

**WORKFORCE SNOHOMISH**

Consolidated Financial Statements and Single Audit Reports

For the Year Ended June 30, 2015

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## Independent Auditor's Report

To the Board of Directors  
Workforce Snohomish  
Everett, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Workforce Snohomish and Subsidiary (collectively, WFS), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditor's 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 WFS as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited WFS's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 21, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on pages 18 and 19 are presented for purposes of additional analysis as required by OMB Circular A-133 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2016 on our consideration of WFS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 WFS's internal control over financial reporting and compliance.



Certified Public Accountants  
March 22, 2016

**WORKFORCE SNOHOMISH**

**Consolidated Statement of Financial Position  
June 30, 2015  
(With Comparative Totals for 2014)**

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents (Note 2)	\$ 838,693	\$ 864,973
Grants and accounts receivable (Notes 2 and 4)	648,545	1,571,967
Prepays		41,323
Cash held in trust (Note 2)	<u>146,369</u>	<u>122,057</u>
<b>Total Current Assets</b>	<b>1,633,607</b>	<b>2,600,320</b>
<b>Noncurrent Assets:</b>		
Property and equipment, net (Note 2)	98,677	159,080
Security deposits	<u>12,402</u>	<u>12,402</u>
<b>Total Noncurrent Assets</b>	<b><u>111,079</u></b>	<b><u>171,482</u></b>
<b>Total Assets</b>	<b><u>\$ 1,744,686</u></b>	<b><u>\$ 2,771,802</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Line of credit payable (Note 3)	\$ 191,730	\$ 93,224
Accounts payable (Note 4)	665,440	1,471,304
Accrued liabilities	214,788	243,112
Taxes payable	32,769	50,265
Refundable advances (Note 2)	<u>146,369</u>	<u>122,057</u>
<b>Total Current Liabilities</b>	<b>1,251,096</b>	<b>1,979,962</b>
<b>Net Assets:</b>		
Unrestricted net assets	106,075	185,834
Temporarily restricted (Note 2)	<u>387,515</u>	<u>606,006</u>
<b>Total Net Assets</b>	<b><u>493,590</u></b>	<b><u>791,840</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 1,744,686</u></b>	<b><u>\$ 2,771,802</u></b>

See accompanying notes.

**WORKFORCE SNOHOMISH**

**Consolidated Statement of Activities  
For the Year Ended June 30, 2015  
(With Comparative Totals for 2014)**

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Total	
<b>Revenue and Reclassifications:</b>				
Grants and contracts	\$ 7,401,272	\$ 408,966	\$ 7,810,238	\$ 8,143,141
Program income	230,809		230,809	46,125
Contingency payable adjustment (Note 6)				115,000
Other revenue	28,073	17,548	45,621	79,765
Net assets released from restrictions (Note 2)	645,005	(645,005)		
<b>Total Revenue and Reclassifications</b>	<b>8,305,159</b>	<b>(218,491)</b>	<b>8,086,668</b>	<b>8,384,031</b>
<b>Expenses:</b>				
Program services	7,777,238		7,777,238	7,688,936
Management and general	607,680		607,680	653,740
<b>Total Expenses</b>	<b>8,384,918</b>		<b>8,384,918</b>	<b>8,342,676</b>
<b>Change in Net Assets</b>	<b>(79,759)</b>	<b>(218,491)</b>	<b>(298,250)</b>	<b>41,355</b>
Net assets, beginning of year	185,834	606,006	791,840	750,485
<b>Net Assets, End of Year</b>	<b>\$ 106,075</b>	<b>\$ 387,515</b>	<b>\$ 493,590</b>	<b>\$ 791,840</b>

See accompanying notes.

**WORKFORCE SNOHOMISH**

**Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2015  
(With Comparative Totals for 2014)**

	2015			2014 Total
	Program Services	Management and General	Total	
<b>Payroll and Related Expenses:</b>				
Salaries and wages	\$ 2,075,497	\$ 351,425	\$ 2,426,922	\$ 1,934,998
Payroll taxes and benefits	479,326	92,593	571,919	493,967
<b>Total Payroll and Related Expenses</b>	<b>2,554,823</b>	<b>444,018</b>	<b>2,998,841</b>	<b>2,428,965</b>
<b>Other Expenses:</b>				
Subcontractor	4,623,791	24,194	4,647,985	5,110,412
Professional services	137,575	31,382	168,957	138,603
Rent and utilities	83,112	53,109	136,221	145,908
Communication and outreach	7,408	1,142	8,550	14,485
Travel, training and meetings	123,296	11,300	134,596	159,826
Small equipment and software	17,902	1,356	19,258	37,402
Supplies	19,615	5,011	24,626	46,733
Rental and maintenance of equipment	14,101	3,812	17,913	26,332
Telephone	19,906	5,007	24,913	29,180
Maintenance and janitorial	53,367	7,649	61,016	41,843
Dues and subscriptions	31,818	4,954	36,772	48,211
Insurance	18,640	5,460	24,100	21,611
Postage and shipping	917	583	1,500	1,573
Other		8,674	8,674	16,694
<b>Total Other Expenses</b>	<b>5,151,448</b>	<b>163,633</b>	<b>5,315,081</b>	<b>5,838,813</b>
<b>Total Expenses Before Depreciation and Amortization</b>	<b>7,706,271</b>	<b>607,651</b>	<b>8,313,922</b>	<b>8,267,778</b>
Depreciation and amortization	70,967	29	70,996	74,898
<b>Total Expenses</b>	<b>\$ 7,777,238</b>	<b>\$ 607,680</b>	<b>\$ 8,384,918</b>	<b>\$ 8,342,676</b>

See accompanying notes.

**WORKFORCE SNOHOMISH****Consolidated Statement of Cash Flows  
For the Year Ended June 30, 2015  
(With Comparative Totals for 2014)**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (298,250)	\$ 41,355
Adjustments to reconcile changes in net assets to net cash used by operating activities-		
Depreciation and amortization	70,996	74,898
Loss on disposal of property and equipment		5,017
In-kind donation of software	(10,593)	
(Increase) Decrease in assets:		
Grants and accounts receivable	923,422	(1,103,605)
Prepays	41,323	(2,126)
Cash held in trust	(24,312)	(122,057)
Security deposits		25,250
Increase (Decrease) in liabilities:		
Accounts payable	(805,864)	700,865
Accrued liabilities	(28,324)	47,502
Taxes payable	(17,496)	21,070
Refundable advances	24,312	122,057
Contingency payable		(125,000)
<b>Net Cash Used by Operating Activities</b>	<b>(124,786)</b>	<b>(314,774)</b>
<b>Cash Flows From Financing Activities:</b>		
Net line of credit activity	98,506	44,607
<b>Net Cash Provided by Financing Activities</b>	<b>98,506</b>	<b>44,607</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(26,280)</b>	<b>(270,167)</b>
Cash and cash equivalents, beginning of year	864,973	1,135,140
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 838,693</b>	<b>\$ 864,973</b>
<b>Supplemental Disclosure:</b>		
Cash paid for interest	\$ 7,616	\$ 5,221

See accompanying notes.

## WORKFORCE SNOHOMISH

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2015

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#### Note 1 - Nature of the Organization

The consolidated financial statements of Workforce Snohomish and Subsidiary (collectively, WFS) include the activities of Workforce Snohomish and its subsidiary, Infralign.

On March 17, 2007, Snohomish County Workforce Development Council amended its articles of incorporation to change the name of the corporation to Workforce Development Council Snohomish County (the Council). On October 1, 2013, the Council started doing business as Workforce Snohomish (WFS). WFS is a not-for-profit organization that began operations in 2000 and is funded primarily through federal grants. WFS oversees the implementation of Federal Workforce Investment Act Title IB (WIA) programs as the administrative entity over the Work Source Snohomish County System. The Workforce Investment Act is a federal law that consolidates federal employment and training programs into a single, universal Workforce Investment System. This includes programs administered by the Washington State Employment Security Department (ESD) for youth employment and training, adult employment and training and dislocated worker services. This workforce development system is designed and overseen by a local business-led Workforce Investment Board; WFS is that board.

WFS's Board of Directors are appointed by the Snohomish County Executive and is certified by the Governor every two years. A majority of the Board of WFS is comprised of representatives of the local business community. Along with the County Executive, the WFS Board sets policy for the portion of the statewide workforce investment system within Snohomish County. The Local Board, in cooperation with the County Executive, appoints a youth council as a subgroup of the Local Board and coordinates workforce and youth plans, and activities with the youth council.

WFS is charged with:

- Designing a comprehensive delivery structure of employment and training services into a single integrated system to meet the needs of businesses and job seekers.
- Certifying and setting standards for workforce training providers.
- Overseeing the operation of the "one-stop" centers, affiliates, and self-service sites.
- Building strategic partnerships which facilitate coordinated resource sharing to address economic development, human capital development, and community competitiveness issues.

WFS is responsible for building a comprehensive network of service portals for the 19 mandated programs identified in the Workforce Investment Act and encouraging the voluntary participation of other non-mandated but logical partners to provide a customer focused employment and training assistance system. WFS sets standards for these portals and selects the agencies which will operate within them to meet customer needs. For the business customer, WFS is charged with identifying labor market trends, proposing strategies to meet "skills-gap" needs and seeking responsive solutions.

On December 23, 2014, WFS created a 100% wholly owned subsidiary C-Corporation called Infralign. The purpose of Infralign is to create sustainable funding for the community. At fiscal year-end Infralign's total net assets were (\$4,430).

## WORKFORCE SNOHOMISH

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2015

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#### Note 2 - Summary of Significant Accounting Policies

**Principles of Consolidation** - The consolidated financial statements present the accounts of Workforce Snohomish and Infralign. These accounts are consolidated as Workforce Snohomish retains a controlling and economic interest in the entity. All significant intercompany transactions and balances have been eliminated.

**Basis of Accounting** - The financial statements are prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

**Financial Statement Presentation** - Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of WFS and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets are available without restriction for the support of WFS's operations.

Temporarily Restricted Net Assets - Net assets are restricted by the donor to be used for certain purposes by WFS. Temporarily restricted net assets as of June 30 were purpose restricted as follows:

	<u>2015</u>	<u>2014</u>
Building Changes - SIG Housing Authority Sno Co	\$ 145,284	\$ 144,875
Building Changes - SIG Bridges to Employment	137,820	36,901
Gates Foundation - Investing in families	46,074	281,770
Cascade Foundation	20,625	48,000
Medina Foundation	20,000	
Building Changes - Flex Fund	11,200	92,260
Build Your Summer / Trade UP	4,731	
My First Job	1,781	
Gates Dashboard		2,200
<b>Total Temporarily Restricted</b>	<b><u>\$ 387,515</u></b>	<b><u>\$ 606,006</u></b>

Net assets released from restriction during the year ended June 30, 2015 were for the satisfaction of program restrictions.

Permanently Restricted Net Assets - Net assets represent endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations. WFS had no permanently restricted net assets as of June 30, 2015 or 2014.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

## WORKFORCE SNOHOMISH

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2015

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#### Note 2 - Continued

**Revenue Recognition** - WFS recognizes revenue from cost reimbursement grants and contracts when eligible costs are incurred; revenue from performance-based contracts is recognized when performance is completed. WFS receives reimbursement for indirect costs on certain grants based upon a provisional rate applied to direct payroll costs. Any adjustments that are necessary when final rates are determined are recorded in the period they become known. Direct and indirect costs reimbursed by United States government agencies are subject to review and audit by such agencies. Advances received but not yet earned under the various grants and contracts are reported as deferred revenue.

**Cash and Cash Equivalents** - WFS considers all highly liquid investments with an original maturity of less than three months to be cash equivalents. WFS maintains these funds in accounts that, at times, may exceed federally insured limits.

**Grants and Accounts Receivable** - Grants and accounts receivable represent revenue from grants and contracts for the current period that have been recorded, but not received. WFS uses the allowance method to account for uncollectible receivables. No allowance for uncollectible accounts is reported at June 30, 2015 or 2014 since management considers the balance in grants and accounts receivable to be fully collectible.

**Cash Held In Trust** - Cash held in trust consists of matching funds held for a Systems Innovation Fund grant where WFS is the fiscal agent and is partnering with Seattle Foundation, Skillup, and Jobs For the Future. As of June 30, 2015 and 2014, cash held in trust and refundable advances totaled \$146,369 and \$122,057, respectively.

**Property and Equipment** - Property and equipment in excess of \$5,000 are capitalized at cost. Purchased property and equipment is carried at cost. Donated property and equipment is recorded at market value when received. Depreciation is recorded using the straight-line method. The estimated useful lives of the furniture, equipment, and software are five to seven years. Leasehold improvements are depreciated over the lesser of the term of the lease or the life of the asset/improvement. A summary of property and equipment is as follows at June 30:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 353,511	\$ 353,511
Furniture	27,115	27,115
Equipment	7,121	7,121
Computer software	10,593	
Less accumulated depreciation and amortization	<u>(299,663)</u>	<u>(228,667)</u>
<b>Total Property and Equipment, Net</b>	<b><u>\$ 98,677</u></b>	<b><u>\$ 159,080</u></b>

**Accrued Vacation** - WFS's employees earn 15 to 25 days of vacation per year based on their length of service. Unused vacation can be accrued up to 240 hours and is payable to terminating employees at 100 percent of the amount accrued. As of June 30, 2015 and 2014, accrued vacation of \$104,460 and \$100,546, respectively, was reported in accrued liabilities on the consolidated statement of financial position.

**Federal Income Tax** - The Internal Revenue Service has determined Workforce Snohomish is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

## WORKFORCE SNOHOMISH

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2015

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#### Note 2 - Continued

Infralign is taxed as a Subchapter C Corporation. Infralign files a separate federal income tax return. Federal income tax expenses for the year ended June 30, 2015 totaled \$0 and consisted of current taxes due. Deferred income taxes, if any, are provided for the temporary differences between the financial reporting basis and the tax basis of Infralign's assets and liabilities. There were no significant deferred income taxes as of June 30, 2015.

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Directly identifiable expenses are charged to program and support services. Expenses related to more than one function are charged to programs and support services based on the activity in each respective function. Management and general expenses include those expenses which are not directly identifiable with any other specific function but provide for the overall support and direction of WFS.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Concentrations** - WFS's programs are funded primarily by the United States Department of Labor and other governmental sources. WFS's total revenue and receivables are 96% and 88%, respectively, from government grants.

**Concentrations of Credit Risk** - Financial instruments which potentially subject WFS to concentrations of credit risk consist of short-term investments and cash. At times, such amounts may be in excess of the FDIC and SIPC federally insured limits.

**Summarized Information for 2014** - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with WFS's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

#### Note 3 - Line of Credit

During the year ended June 30, 2015, WFS had an unsecured line of credit from a bank with a limit amount of \$250,000. Interest at the prevailing prime rate plus 3.125 percent (4.25 percent at June 30, 2015) is payable monthly with principal due in full on September 30, 2015. Subsequent to June 30, 2015, the maturity date of the line of credit was extended to March 2, 2016. As of June 30, 2015 and 2014, the total outstanding balance of the line of credit was \$191,730 and \$93,224, respectively.

#### Note 4 - Related Party Transactions

WFS recognized grant and contract revenue totaling \$6,463,355 during the year ended June 30, 2015 from the Washington State Employment Security Department (ESD). ESD was also a subrecipient of \$272,961 in federal funds passed through from WFS during the same period. Amounts due from and payable to ESD as of June 30, 2015 were \$396,730 and (\$12,669), respectively.

## WORKFORCE SNOHOMISH

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2015

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#### Note 4 - Continued

WFS receives grants from and issues grants to employers of several of its Board members.

WFS recognized grant and contract revenue totaling \$254,295 during the year ended June 30, 2015 from Edmonds Community College (EDCC). EDCC was also a subrecipient of which \$83,723 in federal funds passed through from WFS during the same period. Amounts due from and payable to the EDCC as of June 30, 2015 were \$33,919 and \$13,801, respectively.

WFS recognized grant and contract revenue totaling \$129,745 during the year ended June 30, 2015 from Everett Community College (EVCC). EVCC is also a subrecipient of which \$49,658 in federal funds passed through from WFS during the same period. Amounts due from and payable to the EVCC as of June 30, 2015 were \$17,914 and \$8,261, respectively.

WFS recognized grant funds totaling \$25,699 during the year ended June 30, 2015 from Snohomish County (SC). SC was also a subrecipient of \$104,187 in federal and private funds passed through from WFS during the same period. There were no amounts due from or payable to SC as of June 30, 2015.

WFS entered into transactions with the employers of several of its Board members in the normal course of performing its functions. The following payments were made to such related parties during the year ended June 30, 2015:

Subrecipients	\$	737,201
Vendors		288,992

WFS maintains bank accounts and corporate credit cards at two financial institutions where several Board members are employed.

WFS received rent from four companies where Board members are employed. WFS received \$7,089 in rent, utility and maintenance payments from Washington State Department of Vocational Rehabilitation, \$193,429 from Washington State Employment Security Department, \$5,445 from the Refugee and Immigrant Services, and \$833 from Pioneer Human Services during the year ended June 30, 2015.

#### Note 5 - Operating Leases

WFS leases facilities and equipment under various operating lease agreements expiring September 2016 through June 2020.

WFS entered into an agreement with St. Vincent De Paul to lease a new Worksource space effective July 2011 through July 2016. The annual lease payments are \$1 per year in exchange for the tenant improvements for this site totaling \$353,511 that were paid by WFS.

Cancellation of one Worksource space lease can occur anytime or in the event of a reduction of federal funding to support the premises with a 60-day notice. Other operating Worksource space leases include two month-to-month leases which can be cancelled with a 30-day notice and a one-year lease for Worksource rooms.

## WORKFORCE SNOHOMISH

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2015

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#### Note 5 - Continued

Effective October, 1, 2013, WFS changed its administrative office location upon the lease term expiration. The current office space lease expires on April 30, 2020. The lease contains a one-time renewal option to extend the contract for an additional five years if completed within six months of the end of the lease term.

The future minimum rental payments under these operating leases for each of the next five years are as follows:

For the Year Ending June 30,

2016	\$	496,832
2017		388,384
2018		401,949
2019		415,783
2020		<u>356,751</u>
	\$	<u><u>2,059,699</u></u>

Rent expense for Worksource, facility, equipment, and van operating leases were \$355,220, \$79,801, \$28,582, and \$6,750, respectively, for the year ended June 30, 2015.

WFS subleased 274 square feet of the Worksource space to the Washington State Department of Social and Health Services. The agreement ends on April 30, 2016. Rental receipts for the sublease were \$7,730 for the year ended June 30, 2015.

WFS subleased 12,176 square feet of the Worksource space to the Washington State Employment Security Department. The agreement ends on April 30, 2020. Rental receipts for the sublease were \$41,790 for the year ended June 30, 2015.

The future amount of rental receipts under these subleases for each of the next five years are as follows:

For the Year Ending June 30,

2016	\$	255,784
2017		242,498
2018		249,161
2019		256,024
2020		<u>218,238</u>
	\$	<u><u>1,221,705</u></u>

## **WORKFORCE SNOHOMISH**

### **Notes to Consolidated Financial Statements For the Year Ended June 30, 2015**

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#### **Note 6 - Contingency Payable**

During fiscal year 2009, the US Department of Labor (USDOL) issued a final ruling disallowing prior period expenditures of \$300,000 and \$40,804. During fiscal year 2010, ESD, Snohomish County, and WFS submitted a request to the USDOL to waive the contingent debt. On September 3, 2013, the USDOL waived \$149,805 of the debt. Additionally, on September 3, 2013, the USDOL approved an offset of \$50,000 in reduced Workforce Investment Act funding to further reduce the liability, effective October 1, 2013. During the years ended June 30, 2014 and June 30, 2013, WFS received settlement payments totaling \$65,000 and \$66,000, respectively, from two subcontractors involved in the disallowed costs. The combination of these transactions is reported as a gain of \$115,000 and \$215,804 as of the years ended June 30, 2014 and 2013, respectively. The contingency payable of \$191,000 has been settled and paid in full during the year ended June 30, 2014.

#### **Note 7 - Pension Plan**

WFS sponsors a defined contribution pension plan (the Plan) covering all employees over the age of 21 with three months of service. Under the provisions of the Plan, employees can elect to have a portion of their salaries withheld and contributed to the Plan. WFS makes a base contribution amounting to five percent of each employee's base compensation to the Plan. In addition, the Plan allows WFS to make discretionary contributions. No discretionary contributions were made for the year ended June 30, 2015. Employees can elect to defer a maximum of \$15,000 a year. Plan contributions and costs expensed by WFS totaled \$91,831 for the year ended June 30, 2015.

#### **Note 8 - Subsequent Events**

Subsequent events have been evaluated through March 22, 2016, which is the date the financial statements were available to be issued.

## **SINGLE AUDIT REPORTS**

**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***

**Independent Auditor's Report**

**To the Board of Directors  
Workforce Snohomish  
Everett, Washington**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Workforce Snohomish (WFS) which comprise the consolidated statement of financial position as of June 30, 2015 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and have issued our report thereon dated March 22, 2016.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered WFS'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 WFS's internal control. Accordingly, we do not express an opinion on the effectiveness of WFS'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.



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## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether WFS'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 WFS'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.

Clark Nuber P.S.

Certified Public Accountants  
March 22, 2016

**Report on Compliance for Each Major Federal Program  
and Report on Internal Control Over Compliance Required by  
OMB Circular A-133**

**Independent Auditor's Report**

**To the Board of Directors  
Workforce Snohomish  
Everett, Washington**

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited Workforce Snohomish's (WFS) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of WFS's major federal programs for the year ended June 30, 2015. WFS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of WFS'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about WFS'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 WFS's compliance.

**Opinion on Each Major Federal Program**

In our opinion, WFS 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, 2015.



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## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of WFS 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 WFS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of WFS'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.

## PURPOSE OF THIS REPORT

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants  
March 22, 2016

**WORKFORCE SNOHOMISH**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2015**

Federal Grantor / Program Title	Federal CFDA Number	Agreement Number	Fiscal Year Expenditures
<b>U.S. Department of Justice:</b>			
Pass-Through Program From-			
Snohomish County Superior Court			
Drug Court Discretionary Grant Program	16.585	SS 04-11	\$ 26,188
<b>Total U.S. Department of Justice and CFDA #16.585</b>			<b>26,188</b>
<b>U.S. Department of Labor:</b>			
Direct Programs-			
Homeless Veterans Reintegration Project	17.805		164,371
Homeless Veterans Reintegration Project	17.805		3,958
<b>Total Direct Programs and CFDA #17.805</b>			<b>168,329</b>
Pass-Through Program From-			
Washington State Employment Security Department			
Workforce Investment Act (WIA) Cluster:			
WIA Adult Program	17.258	6104-1104	368,462
WIA Adult Program	17.258	6104-1105	871,459
WIA Adult Program	17.258	6104-7104	76,800
WIA Youth Activities	17.259	6104-7003	304,217
WIA Youth Activities	17.259	6104-7004	921,896
WIA Dislocated Worker Formula Grants	17.278	6104-1204	228,288
WIA Dislocated Worker Formula Grants	17.278	6104-1205	995,563
WIA Dislocated Worker Formula Grants	17.278	6104-7204	207,306
WIOA Implementation Planning	17.278	6104-7494-02	6,303
WIA Governor's 5% Reserve - PY13 Rapid Response - Flood & Mudslide	17.258/17.259/17.278	6104-7503-10	82,219
WIA Governor's 5% Reserve - PY13 Rapid Response - Long-term Unemployment	17.258/17.259/17.278	6104-7503-11	176,204
WIA Cluster Administration	17.258/17.259/17.278	6104-1304	77,424
WIA Cluster Administration	17.258/17.259/17.278	6104-1305	225,948
WIA Cluster Administration	17.258/17.259/17.278	6104-7004	147,431
WIA Cluster Administration	17.258/17.259/17.278	6104-7305	2,692
<b>Total Workforce Investment Act (WIA) Cluster</b>			<b>4,692,212</b>
National Emergency Grant - Jobs Driven	17.277	6104-7564-02	289,574
National Emergency Grant - Dislocated Worker Training	17.277	6104-7533-02	168,238
National Emergency Grant - Boeing	17.277	6104-7543-02	397,738
National Emergency Grant - Flood & Mudslide	17.277	6104-7554-02	931,750
<b>Total CFDA #17.277</b>			<b>1,787,300</b>
Employment Service/Wagner-Peyser Funded Activities	17.207	K2103	168,422
Employment Service/Wagner-Peyser Funded Activities - TTW EN	17.207	K3200	17,973
Employment Service/Wagner-Peyser Funded Activities - TTY Data	17.207	K2632	1,284
<b>Total CFDA #17.207</b>			<b>187,679</b>
<b>Total Washington State Employment Security Department</b>			<b>6,667,191</b>
Everett Community College-			
Trade Adjustment Assistance Community College and Career Training (TAACCT) Grants	17.282	1213-0011A	130,922
<b>Total U.S. Department of Labor</b>			<b>6,966,442</b>

See notes to schedule of expenditures of federal awards and independent auditor's report.

**WORKFORCE SNOHOMISH**

**Schedule of Expenditures of Federal Awards (Continued)  
For the Year Ended June 30, 2015**

Federal Grantor / Program Title	Federal CFDA Number	Agreement Number	Fiscal Year Expenditures
<b>U.S. Department of Health &amp; Human Services:</b>			
Pass-Through Program From-			
Edmonds Community College:			
Affordable Care Act (ACA) Health Profession Opportunity Grants	93.093		75,317
Affordable Care Act (ACA) Health Profession Opportunity Grants	93.093		20,007
Affordable Care Act (ACA) Health Profession Opportunity Grants	93.093		<u>160,107</u>
Total Edmonds Community College			255,431
Northwest Workforce Development Council			
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	WS 135-13	<u>9,195</u>
<b>Total U.S. Department of Health &amp; Human Services</b>			<b><u>264,626</u></b>
<b>Corporation for National and Community Service:</b>			
Pass-Through Program From-			
Jobs for the Future:			
Social Innovation Fund	94.019		<u>308,609</u>
<b>Total Corporation for National and Community Service and CFDA #94.019</b>			<b><u>308,609</u></b>
<b>Total Federal Awards</b>			<b><u>\$ 7,565,865</u></b>

See notes to schedule of expenditures of federal awards and independent auditor's report.

## WORKFORCE SNOHOMISH

### Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2015

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#### Note 1 - Method of Accounting

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Workforce Snohomish (WFS) under programs of the federal government for the year ended June 30, 2015. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of WFS, it is not intended to and does not present the financial position, changes in net assets or cash flows of WFS.

#### 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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations* or the Uniform Guidance cost principles, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. Negative amounts shown on the Schedule represent adjustments made in the normal course of business to amounts reported as expenditures in prior years. The OMB Uniform Guidance (2 CFR 200) became effective for all new awards and incremental funding of existing awards on December 26, 2014.

#### Note 3 - Subrecipients

The following table shows the total amounts expended and amounts passed through to subrecipients by Federal CFDA number:

<u>Federal CFDA Number</u>	<u>Expended</u>	<u>Passed Through to Subrecipients</u>
16.585	\$ 26,188	\$ -
17.207	187,679	80,528
17.258	1,316,721	901,585
17.259	1,226,113	808,101
17.277	1,787,300	760,684
17.278 *	2,149,378	1,241,995
17.282	130,922	82
17.805	168,329	25,520
93.093	255,431	1,740
93.525	9,195	8,398
94.019	308,609	298,078
	<u>\$ 7,565,865</u>	<u>\$ 4,126,711</u>

The Workforce Investment Act (WIA) funds under three separate CFDA numbers (17.258, 17.259 and 17.278). Each CFDA number targets a specific population, i.e. adult, youth and dislocated workers. Amounts followed by an \* are available to all WIA programs. It is not possible to identify amounts used by each CFDA number, therefore the total amount is shown as CFDA number 17.278.

**WORKFORCE SNOHOMISH**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2015**

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?
- Significant deficiencies identified?

Yes  
 Yes

No  
 None reported.

Noncompliance material to financial statements noted?

Yes

No

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified?
- Significant deficiencies identified?

Yes  
 Yes

No  
 None reported.

Type of auditor's report issued on compliance  
for major programs:

Unmodified

Any audit findings disclosed that are required to  
be reported in accordance with Section 510(a) of  
Circular A-133?

Yes

No

**Identification of Major Programs**

CFDA Numbers

Name of Federal Program or Cluster

17.258/17.259/17.278

Workforce Investment Act (WIA) Cluster

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

\$ 300,000

Auditee qualified as low-risk auditee?

Yes

No

## WORKFORCE SNOHOMISH

### Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2015

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#### Section II - Financial Statement Findings

##### **Finding 2015-001**

Internal controls over financial reporting.

##### Criteria

OMB Circular A-122 Attachment A (General Principles) A.2.e notes that in order for a cost to be allowable, it must be determined in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Under U.S. GAAP, grant revenue on cost reimbursement grants should be recognized when the expense is incurred.

##### Condition and Context

During the year, it was determined that grant revenue and the related receivable had not been recognized for straight-line rent expense for leases that benefited the programs under the grants. Workforce Snohomish had been recognizing grant revenue based on the cash payments for rent expense, instead of the straight-line rent expense under U.S. GAAP. We understand that management was operating under the policy from their funders.

##### Effect

As a result, \$73,256 of rent expense did not have corresponding revenue. Of which, \$10,771 was deemed collectible and was recognized as grant revenue. Audit adjustments were required for the financial statements to be in accordance with U.S. GAAP. Had the existing accounting treatment continued into the future, grants would have been overcharged, which would have been unallowable costs.

##### Cause

The Organization improperly evaluated the proper accounting treatment related to specific grants and contracts. It was management's understanding that the method they were using was correct based upon the policy from their funders.

##### Recommendation

We recommend all revenue related transactions be analyzed during initial recognition for proper accounting treatment under U.S. GAAP.

##### View of Responsible Officials and Corrective Action Plan

Workforce Snohomish (WFS) is currently working with its primary funders to obtain further guidance related to this finding. WFS has been recognizing escalated rent expense and deferred rent on a straight-line basis in accordance with GAAP and FASB guidance. The revenue was being recognizing once the cost-reimbursement grants were invoiced in accordance with the grant requirements; not for deferred rent, as in this case. WFS has adjusted the current year's financial statements to reflect the auditor's recommendations. However WFS would like to work with funders on the administrative burden, unintended consequences and cost benefit of implementing this guidance.

#### Section III - Federal Awards Findings

No matters were reported.

**WORKFORCE SNOHOMISH**

**Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2015**

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**Section I - Financial Statement Findings**

No matters were reported.

**Section II - Federal Awards Findings**

No matters were reported.