

SKILLSOURCE

Financial Statements

June 30, 2020

I N D E X

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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, 2020 and 2019, 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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To the Board of Directors

SkillSource

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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, 2020 and 2019, 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 December 15, 2020 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.

Corshell, Neher & Company, PLLC

Wenatchee, Washington

December 15, 2020

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

ASSETS		
	2020	2019
CURRENT ASSETS		
Cash and cash equivalents [Note 3]	\$ 814,342	\$ 1,077,208
Restricted cash [Note 4]	157,881	157,211
Total cash, cash equivalents, and restricted cash	972,223	1,234,419
Receivables [Note 3]		
Trade	186,851	273,138
Due from government [Note 5]	78,151	179,256
Other receivables	11,667	1,510
Prepaid expenses, current portion	57,939	49,646
Total current assets	1,306,831	1,737,969
PROPERTY AND EQUIPMENT [Notes 6 and 7]		
Land	813,351	813,351
Land improvements	711,965	711,965
Buildings and equipment	4,625,885	4,416,974
Construction in progress	115,628	-
Total cost	6,266,829	5,942,290
Less accumulated depreciation	2,529,609	2,379,022
Total property and equipment	3,737,220	3,563,268
OTHER ASSETS		
Prepaid expenses, net of current portion	6,265	41,489
TOTAL ASSETS	\$ 5,050,316	\$ 5,342,726
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Long-term debt payable within one year [Note 7]	\$ 51,520	\$ 217,699
Accounts payable	117,403	203,785
Accrued wages and benefits	4,646	9,996
Accrued vacation	166,285	155,294
Accrued interest	2,252	3,362
Total current liabilities	342,106	590,136
LONG-TERM DEBT, payable after one year [Note 7]	2,439,603	2,491,189
COMMITMENTS AND CONTINGENCIES [Note 8]		
NET ASSETS		
Net assets without donor restrictions	2,268,607	2,261,401
Net assets with donor restrictions	-	-
TOTAL LIABILITIES AND NET ASSETS	\$ 5,050,316	\$ 5,342,726

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2020 and 2019

	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
CHANGES 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 ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2020 and 2019

	2019		Total
	Without donor restrictions	With donor restrictions	
SUPPORT AND REVENUE			
Grants and contracts [Note 9]	\$ 5,300,774	\$ -	\$ 5,300,774
Rental income [Note 8]	182,188	-	182,188
Interest income	2,700	-	2,700
Miscellaneous income	26,048	-	26,048
Total support and revenue	5,511,710	-	5,511,710
EXPENSES			
Program services			
Adult program	1,035,527	-	1,035,527
Youth program	887,343	-	887,343
Dislocated worker program	1,087,551	-	1,087,551
Other programs	1,950,026	-	1,950,026
Total program services	4,960,447	-	4,960,447
Supporting services			
Management and general administration	304,711	-	304,711
Total expenses	5,265,158	-	5,265,158
CHANGES IN NET ASSETS	246,552	-	246,552
NET ASSETS - BEGINNING OF YEAR	2,014,849	-	2,014,849
NET ASSETS - END OF YEAR	\$ 2,261,401	\$ -	\$ 2,261,401

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2020 and 2019

	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
Payroll taxes and benefits [Note 10]	78,576	103,178	98,685	49,341	329,780	48,195	377,975
Facilities	39,436	55,230	44,096	158,685	297,447	1,958	299,405
Supplies	6,419	8,995	7,438	5,859	28,711	5,295	34,006
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
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
Other expenses	35,485	34,753	32,567	32,758	135,563	66,804	202,367
Total training related expenses	677,426	770,101	892,033	564,741	2,904,301	369,008	3,273,309
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	327,401	241,220	303,552	1,118,884	1,991,057	-	1,991,057
Total expenses	\$ 1,004,827	\$ 1,011,321	\$ 1,195,585	\$ 1,683,625	\$ 4,895,358	\$ 369,008	\$ 5,264,366
Percentage of total	19.09%	19.21%	22.71%	31.98%	92.99%	7.01%	100.00%

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2020 and 2019

	2019						Total Expenses
	Adult Program	Youth Program	Dislocated Worker Program	Other Programs	Total Program Services	Administration	
Training related expenses							
Salaries	\$ 323,386	\$ 313,499	\$ 343,831	\$ 188,813	\$ 1,169,529	\$ 196,153	\$ 1,365,682
Specific assistance to individuals	209,341	124,928	279,974	77,084	691,327	-	691,327
Payroll taxes and benefits [Note 10]	77,643	75,879	79,933	37,470	270,925	41,731	312,656
Facilities	35,405	44,427	32,057	189,410	301,299	550	301,849
Supplies	10,264	10,656	10,275	7,859	39,054	3,988	43,042
Staff training	4,641	3,688	5,147	2,371	15,847	607	16,454
Travel	6,765	6,063	8,178	5,202	26,208	3,140	29,348
Telephone and communications	3,600	3,820	3,119	681	11,220	1,237	12,457
Equipment	7,604	8,174	7,538	1,203	24,519	403	24,922
Other expenses	40,567	38,143	42,532	31,108	152,350	56,902	209,252
Total training related expenses	719,216	629,277	812,584	541,201	2,702,278	304,711	3,006,989
Direct training expenses							
Basic education	109,116	97,776	82,695	976,033	1,265,620	-	1,265,620
Payments to subrecipients	207,195	160,290	192,272	432,792	992,549	-	992,549
Total direct training expenses	316,311	258,066	274,967	1,408,825	2,258,169	-	2,258,169
Total expenses	\$ 1,035,527	\$ 887,343	\$ 1,087,551	\$ 1,950,026	\$ 4,960,447	\$ 304,711	\$ 5,265,158
Percentage of total	19.66%	16.85%	20.66%	37.04%	94.21%	5.79%	100.00%

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from programs and grants	\$ 5,446,532	\$ 5,347,446
Cash paid to suppliers and employees	(5,057,544)	(4,987,398)
Interest paid	(111,030)	(114,704)
Interest received	<u>2,275</u>	<u>2,700</u>
Net cash provided (used) by operating activities	280,233	248,044
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment purchased	(324,539)	(90,214)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	<u>(217,890)</u>	<u>(59,130)</u>
NET CHANGES IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(262,196)	98,700
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - BEGINNING OF YEAR	<u>1,234,419</u>	<u>1,135,719</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	<u>\$ 972,223</u>	<u>\$ 1,234,419</u>

SkillSource
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2020 and 2019

	2020	2019
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Changes in net assets	\$ 7,206	\$ 246,552
Noncash and nonoperating (revenue) expenses		
Depreciation	150,587	143,924
Interest	125	130
(Gain) loss on disposition of assets	-	5,827
(Increase) decrease in operating assets		
Trade receivables	86,287	(133,598)
Due from government	101,105	(30,020)
Other receivables	(10,157)	2,054
Prepaid expenses	26,931	(58,667)
Increase (decrease) in operating liabilities		
Accounts payable	(86,382)	77,024
Accrued wages and benefits	(5,350)	(10,736)
Accrued vacation	10,991	4,179
Accrued interest	(1,110)	1,375
Net cash provided (used) by operating activities	\$ 280,233	\$ 248,044
SUPPLEMENTAL SCHEDULE OF NONCASH CHANGES IN INVESTING AND FINANCING ACTIVITIES		
Property and equipment purchases in accounts payable	\$ -	\$ 14,376

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, 2020 and 2019, the reserve balance was \$166,286 and \$155,304, 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.

H. Revenue recognition

The Organization accounts for revenue in accordance with the provisions of the Financial Accounting Standards Board Accounting Standards Codification Top 958, *Not-for-Profit Entities Presentation of Financial Statements*. In accordance with Topic 958, revenues received are recorded with or without donor restrictions depending upon the existence and/or nature of any restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

H. Revenue recognition - continued

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.

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

I. Advertising

The Organization expenses advertising costs as incurred or the first time the advertising takes place. The Organization does not perform any direct-response advertising. Total advertising expense for the years ended June 30, 2020 and 2019 were \$18,545 and \$1,574, respectively.

J. Fundraising expense

The Organization did not incur any fundraising expenses for the years ended June 30, 2020 and 2019.

K. Interest expense

The Organization recognized interest expense of \$109,920 and \$114,704 during the years ended June 30, 2020 and 2019, 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, 2020 and 2019 was \$125 and \$130, respectively. 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 2016, which is the standard statute of limitations look-back period.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

N. Functional expenses

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

O. Use of estimates

The preparation of financial statements in conformity with 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. Reclassifications

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

Q. New accounting pronouncement

In November 2016, FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash. The update addresses the historical inconsistency in which organizations reported changes in restricted cash on the statement of cash flows. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

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, 2020 and 2019 that are available to meet cash needs for operating expenditures within one year.

	2020	2019
Financial assets at year end:		
Cash and cash equivalents	\$ 814,342	\$ 1,077,208
Restricted cash	157,881	157,211
Receivables	276,669	453,904
Total financial assets	<u>1,248,892</u>	<u>1,688,323</u>
Less amounts not available to be used within one year:		
Restricted cash	<u>157,881</u>	<u>157,211</u>
Financial assets available to meet general expenditures over the next year	<u>\$ 1,091,011</u>	<u>\$ 1,531,112</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 amount of \$156,192. For the years ended June 30, 2020 and 2019, the reserve balance was \$157,881 and \$157,211, 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, 2020 and 2019. The amounts due from government are for expenditures for which reimbursement has not yet been received at June 30, 2020 and 2019.

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, 2020 and 2019 was \$150,587 and \$143,924, respectively.

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

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>2020</u>	<u>2019</u>
Equipment - beginning of year	\$ 532,552	\$ 501,017
Additions	28,139	51,084
Retirements	<u>(77,605)</u>	<u>(19,549)</u>
Equipment - end of year	<u>\$ 483,086</u>	<u>\$ 532,552</u>

Construction in progress at June 30, 2020 are various improvements taking place at the Adams County and Chelan County locations. These projects are expected to cost \$148,000 and to be completed by May 2021.

NOTE 7 - LONG-TERM DEBT

	<u>2020</u>	<u>2019</u>
A note payable to Banner Bank, secured by real property, was payable in monthly installments of \$1,596, including interest at 4.25%. The note was paid in full during the year.	\$ -	\$ 168,449
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.	2,491,123	2,540,564
Unamortized loan fees, net of accumulated amortization for 2020 and 2019 of \$7,244 and \$7,119, respectively.	<u>-</u>	<u>(125)</u>
Total long-term debt	2,491,123	2,708,888
Less long-term debt payable within one year	<u>51,520</u>	<u>217,699</u>
Long-term debt payable after one year	<u>\$ 2,439,603</u>	<u>\$ 2,491,189</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>
2021	\$ 51,520
2022	53,478
2023	55,726
2024	58,069
2025	60,510
Thereafter	2,211,820
Total	<u>\$ 2,491,123</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Rental Income

The Organization leases office space to various lessees. The leases expire in 2021 and 2022. They include various renewal options.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 172,080
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, 2020 and 2019, the Organization received approximately 74% and 70%, 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, 2020 and 2019 were \$80,040 and \$80,238, 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, 2020 and 2019. Beginning on September 1, 2016, annual rent payments under the operating lease are \$1.

The Organization estimates that the value of the donated use of the office space was \$20,400 for the years ended June 30, 2020 and 2019. 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, 2020 and 2019.

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, 2020 and 2019, 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, 2020 and 2019. 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 December 15, 2020, 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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
GOVERNOR'S DISCRETIONARY REVENUE		
Career Connect Washington	\$ 284,872	\$ 584,527
Career Connect Intermediary	79,825	-
Columbia Basin Manufacturing Pipeline	49,176	-
10% Economic Security For All	-	15,000
	<u> </u>	<u> </u>
Total governor's discretionary revenue	<u>\$ 413,873</u>	<u>\$ 599,527</u>
GOVERNOR'S DISCRETIONARY EXPENDITURES		
Career Connect Washington	\$ 126,369	\$ 240,406
Career Connect Intermediary	19,466	-
Columbia Basin Manufacturing Pipeline	6,963	-
10% Economic Security For All	-	15,000
	<u> </u>	<u> </u>
Total program related expenses	152,798	255,406
Administrative expenditures	2,403	-
Payments to subrecipients	258,672	344,121
	<u> </u>	<u> </u>
Total governor's discretionary expenditures	<u>\$ 413,873</u>	<u>\$ 599,527</u>

SCHEDULES OF REVENUES AND EXPENSES BY PROGRAM

For the Years Ended June 30, 2020 and 2019

	2020	2019
REVENUE		
Adult program	\$ 947,785	\$ 1,035,527
Dislocated worker program	752,364	754,834
Youth program	1,011,321	887,343
Rapid response revenue	443,220	332,718
Governor's discretionary revenue	413,873	599,527
Rental income	191,806	182,188
Pre-employment transition services	304,943	119,820
Interest income	2,275	2,700
Miscellaneous income	62,110	26,048
Basic education	806,694	1,341,331
Administration	335,181	229,674
	<u>5,271,572</u>	<u>5,511,710</u>
Total revenue	5,271,572	5,511,710
EXPENSES		
Adult program	677,426	719,216
Dislocated worker program	587,260	571,477
Youth program	770,101	629,277
Rapid response expense	304,773	241,107
Governor's discretionary expense	152,798	255,406
Partner facilities expense	191,556	183,893
Pre-employment transition services	241,345	87,272
Miscellaneous expense (income)	(20,958)	14,630
Basic education	972,220	1,265,620
Payments to subrecipients	1,018,837	992,549
Administration	369,008	304,711
	<u>5,264,366</u>	<u>5,265,158</u>
Total expenses	5,264,366	5,265,158
CHANGES IN NET ASSETS	7,206	246,552
NET ASSETS - BEGINNING OF YEAR	<u>2,261,401</u>	<u>2,014,849</u>
NET ASSETS - END OF YEAR	<u>\$ 2,268,607</u>	<u>\$ 2,261,401</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2020

<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	04/01/18 - 06/30/20	6108-7308	\$ -	\$ 73,075
Workforce Innovation & Opportunity Act Administrative Cost Pool	17.258 & .278	10/01/18 - 06/30/20	6108-1309	-	156,297
Workforce Innovation & Opportunity Act Administrative Cost Pool	17.258, .259 & .278	04/01/19 - 06/30/21	6108-7309	4,298	105,808
Workforce Innovation & Opportunity Act Adult Program	17.258	10/01/18 - 06/30/20	6108-1109	-	74,947
Workforce Innovation & Opportunity Act Adult Program	17.258	07/01/19 - 06/30/21	6108-7109	205,455	872,838
Workforce Innovation & Opportunity Act Youth Activities Program	17.259	04/01/18 - 06/30/20	6108-7008	-	157,063
Workforce Innovation & Opportunity Act Youth Activities Program	17.259	04/01/19 - 06/30/21	6108-7009	207,679	854,258
Workforce Innovation & Opportunity Act Dislocated Worker	17.278	10/01/18 - 06/30/20	6108-1209	-	124,814
Workforce Innovation & Opportunity Act Dislocated Worker	17.278	07/01/19 - 06/30/21	6108-7209	95,000	627,550
Workforce Innovation & Opportunity Act Rapid Response Increased Employment	17.278	11/01/18 - 06/30/20	6108-7508-10	60,532	160,928
Workforce Innovation & Opportunity Act Rapid Response Additional Assistance	17.278	08/06/19 - 06/30/21	6108-7509-10	75,915	282,293
Workforce Innovation & Opportunity Act Statewide Activities					
Career Connect Washington	17.258, .259 & .278	01/01/18 - 12/31/19	6108-7627-04	158,504	284,872
Columbia Basin Manufacturing Pipeline	17.258, .259 & .278	09/18/19 - 03/31/21	6108-7629-12	39,810	49,176
Career Connect Intermediary	17.258, .259 & .278	09/30/19 - 12/31/20	6108-7629-11	60,359	79,825
Total U.S. Department of Labor				<u>907,552</u>	<u>3,903,744</u>
Total Expenditures of Federal Awards				<u>\$ 907,552</u>	<u>\$ 3,903,744</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, 2020. The information in this schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of SkillSource, it is not intended to and does not present the financial position, changes in net assets, or cash flows of SkillSource.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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



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, 2020 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 15, 2020.

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
December 15, 2020



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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Charles A. Miracle, CPA

Steven M. Neher, CPA

Sean M. Patton, CPA

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, 2020. 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, 2020.

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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, Neher & Company, PLLC

Wenatchee, Washington
December 15, 2020

