

Workforce Development, Inc.

Rochester, MN

Financial Statements

June 30, 2016 and 2015

Workforce Development, Inc.

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Independent Auditor's Report

To the Board of Directors
Workforce Development, Inc.
Rochester, MN

Report on the Financial Statements

We have audited the accompanying financial statements of **Workforce Development, Inc.** (a nonprofit organization) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes of 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Workforce Development, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in conformity 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 accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) 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 November 29, 2016, on our consideration of Workforce Development, Inc.'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 the 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, Inc.'s internal control over financial reporting and compliance.

Hawkins Ash CPAs, LLP

Hawkins Ash CPAs, LLP
Rochester, MN
November 29, 2016

Workforce Development, Inc.

Rochester, MN

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ 457,086	\$ 459,368
Accounts Receivable	472,056	564,888
Prepaid Expenses	9,890	12,722
Equipment, net	<u>32,855</u>	<u>27,524</u>
TOTAL ASSETS	\$ <u>971,887</u>	\$ <u>1,064,502</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities		
Accounts Payable	\$ 361,785	\$ 615,635
Accrued Liabilities		
Salaries and Wages	204,727	78,509
Compensated Absences	50,423	46,284
Health Claims and Other	<u>17,144</u>	<u>29,502</u>
Total Liabilities	<u>634,079</u>	<u>769,930</u>
Net Assets		
Unrestricted	337,808	293,072
Temporarily Restricted	<u>-</u>	<u>1,500</u>
Total Net Assets	<u>337,808</u>	<u>294,572</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>971,887</u>	\$ <u>1,064,502</u>

See Accompanying Notes to Financial Statements

Workforce Development, Inc.

Rochester, MN

STATEMENT OF ACTIVITY AND CHANGES IN NET ASSETS

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, Grants and Other Support			
Grants and Fees Supporting:			
Adult Employment and Training	\$ 927,897	\$ -	\$ 927,897
Youth Employment and Training	1,243,247	-	1,243,247
Dislocated Worker Programs	2,618,969	-	2,618,969
Welfare Reform	3,045,906	-	3,045,906
Contributions	3,015	-	3,015
	<u>7,839,034</u>	<u>-</u>	<u>7,839,034</u>
Net Assets Released from Restrictions	<u>1,500</u>	<u>(1,500)</u>	<u>-</u>
Total Revenue, Grants and Other Support	<u>7,840,534</u>	<u>(1,500)</u>	<u>7,839,034</u>
Expenses			
Program Services	7,180,730	-	7,180,730
Management and General	615,068	-	615,068
	<u>7,795,798</u>	<u>-</u>	<u>7,795,798</u>
Change in Net Assets	44,736	(1,500)	43,236
Net Assets, Beginning of Year	<u>293,072</u>	<u>1,500</u>	<u>294,572</u>
Net Assets, End of Year	<u>\$ 337,808</u>	<u>\$ -</u>	<u>\$ 337,808</u>

See Accompanying Notes to Financial Statements

Workforce Development, Inc.

Rochester, MN

STATEMENT OF ACTIVITY AND CHANGES IN NET ASSETS

Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, Grants and Other Support			
Grants and Fees Supporting:			
Adult Employment and Training	\$ 834,753	\$ -	\$ 834,753
Youth Employment and Training	1,177,508	-	1,177,508
Dislocated Worker Programs	2,360,237	-	2,360,237
Welfare Reform	2,839,176	-	2,839,176
Contributions	627	-	627
	<u>7,212,301</u>	<u>-</u>	<u>7,212,301</u>
Net Assets Released from Restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue, Grants and Other Support	<u>7,212,301</u>	<u>-</u>	<u>7,212,301</u>
Expenses			
Program Services	6,598,044	-	6,598,044
Management and General	566,458	-	566,458
	<u>7,164,502</u>	<u>-</u>	<u>7,164,502</u>
Change in Net Assets	47,799	-	47,799
Net Assets, Beginning of Year	<u>245,273</u>	<u>1,500</u>	<u>246,773</u>
Net Assets, End of Year	<u>\$ 293,072</u>	<u>\$ 1,500</u>	<u>\$ 294,572</u>

See Accompanying Notes to Financial Statements

Workforce Development, Inc.

Rochester, MN

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016

	Adult Employment and Training	Youth Employment and Training	Indirect Training
Salaries and Wages	\$ 263,283	\$ 659,347	\$ -
Employee Benefits & Payroll Taxes	162,367	214,035	-
Total Salaries & Related Expenses	425,650	873,382	-
Classroom Training	259,937	62,439	-
Participant Support	35,354	27,162	-
Subcontracted Services	132,598	43,605	-
Other Training Expenses	-	13,081	-
OJT Contracts/Wage Subsidy	-	-	-
Travel Reimbursements	2,938	1,764	94,863
Telephone	-	-	47,808
Postage	-	-	12,191
Auditing and Legal Fees	-	-	-
Supplies and Other	776	11,200	83,916
Advertising and Marketing	-	-	7,066
Dues and Subscriptions	-	-	6,850
Utilities	-	-	45,043
Equipment Rental	-	1,340	86,164
Rent and Occupancy	-	-	290,281
Insurance	-	-	-
Staff Development and Conferences	-	-	31,785
Maintenance	-	-	59,956
Depreciation	746	950	-
Program Transfers	26,534	-	74,932
Total Expenses Before Allocation	884,533	1,034,923	840,855
Indirect Training Allocations	92,747	176,248	(840,855)
Total Expenses	\$ 977,280	\$ 1,211,171	\$ -

See Accompanying Notes to the Financial Statements

<u>Dislocated Worker</u>	<u>Welfare Reform</u>	<u>Total</u>	<u>Management and General</u>	<u>Total</u>
\$ 904,117	\$ 1,734,042	\$ 3,560,789	\$ 310,892	\$ 3,871,681
259,134	650,942	1,286,478	118,189	1,404,667
<u>1,163,251</u>	<u>2,384,984</u>	<u>4,847,267</u>	<u>429,081</u>	<u>5,276,348</u>
592,186	30,785	945,347	-	945,347
60,032	141,887	264,435	-	264,435
-	125	176,328	10,714	187,042
-	-	13,081	-	13,081
60,251	-	60,251	-	60,251
-	-	99,565	27,934	127,499
-	264	48,072	10,537	58,609
-	-	12,191	2,786	14,977
-	-	-	18,180	18,180
3,290	4,818	104,000	28,430	132,430
-	-	7,066	3,385	10,451
-	-	6,850	9,725	16,575
-	-	45,043	4,440	49,483
603	-	88,107	27,540	115,647
-	-	290,281	83,278	373,559
-	-	-	15,587	15,587
-	-	31,785	-	31,785
-	-	59,956	17,772	77,728
2,985	1,492	6,173	611	6,784
-	(26,534)	74,932	(74,932)	-
<u>1,882,598</u>	<u>2,537,821</u>	<u>7,180,730</u>	<u>615,068</u>	<u>7,795,798</u>
<u>284,913</u>	<u>286,947</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 2,167,511</u>	<u>\$ 2,824,768</u>	<u>\$ 7,180,730</u>	<u>\$ 615,068</u>	<u>\$ 7,795,798</u>

See Accompanying Notes to the Financial Statements

Workforce Development Inc.

Rochester, MN

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2015

	Adult Employment and Training	Youth Employment and Training	Indirect Training
Salaries and Wages	\$ 265,796	\$ 608,610	\$ -
Employee Benefits & Payroll Taxes	71,246	147,741	-
Total Salaries & Related Expenses	337,042	756,351	-
Classroom Training	215,350	46,521	-
Participant Support	23,114	52,664	-
Subcontracted Services	153,042	24,676	-
Other Training Expenses	-	1,365	-
OJT Contracts/Wage Subsidy	1,257	-	-
Travel Reimbursements	-	19,747	62,349
Telephone	-	2,855	45,361
Postage	-	-	12,463
Auditing and Legal Fees	-	-	-
Supplies and Other	1,722	8,641	145,187
Advertising and Marketing	-	-	7,144
Dues and Subscriptions	-	-	5,915
Utilities	-	-	16,383
Equipment Rental	-	3,216	85,501
Rent and Occupancy	-	-	274,257
Insurance	-	-	-
Staff Development and Conferences	-	-	30,757
Maintenance	-	-	73,801
Depreciation	1,042	1,326	-
Miscellaneous	-	-	15,301
Program Transfers	2,536	-	80,140
Total Expenses Before Allocation	735,105	917,362	854,559
Indirect Training Allocations	76,438	163,267	(854,559)
Total Expenses	\$ 811,543	\$ 1,080,629	\$ -

See Accompanying Notes to the Financial Statements

Dislocated Worker	Welfare Reform	Total	Management and General	Total
\$ 771,248	\$ 1,612,534	\$ 3,258,188	\$ 296,988	\$ 3,555,176
228,163	478,672	925,822	87,278	1,013,100
999,411	2,091,206	4,184,010	384,266	4,568,276
736,268	12,304	1,010,443	-	1,010,443
67,960	123,294	267,032	-	267,032
-	3,318	181,036	11,695	192,731
-	-	1,365	-	1,365
43,808	95	45,160	-	45,160
-	1,548	83,644	29,026	112,670
-	458	48,674	9,045	57,719
-	-	12,463	1,697	14,160
-	-	-	14,035	14,035
(900)	6,344	160,994	38,979	199,973
-	2,188	9,332	1,549	10,881
-	-	5,915	8,628	14,543
-	-	16,383	-	16,383
-	-	88,717	18,512	107,229
-	-	274,257	89,975	364,232
-	-	-	14,270	14,270
-	-	30,757	-	30,757
-	-	73,801	24,069	97,870
4,168	2,084	8,620	852	9,472
-	-	15,301	-	15,301
-	(2,536)	80,140	(80,140)	-
1,850,715	2,240,303	6,598,044	566,458	7,164,502
308,325	306,529	-	-	-
\$ 2,159,040	\$ 2,546,832	\$ 6,598,044	\$ 566,458	\$ 7,164,502

See Accompanying Notes to the Financial Statements

Workforce Development, Inc.

Rochester, MN

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 43,236	\$ 47,799
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	6,784	9,472
Prior Period Adjustment		(32,453)
Change in assets (increase) decrease		
Accounts Receivable	92,832	(106,979)
Prepaid Expenses & Other Assets	2,832	896
Change in liabilities increase (decrease)		
Accounts Payable	(253,850)	175,335
Accrued Liabilities	117,998	(42,098)
Net Cash Provided by Operating Activities	<u>9,832</u>	<u>51,972</u>
Cash Flows From Investing Activities:		
Purchase of Property and Equipment	<u>(12,114)</u>	<u>(14,277)</u>
Net Cash Used by Investing Activities	<u>(12,114)</u>	<u>(14,277)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,282)	37,695
Cash and Cash Equivalents - July 1	<u>459,368</u>	<u>421,673</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 457,086</u></u>	<u><u>\$ 459,368</u></u>

See Accompanying Notes to Financial Statements

Workforce Development, Inc.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Workforce Development, Inc. (formerly named Southeastern Minnesota Private Industry Council, Inc) was established to create a partnership between business and local elected officials to provide job training for low income, unemployed and unskilled youth and adults facing serious barriers to employment. The Organization receives its income from grants and its work with the counties.

Title I of the Workforce Investment Act is the core of the Workforce Development, Inc. operations.

The Organization provides the following services to economically disadvantaged persons primarily in southeast Minnesota: skills assessment, career counseling, GED preparation, classroom training, job search assistance, support services, on-the-job-training and job placement.

Net Asset Presentation

Net assets, support and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Unrestricted net assets are those funds presently available for use by or on behalf of the Organization including amounts available for general and administrative expenses. These unrestricted net assets also include board designated funds.

Temporarily restricted net assets are contributions that have donor-imposed stipulations that can be fulfilled by certain actions of the Organization. These are primarily contributions that are restricted for the acquisition of property and equipment and residential support. When the donor restriction is accomplished, these temporarily restricted assets are reclassified to unrestricted and reported on the statement of activities as assets released from restrictions. If the restriction is met in the period the related revenue is recognized, the amounts are reported within the unrestricted activity.

Permanently restricted net assets are contributions that have donor imposed restrictions whereby the amount of the gift is to be held in perpetuity. These are referred to as endowment funds. Income derived from such funds is to be used for operating expenses of the Organization. The Organization does not currently have any permanently restricted funds.

Under the terms of various Federal and State of Minnesota grants, the Organization is allowed to keep interest earned on these funds. The Federal and State of Minnesota grants require that these earnings be used to further enhance the specific program objectives.

Workforce Development, Inc.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 CONT.

Revenue Recognition

Grants that are funded based upon the reimbursement of costs are recognized as revenues in the accounting period earned, which is usually when the related expenses are incurred. Performance contracts, which reimburse the Organization based upon the completion of a service, are recognized in the accounting period that the service is provided. Revenues, such as fees for service, are recognized when earned.

Contributions and contribution type grants are recognized as revenue when they are received or an unconditional pledge is made. All contributions are recorded as unrestricted unless explicit restrictions are received from the donor.

Grants Awarded to Other

Grants awarded to other organizations are recognized as expenses in the accounting period when the program is guaranteed to occur. Unexpended balances of grants that are returned to the Organization are recognized in the accounting period when the amount becomes known, which is usually when received.

Donated Materials and Services

Many individuals have contributed a significant amount of time to the activities of the Organization. The Organization does not recognize these contributed services as revenues unless 1) the services received create or enhance existing facilities; or 2) require specialized skills and are provided by individuals possessing those skills. No amounts have been recognized for donated services.

Donated materials are reflected as contributions at their cost or fair market value at the date of donation if the donated materials are usable in program and supporting services. Donations of equipment are reported as unrestricted revenue unless the donor has restricted the use of the donated equipment.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less when purchased, to be cash equivalents.

Building and Equipment

Generally acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Depreciation is computed using primarily the straight-line method over a three to five-year period.

A significant portion of the Organization's equipment is acquired using the proceeds of Federal and State of Minnesota grants. These grant agreements provide that the granting agency retains certain reversionary rights to the equipment acquired using these grant proceeds.

Workforce Development, Inc.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 CONT.

Income Taxes

The Organization is exempt from federal and state income taxes as a public charity under Section 501 (c)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in these financial statements. There is no material unrelated income for the year ended June 30, 2016. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization files federal exempt income tax returns (Form 990). Management is not aware of any uncertain tax positions.

Concentration of Credit Risk

The Organization places its cash with qualifying financial institutions insured up to \$250,000 with the Federal Deposit Insurance (FDIC). At June 30, 2016 and 2015, the Organization's deposits exceeded the FDIC insurance by \$120,667 and \$160,394, respectively.

Expense Allocation

Directly identifiable expenses are charged to programs and administrative categories. Certain costs have been allocated to program and supporting services benefited by the expenditure. Administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

For financial reporting purposes, depreciation is allocated to each program and administrative categories based upon total expenditures.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from estimates.

Receivables

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. The Organization does not estimate a reserve for bad debts, as write-offs have been historically small and the amounts involved are believed to be not material. The Organization does not currently have a policy to place receivables on nonaccrual status. Accounts in excess of 30 days are considered past due. The Organization has no nonmortgage loans held for sale, interest-only strips, loans, or other receivables, or retained interests in securitizations.

Workforce Development, Inc.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. COST ALLOCATIONS

For the purposes of Federal, State of Minnesota, private grants, and service contracts directly identifiable expenses are charged directly to each grant. Employees generally provide services to participants who are enrolled in multiple programs. Some costs are allocated to various programs based upon participant enrollment data.

For the purposes of Federal, State of Minnesota, private grants, and service contracts allocations of indirect training and administrative expenses are made each month and are based upon the salaries and wages or expenses incurred by each program.

NOTE 3. RECEIVABLES

Receivables consist of amounts due under grants and service contracts as of June 30:

	2016	2015
Governmental Entities:	\$	\$
County Governments	284,406	279,356
State of Minnesota	116,392	210,086
Federal	19,103	26,358
Total Governmental Entities	419,901	515,800
Other Receivables:		
Private Organizations & Miscellaneous	52,155	49,088
Total Receivables	\$ 472,056	\$ 564,888

NOTE 4. EQUIPMENT AND DEPRECIATION

A summary of equipment and accumulated depreciation as of June 30 is as follows:

	2016	2015
Equipment	\$ 54,480	\$ 118,014
Less Accumulated Depreciation	(21,625)	(90,490)
Total Equipment, Net	\$ 32,855	\$ 27,524

A portion of the Organization's equipment was acquired using proceeds from Federal and State Minnesota grants. Under the terms of these grant agreements, the Organization must obtain the granting agencies permission to dispose of these assets and the sales proceeds must generally be used for the purpose of the original grant. There was no remaining book value of the equipment subject to these restrictions for June 30, 2016 and 2015.

Workforce Development, Inc.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. DEFERRED COMPENSATION PLAN

The Organization sponsors a deferred compensation plan for its employees under Internal Revenue Code Section 403(b). The plan permits employees to defer a portion of their current compensation into future years. The Organization does not maintain any fiduciary responsibility regarding this plan. The plan is open to all employees over the age of 21 and has a tiered matching program up to 5% of wages. During the years ended June 30, 2016 and 2015 the Organization contributed, through an employer matching contribution program \$159,981, and \$145,184, respectively.

NOTE 6. SELF INSURANCE PROGRAM

The Organization has an employee benefit program to provide health care coverage for its employees. Amounts payable by the Organization is generally limited by stop-loss reinsurance.

Cumulative amounts estimated to be payable by the Organization with respect to pending and potential claims in which the Organization is liable under its self insurance retention have been accrued as a liability. The accrued liability is based upon estimate, thus, the Organization's ultimate liability may differ from the estimate. The methods for making such estimates and establishing the resulting accrued liability are continually reviewed and any adjustments resulting from these ongoing reviews are reflected in current earnings.

The health care plan is offered to all regular employees, with costs shared between the employee and the Organization based on the type of plan and the costs of the actual claims for the year. Expenses for the health care plan to the organization for year end June 30, 2016 and 2015, was \$799,288 and \$504,650, respectively.

NOTE 7. TEMPORARILY RESTRICTED ASSETS

Temporarily restricted net assets were available for the following purposes as of June 30:

	2016	2015
Youth Scholarships	\$ -	\$ 1,500

NOTE 8. VULNERABILITY DUE TO CONCENTRATION OF FUNDING SOURCES

The Organization receives substantially all of its operating revenue from Federal and State of Minnesota grants and from service contracts with other governmental units. The ability of the Organization to continue in its present form is directly associated with the continued funding from these sources and any material changes in this level of support would likely result in a corresponding change in the level of activity in the Organization.

All Federal, State of Minnesota, and certain service contracts are subject to audit by the granting agencies. The ultimate determination of amount earned under the various grants and contracts is therefore subject to change pending completion, if any, of these audits. Until these audits, if any, are completed there exists a contingency that some amounts received under the grants and contracts will be in excess of the allowable costs. Management is of the opinion that no material liability will result from such audits.

Workforce Development, Inc.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9. COMMITMENTS

The Organization leases all of its office facilities and a significant portion of its equipment under various non cancelable operating leases. Minimum commitments under these lease agreements are as follows:

Future minimum rental commitments as of June 30 are as follows:

<u>For the Year Ending</u>	<u>Amount</u>
2017	349,845
2018	272,095
2019	46,385
2020	9,027

Substantially all of these lease agreements provide for early termination if the Organization's funding sources should be canceled or significantly modified.

The expense recognized under operating lease agreements with lease terms of one year or more and other lease agreements during the years ended June 30, 2016 and 2015 was \$487,678 and \$495,741, respectively.

During the years ended June 30, 2015 and 2014, the Organization subleased office space to other exempt organizations. The sublease revenues for the years ended June 30, 2016 and 2015 were \$77,407 and \$77,345, respectively. Sublease revenues are reported as reductions in rent and occupancy expense.

NOTE 10. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 29, 2016, the date the financial statements were available to be issued.

Workforce Development, Inc.

Rochester, MN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

<u>Federal Grantor/Pass-through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>	<u>Expenditures to Subrecipients</u>
U.S. Department of Labor:				
Passed Through by Minnesota Department of Employment and Economic Development:				
WIA Cluster				
WIA Adult Program	17.258			
WIA Adult PY 14		4083100	\$ 91,978	
WIOA Adult PY 15		5083100	571,685	
			<u>663,663</u>	
WIA Youth Activities	17.259			
WIA Youth PY 14		4803600	28,663	
WIOA Youth PY 15		5803600	490,837	43,605
WIOA Youth PY 16		6803600	202,740	
DEI Youth		4803600	93,321	
			<u>815,561</u>	<u>43,605</u>
WIA Dislocated Worker	17.278			
WIA Dislocated Worker PY 14		4088000	39,664	
WIA Dislocated Worker PY 15		5088000	165,956	
ERAG		4088201	10,000	
ERAG		5088201	10,000	
			<u>225,620</u>	
		Total WIA Cluster	<u>1,704,844</u>	<u>43,605</u>
Employment Training Administration	17.266			
WIA Incentive PY 15		5083401	21,130	
			<u>21,130</u>	
WIA National Emergency Grants	17.277			
WIA Dislocated Worker NEG		5087201	18,935	
Sector Partnership NEG		5087200	67,028	
WIA Incentive PY 14		5083401	15,290	
			<u>101,253</u>	
Total U.S. Department of Labor:			\$ <u>1,827,227</u>	\$ <u>43,605</u>

See Accompanying Notes to Financial Statements

Workforce Development, Inc.
Rochester, MN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Health and Human Services:				
Passed Through by Minnesota Health and Human Services:				
Temporary Assistance for Needy Families	93.558			
TANF Summer Youth PY15		6087400	\$ 25,414	\$
TANF Summer Youth PY16		7087400	4,635	
Pathways to Prosperity		6087801	53,030	
			83,079	
			83,079	
Total U.S. Department of Health and Human Services:			83,079	
Total Federal Expenditures			\$ 1,910,306	\$ 43,605

See Accompanying Notes to Financial Statements

Workforce Development, Inc.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Workforce Development, Inc. for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Workforce Development, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Workforce Development, Inc.

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 OMB A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3. INDIRECT COST RATE

Workforce Development, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4. SUBRECIPIENTS

The Organization had three subrecipients receive funds in the year ended June 30, 2016.

Workforce Development, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report issued on whether the financial statements audited were prepared in accordance with GAAP :

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	_____	X	No
Significant deficiencies identified that are not considered to be material weakness(es)?	_____	Yes	_____	X	None Reported
Noncompliance material to financial statements noted?	_____	Yes	_____	X	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____	Yes	_____	X	No
Significant deficiencies identified that are not considered to be material weakness(es)?	_____	Yes	_____	X	None Reported

Type of Auditor's Report issued on compliance for major programs:

Unmodified

Any Audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?

_____ Yes X No

Identification of major programs:

CFDA Number	Name of Federal Program
17.258, 17.259, 17.278	WIA Cluster

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

\$750,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

Workforce Development, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2016

Section II - Financial Statement Findings

The audit disclosed no findings relating to the financial statements which were required to be reported under *Government Aiding Standards* issued by OMB.

Section III - Federal Awards Findings and Questioned Costs

The audit disclosed no findings which were required to be reported under *Government Auditing Standards* issued by the OMB Circular A-122.

Summary Schedule of Prior Audit Findings

The audit report for the year ended June 30, 2015, contained no findings.

Independent Auditor's 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*

To the Board of Directors
Workforce Development, Inc.
Rochester, MN

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, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activity and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Workforce Development, Inc.'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, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Development, Inc.'s financial statements are free of 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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hawkins Ash CPAs, LLP

Rochester, Minnesota
November 29, 2016

Independent Auditor's Report on Compliance for Each Major Program
And on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Workforce Development, Inc.
Rochester, MN

Report on Compliance for Each Major Federal Program

We have audited Workforce Development, Inc.'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, Inc.'s major federal programs for the year ended June 30, 2016. Workforce Development, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Workforce Development, Inc.'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, Inc.'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, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Workforce Development, Inc. 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 Development, Inc. 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, Inc.'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, Inc.'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 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

This 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.

Hawkins Ash CPAs, LLP

Rochester, Minnesota
November 29, 2016