

SKILLSOURCE

Financial Statements

June 30, 2021

I N D E X

Independent Auditors' Report	Pages 1-2
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-19
Supplementary Information	
Schedules of Governor's Discretionary Revenue and Expenditures	20
Schedules of Revenues and Expenses by Program.....	21
Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards	23
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 <i>Government Auditing Standards</i>	24-25
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance	26-27
Schedule of Findings and Questioned Costs	28



CORDELL, NEHER & COMPANY, PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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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, 2021 and 2020, 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.

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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, 2021 and 2020, 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 Information

Our audits were 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 and revenues and expenses by program are presented for purposes of additional analysis and are 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 30, 2021 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 solely 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 effectiveness of 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, Tucker & Company, PLLC

Wenatchee, Washington
November 30, 2021

STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

ASSETS		
	2021	2020
CURRENT ASSETS		
Cash and cash equivalents [Note 3]	\$ 813,589	\$ 814,342
Restricted cash [Note 4]	158,076	157,881
Total cash, cash equivalents, and restricted cash	<u>971,665</u>	<u>972,223</u>
Receivables [Note 3]		
Trade	312,770	186,851
Due from government [Note 5]	129,257	78,151
Other receivables	1,352	11,667
Prepaid expenses, current portion	<u>39,197</u>	<u>57,939</u>
Total current assets	1,454,241	1,306,831
PROPERTY AND EQUIPMENT [Notes 6 and 7]		
Land	813,351	813,351
Land improvements	711,965	711,965
Buildings and equipment	4,826,925	4,625,885
Construction in progress	<u>23,238</u>	<u>115,628</u>
Total cost	6,375,479	6,266,829
Less accumulated depreciation	<u>2,693,002</u>	<u>2,529,609</u>
Total property and equipment	3,682,477	3,737,220
OTHER ASSETS		
Prepaid expenses, net of current portion	<u>4,454</u>	<u>6,265</u>
TOTAL ASSETS	<u>\$ 5,141,172</u>	<u>\$ 5,050,316</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Long-term debt payable within one year [Note 7]	\$ 53,686	\$ 51,520
Accounts payable	199,648	117,403
Accrued wages and benefits	10,887	4,646
Accrued vacation	170,643	166,285
Accrued interest	<u>2,516</u>	<u>2,252</u>
Total current liabilities	437,380	342,106
LONG-TERM DEBT, payable after one year [Note 7]	2,385,925	2,439,603
COMMITMENTS AND CONTINGENCIES [Note 8]		
NET ASSETS		
Net assets without donor restrictions	2,317,867	2,268,607
Net assets with donor restrictions	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,141,172</u>	<u>\$ 5,050,316</u>

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2021 and 2020

	2021		Total
	Without donor restrictions	With donor restrictions	
SUPPORT AND REVENUE			
Grants and contracts [Note 9]	\$ 5,249,900	\$ -	\$ 5,249,900
Rental income [Note 8]	184,406	-	184,406
Interest income	650	-	650
Miscellaneous income	40,480	-	40,480
Total support and revenue	5,475,436	-	5,475,436
EXPENSES			
Program services			
Adult program	938,891	-	938,891
Youth program	1,088,371	-	1,088,371
Dislocated worker program	1,558,868	-	1,558,868
Other programs	1,477,117	-	1,477,117
Total program services	5,063,247	-	5,063,247
Supporting services			
Management and general administration	362,929	-	362,929
Total expenses	5,426,176	-	5,426,176
CHANGE IN NET ASSETS	49,260	-	49,260
NET ASSETS - BEGINNING OF YEAR	2,268,607	-	2,268,607
NET ASSETS - END OF YEAR	\$ 2,317,867	\$ -	\$ 2,317,867

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2021 and 2020

	2020		Total
	Without donor restrictions	With donor restrictions	
SUPPORT AND REVENUE			
Grants and contracts [Note 9]	\$ 5,015,381	\$ -	\$ 5,015,381
Rental income [Note 8]	191,806	-	191,806
Interest income	2,275	-	2,275
Miscellaneous income	62,110	-	62,110
Total support and revenue	5,271,572	-	5,271,572
EXPENSES			
Program services			
Adult program	1,004,827	-	1,004,827
Youth program	1,011,321	-	1,011,321
Dislocated worker program	1,195,585	-	1,195,585
Other programs	1,683,625	-	1,683,625
Total program services	4,895,358	-	4,895,358
Supporting services			
Management and general administration	369,008	-	369,008
Total expenses	5,264,366	-	5,264,366
CHANGE IN NET ASSETS	7,206	-	7,206
NET ASSETS - BEGINNING OF YEAR	2,261,401	-	2,261,401
NET ASSETS - END OF YEAR	\$ 2,268,607	\$ -	\$ 2,268,607

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2021 and 2020

	2021						Total Expenses
	Adult Program	Youth Program	Dislocated Worker Program	Other Programs	Total Program Services	Administration	
Training related expenses							
Salaries	\$ 302,209	\$ 418,912	\$ 485,780	\$ 172,583	\$ 1,379,484	\$ 241,296	\$ 1,620,780
Specific assistance to individuals	167,577	209,750	447,182	43,771	868,280	-	868,280
Facilities	35,638	53,700	57,664	237,317	384,319	1,303	385,622
Payroll taxes and benefits [Note 10]	74,790	101,054	120,113	37,492	333,449	41,989	375,438
Supplies	6,234	10,483	9,529	8,047	34,293	6,104	40,397
Telephone and communications	4,445	5,935	6,739	2,031	19,150	2,802	21,952
Equipment	1,913	5,787	2,760	898	11,358	-	11,358
Staff training	2,648	1,867	3,829	115	8,459	1,222	9,681
Travel	167	1,293	314	1,770	3,544	211	3,755
Other expenses	27,318	34,057	37,020	15,289	113,684	68,002	181,686
Total training related expenses	<u>622,939</u>	<u>842,838</u>	<u>1,170,930</u>	<u>519,313</u>	<u>3,156,020</u>	<u>362,929</u>	<u>3,518,949</u>
Direct training expenses							
Basic education	91,075	48,847	87,903	683,296	911,121	-	911,121
Payments to subrecipients	224,877	196,686	300,035	274,508	996,106	-	996,106
Total direct training expenses	<u>315,952</u>	<u>245,533</u>	<u>387,938</u>	<u>957,804</u>	<u>1,907,227</u>	<u>-</u>	<u>1,907,227</u>
Total expenses	<u>\$ 938,891</u>	<u>\$ 1,088,371</u>	<u>\$ 1,558,868</u>	<u>\$ 1,477,117</u>	<u>\$ 5,063,247</u>	<u>\$ 362,929</u>	<u>\$ 5,426,176</u>
Percentage of total	<u>17.30%</u>	<u>20.06%</u>	<u>28.73%</u>	<u>27.22%</u>	<u>93.31%</u>	<u>6.69%</u>	<u>100.00%</u>

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2021 and 2020

	2020						Total Expenses
	Adult Program	Youth Program	Dislocated Worker Program	Other Programs	Total Program Services	Administration	
Training related expenses							
Salaries	\$ 309,433	\$ 445,468	\$ 403,252	\$ 204,007	\$ 1,362,160	\$ 237,993	\$ 1,600,153
Specific assistance to individuals	191,727	99,761	288,337	98,112	677,937	-	677,937
Facilities	39,436	55,230	44,096	158,685	297,447	1,958	299,405
Payroll taxes and benefits [Note 10]	78,576	103,178	98,685	49,341	329,780	48,195	377,975
Supplies	6,419	8,995	7,438	5,859	28,711	5,295	34,006
Telephone and communications	4,040	5,882	5,102	1,253	16,277	1,760	18,037
Equipment	1,474	1,158	1,437	2,319	6,388	2,544	8,932
Staff training	7,468	8,851	7,329	2,445	26,093	2,623	28,716
Travel	3,368	6,825	3,790	9,962	23,945	1,836	25,781
Other expenses	35,485	34,753	32,567	32,758	135,563	66,804	202,367
Total training related expenses	<u>677,426</u>	<u>770,101</u>	<u>892,033</u>	<u>564,741</u>	<u>2,904,301</u>	<u>369,008</u>	<u>3,273,309</u>
Direct training expenses							
Basic education	121,946	33,541	72,104	744,629	972,220	-	972,220
Payments to subrecipients	205,455	207,679	231,448	374,255	1,018,837	-	1,018,837
Total direct training expenses	<u>327,401</u>	<u>241,220</u>	<u>303,552</u>	<u>1,118,884</u>	<u>1,991,057</u>	<u>-</u>	<u>1,991,057</u>
Total expenses	<u>\$ 1,004,827</u>	<u>\$ 1,011,321</u>	<u>\$ 1,195,585</u>	<u>\$ 1,683,625</u>	<u>\$ 4,895,358</u>	<u>\$ 369,008</u>	<u>\$ 5,264,366</u>
Percentage of total	<u>19.09%</u>	<u>19.21%</u>	<u>22.71%</u>	<u>31.98%</u>	<u>92.99%</u>	<u>7.01%</u>	<u>100.00%</u>

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from programs and grants	\$ 5,308,076	\$ 5,446,532
Cash paid to suppliers and employees	(5,047,323)	(5,057,544)
Interest paid	(101,799)	(111,030)
Interest received	650	2,275
	<u>159,604</u>	<u>280,233</u>
Net cash provided (used) by operating activities	159,604	280,233
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment purchased	(108,650)	(324,539)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	<u>(51,512)</u>	<u>(217,890)</u>
CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(558)	(262,196)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - BEGINNING OF YEAR	<u>972,223</u>	<u>1,234,419</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	<u>\$ 971,665</u>	<u>\$ 972,223</u>

SkillSource
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	2021	2020
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ 49,260	\$ 7,206
Noncash and nonoperating (revenue) expenses		
Depreciation	163,393	150,587
Interest	-	125
(Increase) decrease in operating assets		
Trade receivables	(125,919)	86,287
Due from government	(51,106)	101,105
Other receivables	10,315	(10,157)
Prepaid expenses	20,553	26,931
Increase (decrease) in operating liabilities		
Accounts payable	82,245	(86,382)
Accrued wages and benefits	6,241	(5,350)
Accrued vacation	4,358	10,991
Accrued interest	264	(1,110)
	\$ 159,604	\$ 280,233
Net cash provided (used) by operating activities	\$ 159,604	\$ 280,233

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 in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). 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 the following net asset classifications:

Net assets without donor restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets. Donor restricted contributions whose restrictions are met in the same reporting period are reported without donor restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Measure of operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing career development and worker retraining services. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

D. 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.

E. 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. For the years ended June 30, 2021 and 2020, the reserve balance was \$171,832 and \$166,286, respectively, and is reflected as cash and cash equivalents in the statements of financial position.

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

H. Revenue recognition

The Organization's primary source of income is grants from state and federal agencies. These revenues are accounted for under ASC Subtopic 958-605, *Not-for-Profit Entities: Revenue Recognition* (ASC 958-605), recognizing revenue at the time of the gift if no donor restriction or barriers to the conditional receipt of the grant have been established in their underlying agreements, or over the course of time as barriers are overcome or donor restrictions have been satisfied if those conditions have been established.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property, plant and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Less frequent and trivial sources of income include fees collected for high school credit catch up, student tutoring, and specialty computer classes, which are accounted for under ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606), recognizing revenue when performance obligations under the terms of the contracts with customers are satisfied. 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. Prior to the adoption of ASC 606, the Organization recognized revenue when persuasive evidence of an arrangement existed, delivery of products had occurred, the sales price was fixed or determinable, and collectability was reasonably assured. The Organization has analyzed the provisions of ASC 606 and has concluded that no changes were necessary to conform to the new standard.

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.

Investment income consists of interest from savings accounts. Revenues are recognized when earned or incurred.

Unexpended amounts remaining on conditional grants and contracts as of June 30, 2021 and 2020 for agreements in effect during the years were \$3,582,364 and \$2,939,122, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 ended June 30, 2021 and 2020 were \$6,623 and \$18,545, respectively.

J. Fundraising expense

The Organization did not incur any fundraising expenses for the years ended June 30, 2021 and 2020.

K. Interest expense

The Organization recognized interest expense of \$102,063 and \$109,920 during the years ended June 30, 2021 and 2020, 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, 2021 and 2020 was \$0 and \$125, respectfully. Unamortized loan fees are presented in the statements of financial position as a direct reduction to the note payable.

M. Income taxes

The Organization operates as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for Federal income tax is presented. The Organization has also been classified as a publicly supported organization under Sections (b)(1)(A)(iv) of the Internal Revenue Code.

The Organization has adopted the provisions of FASB ASC 740-10. Management has evaluated the Organization's tax positions and concluded the Organization has taken no uncertain tax positions requiring adjustment to the financial statements to comply with these provisions. With few exceptions, the Organization is no longer subject to income tax examinations by U.S. Federal tax authorities for the years before 2017, which is the standard statute of limitations look-back period.

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 to that program and classified according to their natural expenditure. Other expenses that are common to several functions are allocated by various bases. Management and general expenditures consist of general administrative activities including but not limited to accounting, budgeting, and financial management; procurement and purchasing; property management; personnel management; and oversight and monitoring activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

O. Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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. New accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue for Contracts with Customers* (Topic 606). The update removes inconsistencies and weaknesses in revenue requirements; provides a more robust framework for addressing revenue issues; improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; provides more useful information to users of financial statements through improved disclosure requirements; and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Subtopic 958-605). The update clarifies and improves current guidance about whether a transfer of assets (or reduction, settlement, or cancellation of liabilities) is a contribution or exchange transaction. The amendments clarify how an entity determines whether a resource provider is receiving commensurate value in return for the resources transferred to the recipient entity. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied on a modified prospective basis to these financial statements.

NOTE 3 - AVAILABILITY AND LIQUIDITY

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The following table reflects the Organization's financial assets as of June 30, 2021 and 2020 that are available to meet cash needs for operating expenditures within one year.

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 813,589	\$ 814,342
Restricted cash	158,076	157,881
Receivables	443,379	276,669
Total financial assets	<u>1,415,044</u>	<u>1,248,892</u>
Less amounts not available to be used within one year:		
Restricted cash	<u>158,076</u>	<u>157,881</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,256,968</u>	<u>\$ 1,091,011</u>

NOTE 4 - RESTRICTED CASH

Amounts included in restricted cash represent those required to be set aside in accordance with the U.S. Department of Agriculture (USDA) loan agreement. The Organization made monthly contributions of \$1,302 to the reserve until the balance reached the required minimum amount of \$156,192. For the years ended June 30, 2021 and 2020, the reserve balance was \$158,076 and \$157,881, respectively.

NOTE 5 - 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, 2021 and 2020. The amounts due from government are for expenditures for which reimbursement has not yet been received at June 30, 2021 and 2020.

NOTE 6 - 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, approximately 11% of the Center was funded with Workforce Investment Act (WIA) resources. The Organization requested and received approval from their oversight agency for the use of WIA funds for certain items of the Center. Normally, Workforce Investment 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.

U.S. 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 WIA 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 Federal program for the depreciation associated with any item funded by the Federal 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, 2021 and 2020 was \$163,393 and \$150,587, respectively.

Under 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.

NOTE 6 - PROPERTY AND EQUIPMENT - continued

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>2021</u>	<u>2020</u>
Equipment - beginning of year	\$ 483,086	\$ 532,552
Additions	59,292	28,139
Retirements	<u>(102,451)</u>	<u>(77,605)</u>
Equipment - end of year	<u>\$ 439,927</u>	<u>\$ 483,086</u>

Construction in progress at June 30, 2021 is for various improvements taking place at the Grant County and Chelan County locations. These projects are expected to be completed by November 2021 with total estimated costs as follows:

	<u>Estimated cost</u>
Moses Lake re-roofing project	\$ 157,898
Executive building landscape improvements	<u>12,531</u>
Total	<u>\$ 170,429</u>

NOTE 7 - LONG-TERM DEBT

	<u>2021</u>	<u>2020</u>
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.	\$ 2,439,611	\$ 2,491,123
Less long-term debt payable within one year	<u>53,686</u>	<u>51,520</u>
Long-term debt payable after one year	<u>\$ 2,385,925</u>	<u>\$ 2,439,603</u>

NOTE 7 - LONG-TERM DEBT - continued

Future maturities of long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 53,686
2023	55,726
2024	58,069
2025	60,510
2026	63,054
Thereafter	<u>2,148,566</u>
Total	<u>\$ 2,439,611</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Rental Income

The Organization leases office space to various lessees. The leases expire in 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>
2022	\$ 142,650

Funding

Funding for the Organization's operations is primarily from government grants and contracts. Continued existence of the Organization depends upon the continuation of such funding sources. 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 Organization. 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 9 - RISKS AND UNCERTAINTIES

Concentrations

During the years ended June 30, 2021 and 2020, the Organization received approximately 75% and 74%, respectively, of its annual revenues from the WIOA administered by the Department of Labor (DOL).

Uncertainties

Management has evaluated the impact of the COVID-19 pandemic on their operations and has concluded that while it is reasonably possible the virus could have a negative effect on the Organization's financial position, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 10 - 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, 2021 and 2020 were \$87,147 and \$80,040, respectively.

NOTE 11 - 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, 2021 and 2020. Beginning on September 1, 2016, annual rent payments under the operating lease are \$1. The lease was renewed under the same terms subsequent to year end.

The Organization estimates that the value of the donated use of the office space was \$20,400 for the years ended June 30, 2021 and 2020. The donated use of the office space is included in miscellaneous income in the statements of activities and changes in net assets.

There were no cash payments for lease expense for the years ended June 30, 2021 and 2020.

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

NOTE 12 - RELATED PARTY TRANSACTIONS

A member of the Organization's board of directors is an owner of LocalTel. During the years ended June 30, 2021 and 2020, 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, 2021 and 2020. Individuals employed at these organizations serve or served as members of the Organization's board of directors.

NOTE 13 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 30, 2021, 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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
GOVERNOR'S DISCRETIONARY REVENUE		
Columbia Basin Manufacturing Pipeline	\$ 124,687	\$ 49,176
Career Connect Intermediary	118,293	79,825
Economic Security For All	3,368	-
Career Connect Washington	-	284,872
	<u> </u>	<u> </u>
Total governor's discretionary revenue	<u>\$ 246,348</u>	<u>\$ 413,873</u>
 GOVERNOR'S DISCRETIONARY EXPENDITURES		
Columbia Basin Manufacturing Pipeline	\$ 13,554	\$ 6,963
Career Connect Intermediary	48,652	19,466
Economic Security For All	3,368	-
Career Connect Washington	-	126,369
	<u> </u>	<u> </u>
Total program related expenses	65,574	152,798
Administrative expenditures	4,081	2,403
Payments to subrecipients	176,693	258,672
	<u> </u>	<u> </u>
Total governor's discretionary expenditures	<u>\$ 246,348</u>	<u>\$ 413,873</u>

SCHEDULES OF REVENUES AND EXPENSES BY PROGRAM

For the Years Ended June 30, 2021 and 2020

	2021	2020
REVENUE		
Adult program	\$ 938,891	\$ 947,785
Dislocated worker program	897,659	752,364
Youth program	1,088,371	1,011,321
Rapid response revenue	58,702	443,220
Governor's discretionary revenue	246,348	413,873
Rental income	184,406	191,806
Pre-employment transition services	296,565	304,943
National emergency dislocated worker grant	645,179	-
Interest income	650	2,275
Miscellaneous income	40,480	62,110
Basic education	840,238	806,694
Administration	237,947	335,181
	<u>5,475,436</u>	<u>5,271,572</u>
EXPENSES		
Adult program	622,939	677,426
Dislocated worker program	630,626	587,260
Youth program	842,838	770,101
Rapid response expense	45,140	304,773
Governor's discretionary expense	65,574	152,798
Partner facilities expense	184,406	191,556
Pre-employment transition services	204,778	241,345
National emergency dislocated worker expense	495,164	-
Miscellaneous expense (income)	64,555	(20,958)
Basic education	911,121	972,220
Payments to subrecipients	996,106	1,018,837
Administration	362,929	369,008
	<u>5,426,176</u>	<u>5,264,366</u>
	49,260	7,206
CHANGES IN NET ASSETS		
NET ASSETS - BEGINNING OF YEAR	<u>2,268,607</u>	<u>2,261,401</u>
NET ASSETS - END OF YEAR	<u>\$ 2,317,867</u>	<u>\$ 2,268,607</u>

SkillSource

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2021

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Contract Period</u>	<u>Contract Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Labor</u>					
Pass-through programs from State of Washington Employment Security Department					
Workforce Innovation & Opportunity Act Cluster					
Workforce Innovation & Opportunity Act Administrative Cost Pool	17.258, .259 & .278	04/01/19 - 06/30/21	6108-7309	\$ -	\$ 191,475
Workforce Innovation & Opportunity Act Administrative Cost Pool	17.258, .259 & .278	04/01/20 - 06/30/22	6108-7300	-	46,472
Workforce Innovation & Opportunity Act Adult Program	17.258	07/01/19 - 06/30/21	6108-7109	-	119,160
Workforce Innovation & Opportunity Act Adult Program	17.258	07/01/20 - 06/30/22	6108-7100	224,878	819,731
Workforce Innovation & Opportunity Act Youth Activities Program	17.259	04/01/19 - 06/30/21	6108-7009	-	56,731
Workforce Innovation & Opportunity Act Youth Activities Program	17.259	04/01/20 - 06/30/22	6108-7000	196,686	1,031,640
Workforce Innovation & Opportunity Act Dislocated Worker	17.278	07/01/19 - 06/30/21	6108-7209	-	145,003
Workforce Innovation & Opportunity Act Dislocated Worker	17.278	07/01/20 - 06/30/22	6108-7200	180,991	752,655
Workforce Innovation & Opportunity Act Rapid Response Increased Employment	17.278	11/01/18 - 06/30/20	6108-7508-10	-	(6)
Workforce Innovation & Opportunity Act Rapid Response Additional Assistance	17.278	08/06/19 - 06/30/21	6108-7509-10	13,250	58,707
Workforce Innovation & Opportunity Act Statewide Activities					
Columbia Basin Manufacturing Pipeline	17.258, .259 & .278	09/18/19 - 06/30/21	6108-7629-12	107,051	124,687
Career Connect Intermediary	17.258, .259 & .278	09/30/19 - 06/30/21	6108-7629-11	69,641	118,294
Economic Security for All	17.258, .259 & .278	05/20/20 - 03/31/23	6108-7620-07	-	3,368
Total Workforce Innovation & Opportunity Act Cluster				792,497	3,467,917
Workforce Innovation & Opportunity Act National Dislocated					
Worker Grant COVID-19 Disaster Relief	17.277	05/01/20 - 03/31/22	6108-7580-64	72,818	472,824
Workforce Innovation & Opportunity Act National Dislocated Worker Grant COVID-19 Disaster Relief	17.277	07/01/20 - 03/31/22	6108-7590-64	32,976	172,355
Total Workforce Innovation & Opportunity Act National Dislocated Worker Grant				105,794	645,179
Total Expenditures of Federal Awards				<u>\$ 898,291</u>	<u>\$ 4,113,096</u>

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, 2021. 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 - SUMMARY OF 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.

NOTE 3 - INDIRECT COST RATE

SkillSource has not elected to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.



CORDELL, NEHER & COMPANY, PLLC

Certified Public Accountants

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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, 2021 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 30, 2021.

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.

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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 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, Fisher & Company, PLLC

Wenatchee, Washington
November 30, 2021



CORDELL, NEHER & COMPANY, PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

PRINCIPALS

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OF COUNSEL

Judy S. Conner, CPA

Jeffery R. Neher, CPA

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, 2021. 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.

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, 2021.

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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, Tucker & Company, PLLC

Wenatchee, Washington
November 30, 2021

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2021

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *unmodified*

Internal control over financial reporting:

Are any material weaknesses identified? yes x no

Are any significant deficiencies identified? yes x none reported

Is any noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

Are any material weaknesses identified? yes x no

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

Identification of major programs:

<u>CFDA Numbers</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? X yes no

II. FINANCIAL STATEMENT FINDINGS

NONE

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE