

SKILLSOURCE

Financial Statements

June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the 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, 2017, and the related statements of activities and changes in net asset, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of SkillSource for the year ended June 30, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on March 21, 2017.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2, U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 November 17, 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 results of that testing, and not to provide an opinion on the 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.

Cordell, Neher & Company, PLLC

Wenatchee, Washington
November 17, 2017

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	ASSETS	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents		
Cash	\$ 799,480	\$ 424,110
Vacation reserve	140,607	136,721
Certificates of deposit	-	12,329
Total cash and cash equivalents	<u>940,087</u>	<u>573,160</u>
Receivables		
Trade	89,790	106,704
Due from government [Note 3]	96,696	246,162
Other receivables	1,109	14,008
Prepaid expenses, current portion	<u>52,131</u>	<u>58,471</u>
Total current assets	1,179,813	998,505
PROPERTY AND EQUIPMENT [Notes 4 and 6]		
Land	813,351	813,351
Land improvements	711,965	711,965
Buildings and equipment	4,199,483	4,148,782
Total cost	<u>5,724,799</u>	<u>5,674,098</u>
Less accumulated depreciation	<u>2,104,882</u>	<u>1,969,607</u>
Total property and equipment	3,619,917	3,704,491
OTHER ASSETS		
USDA reserve [Note 5]	153,591	142,875
Prepaid expenses, net of current portion	<u>3,934</u>	<u>31,287</u>
Total other assets	<u>157,525</u>	<u>174,162</u>
TOTAL ASSETS	<u><u>\$ 4,957,255</u></u>	<u><u>\$ 4,877,158</u></u>

SkillSource
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2017 and 2016

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Long-term debt payable within one year [Note 6]	\$ 56,521	\$ 54,222
Accounts payable	100,117	155,782
Accrued wages and benefits	15,369	10,913
Accrued vacation	144,150	136,745
Accrued interest	3,511	3,590
Total current liabilities	319,668	361,252
LONG-TERM DEBT, payable after one year [Note 6]	2,767,854	2,824,527
COMMITMENTS AND CONTINGENCIES [Note 7]		
NET ASSETS		
Unrestricted	1,869,733	1,691,379
TOTAL LIABILITIES AND NET ASSETS	\$ 4,957,255	\$ 4,877,158

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE		
Adult program [Note 8]	\$ 749,903	\$ 722,977
Youth program [Note 8]	644,645	643,942
Dislocated worker program [Note 8]	546,561	531,096
National emergency dislocated worker grant	384,940	366,759
Rapid response revenue	350,442	377,195
Rental income [Note 7]	157,686	161,230
Senior community service employment program	129,640	57,103
Governor's discretionary revenue	55,132	115,478
Interest income	719	1,138
Air Washington	-	4,230
Miscellaneous income [Note 10]	31,197	28,150
Basic education [Note 8]	1,121,222	1,073,378
Administration	182,979	237,669
	<u>4,355,066</u>	<u>4,320,345</u>
EXPENSES		
Adult program	493,821	496,685
Youth program	509,061	498,977
Dislocated worker program	410,247	385,913
National emergency dislocated worker expense	319,095	281,705
Rapid response expense	271,591	322,091
Partner facilities expense	157,686	161,230
Senior community service employment program	80,665	51,232
Governor's discretionary expense	30,358	76,813
Air Washington	-	4,230
Miscellaneous expense	56,952	37,639
Basic education [Note 9]	976,102	960,819
Payments to subrecipients [Note 9]	572,849	539,237
Administration [Note 9]	298,285	345,897
	<u>4,176,712</u>	<u>4,162,468</u>
CHANGE IN NET ASSETS	178,354	157,877
NET ASSETS - BEGINNING OF YEAR	<u>1,691,379</u>	<u>1,533,502</u>
NET ASSETS - END OF YEAR	<u>\$ 1,869,733</u>	<u>\$ 1,691,379</u>

SkillSource
 STATEMENT OF FUNCTIONAL EXPENSES
 For the Year Ended June 30, 2017

	Adult Program	Youth Program	Dislocated Worker Program	Other Programs	Total Program Services	Administration	Total Expenses
Salaries	\$ 214,804	\$ 259,814	\$ 399,007	\$ 43,611	\$ 917,236	\$ 189,972	\$ 1,107,208
Specific assistance to individuals	147,932	102,584	361,382	65,982	677,880	-	677,880
Facilities	32,157	41,363	58,458	194,047	326,025	6,617	332,642
Payroll taxes and benefits	53,467	64,146	99,503	9,977	227,093	33,502	260,595
Supplies	5,474	8,858	10,626	3,692	28,650	4,637	33,287
Travel	3,281	3,314	7,579	376	14,550	2,934	17,484
Equipment	2,909	2,345	5,701	296	11,251	-	11,251
Telephone and communications	2,350	2,530	3,707	241	8,828	1,736	10,564
Staff training	1,414	1,885	4,386	476	8,161	2,346	10,507
Other expenses	30,033	22,222	50,584	6,963	109,802	56,541	166,343
Total	493,821	509,061	1,000,933	325,661	2,329,476	298,285	2,627,761
Basic education	92,693	30,637	60,988	791,784	976,102	-	976,102
Payments to subrecipients	163,390	104,946	186,734	117,779	572,849	-	572,849
Total expenses	<u>\$ 749,904</u>	<u>\$ 644,644</u>	<u>\$ 1,248,655</u>	<u>\$ 1,235,224</u>	<u>\$ 3,878,427</u>	<u>\$ 298,285</u>	<u>\$ 4,176,712</u>
Percentage of total	<u>17.95%</u>	<u>15.43%</u>	<u>29.90%</u>	<u>29.57%</u>	<u>92.85%</u>	<u>7.14%</u>	<u>100.00%</u>

SkillSource

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016

	Adult Program	Youth Program	Dislocated Worker Program	Other Programs	Total Program Services	Administration	Total Expenses
Salaries	\$ 202,583	\$ 243,859	\$ 341,554	\$ 53,149	\$ 841,145	\$ 186,728	\$ 1,027,873
Specific assistance to individuals	153,482	125,957	441,852	61,409	782,700	-	782,700
Facilities	42,780	33,863	51,483	205,754	333,880	7,459	341,339
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
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
Staff training	394	1,019	568	499	2,480	3,000	5,480
Other expenses	23,144	15,205	28,691	(4,150)	62,890	100,656	163,546
Total	496,685	498,977	989,709	331,144	2,316,515	345,897	2,662,412
Basic education	97,091	42,781	67,067	753,880	960,819	-	960,819
Payments to subrecipients	129,198	102,178	184,277	123,584	539,237	-	539,237
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 of total	<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>

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from programs and grants	\$ 4,533,626	\$ 4,102,738
Cash paid to suppliers and employees	(3,933,622)	(3,894,847)
Interest paid	(117,875)	(123,720)
Interest received	719	1,138
	<u>482,848</u>	<u>85,309</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to cash reserves	(10,716)	(15,895)
Payments received on notes receivable	-	25,000
Property and equipment purchased	(50,701)	(119,146)
	<u>(61,417)</u>	<u>(110,041)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(54,504)	(52,016)
	<u>(54,504)</u>	<u>(52,016)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	366,927	(76,748)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>573,160</u>	<u>649,908</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 940,087</u>	<u>\$ 573,160</u>

SkillSource
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	2017	2016
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 178,354	\$ 157,877
Noncash expenses		
Depreciation	135,275	123,979
Interest	130	130
(Increase) decrease in operating assets		
Trade receivables	16,914	(26,481)
Due from government	149,466	(175,980)
Other receivables	12,899	(14,008)
Prepaid expenses	33,693	(51,112)
Increase (decrease) in operating liabilities		
Accounts payable	(55,665)	83,288
Accrued wages and benefits	4,456	(2,967)
Accrued vacation	7,405	21,816
Accrued interest	(79)	313
Due to subrecipients	-	(31,546)
Net cash provided by operating activities	\$ 482,848	\$ 85,309
SUPPLEMENTAL SCHEDULE OF NON-CASH CHANGES IN INVESTING AND FINANCING ACTIVITIES		
Property and equipment purchases in accounts payable	\$ -	\$ 22,503

NOTE 1 - ORGANIZATION

SkillSource (the Organization), a nonprofit corporation, tax-exempt under 501(c)(3) of the Internal Revenue Code, was organized to administer Title 1B Workforce Innovation and Opportunity Act (WIOA) grants. The Organization is the designated fiscal agent for the Workforce Development Area comprised of Chelan, Douglas, Grant, Adams and Okanogan counties in the state of Washington. 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 in Okanogan County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method of accounting, support and revenue is recognized when earned and expenses are recognized when goods or services are received, whether or not paid.

B. Financial statement presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Net assets of the Organization are classified and reported as follows:

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 represent assets whose use by the Organization is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted or permanently restricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. At this time, the Organization does not have any temporarily restricted net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. Financial statement presentation - continued

Permanently restricted net assets represent assets whose use by the Organization is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. At this time, the Organization does not have any permanently restricted net assets.

C. Cash and cash equivalents

For purposes of the statements of 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.

D. Vacation reserve

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

E. 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 as cash equivalents.

F. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

G. 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, and any gain or loss is reflected in the change 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.

H. Revenue recognition

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

Revenues from governmental grants and contracts whose restrictions are met in the same reporting period are reported as unrestricted.

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 receivables.

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.

I. Advertising

The Organization expenses advertising costs as incurred or the first time the advertising takes place. The Organization does not perform any direct-response advertising. Total advertising expense for the years ending June 30, 2017 and 2016 were \$4,037 and \$7,675, respectively.

J. Fundraising expense

The Organization did not incur any fundraising expenses for the years ended June 30, 2017 and 2016.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

K. Interest expense

The Organization recognized interest expense of \$117,875 and \$120,756 during the years ended June 30, 2017 and 2016, respectively.

L. Loan fees

Loan fees are being amortized as additional interest expense on a straight-line basis over the period of a note payable. Amortization for the years ended June 30, 2017 and 2016 was \$130. Unamortized loan fees are presented in the statement of financial position as a direct reduction to the note payable.

M. Income taxes

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

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.

N. Functional expenses

The Organization allocates its expenses on a functional basis across 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.

O. 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.

P. Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on the previously reported net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Q. Recently Adopted Accounting Pronouncements

For the year ended June 30, 2017, the Organization adopted, and applied retrospectively, Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU), No. 2015-03, related to simplifying the presentation of loan fees and debt issuance costs. This standard requires loan fees related to a recognized debt liability to be presented in the statement of financial position as a direct reduction to the liability. The adoption of ASU 2015-03 resulted in the reclassification of \$514 of unamortized loan fees from other assets to long-term debt for the year ended June 30, 2016.

NOTE 3 - AMOUNTS DUE TO/FROM GOVERNMENT

Support from grant funds is earned as expenditures are made. The amount due to government is for advances in which expenditures have not yet been incurred at June 30, 2017 and 2016. The amounts due from government are for expenditures for which reimbursement has not yet been received at June 30, 2017 and 2016.

NOTE 4 - PROPERTY AND EQUIPMENT

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).

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

NOTE 4 - PROPERTY AND EQUIPMENT - continued

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

The land improvements and buildings in Wenatchee and Moses Lake, Washington are capitalized, at cost, and depreciated over the useful life of the asset. Depreciation expense for the years ended June 30, 2017 and 2016 was \$135,275 and \$123,979, respectively.

Under the WIOA, 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>2017</u>	<u>2016</u>
Equipment - beginning of year	\$ 728,297	\$ 696,773
Additions	12,843	72,110
Retirements	<u>(256,365)</u>	<u>(40,586)</u>
Equipment - end of year	<u>\$ 484,775</u>	<u>\$ 728,297</u>

NOTE 5 - USDA RESERVE

In accordance with the U.S. Department of Agriculture (USDA) loan agreement, the Organization is required to establish 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, 2017 and 2016, the reserve balance was \$153,591 and \$142,875, respectively.

NOTE 6 - LONG-TERM DEBT

	<u>2017</u>	<u>2016</u>
A note payable to Banner Bank, secured by real property, is payable in monthly installments of \$1,596, including interest at 4.250%. The note is due in full on July 5, 2020.	\$ 191,189	\$ 201,846
A note payable to the USDA, secured by real property, is payable in monthly installments of \$12,776, including interest at 4.125%. The note is due in full on June 20, 2047.	2,633,570	2,677,417
Unamortized loan fees, net of accumulated amortization for 2017 and 2016 of \$6,860 and \$6,730, respectively.	<u>(384)</u>	<u>(514)</u>
Total long-term debt	2,824,375	2,878,749
Less long-term debt payable within one year	<u>56,521</u>	<u>54,222</u>
Long-term debt payable after one year	<u>\$ 2,767,854</u>	<u>\$ 2,824,527</u>

Future maturities of long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 56,521
2019	58,918
2020	217,747
2021	51,365
2022	53,525
Thereafter	<u>2,386,683</u>
Total	2,824,759
Unamortized loan fees	<u>(384)</u>
Total long-term debt	<u>\$ 2,824,375</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Organization leases office space through various lessees. The leases expires in 2017, 2020 and 2022. 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>
2018	\$ 171,652
2019	165,924
2020	159,946
2021	130,056
2022	108,380

Funding

Funding for the Organization's operations is primarily from government grants. Continued existence of the Organization depends upon the continuation of such grants. These grants and contract expenditures are subject to the approval of various granting and contracting agencies. To be eligible for reimbursement of expenditures made under federal, state and locally funded programs, the Organization must comply with regulations established by the related governmental agency. Governmental agency determination of a failure to comply with such regulations may result in disallowed costs and a liability for reimbursements received. In addition, certain findings of noncompliance identified in the prior year program audits may not have been resolved for programs administered by the Organizations. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Organization expects such amounts, if any, to be immaterial.

NOTE 8 - CONCENTRATIONS

During the years ended June 30, 2017 and 2016, the Organization received approximately 70% and 69%, respectively, of its annual revenues from the WIOA administered by the Department of Labor (DOL).

NOTE 9 - 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 made by the Organization for the years ended June 30, 2017 and 2016 were \$65,510 and \$62,024, respectively.

NOTE 10 - LEASES

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, 2017 and 2016, 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, 2017 and 2016. The donated use of the office space is included in miscellaneous income in the statements of activities and changes in net assets.

There was no lease expense for the years ended June 30, 2017 and 2016.

Future minimum lease payments associated with this lease for the next five years are \$1 annually.

NOTE 11 - RELATED PARTY TRANSACTIONS

A member of the Organization's board of directors is an owner of Localtel. During the years ended June 30, 2017 and 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 years ended June 30, 2017 and 2016. Individuals employed at these organizations also serve as members of the Organization's board of directors.

NOTE 12 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 17, 2017, the date which the statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

SUPPLEMENTARY INFORMATION

SCHEDULES OF GOVERNOR'S DISCRETIONARY REVENUE AND EXPENDITURES

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
GOVERNOR'S DISCRETIONARY REVENUE		
Youthworks	\$ 53,853	\$ 73,228
WIOA implementation planning	-	42,250
Upskill/backfill planning	<u>1,279</u>	<u>-</u>
Total governor's discretionary revenue	<u>\$ 55,132</u>	<u>\$ 115,478</u>
 GOVERNOR'S DISCRETIONARY EXPENDITURES		
Youthworks	\$ 29,079	\$ 34,563
WIOA implementation planning	-	42,250
Upskill/backfill planning	<u>1,279</u>	<u>-</u>
Total governor's discretionary expenditures	30,358	76,813
Payments to subrecipients	<u>24,774</u>	<u>38,665</u>
Gross governor's discretionary expenditures	<u>\$ 55,132</u>	<u>\$ 115,478</u>

SkillSource

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Contract Period	Contract Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Labor					
Pass-through programs from State of Washington Employment Security Department					
Workforce Investment Act Administrative Cost Pool	17.258, .259 & .278	04/2015 - 06/2017	6108-7305	\$ -	\$ 1,733
Workforce Investment Act Administrative Cost Pool	17.258 & .278	10/2015 - 06/2017	6108-1306	-	53,336
Workforce Investment Act Administrative Cost Pool	17.258, .259 & .278	04/2016 - 06/2018	6108-7306	-	100,905
Workforce Investment Act Administrative Cost Pool	17.258 & .278	10/2016 - 06/2018	6108-1307	-	27,004
Workforce Investment Act Adult Program	17.258	10/2015 - 06/2017	6108-1106	-	136,302
Workforce Investment Act Adult Program	17.258	07/2016 - 06/2018	6108-7106	31,118	117,589
Workforce Investment Act Adult Program	17.258	10/2016 - 06/2018	6108-1107	132,271	496,012
Workforce Investment Act Youth Activities Program	17.259	04/2015 - 06/2017	6108-7005	-	56,168
Workforce Investment Act Youth Activities Program	17.259	04/2016 - 06/2018	6108-7006	104,946	588,477
Workforce Investment Act Dislocated Worker	17.278			-	158,147
Workforce Investment Act Dislocated Worker	17.278			18,995	64,650
Workforce Investment Act Dislocated Worker	17.278			69,969	323,765
Workforce Investment Act WIOA Implementation Planning	17.278				
Rapid Response Additional Assistance	17.278			5,190	100,208
Rapid Response Additional Assistance	17.278			53,016	250,234
UpSkill/Backfill Planning	17.258, .259 & .278			-	1,279
Youthworks	17.258, .259 & .278			6,154	16,693
Youthworks	17.258, .259 & .278			18,434	36,974
Total				440,093	2,529,476
National Emergency Grant - Sector Partnership	17.277			38,057	324,902
National Emergency Grant - Job Driven	17.277			-	60,076
Total				38,057	384,978
Total Pass-through programs from State of Washington Employment Security Department				478,150	2,914,454
Pass-through programs from State of Washington Department of Social and Health Services					
Senior Community Service Employment Program	17.234			28,431	37,714
Total U.S. Department of Labor				506,581	2,952,168
U.S. Department of Education					
Pass-through programs from State of Washington Department of Social and Health Services					
Pre-Employment Transition Services	84.126				81,445
Total U.S. Department of Education				-	81,445
Total Expenditures of Federal Awards				\$ 506,581	\$ 3,033,613

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, 2017. 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. Any 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.



PRINCIPALS

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Of Counsel

Judy S. Conner, CPA

**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, 2017 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 November 17, 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

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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. We did identify certain deficiencies in internal control, repeat findings 2017-001, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.

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 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 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cordell, Neher & Company, PLLC

Wenatchee, Washington
November 17, 2017



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH 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, 2017. 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 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 (CFR) 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.

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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 each of its major federal programs for the year ended June 30, 2017.

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 as a basis for designing 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Cordell, Neher & Company, PLLC

Wenatchee, Washington
November 17, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *unmodified*

Internal control over financial reporting:

Are any material weaknesses identified? yes no

Are any significant deficiencies identified? yes none reported

Is any noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Are any material weaknesses identified? yes no

Are any significant deficiencies identified? yes 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 2 CFR 200.516(a)? yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2017-001 (repeat)

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.

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.

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: Yes, this is a repeat finding from the immediate previous audit, Finding 2016-001.

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.

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2017-001 (repeat) (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.

Subsequent to the year ended June 30, 2017, management engaged an outside contractor to review all journal entries, cash draws, contract billings and quarterly reports prepared by the financial director and has created a position internally whose duties would also include back up for the financial director.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2017

PRIOR AUDIT FINANCIAL STATEMENT FINDINGS:

Finding: 2016-001:

Status: Subsequent to the year ended June 30, 2017, this finding has been corrected as described in the last paragraph of the corrective action plan located on the schedule of findings and questioned costs.

PRIOR AUDIT FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS:

Finding: 2016-002:

Status: Corrected.

Finding: 2016-003:

Status: Corrected.