

**SKILLSOURCE**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2013 AND 2012**

**SKILLSOURCE  
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CliftonLarsonAllen LLP  
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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, 2013 and 2012, 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**

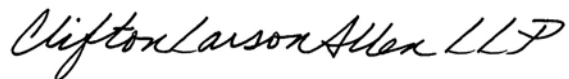
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SkillSource as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2013, on our consideration of SkillSource's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SkillSource's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Wenatchee, Washington  
November 14, 2013

**SKILLSOURCE**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2013 AND 2012**

<b>ASSETS</b>	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents:		
Cash	\$ 358,283	\$ 289,746
Vacation Reserve	90,596	92,101
Certificates of Deposit	12,207	12,092
Total Cash and Cash Equivalents	<u>461,086</u>	<u>393,939</u>
Trade Receivables	36,264	34,190
Due from Government	111,649	156,986
Prepaid Expenses	61,878	23,554
Total Current Assets	<u>670,877</u>	<u>608,669</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	852,495	852,495
Land Improvements	719,949	719,949
Buildings and Equipment	4,090,083	4,090,083
Total	<u>5,662,527</u>	<u>5,662,527</u>
Less: Accumulated Depreciation	1,608,603	1,437,761
Total Property and Equipment	<u>4,053,924</u>	<u>4,224,766</u>
<b>OTHER ASSETS</b>		
USDA Reserve	95,272	79,454
Loan Fees, Net of Accumulated Amortization of \$6,213 and \$5,707, Respectively	902	1,031
Total Other Assets	<u>96,174</u>	<u>80,485</u>
 Total Assets	 <u>\$ 4,820,975</u>	 <u>\$ 4,913,920</u>

See accompanying Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2013</u>	<u>2012</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 62,490	\$ 114,995
Accrued Wages and Benefits	7,040	10,510
Accrued Vacation	90,596	92,101
Due to Subrecipients	37,000	31,194
Due to Government	95,971	75,705
Current Portion of Long-Term Debt	58,882	53,444
Total Current Liabilities	<u>351,979</u>	<u>377,949</u>
<b>LONG-TERM DEBT, Net of Current Portion</b>	<u>2,995,191</u>	<u>3,054,485</u>
Total Liabilities	3,347,170	3,432,434
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted	<u>1,473,805</u>	<u>1,481,486</u>
Total Liabilities and Net Assets	<u>\$ 4,820,975</u>	<u>\$ 4,913,920</u>

**SKILLSOURCE**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>REVENUES</b>		
Adult Program	\$ 777,819	\$ 749,639
Youth Program	716,562	683,827
Dislocated Worker Program	768,158	593,654
Basic Education	558,756	562,939
Governor's Discretionary Revenue	106,008	306,624
Rapid Response Revenue	58,187	296,816
Administration	300,514	260,165
National Emergency Grant	115,210	101,845
Senior Community Service Employment Program Revenue	45,865	100,326
Health Care Grant	48,372	57,227
Air Washington	72,845	173
Interest Income	828	1,249
Miscellaneous	10,618	3,037
Total Revenues	3,579,742	3,717,521
<b>EXPENSES</b>		
Adult Program	475,926	485,781
Youth Program	512,699	475,489
Dislocated Worker Program	510,105	385,386
Administration	300,514	260,165
Governor's Discretionary Expense	66,369	251,941
Rapid Response Expense	42,239	233,804
Senior Community Service Employment Program Expense	45,863	100,325
National Emergency Grant	83,552	77,890
Health Care Grant	48,372	57,226
Air Washington	39,820	173
Miscellaneous	41,334	50,268
Basic Education	782,789	764,227
Payments to Subcontractors	637,841	585,188
Total Expenses	3,587,423	3,727,863
<b>CHANGES IN NET ASSETS</b>	(7,681)	(10,342)
Net Assets - Beginning of Year	1,481,486	1,491,828
<b>NET ASSETS - END OF YEAR</b>	\$ 1,473,805	\$ 1,481,486

See accompanying Notes to Financial Statements.

**SKILLSOURCE  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2013**

	Adult Program	Youth Program	Dislocated Worker Program	Other Programs	Total Program Services	Administration	Total
Salaries	\$ 221,764	\$ 282,743	\$ 226,287	\$ 115,042	\$ 845,836	\$ 180,556	\$ 1,026,392
Payroll Taxes and Benefits	58,015	63,879	59,448	23,683	205,025	38,429	243,454
Supplies	5,206	8,665	6,154	7,456	27,481	4,614	32,095
Travel	2,494	2,545	2,165	1,260	8,464	4,667	13,131
Facilities	42,704	43,842	44,183	49,745	180,474	23,926	204,400
Telephone and Communications	3,551	3,650	3,432	1,663	12,296	3,187	15,483
Other Expenses	20,220	20,272	21,272	6,875	68,639	43,648	112,287
Staff Training	2,606	2,401	2,574	735	8,316	1,487	9,803
Specific Assistance to Individuals	119,366	84,702	144,590	161,090	509,748	-	509,748
Total	<u>475,926</u>	<u>512,699</u>	<u>510,105</u>	<u>367,549</u>	<u>1,866,279</u>	<u>300,514</u>	<u>2,166,793</u>
Basic Education	134,436	78,958	97,188	472,207	782,789	-	782,789
Payments to Subcontractors	<u>168,107</u>	<u>125,546</u>	<u>161,509</u>	<u>182,679</u>	<u>637,841</u>	<u>-</u>	<u>637,841</u>
 Total Expenses	 <u>\$ 778,469</u>	 <u>\$ 717,203</u>	 <u>\$ 768,802</u>	 <u>\$ 1,022,435</u>	 <u>\$ 3,286,909</u>	 <u>\$ 300,514</u>	 <u>\$ 3,587,423</u>
 Percentage	 <u>21.70%</u>	 <u>19.99%</u>	 <u>21.43%</u>	 <u>28.50%</u>	 <u>91.62%</u>	 <u>8.38%</u>	 <u>100.00%</u>

See accompanying Notes to Financial Statements.



**SKILLSOURCE  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2012**

	Adult Program	Youth Program	Dislocated Worker Program	Other Programs	Total Program Services	Administration	Total
Salaries	\$ 232,095	\$ 253,599	\$ 194,935	\$ 236,818	\$ 917,447	\$ 154,927	\$ 1,072,374
Payroll Taxes and Benefits	52,647	50,058	43,641	55,253	201,599	27,710	229,309
Supplies	12,235	13,466	9,427	11,324	46,452	2,728	49,180
Travel	3,491	3,205	3,024	3,034	12,754	2,007	14,761
Facilities	47,934	40,146	41,417	84,792	214,289	23,070	237,359
Telephone and Communications	3,929	3,110	2,328	3,109	12,476	2,638	15,114
Equipment	1,152	1,214	1,200	9,836	13,402	160	13,562
Other Expenses	25,055	21,468	20,397	16,395	83,315	45,714	129,029
Staff Training	1,559	1,422	1,235	948	5,164	1,211	6,375
Specific Assistance to Individuals	105,684	87,801	67,782	349,292	610,559	-	610,559
Total	<u>485,781</u>	<u>475,489</u>	<u>385,386</u>	<u>770,801</u>	<u>2,117,457</u>	<u>260,165</u>	<u>2,377,622</u>
Basic Education	122,526	59,595	120,465	461,641	764,227	-	764,227
Payments to Subcontractors	<u>142,190</u>	<u>149,601</u>	<u>88,663</u>	<u>205,560</u>	<u>586,014</u>	<u>-</u>	<u>586,014</u>
 Total Expenses	 <u>\$ 750,497</u>	 <u>\$ 684,685</u>	 <u>\$ 594,514</u>	 <u>\$ 1,438,002</u>	 <u>\$ 3,467,698</u>	 <u>\$ 260,165</u>	 <u>\$ 3,727,863</u>
 Percentage	 <u>20.13%</u>	 <u>18.37%</u>	 <u>15.95%</u>	 <u>38.57%</u>	 <u>93.02%</u>	 <u>6.98%</u>	 <u>100.00%</u>

See accompanying Notes to Financial Statements.

**SKILLSOURCE**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in Net Assets	\$ (7,681)	\$ (10,342)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	170,842	191,206
Loan Fee Amortization	129	505
(Increase) Decrease in Assets:		
Trade Receivables	(2,074)	1,734
Due from Government	45,337	65,599
Prepaid Expenses	(38,324)	(1,039)
Prepaid Rent	-	9,454
Increase (Decrease) in Liabilities:		
Accounts Payable	(52,505)	50,976
Accrued Wages and Benefits	(3,470)	2,186
Accrued Vacation	(1,505)	(8,771)
Deferred Revenue	-	(8,980)
Due to Subrecipients	5,806	(12,479)
Due to Government	20,266	(204,496)
Net Cash Provided by Operating Activities	136,821	75,553
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property and Equipment Purchases	-	(6,816)
Additions to Cash Reserves	(15,818)	(15,836)
Net Cash Used by Investing Activities	(15,818)	(22,652)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt	(53,856)	(82,069)
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	67,147	(29,168)
Cash and Cash Equivalents - Beginning of Year	393,939	423,107
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 461,086	\$ 393,939
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest Paid	\$ 135,849	\$ 138,847
 <b>NONCASH FINANCING ACTIVITIES</b>		
Refinance of Long-Term Debt	\$ 231,614	\$ -

See accompanying Notes to Financial Statements.

**SKILLSOURCE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**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 (WIA) 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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 AND 2012**

**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, 2013 AND 2012**

**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, 2013 and 2012, was \$505 and \$595, 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 five to fifty years.

**Advertising**

Advertising costs are expensed when incurred. Total advertising costs were \$3,176 and \$5,421 for the years ended June 30, 2013 and 2012, 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 \$135,849 and \$138,847 during the years ended June 30, 2013 and 2012, respectively.

**Fundraising Expenses**

The Organization did not incur any fundraising expenses for the years ended June 30, 2013 and 2012.

**SKILLSOURCE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reclassification**

Certain amounts in the 2012 financial statements have been reclassified to conform with the 2013 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. The Organization's income tax returns are subject to review and examination by federal authorities for the years 2010 and later.

**Subsequent Events**

Subsequent events have been evaluated through November 14, 2013, 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, 2013 and 2012, the reserve balance was \$95,272 and \$79,454, 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, 2013 and 2012. The amounts due to government are for advances for which expenditures had not been incurred at June 30, 2013 and 2012.

**NOTE 4 PROPERTY**

The land, land improvements, and buildings located in Wenatchee and Brewster, 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, Brewster, 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, 2013 and 2012 was \$170,842 and \$191,206, respectively.

**SKILLSOURCE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**NOTE 5 EQUIPMENT**

Under WIA, 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>2013</u>	<u>2012</u>
Equipment - Beginning of Year	\$ 727,238	\$ 759,215
Additions	-	16,335
Deletions	(2,932)	(48,312)
Equipment - End of Year	<u>\$ 724,306</u>	<u>\$ 727,238</u>

**NOTE 6 LONG-TERM DEBT**

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

	<u>2013</u>	<u>2012</u>
Note Payable to Banner Bank, Payable in Monthly Installments of \$1,971, Including Interest at 7.10% Until July 5, 2020, at Which Time the Entire Balance of the Note is Due; Secured by Real Estate Located in Wenatchee, Washington	\$ -	\$ 238,708
Note Payable to Georgina M. Hone, Trustee of Georgina M. Hone Fund, Payable in Monthly Installments of \$1,001, Including Interest at 7.50% Until September 1, 2015, at Which Time the Entire Balance of the Note is Due; Secured by Real Estate Located in Brewster, Washington	23,958	33,772
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	231,614	-

**SKILLSOURCE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

	2013	2012
Note Payable to the United States Department of Agriculture, Due in Monthly Payments of \$12,776, Including Interest at 4.125% Until June 20, 2047, at Which Time the Entire Balance of the Note is Due; Secured by Real Estate in Moses Lake, Washington	\$ 2,798,501	\$ 2,835,449
Total	3,054,073	3,107,929
Less: Current Maturities	58,882	53,444
Total Long-Term Debt	\$ 2,995,191	\$ 3,054,485

Future maturities of long-term debt are as follows:

Year Ending June 30,	Amount
2014	\$ 58,882
2015	61,297
2016	53,977
2017	54,222
2018	56,521
Thereafter	2,769,174
Total	\$ 3,054,073

**NOTE 7 RELATED-PARTY TRANSACTIONS**

A member of the Organization's board of directors is an owner of Computerland Network and Telephone. During the year ended June 30, 2013, the Organization paid Computerland Network and Telephone for computer-related products and services. A member of the Organization's board of directors was also an employee at Banner Bank for part of the fiscal year. During the year ended June 30, 2013, the Organization had bank accounts and real estate mortgages held at Banner Bank. 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, 2013. 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, 2013 and 2012, the Organization received approximately 79 percent and 80 percent, respectively, of its annual revenues from WIA, administered by the Department of Labor.



**SKILLSOURCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 9 LEASE COMMITMENTS**

The Organization entered into a five-year operating lease for office space in Adams County, Washington which expired in August 2011. Monthly payments under the operating lease were \$1,700. The Organization received credit equal to the cost of renovations and repairs made during the term of the lease totaling \$108,054. As of June 30, 2012, the Organization had a remaining credit of \$-0-. During September 2011, the Organization extended the lease. The extension commenced on September 11, 2011, and will terminate on August 31, 2016. Monthly payments under the operating lease are \$-0-.

The Organization estimates that the value of the donated use of the office space was approximately \$20,400 and \$10,946 for the years ended June 30, 2013 and 2012. The estimated value has not been recorded in the financial statements as it is not considered to be material to the financial statements.

Lease expense for the years ended June 30, 2013 and 2012, was \$-0- and \$9,454, respectively.

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 include various renewal options.

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

Year Ending June 30,	Amount
2014	\$ 143,255
2015	137,203
2016	110,276
2017	91,897
Total	\$ 482,631

**SKILLSOURCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**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 - WIA Adult Program	07/2012 - 06/2014	6108-7102	\$ 50,300
Department of Labor - WIA Adult Program	10/2012 - 06/2014	6108-1103	668,967
Department of Labor - WIA Youth Program	04/2012 - 06/2014	6108-7002	713,872
Department of Labor - WIA Youth Program	04/2013 - 06/2015	6108-7003	643,482
Department of Labor - WIA Dislocated Worker	07/2012 - 06/2014	6108-7202	134,642
Department of Labor - WIA Dislocated Worker	10/2012 - 06/2014	6108-1203	565,382
Department of Labor - WIA Dislocated Worker - Rapid Response Additional Assistance	04/2013 - 09/2014	6108-7502-10	252,000
Department of Labor - Administrative Cost Pool	04/2012 - 06/2014	6108-7302	99,868
Department of Labor - Administrative Cost Pool	10/2012 - 06/2014	6108-1303	137,150
Department of Labor - Administrative Cost Pool	04/2013 - 06/2015	6108-7303	71,498
Department of Labor - State Admin for ARAA	04/2013 - 09/2014	6108-7402-04	28,000
Department of Labor - National Emergency Grant	09/2012 - 03/2014	6108-6982-02	252,465
Department of Labor - National Emergency Grant - Community Partners	08/2012 - 01/2014	6108-6992-02	48,842
Trade Adjustment Assistance Community College and Career Training - Air Washington	03/2012 - 09/2014	461	138,221

**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 percent of employee salaries. Contributions paid by the Organization for the years ended June 30, 2013 and 2012, were \$61,338 and \$60,978, respectively.

**NOTE 12 MOSES LAKE ONE-STOP CENTER**

The Organization constructed a One-Stop Center (Center) in Moses Lake, Washington, and a majority of the funding for the project was from a combination of the Organization's net assets and loan funds. However, a portion of the Center was funded with WIA resources. The Organization requested and received approval from their oversight agency for the use of WIA funds for certain items for the Center. Normally, WIA 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.

**SKILLSOURCE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**NOTE 12 MOSES LAKE ONE-STOP CENTER (CONTINUED)**

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 WIA 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 WIA program for the depreciation associated with any item funded by the WIA program.

**NOTE 13 SUBSEQUENT EVENTS**

Subsequent to fiscal year-end, the Organization sold a building to the Brewster School District for \$80,000. The agreement was entered into on October 1, 2013.

**SKILLSOURCE**  
**SCHEDULE OF GOVERNOR'S DISCRETIONARY REVENUE AND EXPENDITURES**  
**YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>GOVERNOR'S DISCRETIONARY REVENUE</b>		
One-Stop System Policy Implementation Revenue	\$ -	\$ 130,988
Governor's 10% On-the-Job Training	-	89,160
SGL Automotive Carbon Fibers Revenue	-	47,240
Governor's 10% Aerospace	56,461	28,505
Governor's 10% Youth/Vet	32,003	10,731
Incumbent Worker Revenue	17,544	-
Total Governor's Discretionary Revenue	\$ 106,008	\$ 306,624
<b>GOVERNOR'S DISCRETIONARY EXPENDITURES</b>		
One-Stop System Policy Implementation Expense	\$ -	\$ 109,677
Governor's 10% On-the-Job Training	-	60,039
SGL Automotive Carbon Fibers Revenue	-	47,240
Governor's 10% Aerospace	34,513	28,504
Governor's 10% Youth/Vet	21,801	6,481
Incumbent Worker Expense	10,055	-
Total Governor's Discretionary Expenditures	66,369	251,941
Payments from Subcontractors	39,639	54,683
Gross Governor's Discretionary Expenditures	\$ 106,008	\$ 306,624

**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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of SkillSource, which comprise the statement of financial position as of June 30, 2013, 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 14, 2013.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Wenatchee, Washington  
November 14, 2013

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

Board of Directors  
SkillSource  
Wenatchee, Washington

**Report on Compliance for Each Major Federal Program**

We have audited SkillSource's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on SkillSource's major federal program for the year ended June 30, 2013. SkillSource's major federal program is identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

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

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

**Opinion on Each Major Federal Program**

In our opinion, SkillSource complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.


**Report on Internal Control Over Compliance**

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

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

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

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



**CliftonLarsonAllen LLP**

Wenatchee, Washington  
November 14, 2013



**SKILLSOURCE  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2013**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

**Financial Statements**

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

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

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?	_____	yes	_____ X _____	no
Significant deficiency(ies) identified not considered to be material weakness(es)?	_____	yes	_____ X _____	none reported

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____	yes	_____ X _____	no
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**Identification of Major Programs:**

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

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

Auditee qualified as low-risk auditee?	_____ X _____	yes	_____	no
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**SKILLSOURCE**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2013**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**SKILLSOURCE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2013**

	CFDA Number	Contract Period	Contract Number	Contract Amount	Expenditures
<b>U.S. DEPARTMENT OF LABOR:</b>					
<i>Pass-through from State of Washington Employment Security Department:</i>					
WIA Adult Program	17.258	10/2011 - 06/2013	6108-1102	\$ 686,178	\$ 178,349
WIA Adult Program	17.258	07/2012 - 06/2014	6108-7102	50,300	50,300
WIA Adult Program	17.258	10/2012 - 06/2014	6108-1103	668,967	549,814
WIA Youth Activities Program	17.259	04/2011 - 06/2013	6108-7001	722,219	93,739
WIA Youth Activities Program	17.259	04/2012 - 06/2014	6108-7002	713,872	623,466
WIA Dislocated Worker	17.278	10/2011 - 06/2013	6108-1202	535,805	92,427
WIA Dislocated Worker	17.278	07/2012 - 06/2014	6108-7202	134,642	134,642
WIA Dislocated Worker	17.278	10/2012 - 06/2014	6108-1203	565,382	541,732
WIA Dislocated Worker - Rapid Response Additional Assistance	17.278	04/2013 - 09/2014	6108-7502-10	252,000	58,187
WIA Administrative Cost Pool	17.258, .259, .278	04/2011 - 06/2013	6108-7301	98,385	24,934
WIA Administrative Cost Pool	17.258, .278	10/2011 - 06/2013	6108-1302	135,776	135,776
WIA Administrative Cost Pool	17.258, .259, .278	04/2012 - 06/2014	6108-7302	99,868	99,853
WIA Administrative Cost Pool	17.258, .278	10/2012 - 06/2014	6108-1303	137,150	413
SunOpta	17.258, .259, .278	06/2012 - 03/2013	6108-7620-18	10,500	9,431
Paine Electronics	17.258, .259, .278	08/2012 - 03/2013	6108-7620-22	5,306	4,640
Firbro Job Creation and Retention	17.258, .259, .278	12/2012 - 03/2013	6108-7620-28	7,500	4,676
Aerospace Individual Training Accounts	17.258, .259, .278	08/2011 - 04/2013	6108-7620-14	84,966	56,461
Youth and Vet On-the-Job Training	17.258, .259, .278	02/2012 - 03/2013	6108-7620-21	45,000	32,003
Total				4,953,816	2,690,843
National Emergency Grant	17.277	09/2012 - 03/2014	6108-6982-02	252,465	104,191
National Emergency Grant - Community Partners	17.277	08/2012 - 01/2014	6108-6992-02	48,842	15,873
Total Pass-through from State of Washington Employment Security Department				5,255,123	2,810,907
<i>Pass-through from State of Washington Department of Social and Health Services:</i>					
Senior Community Service Employment Program	17.235	07/2012 - 06/2013	1212-54771	45,865	45,865
<i>Pass-through from The Health Work Force Institute:</i>					
ARRA Health Care Sector	17.257	08/2010 - 02/2013	05-10 (NCWDC)	129,937	53,036
<i>Pass-through from Big Bend Community College:</i>					
Trade Adjustment Assistance Community College and Career Training - Air Washington	17.282	03/2012 - 09/2014	461	138,221	72,845
Total U.S. Department of Labor				5,569,146	2,982,653
Total Federal Awards				\$ 5,569,146	\$ 2,982,653

**SKILLSOURCE**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2013**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

**NOTE 2 SUBRECIPIENTS**

The Organization subcontracted federal awards to subrecipients as follows:

Program Name	Federal CFDA Number	Amount Provided
Department of Labor:		
Title IB, Adult	17.258	\$ 168,104
Title IB, Youth	17.259	125,547
Title IB, Dislocated Worker	17.278	206,408
Title IB, Governor's Discretionary	17.258, 259, 278	39,639
Air Washington	17.282	33,026
Total Federal Expenditures		<u>\$ 572,724</u>

**SKILLSOURCE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2013**

There are no prior year audit findings to report.