



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

**Pacific Mountain Workforce
Development Council**

Thurston County

For the period July 1, 2016 through June 30, 2017

Published March 30, 2018

Report No. 1021085





Office of the Washington State Auditor

Pat McCarthy

March 30, 2018

Board of Directors
Pacific Mountain Workforce Development Council
Tumwater, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Pacific Mountain Workforce Development Council's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Council's financial condition.

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Pacific Mountain Workforce Development Council Thurston County July 1, 2016 through June 30, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Pacific Mountain Workforce Development Council are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities and each major fund in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Council.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Council’s compliance with requirements applicable to each of its major federal programs.

We reported a finding that is required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
17.258	WIA/WIOA Cluster – WIOA Adult Program
17.259	WIA/WIOA Cluster – WIOA Youth Activities
17.278	WIA/WIOA Cluster – WIOA Dislocated Worker Formula Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Council qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2017-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2017-002.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Pacific Mountain Workforce Development Council Thurston County July 1, 2016 through June 30, 2017

2017-001 The Council overstated its Schedule of Expenditures of Federal Awards by including non-federal expenditures.

Background

Schedule of Expenditures of Federal Awards

The Council is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that affected the Council's ability to produce reliable financial schedules.

All local governments in Washington that spend federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of the annual financial report. Title 2 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires grantees to identify, in their accounts, all Federal program awards received and expended and to report all federal awards expended on the SEFA each fiscal year.

Characteristics of Subrecipients and Contractors

A subrecipient is a non-federal entity (typically a local government or non-profit organization) that receives federal assistance from a pass-through agency (such as the state or another local government) to carry out a program or project of the federal government. Subrecipients receive the federal grant or loan so that they can meet a public need in the community.

Contractors (formerly "vendors") compete with others to provide goods and services needed to operate a project or program. These goods and services are often additional to the overall program objectives. Selection of contractors is typically based on the contractor's ability to provide the best goods and services at the best price.

Funds received as fees for service generally should not be included on the SEFA. For example, if the government is being paid for providing goods or services in a contractor capacity, this contractor payment is not considered a federal grant to the entity.

Description of Condition

The Council did not have adequate controls in place to ensure the accuracy of expenditures reported on the SEFA. As a result, for fiscal year ending 2017, the Council inappropriately reported \$2,452,903 in funds received for providing goods and services in a contractor capacity as federal expenditures on its SEFA. We consider this control deficiency to be a material weakness.

Cause of Condition

The Council did not adequately understand its contractor relationship with pass-through agencies. In addition, the Council had difficulties determining if there was a contractor relationship with the pass-through agency. This determination ultimately required direct communication with the pass-through agency for some of the Council's federal funding.

Effect of Condition

Inaccurate financial schedules limit the ability of the Council and others to correctly meet compliance requirements, including required audit coverage.

Recommendation

We recommend the Council review its relationship with all federal awarding agencies to ensure contractor relationships are appropriately identified and that funds received for providing goods and services in a contractor capacity are not reported on the SEFA.

Council's Response

The Council recognizes the error of including the DSHS contracts from Rehabilitation Administration and Vocational Rehabilitation as a federal award. Because the Council was carrying out federal activities as required in the contract language it was assumed that we would qualify as a federal award. It was overlooked on the contract cover sheets that we were not to be considered a subrecipient. The Council will immediately implement a thorough review of all cover sheets for new awards to verify if this determination of classification is made up front. If the information is not provided the Council will request that clarification from the contractor prior to signature. Total recognized overstatement of \$948,198.

The WorkFirst award through the Department of Commerce continues to be a conversation we are undergoing with the Department of Commerce. This is a long standing award that has been reported as a federal award on the SEFA without question. The award information clearly identifies it as a federally funded program

with related CFDA Number. There is no area in the contract that identifies that it is not a subrecipient. The fee for service element is being called out as a determining factor. This should not automatically constitute that the relationship does not match with a subrecipient determination. The fee for service qualifies as program income which is reportable on the SEFA. While part of this contract is a payment point program, there is also a reimbursable cost portion. The payment point or performance based pay portion is dictated by the Department of Commerce, not PacMtn, so the award is not based on determining the best service at the best price. The payment point structure is the same throughout the state to all of their awardees. We also do not specify the scope of work as identified as one of the conditions in the contractor definition. We carry out the requirements of the related federal funding and receive annual monitoring from the Department of Commerce to ensure compliance. While the Department of Commerce declared us as not a subrecipient after weeks of review they did not provide an explanation to this determination. The Council has requested further information to clarify how and why they came to that determination. The Council will not report this information on the SEFA again until we receive final guidance from Commerce that changes their original determination.

Auditor's Remarks

We thank the Council for their assistance during this audit. We also recognize the difficulty of determining the appropriate relationship with federal awarding agencies. Our level of recommendation is based on federal requirements and determinations reached by federal awarding agencies. We will follow up on the status of this issue during our next scheduled audit.

Applicable Laws and Regulations

Budgeting, Accounting and Reporting System (BARS) Manual, 4.8.5.200 – Characteristics of Subrecipients

Budgeting, Accounting and Reporting System (BARS) Manual, 4.8.5.210 – Characteristics of Contractors

Budgeting, Accounting and Reporting System (BARS) Manual, 4.8.5.220 – Tips for Preparing the Schedule

**SCHEDULE OF FEDERAL AWARD FINDINGS AND
QUESTIONED COSTS**

**Pacific Mountain Workforce Development Council
Thurston County
July 1, 2016 through June 30, 2017**

2017-002 The Council did not have adequate internal controls in place to ensure funds passed through to its subrecipients were spent in accordance with federal earmarking requirements.

CFDA Number and Title:	WIA / WIOA Cluster - 17.258, 17.259, 17.278
Federal Grantor Name:	Department of Labor
Federal Award/Contract Number:	Multiple
Pass-through Entity Name:	Washington State Employment Security Department
Pass-through Award/Contract Number:	6102 - 7005
Questioned Cost Amount:	\$0

Background

The Workforce Innovation and Opportunity Act of 2014 (WIOA) authorizes formula grant programs to states to help job seekers access employment, education, training and support services to succeed in the labor market. Youth employment and educational services are available to eligible out-of-school youth ages 16 to 24, and low-income in-school youth ages 14 to 21, who face barriers to employment.

The grant regulations stipulate the Council must reserve and spend a minimum of 20 percent of the Youth Activity funds for paid and unpaid work experiences. To ensure the funds are used for the intended grant purposes, the Council is required to earmark a minimum portion of the grant funding for distribution to subrecipients that will carry out the intent of the grant.

Description of Condition

For fiscal year ended 2017, the Council did not have adequate internal controls in place to ensure the earmarking and spending of 20 percent of the grant’s Youth Activity funding was included in its contracts with subrecipients.

We consider this control deficiency to be a material weakness. This issue was not reported as a finding in the prior audit.

Cause of Condition

The Council was aware of the requirement to ensure subrecipients met federal earmarking requirements. The Council's subrecipients were new to the requirements and the Council dedicated staff to work directly with these subrecipients to help ensure these requirements were met. While the Council monitored sub-recipient expenditures and reminded the subrecipients about required expenditures amounts, the Council ultimately relied on subrecipients to spend at their budgeted figures to satisfy federal requirements. Subrecipient expenditures did not meet the budgeted figures, causing federal earmarking requirements to not be met.

Effect of Condition and Questioned Costs

We did not identify any questioned costs because the funds that were to be earmarked were spent for other purposes related to the grant. The Council did not meet federal earmarking requirements because it did not ensure 20 percent of Youth Activity funds were used by subrecipients to provide paid and unpaid work experiences.

Continued noncompliance with federal earmarking requirements could result in a decrease of federal funds available to the Council in future periods.

Recommendations

We recommend the Council:

- Include earmarking requirements in all subrecipient contracts to ensure subrecipients are aware of applicable earmarks
- Periodically review subrecipient expenditure activity to ensure spending aligns with federal earmarks

Council's Response

The Council recognizes during the first year of implementation of WIOA WEX spending the Council did not achieve the required target to ensure a minimum of 20% was spent on work experience activities. The grant in question began April 1, 2015 and was fully expended by December 31, 2016. The programming in question was contained in our Fiscal Year ending 2016. During this initial year, the Council implemented new strategies and programs with multiple partners. These partners were held to contract requirements and budget standards in order for us to

establish a plan to hit the minimum target. Because of the new programs, partners and timing of activities there were unforeseen challenges that ultimately led us to fall short of our 20% requirement.

The second year of implementation we were able to narrow our programming down to one contractor who was provided with the ear marking requirement goal to meet and they provided quarterly updates on their WEX expenditures. We are now currently in our third year of implementation and our contractor provides regular WEX reports and has plans to exceed the 20% requirement.

Auditor's Remarks

We appreciate the Council's commitment to resolve this finding and thank the Council for its cooperation and assistance during the audit. We will review the corrective action taken during the next regular audit.

Applicable Laws and Regulations

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303 Internal controls, establishes requirements for management of Federal awards to non-Federal entities.

Title 20 CFR Part 681 Section 590 - What is the work experience priority and how will local youth programs track the work experience priority?

(a) Local youth programs must expend not less than 20 percent of the funds allocated to them to provide ISY (in-school youth) and OSY (out-of-school youth) with paid and unpaid work experiences that fall under the categories listed in §681.460(a)(3) and further defined in §681.600.

(b) Local WIOA youth programs must track program funds spent on paid and unpaid work experiences, including wages and staff costs for the development and management of work experiences, and report such expenditures as part of the local WIOA youth financial reporting. The percentage of funds spent on work experience is calculated based on the total local area youth funds expended for work experience rather than calculated separately for ISY and OSY. Local area administrative costs are not subject to the 20 percent minimum work experience expenditure requirement

**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**

**Pacific Mountain Workforce Development Council
Thurston County
July 1, 2016 through June 30, 2017**

Board of Directors
Pacific Mountain Workforce Development Council
Tumwater, Washington

We have audited, 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, the financial statements of the governmental activities and each major fund of the Pacific Mountain Workforce Development Council, Thurston County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated March 29, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Council'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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of the Council's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

COUNCIL'S RESPONSE TO FINDINGS

The Council's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Council'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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to

disseminate information to the public as a reporting tool to help citizens assess government operations.

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Pat McCarthy

State Auditor

Olympia, WA

March 29, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Pacific Mountain Workforce Development Council
Thurston County
July 1, 2016 through June 30, 2017**

Board of Directors
Pacific Mountain Workforce Development Council
Tumwater, Washington

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

We have audited the compliance of the Pacific Mountain Workforce Development Council, Thurston County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Council's major federal programs for the year ended June 30, 2017. The Council's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Council'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 the Council'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. Our audit does not provide a legal determination on the Council's compliance.

Opinion on Each Major Federal Program

In our opinion, the Council 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, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-002. Our opinion on each major federal program is not modified with respect to these matters.

Council's Response to Findings

The Council's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Council 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 the Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order 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 the Council's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-002 to be a material weakness.

Council's Response to Findings

The Council's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy
State Auditor
Olympia, WA

March 29, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Pacific Mountain Workforce Development Council Thurston County July 1, 2016 through June 30, 2017

Board of Directors
Pacific Mountain Workforce Development Council
Tumwater, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the Pacific Mountain Workforce Development Council, Thurston County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed on page 22.

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 opinions 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 Council'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 Council'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 respective financial position of the governmental activities and each major fund of the Pacific Mountain Workforce Development Council, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis 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* (Uniform Guidance). This schedule is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2018 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

March 29, 2018

FINANCIAL SECTION

**Pacific Mountain Workforce Development Council
Thurston County
July 1, 2016 through June 30, 2017**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2017

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – 2017

Notes to the Budgetary Comparison Schedule – 2017

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2017

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Management's Discussion and Analysis
Year Ending June 30, 2017

As management of the Pacific Mountain Workforce Development Council (PacMtn), we offer readers of the financial statements a narrative overview of the Council's financial activities for the year ending June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our financial statements and notes to the financial statements which immediately follow this discussion.

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Council's basic financial statements. These audited financial statements cover twelve months ending June 30, 2017. PacMtn took over grants management and fiscal functions from Thurston County as of January 1, 2011 and operates on a fiscal year from July 1 – June 30. The audit year comparisons will reflect six full years of operation. The basic financial statements are comprised of the following components:

1. Government-wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the Council's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the Council's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them reported as net position. This statement serves the purpose similar to that of a balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Council is improving or deteriorating. However, this is just one indicator of financial health of the Council. Other indicators include the level of change in federal, state and local governmental support for the services that the Council provides to its constituents, as well as the general economic conditions within Grays Harbor, Lewis, Mason, Pacific, and Thurston Counties.

The statement of activities presents information showing how the Council's net position changed for the twelve months ended June 30, 2017. It separates program revenue generated by its functions and program: grants, contracts, and miscellaneous sources. All changes in net position are reported as soon as the underlying event gives rise to the change to occur, regardless of the timing of related cash flows. Items such as unpaid invoices and earned but unused vacation are included in the statement as income and expenses, even though the cash associated with these items will not be received or distributed until sometime in the future.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. PacMtn uses a single fund accounting system to ensure

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Management's Discussion and Analysis
Year Ending June 30, 2017

and demonstrate compliance with finance-related requirements and to provide management with information for controlling spending activities.

The Balance Sheet Governmental Funds and the Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds present a single column of financial data for the General Fund. This Fund is considered to be a major fund based on criteria established by the Governmental Accounting Standards Board (GASB) Statement #34.

Governmental funds are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements' use of accrual accounting, governmental fund financial statements focus on near term inflows and outflows of spendable resources available at the end of the fiscal year. This information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

Budgetary Comparison and Schedule and Related Note

The Council maintains budgetary controls over its fund. The objective of budgetary controls is to ensure compliance with legal requirements embodied in state law, and the agreement providing for creation and operation for the Council.

A Budgetary comparison schedule provides the following types of information:

1. The original budget – the first complete legally appropriated budget adjusted for changes occurring before the beginning of the fiscal year. The original budget also includes initial appropriation amounts automatically carried over from prior grant years.
2. The final budget – including all legally authorized changes including those occurring during and after the end of the fiscal year.
3. Actual inflows, outflows, and balances.

A note to the budgetary comparison schedule is also provided.

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Management's Discussion and Analysis
Year Ending June 30, 2017

CONDENSED COMPARATIVE FINANCIAL DATA

Government-wide Financial Analysis

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the Council's financial position. The Council's liabilities and deferred inflows exceeded assets and deferred outflows by \$530,117 at year ending June 30, 2016 and by \$350,221 at year ending June 30, 2017. Because of implementation of GASB 68, the Council will likely continue to show excess liabilities each year. This is because of the new reporting requirement to include net pension liability. Without GASB 68 the net position would reflect a balance of \$1,025,664, which more accurately represents the financial conditions at PacMtn.

Deferred outflows and inflows of resources is related to pensions as required by GASB 68.

The balance of net position can be used to finance normal Council operations without constraints established by enabling legislation or other legal requirements. The following table reflects the condensed Government-Wide Statement of Net Position of the Council:

Governmental Activities	Year Ending	
	June 30, 2017	June 30, 2016
	<u>Audited</u>	<u>Audited</u>
Assets:		
Current Assets	2,186,295	1,887,160
Capital Assets	<u>42,740</u>	<u>30,945</u>
Total Assets	<u>2,229,035</u>	<u>1,918,104</u>
Deferred Outflows of Resources	494,881	364,487
Liabilities:		
Current Liabilities	1,074,074	924,716
Long Term Liabilities-Compensated Absences	129,298	124,440
Net Pension Liability	<u>1,831,200</u>	<u>1,527,938</u>
Total Liabilities	3,034,572	2,577,094
Deferred Inflows of Resources	39,566	235,614
Net Position:		
Net Investment in Capital Assets	42,740	30,945
Unrestricted	<u>(392,961)</u>	<u>(561,062)</u>
Total Net Position	<u>(350,221)</u>	<u>(530,117)</u>

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Management's Discussion and Analysis
Year Ending June 30, 2017

Statement of Activities

The following table summarizes the Council's overall operating results for the year ending June 30, 2017 and 2016:

	Year Ending	
	June 30, 2017 Audited	June 30, 2016 Audited
Governmental Activities		
Program Revenues	8,951,165	8,783,496
General Revenues	1,244	1,241
Total Revenues	8,952,409	8,784,737
Program Expenses	8,772,513	9,022,154
Total Expenses	8,772,513	9,022,154
Excess (Deficiency)	179,896	(237,416)
Special Item Gain on Sale of Capital Asset	0	0
Change in Net Position	179,896	(237,416)
Net Position – Beginning	(530,117)	(665,766)
Changes in Accounting Principles-GASB 68		373,065
Net Position- Ending	(350,221)	(530,117)

The Statement of Activities reflects the adjustment to pension expense of \$23,180.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

As the preceding analysis indicates, this was the sixth full year of operations from July 1, 2016 to June 30, 2017. The ending net position of (\$350,221) is unrestricted and includes \$42,740 of capital assets. While this shows an increase of net position of \$179,896 because of the new GASB 68 reporting requirements, actual results from the prior year would show an increase in \$156,716 in net position from previous year. If this increase could be shown, the majority of positive change in net position occurs from earnings generated from our payment point contracts. There was a small increase due to interest earnings on long term investments.

FUND ANALYSIS

As noted earlier, the Council uses fund accounting to ensure and demonstrate compliance with finance-related legal documents. The Council has only one fund type, namely governmental and only one fund within that fund type, the general fund.

Grant revenue fluctuates year to year depending upon federal availability of funds and State distribution of formulaic grants. There were not significant changes in the types and amounts of federal awards from the previous year. The following represents general fund revenues for the year ending June 30, 2017 and 2016:

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Management's Discussion and Analysis
Year Ending June 30, 2017

	Year Ending	
	June 30, 2017	June 30, 2016
	Audited	Audited
Grant and Contract Revenue	9,026,413	8,676,158
Investment and Other Income	1,244	1,241
Totals	9,027,657	8,677,399

Expenses fluctuate each year based on the amount of grant awards received. Because new grant funding required additional staffing our expenses in payroll increased from last year.

	Year Ending	
	June 30, 2017	June 30, 2016
	Audited	Audited
Payroll, Taxes, & Benefits	3,055,526	2,779,751
Program Sub-Contractors	3,776,316	3,411,341
Participant Payments	1,314,633	1,950,141
Facilities	453,404	417,613
Professional Services	79,848	128,812
Training & Travel	60,977	67,803
Insurance	17,072	16,518
Other	22,386	24,470
Capital Outlay	22,466	0
Totals	8,802,628	8,796,449

BUDGET VARIANCES IN THE GENERAL FUND

The original budget reflects the preliminary budget adopted in June, prior to the beginning of the fiscal year. The final budget reflects the last board adopted budget of the year. Budgets are updated throughout the year to reflect the addition of new grant awards. The final budget increased roughly 28% due to the release of the third increment of Department of Labor National Emergency Grant funds, which extended the project an additional year. There were also a few additional new awards from special initiatives from Employment Security and the Washington Training and Education Coordinating Board.

Both the actual revenue and expenditures were under budgeted amounts. Revenues under budget are directly related to the under expenditures as the majority of our grants are cost reimbursement. Under expenditures mainly occurred on the subcontract and participant payment side. This is partially due to general under expenditures but also due to anticipated shift of spending as funds cross into the next year and carry in funds are needed.

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Management's Discussion and Analysis
Year Ending June 30, 2017

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

PacMtn has several vehicles and office equipment including printers, servers and software. The capital asset schedule can be found in the Notes to the Financial Statements. The organization does not have any debt, plans to take on debt, nor commitments for capital expenditures.

OTHER POTENTIALLY SIGNIFICANT MATTERS

Workforce Innovation and Opportunity Act

PacMtn operates primarily under the authorization of Title 1 of the Workforce Innovation and Opportunity Act of 2014. Final regulations were released and full implementation of the requirements will continue into program year 17.

Funding Factors

PacMtn ended the Fiscal Year (July 1, 2016 – June 30, 2017) earning less revenue than budgeted but this means more funds will be available to use in the next fiscal year. Discretionary grants are added throughout the year and help supplement WIOA formula funds. Grants received late in the year are still added in entirety to the budget to show availability even though the program will continue over subsequent fiscal years. Another increment from our Camo2Commerce grant was awarded April 2017. This \$2 million addition will continue the program through December 31, 2017. This grant serves the transitioning military population at Joint Base Lewis McChord. Three new awards were granted to PacMtn for a total of \$691,828 to increase program enrollments and upskill the workforce.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of PacMtn's finances for all those with an interest in PacMtn finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Chief Executive Officer, Pacific Mountain Workforce Development Council, 1570 Irving Street SW, Tumwater, WA 98512.

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL

Statement of Net Position

June 30, 2017

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	734,048
Investments	249,487
Receivables	1,159,874
Prepays	42,886
Capital Assets net of accumulated depreciation:	
Vehicles	18,683
Office Equipment	24,057
Total Capital Assets	42,740
TOTAL ASSETS	<u>2,229,035</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	500,418
LIABILITIES	
Accounts Payable	783,545
Other Current Liabilities	290,529
Compensated Absences	129,298
Net Pension Liability	1,831,200
TOTAL LIABILITIES	<u>3,034,572</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	39,566
Net Position	
Investment in Capital Assets	42,740
Unrestricted	(387,424)
TOTAL NET POSITION	<u>(344,684)</u>

The notes to the financial statements are an integral part of this statement.

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Statement of Activities
Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expense) Revenues and Changes in Net Position Total Governmental Activities</u>
Governmental Activities			
Employment Opportunity	8,766,976	8,951,165	184,189
TOTAL GOVERNMENTAL ACTIVITIES			184,189
General Revenues:			
Unrestricted Investment Earnings			1,244
Total General Revenues			1,244
Change in Net Position			185,433
		Net Position - Beginning	(530,117)
			-
		Net Position - Ending	(344,684)

The notes to financial statements are an integral part of this statement.

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL

**Balance Sheet
Governmental Funds
June 30, 2017**

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	734,048
Investments	249,487
Receivables	<u>1,159,874</u>
TOTAL ASSETS	<u><u>2,143,409</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCE	
Accounts Payable	783,545
Other Current Liabilities	<u>290,529</u>
TOTAL LIABILITIES	1,074,074
Deferred Inflows of Resources	9,861
FUND BALANCE	
Committed	4,287
Unassigned	<u>1,055,187</u>
TOTAL FUND BALANCE	1,059,474
TOTAL LIABILITIES & FUND BALANCE	<u><u>2,133,548</u></u>

Amounts reported for governmental activities in the Government-wide Statement of Net Position are different because:

Balance in governmental funds	1,059,474
Prepaid accounts used in governmental activities are not financial resources and therefore are not reported in the Governmental Funds	42,886
Unavailable revenues are not available to pay current period expenditures and therefore are not reported in Governmental Funds	9,861
Capital assets used in governmental activities are not financial resources and therefore are not reported in the Governmental Funds	42,740
Net Pension liability amounts and deferred inflow and outflow amounts use in governmental activities are not financial resources and therefore are not reported in the fund.	(1,370,347)
Compensated absence liabilities used in governmental activities are not due and payable in the current period and therefore not reported in the Governmental Funds	<u>(129,298)</u>
Net position - Governmental Activities	<u><u>(344,684)</u></u>

The notes to financial statements are an integral part of this statement.

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For Year Ended June 30, 2017

	General Fund
REVENUES	
Operating Grants & Contributions	9,026,415
Investment Earnings	1,244
TOTAL REVENUES	9,027,659
 EXPENDITURES	
Current:	
Payroll, Taxes, & Benefits	3,055,526
Program Sub-Contractors	3,776,316
Participant Payments	1,314,633
Facilities	453,404
Professional Services	79,848
Training & Travel	60,977
Insurance	17,072
Other	22,386
Capital Outlay	22,466
TOTAL EXPENDITURES	8,802,628
Excess (Deficiency) of Revenues over Expenditures	225,031
Net Change in Fund Balance	225,031
Fund Balance - Beginning	834,445
Fund Balance - Ending	1,059,476
 Amounts reported for governmental activities in the Statement of Activities are different because:	
Net change in fund balance	225,031
Capital Outlays and depreciation of Asset costs used in governmental activities are not financial resources and therefore are not reported in the Governmental funds	11,794
Unavailable revenues provided by governmental activities are not available to pay current period expenditures and therefore are not reported in the Governmental funds	(50,139)
Prepaid accounts used in governmental activities are not financial resources and therefore are not reported in the Governmental Funds	(25,111)
Net adjustments to pension expense used in governmental activities are not financial resources and therefore not reported in the Governmental funds	28,717
Compensated absences used in governmental activities are not due and payable in the current period and therefore not reported in the Governmental Funds	(4,858)
CHANGE IN NET POSITION - Governmental Activities	185,434

The accompanying notes are an integral part of this financial statement.

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Pacific Mountain Workforce Development Council (PacMtn) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant policies are described below.

A. Reporting Entity

The Pacific Mountain Consortium is comprised of the Board of County Commissioners of Grays Harbor, Lewis, Mason, Pacific, and Thurston Counties, Washington in Workforce Development Area 2, pursuant to the Governor’s approval dated July 1, 2010, to provide workforce investment activities. The Consortium is organized under the Interlocal Cooperation Act of 1967, Chapter 39.34, RCW, which permits local governmental units to cooperate and to provide services and facilities in a manner which will best deal with the geographic, economic, demographic, and other factors influencing the development of local communities. PacMtn was organized as a nonprofit corporation by the Consortium; as provided for in Section 117 of Public Law 105-220--Aug. 7, 1998 Workforce Investment Act (WIA), to implement the WIA in the Workforce Development Area. In accordance with Section 117(d) (3) (B) of the Workforce Investment Act (WIA), the subsequent reauthorization in the Workforce Innovation and Opportunity Act (WIOA) section 107 (d) (12) (B) and in accordance with the Interlocal Cooperation Act of 1967 (Chapter 39.34, Revised Code of Washington), the Consortium has designated PacMtn as the local grant sub recipient and local fiscal agent. The five counties acting through the Pacific Mountain Consortium appoint the 24 or fewer members of the Board of Directors of PacMtn pursuant to the nomination and appointment process established under WIOA and in accordance with the nomination process prescribed by the Bylaws, approve the Strategic and Operation plans for Workforce Development Area 2; and make recommendations on and approve the selection of workforce service providers.

PacMtn is organized exclusively for educational, charitable, religious, scientific, and/or literary purposes, within the meaning of Section 501(c) (3) of the Internal Revenue Code of 1986, as amended from time to time. PacMtn was incorporated on July 6, 2000 and assumed all administrative and fiscal functions beginning January 1, 2011. PacMtn financial statements include the financial position and results of operations for all programs that are controlled by or dependent on PacMtn.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of PacMtn.

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.

PacMtn is a single purpose organization with a single fund, and therefore, there is no interfund activity, nor separate statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, PacMtn considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. This criterion applies to all Grant and Contract revenues. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

PacMtn reports the general fund as its major governmental fund. The general fund is PacMtn's operating fund. It accounts for all the financial resources, except for those required to be accounted for in another fund.

When both restricted and unrestricted revenues are available for use, it is PacMtn's policy to use restricted resources first, then unrestricted resources as needed.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for the general fund on the modified accrual basis of accounting. Appropriations for the general fund lapse at fiscal year-end. Grant and contract revenues are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

2. Amending the Budget

Any revisions that alter the total expenditures of the general fund or that substantially affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Board of Directors or Executive Committee.

When the Board of Directors determines that it is in the best interest of PacMtn to increase or decrease the appropriation for the general fund, it may do so by a motion approved by the majority during a regularly scheduled meeting.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year. PacMtn adjusted the original budget once during this fiscal year but is not limited to the number of budget adjustments.

3. Excess of Expenditures Over Appropriations

Any excess or non-reimbursable expenditures are expensed to non grant-related general funds.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and investments with a maturity of less than three months when purchased. At June 30, 2017, PacMtn was holding \$0.00 in short-term investments.

2. Investments

Acting as fiscal agent for the Consortium, PacMtn may place certificates of deposit only with institutions that are guaranteed by The Federal Deposit Insurance Corporation (FDIC) or The Federal Savings and Loan Deposit Insurance Corporation (FSLIC). These certificates are valued at purchase price plus accrued interest through year-end, based on the interest rate of the certificate. At June 30, 2017, PacMtn was holding \$249,487 in Investments.

3. Receivables

Receivables consist of amounts owed from government agencies or private organizations or organizations for goods and services, including amounts owed for which billings have not been prepared.

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

4. Capital Assets

Capital assets, which include equipment, are reported on the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets are depreciated using the straight line method over the estimated useful lives of the asset.

Assets	Years
Vehicles	5 years
Multifunction devices (printer/copier/fax)	6 years
Accounting system software package	5 years

5. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave. All vacation pay is accrued when incurred in the government-wide financial statements.

- A. Vacation pay, paid time off, which may be accumulated up to a maximum of 720 hours, is payable upon resignation, retirement, death, or:
 - i. Annual Payment Opportunity. Once a year, within 30 days of the new calendar year, employees may choose to be paid for accrued Paid Time Off in any amount up to 240 hours, provided that the employee has a remaining accrued balance of Paid Time Off of at least 360 hours. In the case of a personal emergency, employees may be paid for a portion of accrued Paid Time Off with the approval of the Director of Finance & Administrative Services.

6. Other Current Liabilities

These accounts consist of accrued wages and accrued employee benefits.

7. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose,

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – DEPOSITS AND INVESTMENTS

DEPOSITS

PacMtn’s deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or federal savings and loan insurance (FSLIC).

INVESTMENTS

As of June 30, 2017, PacMtn had \$249,486.62 in investments through a 12 month certificate of deposit.

PacMtn has no deposit or investment policy that addresses a specific type of risk, all investments are covered by depository insurance so there is no custodial credit risk.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ending June 30, 2017 was as follows:

Governmental Activities	Beginning Balance 7/1/16	Increases	Decreases	Ending Balance 6/30/17
Capital assets, being depreciated:				
Vehicles	65,129	-0-	4,715	60,414
Office Equipment	57,406	22,467	-0-	79,873
Total capital assets being depreciated	122,535	22,467	4,715	140,288
Less accumulated depreciation for:				
Vehicles	38,136	3,595	-0-	41,731
Office Equipment	53,455	2,362	-0-	55,817
Total accumulated depreciation	91,591	5,957	-0-	97,548
Governmental activities capital assets, net				<u>42,740</u>

NOTE 4 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirement of GASB 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (1,831,200)
Pension assets	\$ 0
Deferred outflows of resources	\$ 500,419
Deferred inflows of resources	\$ (39,566)
Pension expense/expenditures	\$ 206,146

State Sponsored Pension Plans

Substantially all PacMtn full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
 Communications Unit, P.O. Box 48380
 Olympia, WA 98504-8380.

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

The following disclosures are made pursuant to GASB Statement No. 68, Accounting and Financial Reporting for Pensions.

Public Employees’ Retirement System (PERS) Plans 1, 2, and 3

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions - The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
July 2016 through June 2017	11.18%	6.00%

PacMtn contributed \$101,845 to PERS 1 through the UAAL calculation.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member’s 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions - The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
July 2016 through June 2017	11.18%	6.12%
Employee PERS Plan 3		varies

PacMtn’s contributions to the plans were \$133,018 for year ended June 30, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 20, 2015, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the 2007-2012 Experience Study Report.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5%.

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% was used to determine the total liability.

Long-Term Expected Rate of Return

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

The long-term expected rate of return on DRS pension plan investments of 7.5% was determined using a building-block-method. The *Washington State Investment Board (WSIB)* used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5% approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the table below. The inflation component used to create the table is 2.7% and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents PacMtn's proportionate share* of the net pension liability calculated using the discount rate of 7.5%, as well as what the PacMtn's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 1,003,818	\$ 832,423	\$ 684,927
PERS 2/3	\$ 1,838,929	\$ 998,777	\$ (519,921)

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

Pension Plan Fiduciary Net Position

Detailed information about the State’s pension plans’ fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At June 30, 2017, PacMtn’s reported a total pension liability of \$1,831,200 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 832,423
PERS 2/3	\$ 998,777

At June 30, 2017 PacMtn’s proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	%.015517	%.015500	-.000017%
PERS 2/3	%.020046	%.019837	-.000209%

Employer contribution transmittals received and processed by DRS for the fiscal year ended June 30 are used as the basis for determining each employer’s proportionate share of the collective pension amounts reported by DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended June 30, 2017, PacMtn recognized pension expense as follows:

	Pension Expense
PERS 1	\$43,272
PERS 2/3	\$162,874
TOTAL	\$206,146

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2017, PacMtn reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<i>PERS Plan 1</i>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$20,959	\$0
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$101,845	\$0
TOTAL	\$122,805	\$0

<i>PERS Plan 2/3</i>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$53,184	\$(32,971)
Net difference between projected and actual investment earnings on pension plan investments	\$122,222	\$0
Changes of assumptions	\$10,323	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$58,867	\$(6,595)
Contributions subsequent to the measurement date	\$133,018	\$0
TOTAL	\$377,614	\$(39,566)

Deferred outflows of resources related to pensions resulting from PacMtn's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	PERS 1
2017	\$ (5,161)
2018	\$ (5,161)
2019	\$ 19,249
2020	\$ 12,032
2021	\$ 0
Thereafter	\$ 0
Total	\$20,959

Year ended June 30:	PERS 2/3
2017	\$ 24,541
2018	\$ 22,696
2019	\$ 100,279
2020	\$ 57,513
2021	\$ 0
Thereafter	\$ 0
Total	\$205,029

NOTE 5 – RISK MANAGEMENT

PacMtn has obtained insurance through Propel Insurance and the Non Profit Insurance Program. The insurance policies cover PacMtn for property (at replacement cost), equipment, general liability, automobile liability and damage, Directors and Officers liability, miscellaneous professional liability, crime and excess crime for employee theft. PacMtn enforces several human resource policies designed to limit exposure to litigation in employment practices. The Worker’s Compensation Fund covers injuries to employees. There have been no settlements in the past three years that have exceeded insurance coverage.

NOTE 6 – LEASES

PacMtn sub-leases administrative office space under a noncancelable operating lease. Total cost for the lease was \$97,933 for the year ended June 30, 2017. PacMtn also holds sub-leases for four other locations in our region, for a combined payment of \$134,902. The leases for two of the office ended June 30, 2017. The future minimum lease payments for these sub-leases are as follows:

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

Term	Administrative Office	Thurston County Worksource	Lewis County WorkSource
July 1, 2017 – June 30, 2018	\$89,280.96*	\$84,341.04**	\$29,832***
July 1, 2018 – June 30, 2019	\$89,280.96	\$84,341.04	\$29,832
July 1, 2019 – June 30, 2020	\$89,280.96	\$84,341.04	\$2,486
July 1, 2020 – June 30, 2021	\$44,640.48	\$42,170.52	\$0

*Sub-lease agreement from 1/1/16 – 12/31/2020

**Sub-lease agreement from 1/1/16 – 12/31/2020

***Sub-lease agreement from 8/1/16 – 7/31/2019

PacMtn has annual resource sharing agreements for office space for employees located in various worksites in our five county region. Rent payments vary year to year and are not on long term contracts.

NOTE 7 – CHANGES IN LONG TERM LIABILITIES

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance July 1, 2016	Additions	Reductions	Ending Balance June 30, 2017	Due Within One Year
Governmental Activities					
Compensated Absences	\$124,440	\$4,858		\$129,298	\$0
Pension Liability	\$1,527,938	\$303,262		\$1,831,200	\$0

NOTE 8 – CONTINGENCIES AND LITIGATIONS

PacMtn’s financial statements include all material liabilities and there are no contingent liabilities to record. PacMtn is not currently involved in any lawsuits or other legal action nor is it aware of any pending litigation.

PacMtn participates in a number of federal, state and other programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. PacMtn’s management believes that such disallowances, if any, would be immaterial.

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Financial Statements
Year Ending June 30, 2017

NOTE 9 – OTHER DISCLOSURES

A. Related Party Transactions

The PacMtn Board of Directors and staff members have professional and personal associations throughout the community. Where a direct or indirect conflict of interest exists as a result of these associations, the Board or staff member must abstain from any discussion and voting concerning the matter. Board and staff members must publically disclose all such associations for inclusion in the meeting minutes. Staff and Board members adhere to internal administrative policies regarding the code of ethics and conflicts of interest.

B. Committed Fund Balance

PacMtn has committed funds comprised of the Equipment Repair & Replacement in the amount of \$4,287 and unassigned funds comprised of unrestricted earnings in the amount of \$1,055,187. Committed funds are amounts constrained to specific purposes by the Board of Directors, using its highest level of decision-making authority; to be reported as committed; once formal action is taken via majority vote to establish (and modify or rescind) a fund balance commitment. PacMtn considers committed and unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Pacific Mountain Workforce Development Council
Budgetary Comparison Schedule
General Funds
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Budgetary Fund Balance, July 1	868,948	868,948	868,948
Resources (Inflows)			
Grant and Contract Revenue	13,002,640	16,563,079	8,951,165
Investment and Other Income	-	-	1,244
Amounts Available for Appropriation:	<u>13,002,640</u>	<u>16,563,079</u>	<u>8,952,409</u>
Charges to Appropriations (Outflows)			
Payroll, Taxes & Benefits	3,205,759	3,260,524	3,060,384
Program Sub-Contractors	4,439,088	4,924,430	3,776,316
Participant Payments	1,872,418	1,995,002	1,314,633
Facilities	514,823	533,437	453,404
Professional Services	69,700	69,700	79,848
Training & Travel	105,020	101,741	60,977
Insurance	19,250	19,250	17,072
Other	43,050	93,064	33,057
Total Charges to Appropriations	<u>10,269,108</u>	<u>10,997,148</u>	<u>8,795,693</u>
Budgetary Fund Balance, June 30	<u><u>3,602,480</u></u>	<u><u>6,434,878</u></u>	<u><u>1,025,664</u></u>

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Note to Budgetary Comparison Schedule
Year Ended June 30, 2017

NOTE 1 – BUDGET AMOUNTS AND VARIANCES

The budgetary comparison schedule is prepared using the accrual basis of accounting.

NOTE 2 – RECONCILIATION TO THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balances are different because:

Payroll, Taxes & Benefits are different by \$4,858 due to Leave Expenses/Compensated Absences

Other is different by \$10,671 due to Depreciation Expenses

Capital Outlays are different by because they are not included as expenses \$22,466

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Pacific Mountain Workforce Development Council
 Schedule of Proportionate Share of the Net Pension Liability
 Public Employees Retirement System - Plan 1
 As of June 30, 2016
 Last 10 Fiscal Years*

	2014	2015	2016
Employer's proportion of the net pension liability (asset)	% 0.013883%	0.015517%	0.015500%
Employer's proportionate share of the net pension liability	\$ 699,363	811,683	832,423
TOTAL	\$ 699,363	811,683	832,423
Employer's covered employee payroll	\$ 1,507,525	1,791,829	1,888,229
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	% 46.39%	45.30%	44.08%
Plan fiduciary net position as a percentage of the total pension liability	% 61.19%	59.10%	57.03%

Notes to Schedule:

Contributions are calculated based on rates set by the Department of Retirement Systems for that fiscal year. Contributions vary year to year depending on the rates set and the amount of covered employer payroll. Staffing level fluctuate depending on the type and amounts of grants in a given year. Staffing levels may begin to even out over the next 5 years as new programs are contracted out rather than staffed by PacMtn employees.

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Pacific Mountain Workforce Development Council
 Schedule of Proportionate Share of the Net Pension Liability
 Public Employees Retirement System - Plan 2/3
 As of June 30, 2016
 Last 10 Fiscal Years*

	2014	2015	2016
Employer's proportion of the net pension liability (asset)	% 0.017698%	0.020046%	0.019837%
Employer's proportionate share of the net pension liability	\$ 357,740	716,255	998,777
TOTAL	\$ 357,740	716,255	998,777
Employer's covered employee payroll	\$ 1,507,525	1,791,829	1,888,229
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	% 23.73%	39.97%	52.89%
Plan fiduciary net position as a percentage of the total pension liability	% 93.29%	89.20%	85.82%

Notes to Schedule:

Contributions are calculated based on rates set by the Department of Retirement Systems for that fiscal year. Contributions vary year to year depending on the rates set and the amount of covered employer payroll. Staffing level fluctuate depending on the type and amounts of grants in a given year. Staffing levels may begin to even out over the next 5 years as new programs are contracted out rather than staffed by PacMtn employees.

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Pacific Mountain Workforce Development Council
 Schedule of Employer Contributions
 Public Employees Retirement System - Plan 1
 As of June 30, 2017
 Last 10 Fiscal Years*

	2015	2016	2017
<u>Statutorily or contractually required contributions</u>	\$ 71,816	90,068	101,845
Contributions in relation to the statutorily or contractually required contributions	\$ (71,816)	(90,068)	(101,845)
<u>Contribution deficiency (excess)</u>	\$	\$	\$
<u>Covered employer payroll</u>	\$ 1,791,829	1,888,229	2,135,123
<u>Contributions as a percentage of covered employee payroll</u>	%	4.01%	4.77%

Notes to Schedule:

Contributions are calculated based on rates set by the Department of Retirement Systems for that fiscal year.

Contributions vary year to year depending on the rates set and the amount of covered employer payroll.

Staffing level fluctuate depending on the type and amounts of grants in a given year.

Staffing levels may begin to even out over the next 5 years as new programs are contracted out rather than staffed by PacMtn employees.

* Until a full 10-year trend is compiled, information is presented for only those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Pacific Mountain Workforce Development Council
 Schedule of Employer Contributions
 Public Employees Retirement System - Plan 2/3
 As of June 30, 2017
 Last 10 Fiscal Years*

	2015	2016	2017
<u>Statutorily or contractually required contributions</u>	\$ 89,987	117,637	133,018
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ (89,987)	(117,637)	(133,018)
<u>Contribution deficiency (excess)</u>	\$	\$	\$
<u>Covered employer payroll</u>	\$ 1,791,829	1,888,229	2,135,123
<u>Contributions as a percentage of covered employee payroll</u>	%	5.02%	6.23%

Notes to Schedule:

Contributions are calculated based on rates set by the Department of Retirement Systems for that fiscal year.

Contributions vary year to year depending on the rates set and the amount of covered employer payroll.

Staffing level fluctuate depending on the type and amounts of grants in a given year.

Staffing levels may begin to even out over the next 5 years as new programs are contracted out rather than staffed by PacMtn employees.

* Until a full 10-year trend is compiled, information is presented for only those years for which information is available.

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2017

1	2	3	4	5			6	
Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Direct Awards	From Pass Through Awards	Total		
WIA/WIOA Cluster								
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Adult Program	17.258	6102-1106		249,652	249,652	174,833	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Adult Program	17.258	6102-1107		707,795	707,795	636,602	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Adult Program	17.258	6102-1306		106,212	106,212	-	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Adult Program	17.258	6102-7106		153,084	153,084	123,460	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Adult Program	17.258	6102-7305		2,581	2,581	-	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Adult Program	17.258	6102-7306		1,823	1,823	-	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Adult Program	17.258	6102-7625-04		13,532	13,532	10,748	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Adult Program	17.258	6102-7626-11		1,470	1,470	1,190	
			Total CFDA 17.258	-	1,236,149	1,236,149	946,833	2,3,4
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Youth Activities	17.259	6102-7005		66,408	\$ 66,408	\$ 33,854	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Youth Activities	17.259	6102-7006		1,007,810	\$ 1,007,810	\$ 897,129	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Youth Activities	17.259	6102-7305		31,217	\$ 31,217	\$ -	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Youth Activities	17.259	6102-7306		14,467	\$ 14,467	\$ -	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Youth Activities	17.259	6102-7625-04		107,414	\$ 107,414	\$ 85,318	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Youth Activities	17.259	6102-7626-11		11,672	\$ 11,672	\$ 9,445	
			Total CFDA 17.259	-	1,238,988	1,238,988	1,025,746	2,3,4
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Dislocated Worker Formula Grants	17.278	6102-1206		496,863	496,863	402,137	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Dislocated Worker Formula Grants	17.278	6102-1207		432,118	432,118	347,982	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Dislocated Worker Formula Grants	17.278	6102-1306		130,888	130,888	-	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Dislocated Worker Formula Grants	17.278	6102-7206		174,030	174,030	147,808	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Dislocated Worker Formula Grants	17.278	6102-7305		7,280	7,280	-	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Dislocated Worker Formula Grants	17.278	6102-7505-15		342,426	342,426	199,925	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Dislocated Worker Formula Grants	17.278	6102-7506-11		13,399	13,399	8,122	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Dislocated Worker Formula Grants	17.278	6102-7306		2,091	2,091	-	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Dislocated Worker Formula Grants	17.278	6102-7625-04		15,525	15,525	12,331	
Employment Training Administration, Department of Labor (Washington State Employment Security)	WIA/WIOA Dislocated Worker Formula Grants	17.278	6102-7626-11		1,687	1,687	1,365	
			Total CFDA 17.278	-	1,616,307	1,616,307	1,119,670	2,3,4
			Total WIOA Cluster		4,091,444	4,091,444	3,092,248	

PACIFIC MOUNTAIN WORKFORCE DEVELOPMENT COUNCIL
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Pacific Mountain Workforce Development Council's (PacMtn) financial statements. PacMtn uses the accrual basis of accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including PacMtn's portion, are more than shown. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

PacMtn allocates indirect costs to programs each month based on the direct labor costs incurred by that program that month. During the year ended June 30, 2017, \$645,348 was allocated to programs based on \$2,647,713 direct labor costs. PacMtn has an approved provisional indirect cost rate of 25.92% from the Department of Labor. This rate is used for planning purposes and amounts charged are based on actuals. PacMtn has not elected to use the 10-percent de minimis cost rate allowed under the Uniform Guidance.



CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

**Pacific Mountain Workforce Development Council
Thurston County
July 1, 2016 through June 30, 2017**

This schedule presents the corrective action planned by the Council for findings reported in this report in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2017-001	Finding caption: The Council overstated its Schedule of Expenditures of Federal Awards by including non-federal expenditures.
Name, address, and telephone of Council contact person: Bridget Lockling; 1570 Irving Street Tumwater, WA 98512; (360)-570-6985	
<p><i>Corrective action the auditee plans to take in response to the finding: (If the auditee does not concur with the finding, the auditee must list the reasons for non-concurrence).</i></p> <p><i>The Council recognizes the error of including the DSHS contracts from Rehabilitation Administration and Vocational Rehabilitation as a federal award. Because the Council was carrying out federal activities as required in the contract language it was assumed that we would qualify as a federal award. It was overlooked on the contract cover sheets that we were not to be considered a subrecipient. The Council will immediately implement a thorough review of all cover sheets for new awards to verify if this determination of classification is made up front. If the information is not provided the Council will request that clarification from the contractor prior to signature. Total recognized overstatement of \$948,198.</i></p> <p><i>The WorkFirst award through the Department of Commerce continues to be a conversation we are undergoing with the Department of Commerce. This is a long standing award that has been reported as a federal award on the SEFA without question. The award information clearly identifies it as a federally funded program with related CFDA Number. There is no area in the contract that identifies that it is not a subrecipient. The fee for service element is being called out as a determining factor. This should not automatically constitute that the relationship does not match with a subrecipient determination. The fee for service qualifies as program income which is reportable on the SEFA. While part of this contract is a payment point program, there</i></p>	

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is also a reimbursable cost portion. The payment point or performance based pay portion is dictated by the Department of Commerce, not PacMtn, so the award is not based on determining the best service at the best price. The payment point structure is the same throughout the state to all of their awardees. We also do not specify the scope of work as identified as one of the conditions in the contractor definition. We carry out the requirements of the related federal funding and receive annual monitoring from the Department of Commerce to ensure compliance. While the Department of Commerce declared us as not a subrecipient after weeks of review they did not provide an explanation to this determination. The Council has requested further information to clarify how and why they came to that determination. The Council will not report this information on the SEFA again until we receive final guidance from Commerce that changes their original determination.

Anticipated date to complete the corrective action:

The review process to identify and clarify contract intent will be implemented immediately. All fiscal and program staff that share a part in the contract review process will be trained on what to look for on the cover sheet by the end of April 2018.

Finding ref number:

2017-002

Finding caption:

The Council did not have adequate internal controls in place to ensure funds passed through to its subrecipients were spent in accordance with Federal earmarking requirements.

Name, address, and telephone of Council contact person:

Bridget Lockling; 1570 Irving Street Tumwater, WA 98512; (360)-570-6985

Corrective action the auditee plans to take in response to the finding:

(If the auditee does not concur with the finding, the auditee must list the reasons for non-concurrence).

The Council recognizes during the first year of implementation of WIOA WEX spending the Council did not achieve the required target to ensure a minimum of 20% was spent on work experience activities The grant in question began April 1, 2015 and was fully expended by December 31, 2016. The programming in question was contained in our Fiscal Year ending 2016. During this initial year, the Council implemented new strategies and programs with multiple partners. These partners were held to contract requirements and budget standards in order for us to establish a plan to hit the minimum target. Because of the new programs, partners and timing of activities there were unforeseen challenges that ultimately led us to fall short of our 20% requirement.

The second year of implementation we were able to narrow our programming down to one

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contractor who was provided with the ear marking requirement goal to meet and they provided quarterly updates on their WEX expenditures. We are now currently in our third year of implementation and our contractor provides regular WEX reports and has plans to exceed the 20% requirement.

Anticipated date to complete the corrective action:

The Council has already implemented the tracking and review process of WEX expenditures and reviews the contractor's plans for meeting WEX targets prior to the start of their contract each year based on the dollar figures we provide them in order to meet our grant requirements. The Council will additionally make sure the entire preapproved WEX budget and plans are identified separately in the contract to ensure clarity and transparency. The new contracts effective July 1, 2018 will reflect this clarification.

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ABOUT THE STATE AUDITOR'S OFFICE

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We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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Contact information for the State Auditor's Office	
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