

Workforce Development, Inc.
Rochester, MN

Financial Statements
with Independent Auditors' Report
June 30, 2018 and 2017

Workforce Development, Inc.

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June 30, 2018 and 2017

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Independent Auditors' 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, 2018 and 2017, and the related statements of activities, 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.

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, Inc. as of June 30, 2018 and 2017, 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 January 18, 2019, 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
January 18, 2019

Workforce Development, Inc.

Rochester, MN

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

| <u>ASSETS</u> | <u>2018</u> | <u>2017</u> |
|---|--------------------------|----------------------------|
| Cash and Cash Equivalents | \$ 265,368 | \$ 423,883 |
| Accounts Receivable | 648,140 | 712,939 |
| Prepaid Expenses | 8,557 | 11,723 |
| Equipment, net | 14,360 | 24,091 |
| TOTAL ASSETS | \$ <u>936,425</u> | \$ <u>1,172,636</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Liabilities | | |
| Accounts Payable | \$ 95,700 | \$ 65,895 |
| Accrued Liabilities: | | |
| Salaries and Wages | 71,471 | 63,361 |
| Compensated Absences | 41,558 | 38,207 |
| Health Claims and Other | 25,045 | 73,854 |
| Short-term Note | 150,000 | - |
| Refundable Advances | 359,838 | 723,485 |
| Total Liabilities | <u>743,612</u> | <u>964,802</u> |
| Net Assets | | |
| Unrestricted | 192,813 | 207,834 |
| Total Net Assets | <u>192,813</u> | <u>207,834</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u>936,425</u> | \$ <u>1,172,636</u> |

See Accompanying Notes to the Financial Statements

Workforce Development, Inc.

Rochester, MN

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

| | <u>Total</u> |
|--|------------------------------|
| Revenue, Grants, and Other Support | |
| Grants and Fees Supporting: | |
| Adult Employment and Training | \$ 1,593,077 |
| Youth Employment and Training | 1,086,204 |
| Dislocated Worker Programs | 1,244,324 |
| Welfare Reform | 2,735,794 |
| Sublease Income | 75,355 |
| Contributions | <u>14,636</u> |
| Total Revenue, Grants, and Other Support | <u>6,749,390</u> |
| Expenses | |
| Program Services | 6,215,600 |
| Management and General | <u>548,811</u> |
| Total Expenses | <u>6,764,411</u> |
| Change in Net Assets | (15,021) |
| Net Assets, Beginning of Year | <u>207,834</u> |
| Net Assets, End of Year | <u><u>\$ 192,813</u></u> |

See Accompanying Notes to the Financial Statements

Workforce Development, Inc.
Rochester, MN

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

| | <u>Total</u> |
|--|-----------------------|
| Revenue, Grants, and Other Support | |
| Grants and Fees Supporting: | |
| Adult Employment and Training | \$ 729,793 |
| Youth Employment and Training | 808,031 |
| Dislocated Worker Programs | 2,650,315 |
| Welfare Reform | 3,040,747 |
| Sublease Income | 78,552 |
| Contributions | <u>56,960</u> |
| Total Revenue, Grants, and Other Support | <u>7,364,398</u> |
| Expenses | |
| Program Services | 6,874,250 |
| Management and General | <u>620,122</u> |
| Total Expenses | <u>7,494,372</u> |
| Change in Net Assets | (129,974) |
| Net Assets, Beginning of Year | <u>337,808</u> |
| Net Assets, End of Year | <u>\$ 207,834</u> |

See Accompanying Notes to the Financial Statements

Workforce Development, Inc.

Rochester, MN

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

| | Adult | Youth | |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Employment and | Employment and | Indirect Training |
| | Training | Training | Indirect Training |
| | <u> </u> | <u> </u> | <u> </u> |
| Salaries and Wages | \$ 569,608 | \$ 572,585 | \$ - |
| Employee Benefits and Payroll Taxes | 187,568 | 168,301 | - |
| Total Salaries and Related Expenses | <u>757,176</u> | <u>740,886</u> | - |
| Classroom Training | 389,718 | 22,777 | - |
| Participant Support | 75,086 | 32,511 | - |
| Subcontracted Services | 148,344 | 14,828 | - |
| Other Training Expenses | - | 14,781 | - |
| OJT Contracts/Wage Subsidy | 7,500 | - | - |
| Travel Reimbursements | 2,975 | 288 | 76,561 |
| Telephone | - | - | 49,698 |
| Postage | - | - | 8,477 |
| Auditing and Legal Fees | - | - | - |
| Supplies and Other | 12,036 | 3,123 | 67,415 |
| Advertising and Marketing | - | - | 4,108 |
| Dues and Subscriptions | - | 1,325 | 4,978 |
| Utilities | - | - | 37,406 |
| Equipment Rental | 6,601 | - | 71,778 |
| Rent and Occupancy | - | - | 312,297 |
| Sublease Expense | - | - | - |
| Insurance | - | - | - |
| Staff Development and Conferences | 2,584 | 396 | 36,755 |
| Maintenance | - | - | 40,228 |
| Interest | 109 | 138 | - |
| Depreciation | 1,070 | 1,362 | - |
| Program Transfers | (100,139) | - | 92,507 |
| Total Expenses Before | <u>1,303,060</u> | <u>832,415</u> | <u>802,208</u> |
| Allocation | - | - | - |
| Indirect Training Allocations | <u>200,267</u> | <u>161,943</u> | <u>(802,208)</u> |
| Total Expenses | <u>\$ 1,503,327</u> | <u>\$ 994,358</u> | <u>\$ -</u> |

See Accompanying Notes to the Financial Statements

| Dislocated Worker | Welfare Reform | Total | Management and General | Total |
|------------------------------|-----------------------|---------------------|-----------------------------------|---------------------|
| \$ 414,396 | \$ 1,535,061 | \$ 3,091,650 | \$ 252,447 | \$ 3,344,097 |
| 132,947 | 494,895 | 983,711 | 81,382 | 1,065,093 |
| 547,343 | 2,029,956 | 4,075,361 | 333,829 | 4,409,190 |
| 397,833 | 3,070 | 813,398 | - | 813,398 |
| 48,315 | 89,916 | 245,828 | - | 245,828 |
| - | 30,091 | 193,263 | - | 193,263 |
| - | - | 14,781 | - | 14,781 |
| 7,374 | 2,992 | 17,866 | - | 17,866 |
| - | - | 79,824 | 24,598 | 104,422 |
| - | - | 49,698 | 4,790 | 54,488 |
| - | - | 8,477 | 1,578 | 10,055 |
| - | - | - | 19,160 | 19,160 |
| - | 13,813 | 96,387 | 17,549 | 113,936 |
| - | - | 4,108 | 588 | 4,696 |
| - | - | 6,303 | 11,703 | 18,006 |
| - | - | 37,406 | 9,084 | 46,490 |
| - | - | 78,379 | 18,888 | 97,267 |
| - | - | 312,297 | 84,190 | 396,487 |
| - | - | - | 75,355 | 75,355 |
| - | - | - | 18,420 | 18,420 |
| - | - | 39,735 | - | 39,735 |
| - | - | 40,228 | 20,621 | 60,849 |
| 435 | 217 | 899 | 89 | 988 |
| 4,282 | 2,141 | 8,855 | 876 | 9,731 |
| - | 100,139 | 92,507 | (92,507) | - |
| 1,005,582 | 2,272,335 | 6,215,600 | 548,811 | 6,764,411 |
| 145,560 | 294,438 | - | - | - |
| \$ 1,151,142 | \$ 2,566,773 | \$ 6,215,600 | \$ 548,811 | \$ 6,764,411 |

See Accompanying Notes to the Financial Statements

Workforce Development Inc.

Rochester, MN

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017

| | Adult Employment and Training | Youth Employment and Training | Indirect Training |
|-------------------------------------|--|--|--------------------------|
| Salaries and Wages | \$ 272,216 | \$ 446,347 | \$ - |
| Employee Benefits and Payroll Taxes | 112,412 | 119,658 | - |
| Total Salaries and Related Expenses | 384,628 | 566,005 | - |
| Classroom Training | 151,348 | 63,151 | - |
| Participant Support | 46,288 | 24,995 | - |
| Subcontracted Services | 81,770 | 44,050 | - |
| Other Training Expenses | - | 8,609 | 5,739 |
| OJT Contracts/Wage Subsidy | 7,440 | - | - |
| Travel Reimbursements | 3,165 | 1,214 | 78,217 |
| Telephone | - | - | 47,111 |
| Postage | - | - | 9,718 |
| Auditing and Legal Fees | - | - | - |
| Supplies and Other | 1,309 | 2,940 | 72,887 |
| Advertising and Marketing | - | - | 7,892 |
| Dues and Subscriptions | - | - | 6,127 |
| Utilities | - | - | 56,297 |
| Equipment Rental | - | - | 76,802 |
| Rent and Occupancy | - | - | 295,661 |
| Sublease Expense | - | - | - |
| Insurance | - | - | - |
| Staff Development and Conferences | 2,024 | - | 63,316 |
| Maintenance | - | - | 60,676 |
| Depreciation | 1,606 | 2,043 | - |
| Program Transfers | (42,652) | - | 81,061 |
| Total Expenses Before Allocation | 636,926 | 713,007 | 861,504 |
| Indirect Training Allocations | 96,724 | 115,277 | (861,504) |
| Total Expenses | \$ 733,650 | \$ 828,284 | \$ - |

See Accompanying Notes to the Financial Statements

| Dislocated Worker | Welfare Reform | Total | Management and General | Total |
|------------------------------|----------------------------|----------------------------|-----------------------------------|----------------------------|
| \$ 961,585 | \$ 1,837,522 | \$ 3,517,670 | \$ 303,689 | \$ 3,821,359 |
| 242,050 | 530,898 | 1,005,018 | 89,481 | 1,094,499 |
| <u>1,203,635</u> | <u>2,368,420</u> | <u>4,522,688</u> | <u>393,170</u> | <u>4,915,858</u> |
| 578,195 | 42,792 | 835,486 | - | 835,486 |
| 81,758 | 154,522 | 307,563 | - | 307,563 |
| 124,255 | 22,081 | 272,156 | 6,050 | 278,206 |
| - | - | 14,348 | - | 14,348 |
| 12,175 | - | 19,615 | - | 19,615 |
| 2,258 | - | 84,854 | 24,036 | 108,890 |
| - | 170 | 47,281 | 8,100 | 55,381 |
| - | - | 9,718 | 1,555 | 11,273 |
| - | - | - | 19,358 | 19,358 |
| 4,755 | 5,820 | 87,711 | 14,163 | 101,874 |
| - | 500 | 8,392 | 1,287 | 9,679 |
| - | - | 6,127 | 6,735 | 12,862 |
| - | - | 56,297 | 9,084 | 65,381 |
| 4,177 | 3,599 | 84,578 | 12,773 | 97,351 |
| - | - | 295,661 | 84,149 | 379,810 |
| - | - | - | 78,552 | 78,552 |
| - | - | - | 17,938 | 17,938 |
| 1,416 | - | 66,756 | - | 66,756 |
| - | - | 60,676 | 22,919 | 83,595 |
| 6,422 | 3,211 | 13,282 | 1,314 | 14,596 |
| - | 42,652 | 81,061 | (81,061) | - |
| <u>2,019,046</u> | <u>2,643,767</u> | <u>6,874,250</u> | <u>620,122</u> | <u>7,494,372</u> |
| <u>307,703</u> | <u>341,800</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u><u>\$ 2,326,749</u></u> | <u><u>\$ 2,985,567</u></u> | <u><u>\$ 6,874,250</u></u> | <u><u>\$ 620,122</u></u> | <u><u>\$ 7,494,372</u></u> |

See Accompanying Notes to the Financial Statements

Workforce Development, Inc.

Rochester, MN

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|--------------------------|--------------------------|
| Cash Flows From Operating Activities: | | |
| Change in Net Assets | \$ (15,021) | \$ (129,974) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | | |
| Depreciation | 9,731 | 14,596 |
| Change in assets (increase) decrease | | |
| Accounts Receivable | 64,799 | (240,883) |
| Prepaid Expenses & Other Assets | 3,166 | (1,833) |
| Change in liabilities increase (decrease) | | |
| Accounts Payable | 29,805 | 918 |
| Accrued Liabilities | (37,348) | (96,871) |
| Refundable Advances | (363,647) | 426,677 |
| Net Cash (Used In) Operating Activities | <u>(308,515)</u> | <u>(27,370)</u> |
| Cash Flows From Investing Activities: | | |
| Purchase of Property and Equipment | - | (5,833) |
| Net Cash Used by Investing Activities | <u>-</u> | <u>(5,833)</u> |
| Cash Flows From Financing Activities: | | |
| Proceeds from Short-Term Debt | 150,000 | - |
| Net Cash Provided by Financing Activities | <u>150,000</u> | <u>-</u> |
| Net (Decrease) in Cash and Cash Equivalents | (158,515) | (33,203) |
| Cash and Cash Equivalents, Beginning of Year | <u>423,883</u> | <u>457,086</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$ 265,368</u></u> | <u><u>\$ 423,883</u></u> |
| Supplemental Disclosure | | |
| Interest Expense | <u>988</u> | <u>-</u> |

See Accompanying Notes to the Financial Statements

Workforce Development, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Workforce Development, Inc., formerly named Southeastern Minnesota Private Industry Council, Inc., (the "Organization") 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.

Basis of Accounting

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

The accompanying financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP) as codified by the Financial Accounting Standards Board.

Basis of Presentation

The Organization is required to report information regarding its net assets and activities in the following three categories:

Unrestricted Net Assets - Unrestricted net assets include expendable resources over which the Organization has discretionary control and are used to carry out the Organization's operation in accordance with its bylaws.

Temporarily Restricted Net Assets - Temporarily restricted net assets include resources expendable only for those purposes specified by the donor or grantor. The restrictions are satisfied either by the passage of time or by action of the Organization. The Organization did not have any temporarily restricted net assets for the years ended June 30, 2018 and 2017.

Permanently Restricted Net Assets - Permanently restricted net assets include resources subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization did not have any permanently restricted net assets for the years ended June 30, 2018 and 2017.

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
June 30, 2018 and 2017

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Receivables

Management has elected to record bad debt expense using the direct write-off method when receivables are determined to be uncollectible based on the periodic review of the accounts. U.S. GAAP requires that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Equipment

Purchased equipment is recorded at cost. Donated equipment is recorded at fair market value at the time of contribution. 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 the straight-line method based on the estimated useful lives of the respective assets ranging from 3 to 5 years.

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.

Refundable Advances

The Organization records cash receipts from grant awards as refundable advances until related services are performed, at which time they are recognized as revenue.

Revenue Recognition

The Organization's revenue sources are reimbursement-type grants, performance contracts, program fees, and contributions. Revenue is recognized when earned and contributions are recognized when received. In accordance with U.S. GAAP, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Workforce Development, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenue Recognition, Continued

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires during the report period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services

Donated services are recognized as contributions in accordance with U.S. GAAP, *Accounting for Contribution Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization received no such donated services during the years ended June 30, 2018 and 2017.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

For the purposes of Federal, State of Minnesota, private grants, and service contracts directly identifiable to 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.

Tax Status

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. 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 organization under Section 509(a)(2). The Organization is also exempt from state taxation.

Workforce Development, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, Continued

Accounting for Uncertainty in Income Taxes

U.S. GAAP requires management to evaluate tax position taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by a taxing authority. Management has analyzed the tax positions taken by the Organization and has concluded that as of June 30, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions, however, there are currently no audits in progress for any tax period. The Organization will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense, if incurred.

Advertising

The cost of advertising is charged to expense as incurred.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Standards Update 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities, which is expected to impact the information presented in the financial statements and notes about not-for-profit entity's liquidity, financial performance, and cash flows. The guidance is required to be applied by the Organization for the year ended June 30, 2019; however early adoption is permitted. The Organization is currently evaluating the impact this guidance will have on its financial statements.

Subsequent Events

The Organization has evaluated subsequent events through January 18, 2019, the date the financial statements were available to be issued.

NOTE 2. CONCENTRATION OF CASH AND CREDIT RISK

The Organization may have deposits with a financial institution that exceed the FDIC Insurance amount of \$250,000 throughout the year. The amount of the accounting loss that the Organization would incur if the financial institution could not return monies in excess of \$250,000 amounted to approximately \$0 and \$57,306 as of June 30, 2018 and 2017.

Workforce Development, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 3. RECEIVABLES

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

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Governmental Entities: | | |
| County Governments | \$ 276,466 | \$ 313,152 |
| State of Minnesota | 203,687 | 217,237 |
| Federal | 89,558 | 104,166 |
| Total Governmental Entities | 569,711 | 634,555 |
| Other Receivables: | | |
| Private Organizations and Miscellaneous | 78,429 | 78,384 |
| Total Receivables | \$ 648,140 | \$ 712,939 |

NOTE 4. EQUIPMENT AND DEPRECIATION

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

| | 2018 | 2017 |
|-------------------------------|------------------|------------------|
| Equipment | \$ 48,648 | \$ 54,480 |
| Less Accumulated Depreciation | (34,288) | (30,389) |
| Total Equipment, net | \$ 14,360 | \$ 24,091 |

A significant 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, 2018 and 2017.

NOTE 5. SHORT TERM DEBT PAYABLE

In May 2018, the Organization entered into a note payable agreement for \$150,000 with interest payable at 6.5% per annum. The note is due in four monthly payments of interest only beginning June 30, 2018 and one final payment on October 31, 2018 of the entire principal balance and remaining unpaid accrued interest.

Workforce Development, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 6. 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, 2018 and 2017 the Organization contributed through an employer matching contribution program \$170,195 and \$192,489, respectively.

NOTE 7. 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 expenses.

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, 2018 and 2017, was \$665,624 and \$585,006, respectively.

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
June 30, 2018 and 2017

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> |
|----------------------------|---------------|
| 2019 | \$ 487,064 |
| 2020 | 222,219 |
| 2021 | 164,821 |
| 2022 | 32,626 |
| 2023 | 4,032 |
| Thereafter | 4,032 |

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, 2018 and 2017 were \$493,754 and \$477,161, respectively.

During the years ended June 30, 2018 and 2017, the Organization subleased office space to other exempt organizations. Future minimum rental sublease income as of June 30 are as follows:

| <u>For the Year Ending</u> | <u>Amount</u> |
|----------------------------|---------------|
| 2019 | \$ 75,355 |
| 2020 | 51,784 |
| 2021 | 52,142 |
| 2022 | 10,938 |
| 2023 | - |

NOTE 10. RECLASSIFICATION

Certain accounts in the prior year financial statements have been reclassified for comparative purpose to conform to the presentation of the current year's financial statements.

Workforce Development, Inc.
Rochester, MN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

| Federal Grantor/Pass-through Grantor Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Total Federal Expenditures |
|---|---------------------------|--|-------------------------------|
| U.S. Department of Labor: | | | |
| Passed Through by Minnesota Department of Employment and Economic Development: | | | |
| WIA Cluster | | | |
| WIOA Adult Program | 17.258 | | |
| WIOA Adult PY 15 | | 5083100 | \$ 2,022 |
| WIOA Adult PY 16 | | 6083100 | 25,896 |
| WIOA Adult PY 17 | | 7083100 | 290,522 |
| | | | <u>318,440</u> |
| WIOA Youth Activities | 17.259 | | |
| WIOA Youth PY 17 | | 7083600 | 276,987 |
| WIOA Youth PY 18 | | 8083600 | 94,697 |
| | | | <u>371,684</u> |
| WIOA Dislocated Worker | 17.278 | | |
| WIOA Dislocated Worker PY 15 | | 5088000 | 2,550 |
| WIOA Dislocated Worker PY 16 | | 6088000 | 87,776 |
| WIOA Dislocated Worker PY 17 | | 7088000 | 342,075 |
| Bellisio Foods | | 7088201 | 10,000 |
| Bon Ton (Herbergers)-ERAG | | 7088202 | 2,463 |
| | | | <u>444,864</u> |
| | | Total WIOA Cluster | <u>1,134,988</u> |
| WIA National Emergency Grants Sector Partnership NEG | 17.277 | | |
| | | 5087200 | 24,542 |
| | | Total WIA NEG | <u>\$ 24,542</u> |
| Total U.S. Department of Labor: | | | <u>1,159,530</u> |

See Accompanying Notes to the Schedule of Expenditure of Federal Awards

Workforce Development, Inc.
Rochester, MN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

| Federal Grantor/Pass-through Grantor Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Total Federal Expenditures |
|---|---------------------------|--|-------------------------------|
| 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 2017 | | 7087400 | 31,020 |
| TANF Summer Youth 2018 | | 8087400 | 3,371 |
| | | | 34,391 |
| Total U.S. Department of Health and Human Services: | | | 34,391 |
| U.S. Department of Education: | | | |
| Passed Through by Minnesota Department of Employment and Economic Development: | | | |
| Vocational Rehabilitation | 84.126A | | |
| Pre-ETS | | 7087300 | 83,859 |
| Total U.S. Department of Education: | | | 83,859 |
| Total Federal Expenditures | | | \$ 1,277,780 |

See Accompanying Notes to the Schedule of Expenditure of Federal Awards

Workforce Development, Inc.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

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, 2018. 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 Uniform Guidance, 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 no subrecipients receive funds in the year ended June 30, 2018.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment acquired with grant funds are recorded as expenditures in the period of purchase instead of being capitalized and depreciated over the estimated lives as required by generally accepted accounting principles.

Workforce Development, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of Auditors' 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 | _____ <u>X</u> No | |
| Significant deficiencies identified that are not considered to be material weakness(es)? | _____ Yes | _____ <u>X</u> None Reported | |
| Noncompliance material to financial statements noted? | _____ Yes | _____ <u>X</u> No | |

Federal Awards

Internal control over major programs:

| | | | |
|--|-----------|------------------------------|--|
| Material weakness(es) identified? | _____ Yes | _____ <u>X</u> No | |
| Significant deficiencies identified that are not considered to be material weakness(es)? | _____ Yes | _____ <u>X</u> None Reported | |

Type of Auditors' 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 | WIOA Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

Workforce Development, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2018

Section II - Financial Statement Findings - None

Section III - Federal Awards Findings and Questioned Costs - None

Status of Prior Audit Findings - None

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*

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, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 18, 2019.

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 Organization'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

January 18, 2019

Independent Auditors' 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, 2018. Workforce Development, Inc.'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' 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, 2018.

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
January 18, 2019

WORKFORCE DEVELOPMENT, INC.

**INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATION WITH THOSE
CHARGED WITH GOVERNANCE**

JUNE 30, 2018

WORKFORCE DEVELOPMENT, INC.

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JUNE 30, 2018

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

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

We have audited the financial statements of Workforce Development, Inc. (the "Organization"), for the year ended June 30, 2018, and have issued our report thereon dated January 18, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 7, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Workforce Development, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2017-2018 fiscal year. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The depreciation of fixed assets is based on management's estimate of the productive life of those assets.
- The functional expense allocation is based on management's estimate by each function based on use of time performing each function.
- The accrued health claims is based on management's estimate by historical activity and knowledge of pending claims.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule of a proposed journal entry summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 18, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Hawthorn Ash CPAs, LLP

Rochester, Minnesota
January 18, 2019

WORKFORCE DEVELOPMENT, INC.
PROPOSED JOURNAL ENTRY
JUNE 30, 2018

| <u>Account</u> | <u>Description</u> | <u>Debit</u> | <u>Credit</u> |
|---|--|----------------------|----------------------|
| <u>Proposed Journal Entry #1</u> | | | |
| 2204020 | Health Insurance | 14,550 | |
| 2204031 | Accrued Health Claims | | 14,550 |
| | - To adjust accrued health claims to actual. | | |
| | Total | <u>14,550</u> | <u>14,550</u> |