

WORKFORCE SNOHOMISH AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
AND
SINGLE AUDIT COMPLIANCE REPORTS
YEAR ENDED JUNE 30, 2016

**WORKFORCE SNOHOMISH AND SUBSIDIARY
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Workforce Snohomish
Everett, Washington

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Workforce Snohomish and Subsidiary (Workforce Snohomish), which comprises the consolidated statement of financial position as of June 30, 2016, 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Workforce Snohomish as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of Workforce Snohomish as of June 30, 2015 were audited by other auditors whose report, dated March 22, 2016, expressed an unqualified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information – Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 October 25, 2016 on our consideration of Workforce Snohomish'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 Workforce Snohomish's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Bellevue, Washington
October 25, 2016

**WORKFORCE SNOHOMISH AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF 2015)**

ASSETS	2016	2015
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 495,416	\$ 838,693
Accounts Receivable, Net	704,145	648,545
Current Portion of Private Grants Receivable, Net	102,589	-
Prepays	3,117	-
Cash Held in Trust	105,599	146,369
Total Current Assets	1,410,866	1,633,607
NONCURRENT ASSETS		
Long-Term Private Grants Receivable, Net	97,703	-
Property and Equipment, Net	24,444	98,677
Security Deposits	8,202	12,402
Total Noncurrent Assets	130,349	111,079
Total Assets	\$ 1,541,215	\$ 1,744,686
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of Credit Payable	\$ 90,136	\$ 191,730
Accounts Payable	701,674	665,440
Accrued Liabilities	181,819	141,532
Taxes Payable	36,221	32,769
Deferred Rent Payable	64,936	73,256
Refundable Advances	105,599	146,369
Total Current Liabilities	1,180,385	1,251,096
NET ASSETS		
Unrestricted Net Assets	75,390	106,075
Temporarily Restricted	285,440	387,515
Total Net Assets	360,830	493,590
Total Liabilities and Net Assets	\$ 1,541,215	\$ 1,744,686

See accompanying Notes to Financial Statements.

**WORKFORCE SNOHOMISH AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2015)**

	2016			2015 Total
	Unrestricted	Temporarily Restricted	Total	
REVENUE AND RECLASSIFICATIONS				
Grants and Contracts	\$ 4,917,366	\$ -	\$ 4,917,366	\$ 7,401,272
Public Support/Contributions	1,966	314,451	316,417	408,966
Program Income	312,347	-	312,347	230,809
Other Revenue	11,164	-	11,164	41,794
Interest Income	2,031	-	2,031	3,827
Net Assets Released from Restrictions	416,526	(416,526)	-	-
Total Revenue and Reclassifications	<u>5,661,400</u>	<u>(102,075)</u>	<u>5,559,325</u>	<u>8,086,668</u>
EXPENSES				
Program Services	5,230,415	-	5,230,415	7,777,238
Management and General	461,670	-	461,670	607,680
Total Expenses	<u>5,692,085</u>	<u>-</u>	<u>5,692,085</u>	<u>8,384,918</u>
CHANGE IN NET ASSETS	(30,685)	(102,075)	(132,760)	(298,250)
Net Assets - Beginning of Year	<u>106,075</u>	<u>387,515</u>	<u>493,590</u>	<u>791,840</u>
NET ASSETS - END OF YEAR	<u>\$ 75,390</u>	<u>\$ 285,440</u>	<u>\$ 360,830</u>	<u>\$ 493,590</u>

See accompanying Notes to Financial Statements.

**WORKFORCE SNOHOMISH AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2015)**

	2016			2015 Total
	Program Services	Management and General	Total	
PAYROLL AND RELATED EXPENSES				
Salaries and Wages	\$ 1,198,143	\$ 301,659	\$ 1,499,802	\$ 2,426,922
Payroll Taxes	110,181	27,962	138,143	235,689
Employee Benefits	184,403	44,078	228,481	336,230
Total Payroll and Related Expenses	<u>1,492,727</u>	<u>373,699</u>	<u>1,866,426</u>	<u>2,998,841</u>
OTHER EXPENSES				
Subcontractor	3,314,032	4,732	3,318,764	4,647,985
Professional Services	30,987	24,151	55,138	168,957
Rent and Utilities	98,906	21,482	120,388	136,221
Communication and Outreach	5,426	847	6,273	8,550
Travel, Training, and Meetings	78,525	918	79,443	134,596
Small Equipment and Software	17,670	4,343	22,013	19,258
Supplies	12,719	2,817	15,536	24,626
Rental and Maintenance of Equipment	7,212	1,162	8,374	17,913
Telephone	8,668	1,439	10,107	24,913
Maintenance and Janitorial	34,693	9,348	44,041	61,016
Dues and Subscriptions	30,973	6,664	37,637	36,772
Insurance	19,706	3,960	23,666	24,100
Interest Expense	661	5,202	5,863	7,616
Other	3,630	553	4,183	2,558
Total Other Expenses	<u>3,663,808</u>	<u>87,618</u>	<u>3,751,426</u>	<u>5,315,081</u>
Total Expenses Before Depreciation and Amortization	5,156,535	461,317	5,617,852	8,313,922
Depreciation and Amortization	<u>73,880</u>	<u>353</u>	<u>74,233</u>	<u>70,996</u>
Total Expenses	<u>\$ 5,230,415</u>	<u>\$ 461,670</u>	<u>\$ 5,692,085</u>	<u>\$ 8,384,918</u>

See accompanying Notes to Financial Statements.

**WORKFORCE SNOHOMISH AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2015)**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (132,760)	\$ (298,250)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	74,233	70,996
In-Kind Donation of Software	-	(10,593)
(Increase) Decrease in Assets:		
Accounts Receivable	(55,600)	923,422
Private Grants Receivable	(200,292)	
Prepays	(3,117)	41,323
Cash Held in Trust	40,770	(24,312)
Security Deposits	4,200	-
Increase (Decrease) in Liabilities:		
Accounts Payable	36,234	(805,864)
Accrued Liabilities	40,287	(28,324)
Taxes Payable	3,452	(17,496)
Deferred Rent Payable	(8,320)	-
Refundable Advances	(40,770)	24,312
Net Cash Used by Operating Activities	<u>(241,683)</u>	<u>(124,786)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Line of Credit Activity	<u>(101,594)</u>	<u>98,506</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(343,277)	(26,280)
Cash and Cash Equivalents - Beginning of Year	<u>838,693</u>	<u>864,973</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 495,416</u>	<u>\$ 838,693</u>
SUPPLEMENTAL DISCLOSURE		
Cash Paid for Interest	<u>\$ 5,863</u>	<u>\$ 7,616</u>

See accompanying Notes to Financial Statements.

WORKFORCE SNOHOMISH AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF 2015)

NOTE 1 NATURE OF THE ORGANIZATION

The consolidated financial statements of Workforce Snohomish 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. Workforce Snohomish is a not-for-profit organization that began operations in 2000 and is funded primarily through federal grants. Workforce Snohomish oversees the implementation of Federal Workforce Innovation and Opportunity Act (WIOA) programs as the administrative entity over the Work Source Snohomish County System. The Workforce Innovation and Opportunity 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; Workforce Snohomish is that board.

Workforce Snohomish's Board of Directors is appointed by the Snohomish County Executive and is certified by the Governor every two years. A majority of the Board of Workforce Snohomish is comprised of representatives of the local business community. Along with the County Executive, the Workforce Snohomish Board sets policy for the portion of the statewide workforce investment system within Snohomish County.

Workforce Snohomish 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.

**WORKFORCE SNOHOMISH AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF 2015)**

NOTE 1 NATURE OF THE ORGANIZATION (CONTINUED)

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

On December 23, 2014, Workforce Snohomish created Infralign, a 100% wholly owned subsidiary C-Corporation. The purpose of Infralign is to create sustainable funding for the community. Infralign had a deficit in net assets of \$4,430 at June 30, 2016.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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.

Summarized Information for 2015

The consolidated 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 Workforce Snohomish’s financial statements for the year ended June 30, 2015, from which the summarized information was derived.

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 Workforce Snohomish and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets are available without restriction for the support of Workforce Snohomish’s operations.

**WORKFORCE SNOHOMISH AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF 2015)**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

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

	2016	2015
Work Housing Innovation Project	\$ 284,372	\$ -
Building Changes - SIG Housing Authority Sno Co	-	145,284
Building Changes - SIG Bridges to Employment	-	137,820
Gates Foundation - Investing in Families	-	46,074
Cascade Foundation	-	20,625
Medina Foundation	-	20,000
Building Changes - Flex Fund	-	11,200
Build Your Summer/Trade UP	1,068	4,731
My First Job	-	1,781
Total Temporarily Restricted	\$ 285,440	\$ 387,515

Net assets released from restriction during the year ended June 30, 2016 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. Workforce Snohomish had no permanently restricted net assets as of June 30, 2016 or 2015.

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.

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.

Cash and Cash Equivalents

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

**WORKFORCE SNOHOMISH AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF 2015)**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable represent revenue from grants and contracts for the current period that have been recorded, but not received. Workforce Snohomish uses the allowance method to account for uncollectible receivables. No allowance for uncollectible accounts is reported at June 30, 2016 or 2015 since management considers the balance in grants and accounts receivable to be fully collectible.

Private Grants Receivable

Private grants are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. The grants that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets.

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:

	2016	2015
Leasehold Improvements	\$ 353,511	\$ 353,511
Furniture	27,115	27,115
Equipment	7,121	7,121
Computer Software	10,593	10,593
Total Property and Equipment	398,340	398,340
Less: Accumulated Depreciation and Amortization	(373,896)	(299,663)
Total Property and Equipment, Net	\$ 24,444	\$ 98,677

Cash Held In Trust and Refundable Advances

Cash held in trust and refundable advances consists of matching funds held for grants where Workforce Snohomish is the fiscal agent. As of June 30, 2016 and 2015, cash held in trust and refundable advances totaled \$105,599 and \$146,389, respectively.

Deferred Rent

Rent expense is recorded on the straight-line method over the life of the leases.

**WORKFORCE SNOHOMISH AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF 2015)**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Vacation

Workforce Snohomish's employees earn 15 to 29 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% of the amount accrued. As of June 30, 2016 and 2015, accrued vacation of \$97,350 and \$104,460, respectively, was reported in accrued liabilities on the consolidated statement of financial position.

Revenue Recognition

Workforce Snohomish recognizes revenue from cost reimbursement grants and contracts when eligible costs are incurred; revenue from performance-based contracts is recognized when performance is completed. Workforce Snohomish 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.

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 financial statements. Infralign is taxed as a Subchapter C Corporation and files a separate federal income tax return. 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, 2016 and 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 Workforce Snohomish.

Concentrations of Risk

Financial instruments which potentially subject Workforce Snohomish to concentrations of credit risk consist of short-term investments and cash. From time to time throughout the year, Workforce Snohomish cash and short-term investment balances may exceed the amount of FDIC and SIPC federally insured limits.

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

**WORKFORCE SNOHOMISH AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF 2015)**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation. Those reclassifications had no significant effect on net assets or changes in net assets.

NOTE 3 PRIVATE GRANTS RECEIVABLE

Private grants receivable consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Receivable in Less than One Year	\$ 107,718	\$ -
Receivable in More than One Year	107,718	-
Total Private Grants	215,436	-
Less: Allowance for Doubtful Accounts	-	-
Less: Discount to Present Value	(15,144)	-
Net Private Grants Receivable	<u>\$ 200,292</u>	<u>\$ -</u>

The organization is scheduled to receive future discounted payments in the following years and amounts:

<u>Year Ending June 30,</u>	<u>Gross Pledges</u>	<u>Net Pledges</u>
2017	\$ 107,718	\$ 102,589
2018	107,718	97,703
Total	<u>\$ 215,436</u>	<u>\$ 200,292</u>

NOTE 4 LINE OF CREDIT

During the year ended June 30, 2016, Workforce Snohomish had a secured line of credit from a bank with a limit amount of \$250,000. Interest is calculated at 1.5 percentage points over the Index (WSJ Prime Rate). The Index currently is 3.50% per annum (5% at June 30, 2016) is payable monthly with principal due in full on December 31, 2016. This note is secured by the following collateral; accounts including but not limited to specific grant contract and pledge account receivable. As of June 30, 2016 and 2015, the total outstanding balance on the line of credit was \$90,136 and \$191,730, respectively.

**WORKFORCE SNOHOMISH AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF 2015)**

NOTE 5 RELATED PARTY TRANSACTIONS

Workforce Snohomish recognized grant and contract revenue totaling \$3,890,543 during the year ended June 30, 2016 from the Washington State Employment Security Department (ESD). ESD was also a sub recipient of which \$335,521 in federal funds passed through from Workforce Snohomish during the same period. Amounts due from and payable to the ESD as of June 30, 2016 were \$361,043 and \$84,546, respectively.

Workforce Snohomish recognized grant and contract revenue totaling \$220,916 during the year ended June 30, 2016 from Edmonds Community College (EDCC). EDCC was also a sub recipient of which \$16,363 in federal funds passed through from Workforce Snohomish during the same period. Amounts due from and payable to the EDCC as of June 30, 2016 were \$35,541 and \$4,083, respectively.

Workforce Snohomish recognized grant and contract revenue totaling \$40,578 during the year ended June 30, 2016 from Everett Community College (EVCC). EVCC is also a sub recipient of which \$44,568 in federal funds passed through from Workforce Snohomish during the same period. Amounts due from and payable to the EVCC as of June 30, 2016 were \$-0- and \$8,134, respectively.

Workforce Snohomish incurred rent expense totaling \$509,151 during the year ended June 30, 2016 from the City of Everett (Everett). Amounts due from and payable to Everett as of June 30, 2016 were \$42,429 and \$-0-, respectively.

Workforce Snohomish recognized grant funds totaling \$72,371 during the year ended June 30, 2016 from Snohomish County (SC). Amounts due from and payable to SC as of June 30, 2016 were \$11,753 and \$-0-, respectively.

Workforce Snohomish 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 years ended June 30, 2016 and 2015:

Subrecipients	\$	505,473	\$	737,201
Vendors		537,933		288,992

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

Workforce Snohomish received rent from four companies where Board members are employed. Workforce Snohomish received \$7,846 in rent, utility, and maintenance payments from Washington State Department of Vocational Rehabilitation; \$299,054 from Washington State Employment Security Department; \$7,873 from Refugee and Immigrant Services, \$1,101 from United Way of Snohomish County during the year ended June 30, 2016.

WORKFORCE SNOHOMISH AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF 2015)

NOTE 6 OPERATING LEASES

Workforce Snohomish leases facilities and equipment under various operating lease agreements expiring September 2013 through April 2020.

Workforce Snohomish 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 were \$1 per year in exchange for the tenant improvements for this site totaling \$353,511 that were paid by Workforce Snohomish. Workforce Snohomish is negotiating a new lease for an additional five years.

Effective October 1, 2013, Workforce Snohomish 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. This lease was re-negotiated in October 2016. The new lease term is from October 1, 2016 to April 30, 2020. The only change and the reason for the re-negotiated lease is to eliminate any escalated annual rent increases and straight line the payment terms.

Workforce Snohomish also became the primary leaseholder for the space at the Everett Transit Station that houses WorkSource Everett, WorkSource Youth Center and the Veterans Serve Center. The leases for the WorkSource Youth Center and the Veterans Serve Center are with the City of Everett and are on a month to month term which can be terminated upon 30 days' notice.

The terms and conditions for rental of the space at Everett Station that houses operations of WorkSource Everett was represented by two separate leases. Workforce Snohomish requested a consolidation of these two leases into one lease that would straight line the rental rate. The City of Everett agreed to these terms. Terms for the new lease area are from October 1, 2016 through April 30, 2020.

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 nonoperating 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.

A sublease between Workforce Snohomish and the State's Employment Security Department was negotiated in October 2015 that provided them space to operate WorkSource Everett.

The lease for WorkSource Mountlake Terrace expired in December 2015. Workforce Snohomish did not renew this lease as the location was closed and operations relocated to the City of Lynnwood.

WORKFORCE SNOHOMISH AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF 2015)

NOTE 6 OPERATING LEASES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 457,564
2018	482,215
2019	482,215
2020	401,846
2021	-
Total	<u>\$ 1,823,840</u>

Workforce Snohomish subleased 274 square feet of the WorkSource space at Everett Station to the Washington State Department of Social and Health Services. This agreement ended on April 30, 2016. Effective May 1, 2016, a new sublease agreement was entered into and ends on April 30, 2021. The total amount of future rent to be received through April 2021 is \$36,076.

Workforce Snohomish subleased 12,176 square feet of the WorkSource space at Everett Station to Washington State Employment Security Department. Rental receipts for the sublease were \$249,183 for the year ended June 30, 2016. The agreement began May 1, 2015 and ends April 30, 2020. The total amount of future rent to be received through April 2020 is \$965,922.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 249,962
2018	256,625
2019	263,488
2020	225,702
2021	6,220
Total	<u>\$ 1,001,997</u>

WORKFORCE SNOHOMISH AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF 2015)

NOTE 7 PENSION PLAN

Workforce Snohomish 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. Workforce Snohomish makes a base contribution amounting to 5% of each employee's base compensation to the Plan. In addition, the Plan allows Workforce Snohomish to make discretionary contributions. No discretionary contributions were made for the year ended June 30, 2016. Employees can elect to defer a maximum of \$15,000 a year. Plan contributions and costs expensed by Workforce Snohomish totaled \$74,354 and \$91,831 for the years ended June 30, 2016 and 2015, respectively.

NOTE 8 SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 25, 2016, which is the date the consolidated financial statements were available to be issued.

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
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, which comprise the consolidated statement of financial position as of June 30, 2016, 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, and have issued our report thereon dated October 25, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Workforce Snohomish'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Workforce Snohomish's internal control. Accordingly, we do not express an opinion on the effectiveness of Workforce Snohomish's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Bellevue, Washington
October 25, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Workforce Snohomish
Everett, Washington

Report on Compliance for Each Major Federal Program

We have audited Workforce Snohomish'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 Workforce Snohomish's major federal programs for the year ended June 30, 2016. Workforce Snohomish'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 federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Workforce Snohomish'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* 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 Workforce Snohomish'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 Workforce Snohomish's compliance.

Opinion on Each Major Federal Program

In our opinion, Workforce Snohomish 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, 2016.

Report on Internal Control Over Compliance

Management of Workforce Snohomish 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 Workforce Snohomish'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 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 Workforce Snohomish'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.



CliftonLarsonAllen LLP

Bellevue, Washington
October 25, 2016

**WORKFORCE SNOHOMISH AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)**

Federal Grantor / Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Fiscal Year Expenditures
U.S. Department of Labor:				
Direct Programs:				
Homeless Veterans Reintegration Project	17.805		\$ 11,515	\$ 27,598
Homeless Veterans Reintegration Project	17.805		34,141	195,036
Total Direct Programs and CFDA #17.805			45,656	222,634
Pass-Through Programs From:				
Washington State Employment Security Department:				
Workforce Investment Opportunity Act (WIOA) Cluster:				
WIA Adult Program	17.258*	6104-1105	111,424	175,513
WIOA Adult Program	17.258*	6104-7105	85,053	123,071
WIOA Adult Program	17.258*	6104-1106	588,139	825,442
WIA Youth Activities	17.259*	6104-7004	96,536	200,312
WIOA Youth Activities	17.259*	6104-7005	532,530	792,095
WIA Dislocated Workers	17.278*	6104-1205	89,659	180,225
WIOA Dislocated Workers	17.278*	6104-7205	122,555	177,302
WIOA Dislocated Workers	17.278*	6104-1206	518,110	699,970
WIOA Implementation Planning	17.278*	6104-7494-02	-	36,147
WIA Governor's 5% Reserve - PY13 Rapid Response - Long-Term Unemployment	17.258/17.259/17.278*	6104-7503-11	195,802	222,138
WIA YouthWorks	17.258/17.259/17.278*	6104-7264-04	29,038	29,038
WIA Cluster Administration	17.258/17.259/17.278*	6104-1305	-	11,769
WIOA Cluster Administration	17.258/17.259/17.278*	6104-7305	-	126,491
WIOA Cluster Administration	17.258/17.259/17.278*	6104-1306	4,550	161,973
Total Workforce Investment Act (WIA) Cluster			2,373,396	3,761,486
National Emergency Grant - Jobs Driven	17.277	6104-7564-02	187,086	239,885
National Emergency Grant - Sector Partnership	17.277	6104-7575-02	97,072	132,531
Total CFDA #17.277			284,158	372,416

* See Note 3 on page 24.

**WORKFORCE SNOHOMISH AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)**

Federal Grantor / Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Fiscal Year Expenditures
Disability Employment Initiative	17.207	K2103	\$ -	\$ 65,098
Disability Employment Initiative - TTW EN	17.207	K3200	-	12,197
Total CFDA #17.207			<u>-</u>	<u>77,295</u>
Total Washington State Employment Security Department			2,657,554	4,211,197
Pass-Through Program From:				
Everett Community College:				
Trade Adjustment Assistance Community College and Career Training (TAACCT) Grants	17.282	1213-00111A	-	40,576
South Seattle College				
Partnership for Advanced Technology Apprenticeship in Manufacturing & Marine Engineers	17.268	N/A	-	9,194
Total U.S. Department of Labor			<u>2,703,210</u>	<u>4,483,601</u>
U.S. Department of Health & Human Services:				
Pass-Through Program From:				
Edmonds Community College:				
Affordable Care Act (ACA) Health Professional Opportunity Grants	93.093	90FX0025-03-00	-	49,638
Affordable Care Act (ACA) Health Professional Opportunity Grants	93.093	90FX0032-01-00	-	147,797
Affordable Care Act (ACA) Health Professional Opportunity Grants	93.093	90FX0025-03-00	-	21,840
Total Edmonds Community College			<u>-</u>	<u>219,275</u>
Total U.S. Department of Health & Human Services			-	219,275

WORKFORCE SNOHOMISH AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Fiscal Year Expenditures</u>
U.S. Department of Transportation				
Direct Program				
Puget Sound Ladders to Opportunity Initiative	20.514	WA-64-7001-00	\$ 107,897	\$ 107,897
Total U.S. Department of Transportation			<u>107,897</u>	<u>107,897</u>
Corporation for National and Community Service				
Pass-Through Program From:				
Jobs for the Future:				
Systems Innovation Fund	94.019	N/A	130,200	130,200
Total Corporation for National and Community Service			<u>130,200</u>	<u>130,200</u>
Total Expenditures of Federal Awards			<u>\$ 2,941,307</u>	<u>\$ 4,940,973</u>

WORKFORCE SNOHOMISH AND SUBSIDIARY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

NOTE 1 METHOD OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Workforce Snohomish and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

NOTE 2 INDIRECT COSTS

The accompanying schedule of expenditures of federal awards includes indirect costs, calculated at 9.83% of direct federal expenditures.

NOTE 3 MAJOR PROGRAMS

The Workforce Investment Act (WIA) and Workforce Investment Opportunity Act (WIOA) 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 AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section I - Summary of Auditors' Results

Financial Statements

Type of Auditors' Report Issued: Unmodified

Internal Control over Financial Reporting:

- Material Weakness(es) Identified Yes X No
- Significant Deficiency(ies) Identified Yes X No
- Noncompliance Material to Financial Statements Noted Yes X No

Federal Awards

Internal Control over Major Programs:

- Material Weakness(es) Identified Yes X No
- Significant Deficiency(ies) Identified Not Considered to be Material Weakness(es) Yes X No

Type of Auditors' Report Issued on Compliance for the Major Programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes X No

Identification of Major Programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
17.258	WIOA Cluster
17.259	WIOA Adult Programs
17.278	WIOA Youth Programs

Dollar Threshold Used to Distinguish Between Type A and Type B Programs: \$750,000

Auditee Qualified as Low-Risk Auditee? X Yes No

**WORKFORCE SNOHOMISH AND SUBSIDIARY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016**

Section I – Financial Statement Findings

Finding 2015-001

Condition

During the year, it was determined that grant revenue and the related receivable had not been recognized for straight-line rent 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 GAAP. Management was operating under the policy from their funders.

Recommendation

The audit firm recommended that all revenue related transactions be analyzed during initial recognition for proper accounting treatment under GAAP.

Current Year Status

Workforce Snohomish has addressed the audit issue by eliminating all escalated leases effective 10/1/16 and ensuring that all leases are now on straight-line basis. The actions stated above were completed primarily to address the finding prior to the next year's audit since no written guidance had been received, and to eliminate any administrative burden to the fiscal staff.

Section II – Federal Award Findings

No matters were reported.