,160	\$ 649,908
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 123,720	\$ 122,415

See accompanying Notes to Financial Statements.

SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 AND 2015

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, 2016 AND 2015

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 the years ended June 30, 2016 and 2015 were \$130 and \$129, respectively.

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 5 to 50 years.

Advertising

Advertising costs are expensed when incurred. Total advertising costs were \$7,675 and \$4,012 for the years ended June 30, 2016 and 2015, 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 \$124,033 and \$121,927 during the years ended June 30, 2016 and 2015, respectively.

Fundraising Expenses

The Organization did not incur any fundraising expenses for the years ended June 30, 2016 and 2015.

SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 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 March 21, 2017, 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, 2016 and 2015, the reserve balance was \$142,875 and \$126,980, 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, 2016 and 2015. The amounts due to government are for advances for which expenditures had not been incurred at June 30, 2016 and 2015.

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, 2016 and 2015 was \$123,979 and \$139,492, respectively.

SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 EQUIPMENT

Under the Workforce Innovation and Opportunity 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:

	<u>2016</u>	<u>2015</u>
Equipment - Beginning of Year	\$ 696,773	\$ 714,016
Additions	72,110	23,029
Deletions	(40,586)	(40,272)
Equipment - End of Year	<u>\$ 728,297</u>	<u>\$ 696,773</u>

NOTE 6 LONG-TERM DEBT

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

	<u>2016</u>	<u>2015</u>
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	\$ 201,846	\$ 212,031
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	<u>2,677,417</u>	<u>2,719,248</u>
Total	2,879,263	2,931,279
Less: Current Portion	<u>54,222</u>	<u>51,992</u>
Total Long-Term Debt	<u>\$ 2,825,041</u>	<u>\$ 2,879,287</u>

SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 6 LONG-TERM DEBT (CONTINUED)

Future maturities of long-term debt are as follows:

Year Ending June 30,	Amount
2017	\$ 54,222
2018	56,521
2019	58,918
2020	61,399
2021	207,709
Thereafter	2,440,494
Total	\$ 2,879,263

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, 2016, 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, 2016. 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, 2016 and 2015, the Organization received approximately 69% and 71%, respectively, of its annual revenues from the Workforce Innovation and Opportunity Act, administered by the Department of Labor.

NOTE 9 LEASE COMMITMENTS

The Organization entered into an operating lease for office space in Adams County, Washington commencing on September 11, 2011, and terminating on August 31, 2016. The lease was renewed on September 1, 2016 and expires on August 31, 2021. Monthly payments under the operating lease were \$-0- for the years ended June 30, 2016 and 2015, respectively. Beginning on September 1, 2016, annual rent payments under the operating lease are \$1.

The Organization estimates that the value of the donated use of the office space was \$20,400 for the years ended June 30, 2016 and 2015. 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, 2016 AND 2015**

NOTE 9 LEASE COMMITMENTS (CONTINUED)

There was no lease expense for the years ended June 30, 2016 and 2015.

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:

<u>Year Ending June 30.</u>	<u>Amount</u>
2017	\$ 123,434
2018	31,537
2019	31,537
2020	26,281
2021	1
Total	<u>\$ 212,790</u>

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:

<u>Grantor</u>	<u>Period</u>	<u>Contract</u>	<u>Amount</u>
Department of Labor - Administrative Cost Pool	10/2015 - 06/2017	6108-1306	\$ 125,172
Department of Labor - Administrative Cost Pool (Youth Only)	04/2016 - 06/2018	6108-7306	80,656
Department of Labor - Adult Program	10/2015 - 06/2017	6108-1106	656,448
Department of Labor - Youth Program	04/2015 - 06/2017	6108-7005	637,015
Department of Labor - Youth Program	04/2016 - 06/2018	6108-7006	725,901
Department of Labor - Dislocated Worker	10/2015 - 06/2017	6108-1206	470,111
Department of Labor - Job Driven	07/2014 - 07/2016	6108-7564-02	424,532
Department of Labor - Sector Partnership	10/2015 - 04/2017	6108-7575-02	400,207
Department of Labor - Rapid Response	01/2016 - 09/2017	6108-7505-10	451,158
Department of Labor - Youthworks	01/2015 - 09/2016	6108-7624-03	104,472
Department of Labor - Youthworks	06/2016 - 03/2018	6108-7625-04	98,111

SKILLSOURCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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, 2016 and 2015 were \$62,024 and \$56,542, respectively.

NOTE 12 MOSES LAKE ONE-STOP CENTER

The Organization constructed a One-Stop Center (the 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, 2016 AND 2015
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2016</u>	<u>2015</u>
GOVERNOR'S DISCRETIONARY REVENUE		
Career Readiness	\$ -	\$ 10,012
Youth Works	73,228	14,328
WIOA Implementation Planning	42,250	-
Total Governor's Discretionary Revenue	<u>\$ 115,478</u>	<u>\$ 24,340</u>
 GOVERNOR'S DISCRETIONARY EXPENDITURES		
Career Readiness	\$ -	\$ 10,013
Youth Works	34,563	11,014
WIOA Implementation Planning	42,250	-
Total Governor's Discretionary Expenditures	<u>76,813</u>	<u>21,027</u>
Payments to Subrecipients	38,664	3,314
Gross Governor's Discretionary Expenditures	<u>\$ 115,477</u>	<u>\$ 24,341</u>



**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, 2016, 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 March 21, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2016-001.

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*.

SkillSource's Response to Findings

SkillSource's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. SkillSource's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

CliftonLarsonAllen LLP

Wenatchee, Washington
March 21, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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 Compliance Supplement* that could have a direct and material effect on each of SkillSource's major federal programs for the year ended June 30, 2016. SkillSource's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of SkillSource'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 each 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-002 and 2016-003. Our opinion on each major federal program is not modified with respect to these matters.

SkillSource's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. SkillSource's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-002 that we consider to be material weaknesses.

Board of Directors
SkillSource

SkillSource's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. SkillSource's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Wenatchee, Washington

March 21, 2017

**SKILLSOURCE
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> X </u>	yes	<u> </u>	no
Significant deficiency(ies) identified not considered to be material weakness(es)?	<u> </u>	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 CFR 200.516(a)?	<u> X </u>	yes	<u> </u>	no
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Identification of Major Programs:

CFDA Number(s)

Name of Federal Program or Cluster

17.258, .259, .278

Workforce Innovation and Opportunity Act Cluster

Dollar threshold used to distinguish between type A and type B programs:

 \$750,000

Auditee qualified as low-risk auditee?	<u> X </u>	yes	<u> </u>	no
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SKILLSOURCE
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2016-001

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting.

Criteria: Management of Skillsource is responsible for establishing and maintaining a system of internal controls over financial close and reporting procedures and implementing adequate segregation of duties.

Condition: The financial director is responsible for performing many of the financial close and reporting procedures, preparing grant draw downs and grant reports. Many of these procedures do not have a formal review process performed.

Context: The financial director performs many of the financial close and reporting procedures, including posting journal entries, making modifications to the chart of accounts, closing the general ledger, quarterly and year end reconciliations, and preparing internal financial statements. The financial director is also responsible for preparing grant draw down requests and grant reporting. Many of these procedures do not have a formal review being performed by someone independent of the preparation process.

Cause: Lack of knowledgeable and trained accounting personnel available to assist and review financial close and reporting procedures, grant draw down requests and grant reporting in a timely manner.

Repeat Finding: No

Effect: Lack of proper review and approval of financial close and reporting procedures, grant draw down requests and grant reports could result in errors or misappropriation of assets. The Organization's strong reliance on one individual to perform these procedures could have a significant impact on the Organization during times when the primary person responsible for these functions is unavailable.

Recommendation: We recommend the Organization implement procedures to identify an individual independent of the preparation process to review financial close and reporting procedures, grant draw down requests and grant reports on a regular basis. We also recommend cross-training other staff as much as possible in order to minimize any potential disruptions to the Organization's operations.

SKILLSOURCE
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2016-001 (Continued)

Corrective Action Plan: The financial director prepares cash draws and quarterly reports, and performs bank reconciliations and adjusting journal entries. Duties are separated to the extent practicable given our limited staff. Bank statements are opened by the executive director. After the statements are reconciled by the financial director, they are reviewed by the human resources manager.

Two persons are required to process cash disbursements either by check or EFT/ACH. Paper checks require two persons to print the electronic signature. A clerical staff person separate from the accounting department prepares the checks for mailing and hand delivers them to the receptionist for mailing. Cash draws and contract billings require detailed expenditure reports be submitted for review by State staff prior to processing. Quarterly reports are monitored and audited every year along with all backup used in their preparation. All journal entries are provided to the audit team prior to field work. All unusual journal entries (of which there are very few) are done with full knowledge of the executive director. Even the transition between old accounting and new accounting was reviewed by CliftonLarsonAllen staff.

Management intends to propose creating a new position effective July 1, 2017 whose duties would also include back up for the financial director.

SKILLSOURCE
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2016-002

Federal Agency: Department of Labor
Federal Program: WIA/WIOA Cluster
CFDA Number: 17.285, 17.259, 17.278
Award Period: 7/1/15 – 6/30/16

Type of Finding: Material Weakness over Compliance - Earmarking.

Criteria: A minimum of 75% of the Youth Activity funds allocated to states and local areas (the Organization is a local area), excluding local area expenditures for administration, must be used to provide services to out-of-school youth.

Condition: CLA reviewed the expenditures total for in-school versus out-of-school youth for the year ending June 30, 2016. During the fiscal year under audit, there was \$162,095 expended for in-school activities and \$434,351 for out-of-school activities. The ratio of expenditures for out-of-school as a percentage of total expenditures is approximately 72.82%, which is below the required minimum of 75%.

Context: The Organization is required to design and implement a system of controls to ensure compliance with federal award requirements.

Questioned Costs: None.

Cause: The Workforce Investment Act (WIA) was reauthorized as the Workforce Innovation and Opportunity Act (WIOA). The program is currently in transition.

Effect: The Organization was out of compliance with the 75% minimum requirement of Youth Activity Funds used to provide services to out-of-school youth as of the year ending June 30, 2016.

Prior Finding: No

Recommendation: We recommend the Organization closely monitor the changes in legislation and project the impact those changes may have on the Organization's controls and ability to maintain compliance with federal award requirements.

Corrective Action Plan: The Organization's June 30, 2015 Out-of-School Youth expenditure rate was approximately 70%. As of June 30, 2016 the Organization's Out-of-School Youth expenditure rate was approximately 73%. Currently in fiscal year 2017, the Organization's rate is approximately 83%.

The 75% expenditure rate was missed because the new definition of Out-of-School Youth was not communicated to Local Areas until January 2016, midway through the program year. The definition changed again in August 2016 when final federal regulations were issued.

SKILLSOURCE
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2016-003

Federal Agency: Department of Social and Health Services
Federal Program: Senior Community Service Employment Program
CFDA Number: 17.235
Award Period: 07/2013 – 06/2016

Type of Finding: Other Matter

Criteria: Management of SkillSource is responsible for establishing procedures to properly determine participant eligibility.

Condition: During October 2016, management became aware that three participants had been incorrectly determined to be eligible for the Senior Community Service Employment Program (SCSEP).

Context: The Organization is required to design and implement a system of controls to ensure compliance with federal award requirements.

Questioned Costs: Known questioned costs were identified by management in the amount of \$36,666.84

Cause: During the eligibility determination process, income was incorrectly calculated.

Effect: The Organization was not in compliance with grant requirements related to participant eligibility determination.

Prior Finding: No

Recommendation: We recommend implementing a process in which eligibility determinations are randomly reviewed throughout the year in order to ensure eligibility determinations are being performed in compliance with federal award requirements.

Corrective Action Plan: SCSEP participants must undergo an annual recertification. During an annual recertification the SCSEP coordinator discovered one participant was over income even though their income had not significantly changed. This prompted further review of the initial eligibility determination where it was discovered Social Security Income, although reported by the applicant, was incorrectly excluded by the coordinator during the initial application process. Had it been included the participant would have been determined over income thus never enrolled in the program. That discovery prompted a review of all former and current files (approximately 20) that had been determined eligible by the current SCSEP coordinator. Three participants were discovered ineligible. In two cases the Social Security Income was excluded during the original application process. The third case was a change of circumstances, the participants spouse became employed during the year. The managing director and financial director at SkillSource were notified, along with Michael Corcoran, Home and Community Services Title V SCSEP Aging and

SKILLSOURCE
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2016-003 (Continued)

Long-Term Support Administration, employment program manager. Michael Corcoran contacted his superiors and Department of Labor (DOL) asking for guidance on November 3, 2017. His January 17, 2017 communication stated that there had been no response from the Federal Program Officer or the SCSEP National office. He also indicated that the State would not pursue repayment or recapture of the funds unless DOL requires repayment from the State.

As a result, the SkillSource coordinator followed up with current and/or former participants to collect any missing documentation identified during the review for data validation. The manager retrained the coordinator on eligibility requirements during December 2016 and will update training as necessary. The manager is performing a quality control review on all new applications and recertifications.

**SKILLSOURCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

	CFDA Number	Contract Period	Contract Number	Passed Through to Subrecipients	Contract Amount	Expenditures
U.S. DEPARTMENT OF LABOR:						
<i>Pass-through from State of Washington Employment</i>						
<i>Security Department:</i>						
Workforce Investment Act Administrative Cost Pool	17.258, .278	10/2015 - 06/2017	6108-1306	\$ -	\$ 125,172	\$ 71,836
Workforce Investment Act Administrative Cost Pool	17.258, .259, .278	04/2015 - 06/2017	6108-7305	-	89,515	89,515
Workforce Investment Act Administrative Cost Pool	17.258, .278	10/2014 - 06/2016	6108-1305	-	120,468	76,318
Workforce Investment Act Administrative Cost Pool- Youth	17.258, .259, .278	04/2016 - 06/2018	6108-7306	-	80,656	-
Workforce Investment Act Adult Program	17.258	10/2014 - 06/2016	6108-1105	24,781	699,418	133,727
Workforce Investment Act Adult Program	17.258	10/2015 - 06/2017	6108-1106	88,013	656,448	520,146
Workforce Investment Act Adult Program	17.258	07/2015 - 06/2017	6108-7105	16,404	69,104	69,104
Workforce Investment Act Youth Activities Program	17.259	04/2015 - 06/2017	6108-7005	102,178	637,015	596,445
Workforce Investment Act Youth Activities Program	17.259	04/2016 - 06/2018	6108-7006	-	725,901	-
Workforce Investment Act Youth Activities Program	17.259	04/2014 - 06/2016	6108-7004	-	626,107	47,497
Workforce Investment Act Dislocated Worker	17.278	10/2014 - 06/2016	6108-1205	15,533	384,790	119,593
Workforce Investment Act Dislocated Worker	17.278	10/2015 - 06/2017	6108-1206	70,137	470,111	311,965
Workforce Investment Act Dislocated Worker	17.278	07/2015 - 06/2017	6108-7205	16,741	99,538	99,538
Workforce Investment Act WIOA Implementation Planning	17.278	05/2015 - 6/2016	6108-7494-02	-	42,250	42,250
Rapid Response Additional Assistance	17.278	06/2014 - 04/2016	6108-7503-12	20,171	430,403	159,140
Rapid Response Additional Assistance	17.278	01/2016 - 09/2017	6108-7505-10	7,496	451,158	192,957
Long-Term Unemployed	17.278	05/2014 - 03/2016	6108-7503-11	3,140	166,129	25,098
Youth Works	17.258, .259, .278	01/2015 - 09/2016	6108-7624-03	38,364	104,472	72,925
Youth Works	17.258, .259, .278	06/2016 - 03/2018	6108-7625-04	300	98,111	302
Total				<u>403,258</u>	<u>6,076,766</u>	<u>2,628,356</u>
National Emergency Grant - Sector Partnership	17.277	09/2013 - 04/2015	6108-7575-02	25,394	400,207	118,049
National Emergency Grant - Job Driven	17.277	07/2014 - 07/2016	6108-7564-02	25,665	424,532	248,710
Total				<u>51,059</u>	<u>824,739</u>	<u>366,759</u>
Total Pass-through from State of Washington Employment Security Department				454,317	6,901,505	2,995,115
<i>Pass-through from State of Washington Department of Social and Health Services:</i>						
Senior Community Service Employment Program	17.235	07/2015 - 06/2016	1512-40624	-	47,823	47,823
Total U.S. Department of Labor				454,317	6,949,328	3,042,938
DEPARTMENT OF EDUCATION:						
<i>Pass-through from State of Washington Department of Social and Health Services:</i>						
Pre-Employment Transition Services	84.126	05/2016 - 09/2018	1612-64321	5,577	217,600	9,280
Total Federal Awards				<u>\$ 459,894</u>	<u>\$ 7,166,928</u>	<u>\$ 3,052,218</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

SKILLSOURCE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

NOTE 1 BASIS OF PRESENTATION

The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of SkillSource under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of SkillSource, it is not intended to and does not present the financial position, changes in net assets, or cash flows of SkillSource.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. SkillSource has not elected to use the 10% de minimus indirect cost rate.

**SKILLSOURCE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016**

There were no prior year audit findings for the year ended June 30, 2015.