

Workforce Development Council of Seattle-King County

Audit Presentation



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Objectives

- Understand the audit process & scope
- Discuss highlights from the individual deliverables
- Steps for finalization
- Upcoming Standards, questions and open discussion

Overview of Audit Process

Management Preparedness

- Management was prepared
- Responsive and easy to work with

Adjustments

- One audit adjustment and one uncorrected misstatement.

Timing

- Fieldwork was mostly remotely in October and November.

Deliverables

- Report on the financial statements
- Report on Internal Control over Financial Reporting and Compliance (Yellow Book report), and Report on Compliance for Major Program and Report on Internal Control over Compliance Required by UG
- Internal control communications
- Governance communication letter

Financial Statement Highlights

Overall	Statement of Financial Position	Statement of Activities	Significant Footnotes
<ul style="list-style-type: none"> • Single year presentation due to the change in audit firms. • Unmodified opinion which is the highest level of assurance a CPA firm can provide 	<ul style="list-style-type: none"> • Cash increase of \$756K • Grants receivable increased approx. \$122K. • Total assets increased approx. \$873K • Deferred revenue increased \$212K • Total liabilities increased \$314k • Net Assets \$1.5M (\$433K with donor restrictions) 	<ul style="list-style-type: none"> • Total grants & contributions increased approx. \$2.747M. Mostly from new NDWG grants in response to COVID 19 grant (\$1.1M) and increased funding of WIOA. Agency also started charging Indirect Costs in January 2021. • Total expense increased \$2.16M (mostly from grants paid out) • Positive change in net assets of \$558K vs \$172K loss in prior year • <u>Expense Ratios</u> <ul style="list-style-type: none"> • Program 92.4% / 89.2% • Management and General 7.6%/ 10.8% 	<p>Note 2 – Significant accounting policies. Includes disclosure of conditional grants totaling approximately \$11 million</p> <p>Note 3 – Liquidity, showing financial assets available totaling \$3.751M</p> <p>Note 4 – Related party transactions with King County</p> <p>Notes 5 – Operating leases</p>

Internal Control Communications

- Two deficiencies in internal control we consider to be material weaknesses; one related to a \$253,140 audit adjustment for revenue recognition and one related to the accuracy of the preliminary SEFA.
- No significant deficiencies noted.

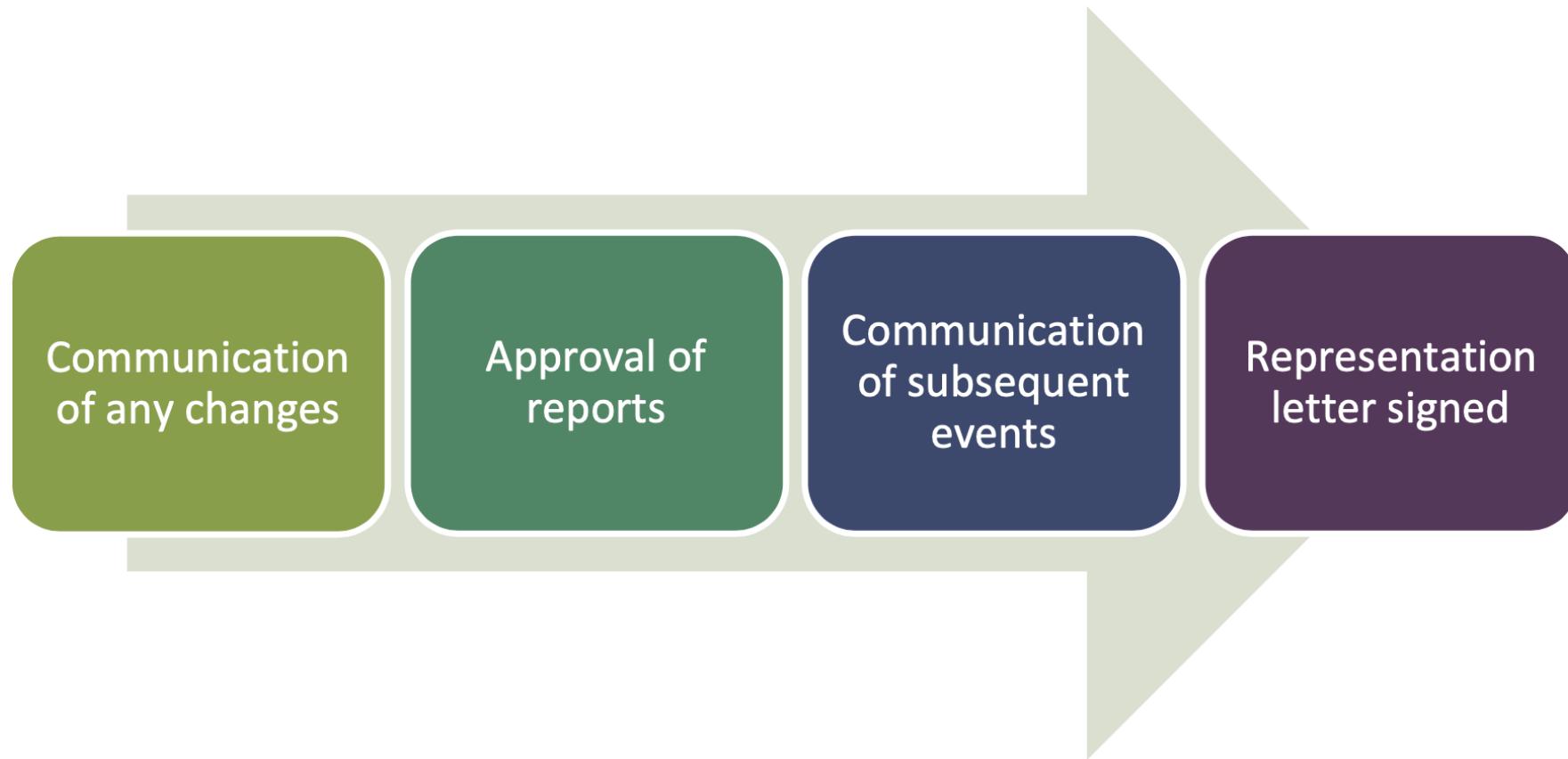
Single Audit Testing

- Unmodified opinion on financial statements and compliance.
- Two internal control findings over financial reporting identified as material weaknesses
- No compliance findings
- Two major programs tested:
 - WIOA Cluster
 - Affordable Care Act (ACA) Health Professional Opportunity Program

Required Governance Communication

Overall	Estimates & Disclosures	Difficulties	Other
<p>Purpose is to follow up from planning meeting</p> <p>No changes in scope of audit</p>	<ul style="list-style-type: none">• No sensitive estimates in the financial statements• No sensitive disclosures	<ul style="list-style-type: none">• No significant difficulties encountered• No disagreements encountered• No other findings to report	<ul style="list-style-type: none">• One audit adjustment for \$253,140 recorded• One passed adjustment related to the balance of deferred rent not recorded as of 6/30/20 (\$63,817).• Management representation letter will be signed at conclusion of engagement

Steps to Finalization



New Upcoming Pronouncements

Leases

- Requires lessees to recognize a right-of use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year.
- Effective date: 6/30/2023 (early adoption permitted)



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**WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE -
KING COUNTY**

**FINANCIAL STATEMENTS AND
SINGLE AUDIT COMPLIANCE REPORTS**

YEAR ENDED JUNE 30, 2021

Draft for Discussion Purposes

**WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY –
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YEAR ENDED JUNE 30, 2021**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Workforce Development Council of Seattle - King County
Everett, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Workforce Development Council of Seattle - King County (Workforce Development Council of Seattle - King County), which comprises the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Workforce Development Council of Seattle - King County as of June 30, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the 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 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 REPORT DATE on our consideration of Workforce Development Council of Seattle - King County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Workforce Development Council of Seattle - King County's 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 Development Council of Seattle - King County's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Bellevue, Washington
REPORT DATE

**WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY -
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 2,286,649
Accounts Receivable	3,344
Grants Receivable	1,894,373
Custodial Account	7,632
Prepaid Expense	49,914
Total Current Assets	4,241,912

PROPERTY AND EQUIPMENT

Furniture and Equipment	172,360
Less: Accumulated Depreciation	(172,360)
Total Property and Equipment	-

Total Assets	\$ 4,241,912
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 1,549,829
Accrued Payroll and Related Liabilities	102,253
Accrued Vacation and Sick Leave	198,193
FSA Liability	7,910
Deferred Revenue	818,792
Deferred Rent	59,359
Total Current Liabilities	2,736,336

NET ASSETS

Net Assets Without Donor Restrictions	1,072,273
Net Assets With Donor Restrictions	433,303
Total Net Assets	1,505,576

Total Liabilities and Net Assets	\$ 4,241,912
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Draft for Discussion Purposes

**WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2021**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUES			
Grants and Contributions	\$ 14,029,608	\$ 114,902	\$ 14,144,510
Miscellaneous Income	1,806	-	1,806
Net Assets Released from Restriction	<u>590,134</u>	<u>(590,134)</u>	<u>-</u>
Total Public Support and Revenues	14,621,548	(475,232)	14,146,316
EXPENSES			
Program Services	12,556,547	-	12,556,547
Management and General	<u>1,031,932</u>	<u>-</u>	<u>1,031,932</u>
Total Expenses	<u>13,588,479</u>	<u>-</u>	<u>13,588,479</u>
CHANGE IN NET ASSETS	1,033,069	(475,232)	557,837
Net Assets - Beginning of Year	<u>39,204</u>	<u>908,535</u>	<u>947,738</u>
NET ASSETS - END OF YEAR	<u><u>\$ 1,072,273</u></u>	<u><u>\$ 433,303</u></u>	<u><u>\$ 1,505,575</u></u>

Draft for Discussion Purposes

WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

	Program Services	Management and General	Total
Salaries and Wages	\$ 1,473,533	\$ 411,513	\$ 1,885,046
Payroll Taxes	106,995	40,696	147,691
Employee Benefits	265,996	101,171	367,167
Total	<u>1,846,524</u>	<u>553,380</u>	<u>2,399,904</u>
Subcontractor	10,070,311	11,250	10,081,561
Occupancy	234,033	52,343	286,376
Professional Services	270,657	314,477	585,134
Supplies, Furniture, and Fixtures	1,622	398	2,020
Noncapital Equipment	36,600	11,277	47,877
Telephone	24,987	4,423	29,410
Equipment Rental	18,669	10,756	29,425
Travel	459	454	913
Printing and Publication	9,736	7,332	17,068
Insurance	-	29,769	29,769
Dues and Memberships	4,950	17,859	22,809
Advertising	1,707	1,673	3,380
Staff Training and Council Meetings	36,292	10,151	46,443
Miscellaneous	-	3,252	3,252
Total	<u>10,710,023</u>	<u>475,414</u>	<u>11,185,437</u>
Total Expenditures Before Depreciation	12,556,547	1,028,794	13,585,341
Depreciation	<u>-</u>	<u>3,138</u>	<u>3,138</u>
Total	<u>\$ 12,556,547</u>	<u>\$ 1,031,932</u>	<u>\$ 13,588,479</u>

Draft for Discussion Purposes

See accompanying Notes to Financial Statements.

**WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 557,837
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	3,138
(Increase) Decrease in Operating Assets:	
Accounts Receivable	(3,344)
Grants Receivable	(121,530)
Prepaid Expense	5,413
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	7,600
Accrued Payroll and Related Liabilities	9,228
Accrued Vacation and Sick Leave	22,447
Custodial account	4,060
Deferred Revenue	212,011
Deferred Rent	59,359
Net Cash Provided. by Operating Activities	756,219

NET INCREASE IN CASH 756,219

Cash and Cash Equivalents - Beginning of Year 1,538,062

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 2,294,281

CASH AND CASH EQUIVALENTS SUMMARY:

Cash	\$ 2,286,649
Custodial Account	7,632
Total Cash, Cash Equivalents, and Restricted Cash Shown in the Statement of Cash Flows	\$ 2,294,281

Draft for Discussion Purposes

WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 NATURE AND PURPOSE OF THE ORGANIZATION

The Seattle-King County Workforce Development Council (the Council), organized in March 2000, began operating on July 1, 2000, as a nonprofit corporation under the provision of RCW 24.03 of the state of Washington. The Council replaced the Seattle-King County Private Industry Council, under the Workforce Investment Act of 1998, as the Department of Labor pass-through agency to receive employment and training funds for the Seattle-King County area. The Council is dedicated to producing a competitive workforce and a competitive local economy. The Council serves as a research and development center for workforce issues, sharing its expertise with the community. The Council invests and participates in strategic initiatives to strengthen the economy and ensure that all King County residents have the opportunity to achieve success.

Seattle-King County Workforce Development Council oversees the implementation of Federal Workforce Innovation and Opportunity Act (WIOA) programs as the administrative entity over the WorkSource King 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; Seattle-King County Workforce Development Council is that board.

Seattle-King County Workforce Development Council's board of directors is appointed and certified by the Governor every four years as part of the WIOA local area plan. A majority of the Board of Seattle-King County Workforce Development Council is comprised of representatives of the local business community. Along with the County Executive and City of Seattle Mayor, the Seattle-King County Workforce Development Council Board sets policy for the portion of the statewide workforce investment system within King County.

Seattle-King County Workforce Development Council 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.

Seattle-King County Workforce Development Council is responsible for building a comprehensive regional network of service portals for the mandated programs identified in WIOA and encouraging the voluntary participation of other nonmandated but logical partners to provide a customer focused employment and training assistance system. Seattle-King County Workforce Development Council sets standards for these portals and selects the agencies.

WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

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 the Council and changes therein are classified and reported as follows:

Without Donor Restriction – Net assets are available without restriction for the support of the Council's operations.

With Donor Restriction – Net assets are restricted by the donor to be used for certain purposes by the Council. Donor restricted net assets as of June 30 were restricted for both time and purpose.

Net assets released from restriction during the year ended June 30, 2021 were for the satisfaction of program restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor 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.

Cash and Cash Equivalents

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

WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Held in Trust and Refundable Advances

On January 1, 2020, the Council hired Sound Benefits Administration (SBA) to administer the Flexible Spending Account (FSA) plan while remaining as the fiscal agent. The FSA is an elective pre-tax employee benefit for the purpose of employees' out-of-pocket health care related expenses. Funds are withheld from employee payroll and disbursed for eligible expenses as reported by the employees within the plan year. SBA processes FSA claims and reimburses participants accordingly. The FSA plan year for this audit period changed from calendar year to April 1, 2020 to March 31, 2021, to align with the medical plan renewal period of April 1. Funds were contributed to and disbursed from check account held at Harborstone Credit Union. This account is now included in statement of financial position as a Custodial Account asset and liability.

Grants Receivable

Grants receivable represents revenue from grants and contracts for the current period that have been recorded, but not received. The Council uses the allowance method to account for uncollectible receivables. No allowance for uncollectible accounts is reported at June 30, 2021, since management considers the balance in grants and accounts receivable to be fully collectible.

Government Grants and Contracts

A substantial portion of the Council's revenue is derived from cost reimbursable federal, state, and county grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Council has incurred expenditures in compliance with specific contract or grant provisions. The Council 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. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. Refundable advances totaling \$818,792 has been received in advance and recorded as deferred revenue on the statement of financial position.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value when originally pledged or donated.

Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured at the present value of future cash flows. If material, long-term contributions and pledges receivable are discounted in the accompanying statements of financial position at an appropriate rate commensurate with the risks involved. Amortization of discounts, if any, is recorded as additional contribution revenue in accordance with donor- imposed restrictions, if any, on the contributions.

WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Conditional Promises and Intentions to Give

From time to time, Workforce Development Council of Seattle - King County may receive a conditional promise or intention to give, the receipt of which is contingent upon external factors over which the Organization has no control. Under the FASB ASC industry topic for nonprofit entities, conditional promises and intentions are not recognized in the financial statements until they become unconditional; that is, when the conditions on which they depend are substantially met. Conditional contributions to give totaled approximately \$11 million at June 30, 2021.

Accrued Vacation and Sick Leave

The Council's employees earn 15 to 20 days of vacation per year based on their length of service. Employees also earn 12 days of sick leave per year. Unused sick leave can be accrued without limitation. Unused vacation can be accrued up to 240 hours and is payable to terminating employees at 100% of the amount accrued. Sick leave is payable at 25% of the accrued balance if an employee, who has more than one year's service, is laid off. Upon retirement, sick leave is payable at 30% of its accrued value, not to exceed the employee's existing salary for one month. As of June 30, 2021, accrued vacation and sick leave totaled:

Accrued Vacation Payable	\$	144,479
Accrued Sick Leave Payable		<u>53,714</u>
Total	\$	<u><u>198,193</u></u>

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the 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 the Council.

Concentrations of Risk

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

The Council's programs are funded primarily by the United States Department of Labor and other governmental sources. Support and revenue from government sources represented 95% of revenues for the year ended June 30, 2021. At June 30, 2021, 99% of total receivables were from government sources

WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Tax

The Internal Revenue Service has determined the Council 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.

Subsequent Events

Subsequent events have been evaluated through REPORT DATE, which is the date the financial statements were available to be issued.

NOTE 3 INFORMATION REGARDING LIQUIDITY AND AVAILABILITY

The Council operates primarily on a cost reimbursement basis from grants. The Council's goal is to have sufficient cash without donor restrictions to cover those funders that can take up to 60 days to reimburse general expenditures. The Council strives to continuously increase cash without donor restrictions. The following table reflects the Council's financial assets as of June 30, 2021, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of donor restrictions.

Draft for Discussion Purposes

Cash and Cash Equivalents	\$ 2,286,649
Accounts Receivable	3,344
Grants Receivable, Net	1,894,373
Financial Assets at the End of Year	4,184,366
Less: Net Assets with Donor Restrictions	(433,303)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 3,751,063

NOTE 4 RELATED PARTY TRANSACTIONS

The Council is a joint venture between King County and the City of Seattle. It functions as the Department of Labor passthrough agency to receive employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials of the local area, have the joint power to appoint the members of the Council's board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the chief elected officials are potentially liable to the grantor for disallowed costs. If expenditure of funds is disallowed by the grantor agency, the Council can recover the funds in order from: 1) the agency creating the liability; 2) the insurance carrier; 3) future program years; and 4) as a final recourse, from King County and the City of Seattle who each will be responsible for one half of the disallowed amount.

WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 4 RELATED PARTY TRANSACTIONS (CONTINUED)

The Council contracts with King County to provide service programs related to WIOA. The Council also pays the City of Seattle as a vendor. During the year ended June 30, 2021, the Council incurred expenses from King County and the City of Seattle of \$1,142,578 and \$56, respectively. The Council also receives funding from King County to administer workforce programs. During the year ended June 30, 2021, the Council received \$857,180 in workforce program funding.

NOTE 5 OPERATING LEASES

The Council has a lease agreement with Western Avenue, LLC, for its 5,349 square foot administrative office space. On November 1, 2017, the Council amended the agreement to extend the term for an additional period of eighty-seven months commencing on November 1, 2017, and expiring on January 31, 2025. The monthly base rent was \$16,716, with an additional increase of \$446 per month starting on November 1, 2018, and annually thereafter until the end of the lease term.

The Council also leases postage and copier equipment under operating lease agreements expiring in January 2024.

Draft for Discussion Purposes

<u>For the Year Ending June 30.</u>	<u>Office</u>	<u>Equipment</u>	<u>Total</u>
2022	\$ 220,201	\$ 21,480	\$ 241,681
2023	221,988	4,080	226,068
2024	229,117	350	229,467
2025	155,121	-	155,121
2026	136,622	-	136,622
Total Future Minimum Payments	<u>\$ 963,049</u>	<u>\$ 25,910</u>	<u>\$ 988,959</u>

Rent expense related to the office lease agreement was \$281,292 for the year ended June 30, 2021. Equipment rent expense related to the equipment lease agreements was \$21,480 for the year ended June 30, 2021.

NOTE 6 PENSION PLAN

Employees are eligible to participate in the Council's 401(k) tax deferred savings plan (the Plan) after they have reached age 18 and have completed a consecutive three-month period of service. The Plan allows employees to contribute up to \$19,000 of their gross pay. The Council makes a matching contribution equal to 100% of the deferrals of all active participants up to eight percent of their compensation with more than six years of employment. The Council also matches contributions up to six percent for employees with less than six years employment. The Council's contribution for the year ended June 30, 2021 was \$105,116

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 Development Council of Seattle - King County
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 financial statements of Workforce Development Council of Seattle - King County, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated REPORT DATE.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Workforce Development Council of Seattle - King County'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 Workforce Development Council of Seattle - King County's internal control. Accordingly, we do not express an opinion on the effectiveness of Workforce Development Council of Seattle - King County'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-01 and 2021-02 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Workforce Development Council of Seattle - King County'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*.

Workforce Development Council of Seattle - King County's Response to Findings

Workforce Development Council of Seattle - King County's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Workforce Development Council of Seattle - King County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

CliftonLarsonAllen LLP

Bellevue, Washington
REPORT DATE

**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 Development Council of Seattle - King County
Everett, Washington

Report on Compliance for Each Major Federal Program

We have audited Workforce Development Council of Seattle - King County'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 Development Council of Seattle - King County's major federal programs for the year ended June 30, 2021. Workforce Development Council of Seattle - King County'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 Development Council of Seattle - King County'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 Development Council of Seattle - King County'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 Development Council of Seattle - King County's compliance.

Opinion on Each Major Federal Program

In our opinion, Workforce Development Council of Seattle - King County 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 years ended June 30, 2021.

Report on Internal Control Over Compliance

Management of Workforce Development Council of Seattle - King County 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 Development Council of Seattle - King County'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 Development Council of Seattle - King County'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
REPORT DATE

WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2021

Federal Grantor / Program Title	Cares Act Funding	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Fiscal Year Expenditures
U.S. Department of Labor:					
Pass-Through Programs from:					
Washington State Employment Security Department:					
Workforce Investment Opportunity Act (WIOA) Cluster:					
WIOA Adult Program	No	17.258 **	6105-7109	\$ 655,924	\$ 655,924
WIOA Adult Program	No	17.258 **	6105-7100	1,104,015	1,714,060
Total WIOA Adult Program				1,759,939	2,369,984
WIOA Youth Activities	No	17.259 **	6105-7009	368,124	368,124
WIOA Youth Activities	No	17.259 **	6105-7000	1,426,933	1,970,067
Total WIOA Youth Activities				1,795,057	2,338,191
WIOA Dislocated Workers Formula Grants	No	17.278**	6105-7209	528,483	528,483
WIOA Dislocated Workers Formula Grants	No	17.278**	6105-7200	1,244,547	1,886,854
Total WIOA Dislocated Worker Formula Grants				1,773,030	2,415,337
WIOA Rapid Response Initiative 3	No	17.278**	6105-7508-10	1,877	1,877
WIOA Rapid Response Initiative 3	No	17.278**	6105-7509-10	566,791	718,821
WIOA Rapid Response Initiative 4	No	17.278**	6105-7509-16	441,028	545,837
Total WIOA Rapid Response Initiative				1,009,696	1,266,535
WIOA Cluster Administration	No	17.258/17.259/17.278 **	6105-7309	10,271	86,998
WIOA Cluster Administration	No	17.258/17.259/17.278 **	6105-7300	11,395	824,122
Total WIOA Cluster Administration				21,666	911,120
Economic Security for All	No	17.258/17.259/17.278 **	6105-7620-07/6105-7621-07	-	222
Total Economic Security for All				-	222
Total WIOA Cluster				6,359,388	9,301,389
Reentry Employment Opportunities	No	17.720	K6147	215,652	281,565
Total Reentry Employment Opportunities				215,652	281,565

Draft for Discussion Purposes

See accompanying Notes to Schedule of Expenditures of Federal Awards

**WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
JUNE 30, 2021**

Federal Grantor / Program Title	Cares Act Funding	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Fiscal Year Expenditures
National Dislocated Worker Program					
Sector Based NEG	No	17.277	6105-7620-07/6105-7621-07	(555)	(555)
National Dislocated Worker - Employment Recovery	Yes	17.277	6105-7580-10	507,297	654,504
National Dislocated Worker - Employment Recovery	Yes	17.277	6105-7590-64	271,948	401,952
Total National Dislocated Worker Program				<u>778,690</u>	<u>1,055,901</u>
Jobs for the Future Apprenticeships	No	17.268	19-G6001-JFF	-	8,309
Total Jobs for the Future Apprenticeships				<u>-</u>	<u>8,309</u>
Total Washington State Employment Security Department				7,353,730	10,647,164
Total U.S. Department of Labor				7,353,730	10,647,164
U.S. Department of Health & Human Services:					
Direct Program:					
Affordable Care Act (ACA) Health Professional Opportunity Grants	No	93.093	90FX0037-02-05	1,379,239	1,750,993
Total Jobs Affordable Care Act (ACA) Health Professional Opportunity Grants				<u>1,379,239</u>	<u>1,750,993</u>
Total U.S. Department of Health & Human Services				<u>1,379,239</u>	<u>1,750,993</u>
U.S. Social Security Administration					
Pass-Through Program From:					
Washington State Employment Security Department:					
Ticket to Work	No	96.008	20-6221C-141	46,413	56,236
Total U.S. Social Security Administration				<u>46,413</u>	<u>56,236</u>
Total Expenditures of Federal Awards				<u>\$ 8,779,382</u>	<u>\$ 12,454,393</u>

Draft for Discussion Purposes

See accompanying Notes to Schedule of Expenditures of Federal Awards

WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2021

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the organization under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the organization.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards. Under these principles, certain types of expenditures are not allowable or are limited as to reimbursement.

** Funds for WIOA 10% Governor's Discretionary and WIO Administrative Cost Pool grants are funded with a combination of WIOA Adult, WIOA Youth, and WIOA Dislocated Worker Funds (Assistance Listing Numbers 17.258, 17.259, and 17.278, respectively) but are available for all WIOA programs.

NOTE 3 INDIRECT COSTS

The accompanying schedule of expenditures of federal awards includes indirect costs, calculated at 64.36% of salary and fringe expenditures.

**WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section I – Summary of Auditors' Results

Financial Statements

Type of Auditors' Report Issued:

Unmodified

Internal Control over Financial Reporting:

- Material Weakness(es) Identified
- Significant Deficiency(ies) Identified that is not Considered to be a Material Weakness
- Noncompliance Material to Financial Statements Noted

<u> X </u>	Yes	<u> </u>	No
<u> </u>	Yes	<u> X </u>	None reported
<u> </u>	Yes	<u> X </u>	No

Federal Awards

Internal Control over Major Programs:

- Material Weakness(es) Identified
- Significant Deficiency(ies) Identified

<u> </u>	Yes	<u> X </u>	No
<u> </u>	Yes	<u> X </u>	None reported

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 2 CFR 200.516(a)?

<u> </u>	Yes	<u> X </u>	No
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Identification of Major Programs

Name of Federal Program or Cluster

Federal Assistance Listing Number

U.S. Department of Labor
WIOA Cluster

17.258/17.259/17.278**

U.S. Department of Health & Human Services
Affordable Care Act (ACA) Health Professional Opportunity Grants

93.093

Dollar Threshold Used to Distinguish
Between Type A and Type B Programs:

\$750,000/\$187,500

Auditee Qualified as Low-Risk Auditee?

<u> X </u>	Yes	<u> </u>	No
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Draft for Discussion Purposes

**WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2021**

Section II – Financial Statement Findings

2021-001

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: The Organization did not follow generally accepted accounting standards of the United States of America (U.S. GAAP) in its method of recording revenue on indirect costs in the same period the costs were incurred for certain grants, which resulted in a material audit adjustment.

Criteria or specific requirement: Internal controls should be in place to provide reasonable assurance that indirect costs are recorded in the correct period in accordance with U.S. GAAP.

Context: When performing audit procedures, a material audit adjustment was required to recognize indirect costs incurred during the year but not included in draws until the following year.

Effect: The lack of proper cutoff of revenue increases the risk of misstatements, fraud, or errors occurring and not being detected and corrected.

Cause: The cause of the finding is due to uncertainty by the former finance manager regarding how to record indirect cost reimbursement at year end.

Recommendation: The Organization should ensure that indirect cost reimbursements are recorded in the correct period.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See attached corrective action plan from management.

**WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2021**

Section II – Financial Statement Findings

2021-002

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: The Organization excluded a significant amount of indirect costs for several federal awards from the original Schedule of Expenditures of Federal Awards (SEFA). The Organization has since made revisions and the indirect costs are properly presented in the SEFA.

Criteria or specific requirement: The Organization should have appropriate internal controls in place to ensure that the direct expenditures and indirect costs associated with each federal program are properly reported on the SEFA.

Context: The original SEFA was significantly understated which was resulted from excluding a significant amount of indirect costs for several federal awards.

Effect: The Organization's internal controls over the SEFA were not adequate to ensure that a misstatement would be prevented and/or detected. This could result in losing the federal funding and/or being debarred and suspended from working with government agencies.

Cause: The Organization was not initially aware that indirect costs should have been included in the SEFA.

Recommendation: The Organization should ensure that indirect cost reimbursements are included in the SEFA each year.

Views of responsible officials and planned corrective actions: Management agrees with the finding. With the conclusion of the audit for the year ended June 30, 2021, management views this finding as being corrected.

Section III – Major Federal Awards Findings

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

**WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2021**

Workforce Development Council of Seattle - King County respectfully submits the following corrective action plan for the year ended June 30, 2021.

Contact Person

Jeff Sikora, Director of Finance and Contracts

Finding # 2020-001

Material Weakness over Financial Reporting – Revenue Recognition

Corrective Action:

Workforce Development Council of Seattle - King County will ensure that proper cutoff of indirect cost reimbursement is followed, and management will monitor this issue regularly during the year to ensure compliance.

Anticipated Completion Date:

As soon as possible.

Draft for Discussion Purposes

**WORKFORCE DEVELOPMENT COUNCIL OF SEATTLE - KING COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2021**

Section II – Financial Statement Findings

No matters were reported.

Section III – Major Federal Award Findings

No matters were reported.

Draft for Discussion Purposes