



**Washington State
Department of Transportation**

Supplemental Agreement Number <u>2</u>		Organization and Address Reid Middleton Inc. 728 134th St SW Suite 200 Everett, WA 98204 Phone: 425-741-3800	
Original Agreement Number 8711			
Project Number 60021818, 60021820		Execution Date	Completion Date December 31, 2021
Project Title FD 34 STATIONS 14 AND 18 SEISMIC UPGRADES		New Maximum Amount Payable \$834,953.07	
Description of Work Supplement 2 seismic retrofit design plans, specification and estimate with final contract provision bid documents for Fire District 34 Stations 14 and 18. Construction support services shall be provided during the bid and construction phase of the project.			

The Local Agency of CITY OF REDMOND

desires to supplement the agreement entered in to with REID MIDDLETON, INC.

and executed on June 14, 2018 and identified as Agreement No. 8711

All provisions in the basic agreement remain in effect except as expressly modified by this supplement.

The changes to the agreement are described as follows:

I

Section 1, SCOPE OF WORK, is hereby changed to read:

Seismic retrofit design plans, specification and estimate (60, 90, 100% PS&E) with final contract provision bid documents for Fire District 34 Stations 14 and 18. Construction support services shall be provided during the bid and construction phase of the project.

II

Section IV, TIME FOR BEGINNING AND COMPLETION, is amended to change the number of calendar days for completion of the work to read: Number of calendar days accumulated until completion date of December 31, 2021

III

Section V, PAYMENT, shall be amended as follows:

Additional \$660,709.08

as set forth in the attached Exhibit A, and by this reference made a part of this supplement.

If you concur with this supplement and agree to the changes as stated above, please sign in the Appropriate spaces below and return to this office for final action.

By: Kenneth D. Andersen, P.E., S.E.

By: _____


Consultant Signature

Approving Authority Signature

Date

Exhibit "A"
Summary of Payments

	Basic Agreement	Supplement #1	Supplement #2	Total
Direct Salary Cost	38,046.31	0.00	70,315.50	108,361.81
Overhead (Including Payroll Additives)	79,897.25	0.00	147,662.54	227,559.79
Direct Non-Salary Costs	3,606.00	0.00	1,528.00	5,134.00
Fixed Fee	11,033.43	0.00	22,500.96	33,534.39
Total	132,582.99	0.00	242,007.00	374,589.99
Subconsultants	41,661.00	0.00	418,702.08	460,363.08
Grand Total	174,243.99	0.00	660,709.08	834,953.07

Time Extension

May 21, 2019
File No. 262018.913.010

Mr. Joseph P. O'Leary, P.E.
Project Manager, City of Redmond
15670 NE 85th Street
Redmond, WA 98052

Subject: City of Redmond, Fire District 34
Seismic Upgrade Engineering Design Services

Dear Mr. O'Leary:

Thank you for selecting Reid Middleton to provide professional engineering services to perform seismic evaluations and concept level upgrades for Fire District 34: Stations 14 and 18. We look forward to working with you on this project.

A. PROJECT UNDERSTANDING

The City of Redmond has previously contracted Reid Middleton to perform Tier 1 and Tier 2 seismic evaluations of the structural and nonstructural systems of Fire Station 14 and Fire Station 18 in accordance with ASCE 41-13 *Seismic Evaluation and Retrofit of Existing Buildings*. The findings of this study indicated that Fire Station 14 and Fire Station 18 have seismic deficiencies that relative to the identified performance objective of achieve structural Immediate Occupancy (IO) and Life Safety (LS) at the BSE-1 and BSE-2 earthquake levels, respectively. Therefore, schematic design seismic retrofit and mitigation approaches, as well as rough order of magnitude (ROM) cost estimates, were previously developed to address the seismic deficiencies identified.

The objective of this phase of the project is to proceed with the full design of seismic upgrades approaches developed in the schematic design drawings. This will include structural upgrades as directed by the ASCE 41-13 evaluation. Additionally, seismic upgrades to the architectural, mechanical, and electrical systems are to be designed based on the Tier 1 nonstructural seismic screening. The design criteria for the seismic retrofits will be designed in accordance with the applicable provisions of the International Building Code 2015, ASCE 41-13 and the International Existing Building Code as adopted by King County.

B. SCOPE OF SERVICES

Reid Middleton and its subconsultants will perform a detailed seismic upgrade design for Fire Station 14 and Fire Station 18 in accordance with *ASCE 41-13, Seismic Rehabilitation of Existing Buildings*. Reid Middleton will advance the seismic retrofit designs from the schematic (30%) design level to full construction documents (CDs) for both Fire Station 14 and Fire Station 18. Reid

EVERETT
728 134th Street SW
Suite 200
Everett, WA 98204
425 741-3800

www.reidmiddleton.com

Middleton will also hire an architect, mechanical engineer, and electrical engineer to provide support services to a.) repair and replace systems that have been impacted by the structural upgrades, and b.) design seismic upgrades related to each respective discipline. A cost estimator will provide cost estimation services based on the design drawings.

The following is a summary of the scope of work items to be completed in this design phase:

1. *Project Administration:* Reid Middleton will work with the City of Redmond to facilitate contract and invoicing, including monthly invoices and project budget status reports. Reid Middleton will communicate with the City of Redmond to project status updates, coordinate meetings and site visits, request pertinent information, and identify project coordination items. A project design schedule will be maintained with scope milestones. Reid Middleton will perform internal project management and monitor and allocate internal task budgets, as appropriate.
2. *As-Built Preparation:* It is understood that as-built record drawings of the building systems are not available. Therefore, this task is included to prepare as-built drawings for use in the preparation of design-bid-build seismic upgrade drawings for the following building systems:
 - a. Mechanical plumbing system
 - b. Electrical system
 - c. Fire Protection system

For each system, the following task are included:

- a. Perform site investigations at each fire station to document existing conditions.
 - b. Reverse engineer and as-built the existing systems.
 - c. Incorporate existing system into existing architectural Revit building information model (BIM).
3. *Seismic Upgrade Design:* Structural & Non-Structural
 - A. *60% Design Phase:* After the Schematic Design approach is approved, the Reid Middleton and its consultants shall further develop seismic upgrade designs that can be implemented by the City of Redmond. In addition to the structural analyses and design efforts required to develop the designs, collaboration shall be required with City of Redmond, multi-disciplinary sub-consultants, and King County for

building permits. It is expected that architectural, electrical engineering, mechanical engineering, civil engineering, and cost estimation services would be required to complete this phase. Design consideration shall be given to the availability of materials, equipment and labor, schedule and sequencing of construction operations in the fully occupied and 24/7 operational facility, user safety and maintenance requirements, building security requirements, and the economic and visual impacts of the selected design approach.

Project Deliverables for the 60% (Design Development) Phase from Reid Middleton and its subconsultants shall include construction drawings, preliminary technical specifications, and supporting calculations. Division 00 and 01 specifications will be prepared by City of Redmond, with input and review by Reid Middleton.

- B. 90% Design (Permit) Phase: Reid Middleton and its consultants shall prepare construction documents to describe the proposed seismic upgrade designs for the project. This shall include preparation of design drawings, technical specifications, and other construction documents required for permitting, bidding, contracting, and construction of the project. After this phase, Reid Middleton and its consultants shall also assist with obtaining a building permit by submitting the design to the City of Redmond for permit, and by responding to structural and nonstructural plan review comments. City of Redmond will be responsible for providing payment of permit fees to the City for permit review. It is anticipated that this phase will take 9 weeks to complete, including a two week period at the beginning of the phase to allow City of Redmond to provide review comments on the contents of the 60% Design Services, and one week to schedule and hold a follow-up discussion meeting.

Project Deliverables for the 90% Design Phase from Reid Middleton and its subconsultants shall include construction drawings, preliminary technical specifications, and supporting calculations. Division 00 and 01 specifications will be prepared by City of Redmond, with input and review by Reid Middleton.

- C. 100% Design Phase (Construction Documents, CDs): Reid Middleton and its consultants shall respond to comments provided by City of Redmond on the 90% Design Completion Drawings. Based on the level of completion expected for the 90% Design Completion

Drawings, this phase is expected to be shorter than the other design phases. It is anticipated that this phase will take 5 weeks to complete, including a two week period at the beginning of the phase to allow City of Redmond to provide review comments on the contents of the 90% Design Services and one week to schedule and hold a follow-up discussion meeting.

Project Deliverables for the 100% Design Phase from Reid Middleton and its subconsultants shall include construction drawings, preliminary technical specifications, and supporting calculations. Division 00 and 01 specifications will be prepared by City of Redmond, with input and review by Reid Middleton.

4. *Bid Support*: Reid Middleton and its consultants shall attend pre-bid walk-through meetings, as requested by the City. It is assumed that one minor addendum shall be required to resolve contractor questions; this shall be distributed via an electronic plan distribution service. Schedule for the Bidding Phase will depend on City of Redmond bidding requirements. The anticipated duration is approximately 6 weeks, including time for advertising, bidding, and post-bid follow-up.
5. *Construction Contract Administration (CA) Services*: Reid Middleton and its consultants shall provide construction administration assistance including:
 - a. Attend Pre-Construction Meeting
 - b. Attend Construction Progress Meetings (24 assumed)
 - c. Assist in Determining Amounts Due the Contractor for the Work
 - d. Provide Interpretations of Construction Documents
 - e. Assist in Determining Whether Non-Conforming Work Shall be Rejected
 - f. Review Specified Submittals for Pre-Engineered Design Elements
 - g. Assist in Preparing Change Orders Relating to Design Work
 - h. Provide Recommendations Regarding Claims, Disputes and Other Matters Relating to Execution or Progress of the Design Work

- i. Conduct Jobsite Observation Visit to Determine Substantial Completion of the Design Work
- j. Provide record documents in accordance with City of Redmond Record Drawing Requirements. The Record Drawings will only be based on the contractor red line drawings.

6. Meetings:

The following design phase meetings are included with this proposal:

- a. Project Kick-Off Meeting
- b. 60% Design Submittal Review Meeting
- c. 90% (Permit) Design Submittal Review Meeting
- d. (2) Meetings with King County for Permitting
- e. 100% Final Submittal Review Meeting

7. Expenses: See attached workbook.

8. Additional Services: Reid Middleton and its subconsultants will provide additional services as requested by City of Redmond. The scope of services for these additional services will be prepared and negotiated as a supplement to this agreement.

C. CLIENT'S RESPONSIBILITIES

The City of Redmond shall provide available pertinent data, documents, and other information to Reid Middleton as necessary to complete the services outlined in Section B above. The City of Redmond will also coordinate access to the project sites.

D. COMPENSATION

1. For services described in Items 1-7 of Section B and associated expenses, Reid Middleton shall be paid the lump sum of \$ based on the following fee break-down.

No.	Task	Budget
1	Administration	
2	As-Built Preparation	
3	Seismic Upgrade Design	
4	Bid Support	
5	CA Services	
6	Meetings	
7	Expenses	
		(See attached)

2. For services described in Section B, Item 8 Reid Middleton shall be paid on a "time-plus-expense" basis in accordance mutually satisfactory arrangements as may be negotiated.

E. REID MIDDLETON STAFF

Erik Bishop, P.E., will be the Project Manager primarily responsible for this project and Corbin Hammer will be the Project Principal; however, other individuals at Reid Middleton will work on aspects of your project, as required.

We appreciate the opportunity to assist you on this project. Please call myself or Erik Bishop if you have any questions or require clarification.

Sincerely,

Reid Middleton, Inc.



Corbin Hammer, P.E., S.E.
Principal

ACCEPTED:

City of Redmond

By _____

Title _____

Date _____

mmt\O\18\067 City of Redmond FD 34 Prelim Eng Dsn Svs\Contract\Design Phase\190522 Redmond FS-14-18 - Seismic Upgrade Scope of Work- CMH Edits .docx\esb

Negotiated Fee

Project Name:	FIRE DISTRICT 34 - FIRE STATIONS 14 & 18
Project Number:	60011806.21.01.02 Supplement 2
Consultant:	REID MIDDLETON - Prime
Estimated Design Fee:	\$660,844
Prepared By:	Michelle Topham

Fee Computation

Factor	Rate	Weight	Value
Degree of Risk	0.33	X 25	8.25
Relative Difficulty of Work	0.33	X 20	6.60
Estimated Design Fee	\$660,844	0.33 X 15	4.95
Period of Performance enter in months	18	0.30 X 15	4.50
Assistance by the Agency	0.30	X 15	4.50
Subconsulting enter %	63%	0.35 X 10	3.50
Negotiated Fee (% of DSC)		100	32.30 %

Note: See Instructions for factor descriptions and rate guidelines. Minimum is .17 and maximum is .35.

Multiplier Computation

Component	Multiplier
Labor (DSC)	1.00
Overhead (OH)	2.10
Fee	0.32
Total Multiplier (DSC+OH+Fee)	3.42

Exhibit D

Consultant Fee Determination

Project Name: FIRE DISTRICT 34 - FIRE STATIONS 14 & 18
 Project Number: 60011806.21.01.02 Supplement 2
 Consultant: REID MIDDLETON - Prime

NEGOTIATED HOURLY RATES

Classification	Hours	DSC	Overhead 210%	Fee (Profit) 32%	Total Hourly Rate	Total
Principal Engineer	36	\$ 72.50	\$152.25	\$23.42	\$248	\$8,934
Project Engineer II	631	\$ 49.95	\$104.90	\$16.13	\$171	\$107,888
Designer II	155	\$ 36.70	\$77.07	\$11.85	\$126	\$19,472
(CAD) Project Designer	200	\$ 49.80	\$104.58	\$16.09	\$170	\$34,093
(Graphics) Technician		\$ 25.70	\$53.97	\$8.30	\$88	
Technical Writer II	83	\$ 39.85	\$83.69	\$12.87	\$136	\$11,322
Project Administrator	25	\$ 34.75	\$72.98	\$11.22	\$119	\$2,974
(CAD) Technician I		\$ 20.40	\$42.84	\$6.59	\$69.83	
(CAD) Technician II		\$ 36.50	\$76.65	\$11.79	\$124.94	
Senior Engineer		\$ 61.50	\$129.15	\$19.86	\$210.51	
Project Designer I		\$ 32.45	\$68.15	\$10.48	\$111.08	
Principal	196	\$ 72.55	\$152.36	\$23.43	\$248.34	\$48,674
Project Engineer I	48	\$ 43.35	\$91.04	\$14.00	\$148.39	\$7,123
Total Hours	1,374				Subtotal:	\$240,479

REIMBURSABLES

Mileage		
Reproduction 8.5x11 color:		
Reproduction 11x17 color:		
Reproduction 22x43 DWGS		
Expenses		\$1,528
Subtotal:		\$1,528

SUBCONSULTANT COSTS (See Exhibit E)

Rice Fergus Miller	\$188,409
Notkin	\$110,384
Stantec	\$42,710
Veltre	\$63,587
ProDims	\$13,612
Subtotal:	\$418,702

Total: \$660,709

Contingency:

GRAND TOTAL: \$660,709

EXHIBIT E

Subcontracted Work

Project Name: FIRE DISTRICT 34 - FIRE STATIONS 14 & 18
Project Number: 60011806.21.01.02 Supplement 2
Consultant: REID MIDDLETON - Prime

The City permits subcontracts for the following portions of work of the Agreement:

Subconsultant	Work Description	Amount
Rice Fergus Miller	Architect	\$188,409
Notkin	Electrical	\$110,384
Stantec	Electrical	\$42,710
Veltre	Fire Protection	\$63,587
ProDims	Cost Estimation	\$13,612
Total:		\$418,702

Negotiated Fee

Project Name:	FIRE DISTRICT 34 - FIRE STATIONS 14 & 18
Project Number:	60011806.21.01.02 Supplement 2
Consultant:	Rice Fergus Miller, Inc. Architect
Estimated Design Fee:	\$188,409
Prepared By:	Hope Zorrozuva

Fee Computation

Factor		Rate		Weight	Value
Degree of Risk		0.33	X	25	8.25
Relative Difficulty of Work		0.33	X	20	6.60
Estimated Design Fee	\$188,409	0.34	X	15	5.10
Period of Performance	enter in months 18	0.30	X	15	4.50
Assistance by the Agency		0.17	X	15	2.55
Subconsulting	enter % 0%	0.17	X	10	1.70
Negotiated Fee (% of DSC)				100	28.70 %

Note: See Instructions for factor descriptions and rate guidelines. Minimum is .17 and maximum is .35.

Multiplier Computation

Component	Multiplier
Labor (DSC)	1.00
Overhead (OH)	1.77
Fee	0.29
Total Multiplier (DSC+OH+Fee)	3.06

Exhibit D

Consultant Fee Determination

Project Name: FIRE DISTRICT 34 - FIRE STATIONS 14 & 18
Project Number: 60011806.21.01.02 Supplement 2
Consultant: Rice Fergus Miller, Inc. Architect

NEGOTIATED HOURLY RATES

Classification	Hours	DSC	Overhead 177%	Fee (Profit) 29%	Total Hourly Rate	Total
Principal	55	\$ 96.15	\$170.19	\$27.60	\$294	\$16,166
Project Manager	385	\$ 43.27	\$76.59	\$12.42	\$132	\$50,926
Project Architect	955	\$ 36.06	\$63.83	\$10.35	\$110	\$105,275
Technical Architect	25	\$ 35.59	\$62.99	\$10.21	\$109	\$2,720
Project Coordinator	125	\$ 33.55	\$59.38	\$9.63	\$103	\$12,820
Total Hours						1,545
Subtotal:						\$187,908

REIMBURSABLES

Mileage		\$350
Reproduction (copies, plots, etc.)		\$100
Miscellaneous		\$50
	Subtotal:	\$500

SUBCONSULTANT COSTS (See Exhibit E)

Rice Fergus Miller, Inc.

Total: \$188,408

Contingency:

GRAND TOTAL: \$188,408

Negotiated Fee

Project Name:	FIRE DISTRICT 34 - FIRE STATIONS 14 & 18
Project Number:	60011806.21.01.02 Supplement 2
Consultant:	Notkin Mechanical Engineers
Estimated Design Fee:	\$110,384
Prepared By:	Brad Lentz

Fee Computation

Factor	Rate	Weight	Value
Degree of Risk	0.33	X 25	8.25
Relative Difficulty of Work	0.33	X 20	6.60
Estimated Design Fee	\$110,384	0.34 X 15	5.10
Period of Performance enter in months	18	0.30 X 15	4.50
Assistance by the Agency		X 15	0.00
Subconsulting enter %		0.17 X 10	1.70
Negotiated Fee (% of DSC)		100	26.15 %

Note: See Instructions for factor descriptions and rate guidelines. Minimum is .17 and maximum is .35.

Multiplier Computation

Component	Multiplier
Labor (DSC)	1.00
Overhead (OH)	1.76
Fee	0.26
Total Multiplier (DSC+OH+Fee)	3.03

Exhibit D

Consultant Fee Determination

Project Name: FIRE DISTRICT 34 - FIRE STATIONS 14 & 18
Project Number: 60011806.21.01.02 Supplement 2
Consultant: Notkin Mechanical Engineers

NEGOTIATED HOURLY RATES

Classification	Hours	DSC	Overhead 176%	Fee (Profit) 26%	Total Hourly Rate	Total
Principal	12	\$ 72.47	\$127.90	\$18.95	\$219	\$2,632
Project Manager	99	\$ 60.26	\$106.35	\$15.76	\$182	\$18,054
Engineer	418	\$ 53.04	\$93.60	\$13.87	\$161	\$67,095
CAD	156	\$ 41.28	\$72.85	\$10.79	\$125	\$19,488
Technical Writer	28	\$ 35.31	\$62.32	\$9.23	\$107	\$2,992
Total Hours						713
Subtotal:						\$110,262

REIMBURSABLES

Mileage		
Reproduction (copies, plots, etc.)		
Miscellaneous		\$122
Subtotal:		\$122

SUBCONSULTANT COSTS (See Exhibit E)

Subtotal:		
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Total: \$110,384

Contingency:

GRAND TOTAL: \$110,384

Negotiated Fee

Project Name:	FIRE DISTRICT 34 - FIRE STATIONS 14 & 18
Project Number:	60011806.21.01.02 Supplement 2
Consultant:	Stantec Consulting Services (Electrical Engineering)
Estimated Design Fee:	\$42,710
Prepared By:	Greg Livengood, Principal

Fee Computation

Factor		Rate		Weight	Value
Degree of Risk		0.33	X	25	8.25
Relative Difficulty of Work		0.33	X	20	6.60
Estimated Design Fee	\$42,710	0.35	X	15	5.25
Period of Performance	enter in months 18	0.30	X	15	4.50
Assistance by the Agency			X	15	0.00
Subconsulting	enter % 0%	0.17	X	10	1.70
Negotiated Fee (% of DSC)				100	26.30 %

Note: See Instructions for factor descriptions and rate guidelines. Minimum is .17 and maximum is .35.

Multiplier Computation

Component	Multiplier
Labor (DSC)	1.00
Overhead (OH)	1.68
Fee	0.26
Total Multiplier (DSC+OH+Fee)	2.95

Exhibit D

Consultant Fee Determination

Project Name: FIRE DISTRICT 34 - FIRE STATIONS 14 & 18
Project Number: 60011806.21.01.02 Supplement 2
Consultant: Stantec Consulting Services (Electrical Engineering)

NEGOTIATED HOURLY RATES

Classification	Hours	DSC	Overhead 168%	Fee (Profit) 26%	Total Hourly Rate	Total
Principal - Electrical	12	\$ 81.16	\$136.75	\$21.35	\$239	\$2,871
PM/Engineer - Electrical	100	\$ 56.90	\$95.87	\$14.96	\$168	\$16,774
Designer - Electrical	140	\$ 38.48	\$64.84	\$10.12	\$113	\$15,881
Project Admin	12	\$ 31.91	\$53.77	\$8.39	\$94	\$1,129
Cadd Technician	64	\$ 31.45	\$52.99	\$8.27	\$93	\$5,934
Total Hours						328
Subtotal:						\$42,588

REIMBURSABLES

Mileage		
Reproduction (copies, plots, etc.)		
Miscellaneous		\$122
Subtotal:		\$122

SUBCONSULTANT COSTS (See Exhibit E)

Subtotal:		
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Total: \$42,710

Contingency:

GRAND TOTAL: \$42,710

Negotiated Fee

Project Name:	FIRE DISTRICT 34 - FIRE STATIONS 14 & 18
Project Number:	60011806.21.01.02 Supplement 2
Consultant:	Veltre Engineering, Inc.
Estimated Design Fee:	\$63,587
Prepared By:	Kyle Leadon, PE

Fee Computation

Factor	Rate	Weight	Value
Degree of Risk	0.33	X 25	8.25
Relative Difficulty of Work	0.33	X 20	6.60
Estimated Design Fee	\$63,587	0.35 X 15	5.25
Period of Performance enter in months	18	0.30 X 15	4.50
Assistance by the Agency		X 15	0.00
Subconsulting enter %		0.17 X 10	1.70
Negotiated Fee (% of DSC)		100	26.30 %

Note: See Instructions for factor descriptions and rate guidelines. Minimum is .17 and maximum is .35.

Multiplier Computation

Component	Multiplier
Labor (DSC)	1.00
Overhead (OH)	1.85
Fee	0.26
Total Multiplier (DSC+OH+Fee)	3.12

Exhibit D

Consultant Fee Determination

Project Name: FIRE DISTRICT 34 - FIRE STATIONS 14 & 18
Project Number: 60011806.21.01.02 Supplement 2
Consultant: Veltre Engineering, Inc.

NEGOTIATED HOURLY RATES

Classification	Hours	DSC	Overhead 185%	Fee (Profit) 26%	Total Hourly Rate	Total
Principal	256	\$ 60.57	\$112.24	\$15.93	\$189	\$48,316
Engineer	76	\$ 47.95	\$88.85	\$12.61	\$149	\$11,355
Total Hours						332
Subtotal:						\$59,672

REIMBURSABLES

Mileage		\$1,265
Lodging		\$1,890
Meals and Incidentals		\$760
	Subtotal:	\$3,915

SUBCONSULTANT COSTS (See Exhibit E)

Subtotal:		
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Total: \$63,587

Contingency:

GRAND TOTAL: \$63,587

Negotiated Fee

Project Name:	FIRE DISTRICT 34 - FIRE STATIONS 14 & 18
Project Number:	60011806.21.01.02 Supplemental 2
Consultant:	ProDims
Estimated Design Fee:	\$13,612
Prepared By:	JOSEPH OLEARY - PROJECT MANAGER

Fee Computation

Factor		Rate		Weight	Value
Degree of Risk		0.33	X	25	8.25
Relative Difficulty of Work		0.33	X	20	6.60
Estimated Design Fee	\$13,612	0.35	X	15	5.25
Period of Performance	enter in months 18	0.30	X	15	4.50
Assistance by the Agency			X	15	0.00
Subconsulting	enter % 0%	0.17	X	10	1.70
Negotiated Fee (% of DSC)				100	26.30 %

Note: See Instructions for factor descriptions and rate guidelines. Minimum is .17 and maximum is .35.

Multiplier Computation

Component	Multiplier
Labor (DSC)	1.00
Overhead (OH)	1.63
Fee	0.26
Total Multiplier (DSC+OH+Fee)	2.89

Consultant Fee Determination

NEGOTIATED HOURLY RATES

GRAND TOTAL: \$13,612



**Washington State
Department of Transportation**

Transportation Building
310 Maple Park Avenue S.E.
P.O. Box 47300
Olympia, WA 98504-7300
360-705-7000
TTY: 1-800-833-6388
www.wsdot.wa.gov

August 27, 2018

Notkin Mechanical Engineers, Inc.
2301 5th Avenue, Suite 401
Seattle, WA 98121

Subject: Acceptance FYE 2017 ICR – Audit Office Review

Dear Ms. Kristy McCallister:

Transmitted herewith is the WSDOT Audit Office's memo of "Acceptance" of your firm's FYE 2017 Indirect Cost Rate (ICR) of 176.48%. This rate will be applicable for WSDOT Agreements and Local Agency Contracts in Washington only. This rate may be subject to additional review if considered necessary by WSDOT. Your ICR must be updated on an annual basis.

Costs billed to agreements/contracts will still be subject to audit of actual costs, based on the terms and conditions of the respective agreement/contract.

This was not a cognizant review. Any other entity contracting with your firm is responsible for determining the acceptability of the ICR.

If you have any questions, feel free to contact our office at (360) 705-7019 or via email consultantrates@wsdot.wa.gov.

Regards;

ERIK K. JONSON
Manager, Consultant Services Office

EKJ:rck



Keegan, Linscott & Kenon, PC

Certified Public Accountants

Certified Fraud Examiners

Certified Insolvency & Restructuring Advisors

3443 N Campbell Ave • Suite 115 • Tucson, AZ 85719

(520) 884-0176 • www.KLKCPA.com

STANTEC CONSULTING SERVICES, INC.

INDIRECT COST RATE SCHEDULE

IN ACCORDANCE WITH FEDERAL ACQUISITION REGULATION
AND REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE INDIRECT COST RATE SCHEDULE PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Represented by member firm:
RSM US Alliance



RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

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Keegan, Linscott & Kenon, PC

Certified Public Accountants • Certified Public Estimators • Certified Internal Control Specialists • Certified Information Systems Auditors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Stantec Consulting Services, Inc.

Report on the Indirect Cost Rate Schedule

We have audited the accompanying indirect cost rate schedule of Stantec Consulting Services, Inc. (the "Company") for the year ended December 31, 2017, and the related notes to the indirect cost rate schedule.

Management's Responsibility for the Indirect Cost Rate Schedule

Management is responsible for the preparation and fair presentation of the indirect cost rate schedule in accordance with accounting principles generally accepted in the United States of America and on the basis of accounting as defined by Part 31 of the Federal Acquisition Regulation as described in the accompanying Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the indirect cost rate schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the indirect cost rate schedule 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 indirect cost rate schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the indirect cost rate schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the indirect cost rate schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the indirect cost rate schedule 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 Company'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 indirect cost rate schedule.

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



Opinion

In our opinion, the indirect cost rate schedule referred to above presents fairly, in all material respects, the direct labor and indirect costs of the Company for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America and on the basis of accounting as defined by Part 31 of the Federal Acquisition Regulation described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the indirect cost rate schedule, which describes the basis of accounting. As described in Note 2 to the accompanying indirect cost rate schedule, this schedule is prepared by the Company on the basis of the financial reporting provisions of Part 31 of the Federal Acquisition Regulation, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Federal Acquisition Regulation. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with the *Government Auditing Standards*, we have also issued our report dated June 26, 2018 on our consideration of the Company'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 Company's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the use and information of the Company and government agencies or other customers related to contracts employing the cost principles of the Federal Acquisition Regulation and should not be used for any other purpose.

Keegan, Simnett & Renon, P.C.

Tucson, Arizona
June 26, 2018

INDIRECT COST RATE SCHEDULE

INDIRECT COST RATE SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2017

Description	Note Reference	Costs in Accordance with U.S. GAAP Financial Statements	FAR Part 31 Adjustments	Costs Allowable Per FAR Part 31	Home Office	Field Rate
Direct Labor		<u>\$ 446,925,497</u>	<u>\$ -</u>	<u>\$ 446,925,497</u>	<u>\$ 417,141,842</u>	<u>\$ 29,783,655</u>
Fringe Benefits:						
Payroll taxes		\$ 58,972,129	\$ -	\$ 58,972,129	\$ 55,042,155	\$ 3,929,974
Vacation		49,782,983	-	49,782,983	47,788,243	1,994,740
Holiday		28,007,385	-	28,007,385	26,881,155	1,126,230
Sick		11,195,473	-	11,195,473	10,584,559	610,914
Employee benefit plan employer match		26,348,632	-	26,348,632	24,592,727	1,755,905
Payroll related insurance		65,032,174	-	65,032,174	60,698,351	4,333,823
Merit expense	7A	6,339,164	(6,339,164)	-	-	-
Total Fringe Benefits		<u>\$ 245,677,940</u>	<u>\$ (6,339,164)</u>	<u>\$ 239,338,776</u>	<u>\$ 225,587,190</u>	<u>\$ 13,751,586</u>
General Overhead:						
Indirect labor	7B	\$ 248,950,687	\$ (11,731,402)	\$ 237,219,285	\$ 226,291,600	\$ 10,927,685
Proposal and promotion expense	7C	17,549,384	(7,688,596)	9,860,788	9,406,543	454,245
Technical services expense		12,354,041	-	12,354,041	11,784,943	569,098
Computer expense		20,148,873	-	20,148,873	19,220,700	928,173
Depreciation	7D	64,936,446	(42,633,796)	22,302,650	21,275,262	1,027,388
Communications		13,229,793	-	13,229,793	12,620,353	609,440
Occupancy		77,180,077	-	77,180,077	73,624,719	3,555,358
Office expense	7E	11,432,417	(1,271,059)	10,161,358	9,693,267	468,091
Vehicle, travel and entertainment	7F	19,516,109	(6,846,994)	12,669,115	12,085,503	583,612
Professional fees	7G	5,689,510	(2,735,661)	2,953,849	2,817,778	136,071
Professional development	7H	6,671,998	(53,538)	6,618,460	6,313,576	304,884
Equipment expense	7I	4,277,806	(13,971)	4,263,835	4,067,418	196,417
Community investment	7J	959,622	(959,622)	-	-	-
Interest and bank charges	7K	2,294,631	(335,936)	1,958,695	1,868,466	90,229
Licenses and taxes	7L	3,453,227	(10,052)	3,443,175	3,284,563	158,612
Memberships and dues	7M	3,864,994	(761,214)	3,103,780	2,960,802	142,978
Insurance expense	7N	22,211,625	(4,075,527)	18,136,098	17,300,645	835,453
Miscellaneous expense	7O	4,029,551	(1,975,476)	2,054,075	1,959,452	94,623
Interest expense	7P	4,301,030	(4,301,030)	-	-	-
Corporate allocation	7Q	47,217,183	(4,562,261)	42,654,922	40,689,991	1,964,931
Total General Overhead		<u>\$ 590,269,004</u>	<u>\$ (89,956,135)</u>	<u>\$ 500,312,869</u>	<u>\$ 477,265,581</u>	<u>\$ 23,047,288</u>
Total Indirect Costs		<u>\$ 835,946,944</u>	<u>\$ (96,295,299)</u>	<u>\$ 739,651,645</u>	<u>\$ 702,852,771</u>	<u>\$ 36,798,874</u>
Indirect Cost Rate - Percentage of Direct Labor				<u>165.498%</u>	<u>168.493%</u>	<u>123.554%</u>
Facilities Capital Cost of Money (FCCM) Rate - See note 5				<u>0.419%</u>	<u>0.429%</u>	<u>0.290%</u>

NOTES TO INDIRECT COST RATE SCHEDULE

1. Organization

Stantec Consulting Services, Inc. (the "Company") is a wholly owned subsidiary of Stantec Inc. a Canadian publicly held company having operations in the United States of America, Puerto Rico and Canada. The Company is an architectural and engineering firm that contains all Stantec Inc. U.S. operations including Puerto Rico.

The Company (including all of its subsidiaries and operating segments) is a professional service corporation that provides a full array of comprehensive consulting, engineering and planning services to a wide-range of commercial and governmental clients throughout the United States of America and Puerto Rico. The Company's comprehensive services include planning, engineering, environmental sciences, environmental and geotechnical services, architecture, interior design, landscape architecture, surveying and project economics. The Company has consistently followed a national indirect cost rate structure in conformity with the U.S. Cost Accounting Standards and utilizes its Company-wide rate for all projects delivered by its subsidiaries and operating segments.

2. Significant Accounting Policies

Basis of Presentation

The Company's accounting records and the accompanying indirect cost rate schedule are prepared in accordance with accrual basis accounting principles generally accepted in the United States of America ("U.S. GAAP"). A component of the accompanying indirect cost rate schedule was prepared on the basis of accounting practices prescribed by Part 31 of the Federal Acquisition Regulation ("FAR"). In addition, the accompanying indirect cost rate schedule was prepared with reference to the American Association of State Highway and Transportation Officials ("AASHTO") *Uniform Audit and Accounting Guide*.

Cost Allocation Methodology

The Company has a single base and allocates indirect costs to its contracts based on direct labor costs incurred in the performance of the contract. The Company applies this rate structure consistently to all of its customer contracts. Accordingly, the Company's indirect cost rate is expressed as the amount that total indirect costs bears to total direct labor costs.

Direct Costs and Indirect Costs

Direct labor costs are separated and consist of actual hours charged directly to projects by the Company's personnel at their standard rate per hour excluding all employee-related benefits. When exempt (salaried) employees incur overtime hours, the rate charged to projects for all hours is the standard hourly rate. Indirect labor, as reflected in the accompanying indirect cost rate schedule, is reduced for the appropriate portion of labor costs generated by hours worked in excess of the employee's standard workweek based on the standard hourly rate. The premium portion of paid overtime is charged to the cost objective (direct or indirect) that created the overtime.

The Company also maintains separate expense accounts for sub-consultants, travel, vehicle, printing and reproduction, and other costs that are project related including internally-generated direct costs. These other direct costs are excluded from the accompanying indirect cost rate schedule, regardless of whether these costs are reimbursed by the Company's clients.

NOTES TO INDIRECT COST RATE SCHEDULE

Significant Accounting Policies (continued)

Direct Costs and Indirect Costs (continued)

The Company has cost accounting and job cost systems and procedures in place to ensure that direct cost items are charged to the correct project and properly excluded from the indirect cost pool. Prior to entry into the job cost system, each direct cost item is reviewed and approved to ensure that all transactions are executed in accordance with Part 31 of the FAR.

Costs that are related to the production process but are not directly charged to a project are classified as indirect expenses and are part of the total indirect cost pool. All other costs, such as general and administrative expenses, are classified as indirect expenses and added to the indirect cost pool.

The Company's systems and methods of estimating costs for pricing purposes during the proposal process is consistent with its job cost and accounting system and methodology used for the accumulation and reporting of its actual costs.

Description of Indirect Cost Rate Structure

The majority of the Company's service discipline is in the area of engineering design. However, the Company has steadily increased its service delivery in the areas of survey, construction administration and utility locating collectively referred to as its field services discipline. Consequently, the accompanying indirect cost rate schedule is presented to report the Company's indirect cost rate associated with its field services discipline.

Direct labor and paid time off are based on actual costs. Indirect labor is a combination of actual field indirect labor as well as an allocated portion of general and administrative indirect labor. The Company allocates fringe benefits and employee related costs, including payroll taxes, insurance and retirement contributions, to its field services discipline utilizing direct labor dollars. Remaining indirect costs are allocated to the field services discipline using field office labor rates.

Paid Time Off

The Company allows each full-time employee paid sick and vacation time each year. Employees accrue 40 hours of sick time annually and may accrue up to a maximum of 240 hours of sick time. Employees' unused sick time is not paid upon termination of employment. Consequently, sick time is expensed when paid. An employee's length of service with the Company will determine the number of vacation hours the employee is entitled to annually. All hours of earned vacation are accrued on an annual basis. Upon termination of employment, employees will be paid for any unused accrued vacation time in their final paycheck.

Depreciation and Leasing Policies

Certain assets are purchased and depreciated, while others are leased and considered operating leases, and the annual lease costs are included in the indirect cost pool. For leasehold improvements, depreciation is computed on a straight-line basis over the term of the lease to a maximum of 15 years or the improvement's economic life. Depreciation is calculated on a straight-line basis for the other asset classifications based on the estimated useful lives of the assets.

Contract/Purchased Labor

The Company uses contract labor for engineering services, and accounts for this cost item as direct labor. Accordingly, the cost of contract labor is included in the direct labor base in the accompanying indirect cost rate schedule.

NOTES TO INDIRECT COST RATE SCHEDULE

Significant Accounting Policies (continued)

Corporate Allocation

The corporate allocation is comprised of allowable overhead and general and administrative expenses associated with Stantec Inc., the parent company. Stantec Inc.'s corporate indirect costs are allocated to the Company on the basis of its proportionate percentage of net revenues.

Merit Expense

The Company and its related parent company's policy is to award merit pay based on individual employee performance as determined based on employee evaluations and other criteria established by management. The merit policies and amounts that are included in the corporate allocation comply with FAR 31.205-6(f)(1).

3. Compensation Analysis

The Company performed a two-step analysis of executive compensation in accordance with FAR Part 31.205-6 and the AASHTO *Uniform Audit and Accounting Guide*. The first step included an analysis of the activities performed by, and the forms of compensation paid to parent company executives, and included in the corporate allocation, as well as an analysis of the activities performed by, and the forms of compensation paid to U.S. based executives, and included in indirect labor on the accompanying indirect cost rate schedule. As a result of this analysis, parent company executive compensation has been disallowed in the amount of \$421,546 in the corporate allocation (see Note 7Q) and U.S. based executive compensation has been disallowed in the amount of \$7,170,571 (see Note 7B) on the indirect cost rate schedule.

The second step included an evaluation of compensation reasonableness for the parent company and U.S. based executives using a salary survey for similarly situated and sized organizations performed by an independent third-party consulting firm and the compensation limit set by the Bipartisan Budget Act of 2013. As a result of the reasonableness analyses, parent company executive compensation has been disallowed in the amount of \$920,106 in the corporate allocation (see Note 7Q) and U.S. based executive compensation has been disallowed in the amount of \$1,550,593 (see note 7B) on the indirect cost rate schedule.

4. Employee Benefit Plans

401(k) Profit Sharing Plan

The Company sponsors a qualified 401(k) and profit sharing plan that meets the requirements of FAR 31.205-6(j). The plan covers all employees who have completed a minimum of one month of service and are age 21 or older. Contributions to the plan are made by participants to their individual accounts through payroll withholdings. The employee contributions are matched by the Company on a discretionary basis. Effective January 1, 2006 all participants employed on or after that date are 100% vested. All participants not employed on or after that day become vested in Company's matching and profit sharing contributions on a graduated scale based on participants' years of continuous service with a minimum of 1,000 hours required in any given year. The Company also maintains an 1165(e) plan for Stantec Engineering (Puerto Rico) P.S.C. employees, and additionally, in any given year, may need to make employer matches due to its acquisitions.

During the year ended December 31, 2017, the Company elected to match 100% of each participant's contributions up to the first 3% of compensation and 50% of each participant's contributions up to the next 2% of compensation. The Company made matching contributions in 2017 in the amount of \$23,326,954.

NOTES TO INDIRECT COST RATE SCHEDULE

Employee Benefit Plans (continued)***401(k) Profit Sharing Plan (continued)***

Additionally, the plan provides for a discretionary profit sharing component to the 401(k) plan to be determined by the Retirement Committee at the end of each calendar year. There were no such contributions for the year ended December 31, 2017.

Employee Stock Purchase Plan

The Company maintains an employee stock purchase plan covering all employees. The plan allows employees to purchase common stock shares of the Company through payroll deductions. An employee may authorize a percentage between 1% and 20% of their base salary to purchase shares on a per pay basis in registered shares, non-registered shares, or combination of the two.

The employee contributions are matched by the Company. The Company will match 50% of the first 2% contributed, not to exceed 1% between both registered and non-registered shares. During the year ended December 31, 2017, the Company made matching contributions in the amount of \$3,021,678.

5. Facilities Capital Cost of Money

The cost of money rate has been calculated in accordance with FAR 31.205-10, using average net book values of equipment and facilities multiplied by the weighted average treasury rate for the applicable period. Equipment and facilities include engineering and office equipment, computer equipment, vehicles, buildings and leasehold improvements. The calculation was made as follows:

	Combined	Home Office	Field Rate
Average net book value of assets	\$ 76,827,296	\$ 73,285,558	\$ 3,541,738
Average treasury rate	2.44%	2.44%	2.44%
Computed facilities capital cost	\$ 1,874,586	\$ 1,788,168	\$ 86,418
Direct labor base	\$ 446,925,497	\$ 417,141,842	\$ 29,783,655
Cost of money rate	0.419%	0.429%	0.290%

6. Subsequent Events

The Company evaluated subsequent events through June 26, 2018, which represents the date the indirect cost rate schedule was available to be issued, and concluded that no additional disclosures are required.

7. Adjustments Required by the Federal Acquisition Regulation

Costs incurred in connection with U.S. Government contracts are subject to the FAR. The FAR was promulgated to provide uniformity and establish guidance in the government procurement process. The FAR establishes the requirements and the standards governing cost allowability and allocability to government contracts.

NOTES TO INDIRECT COST RATE SCHEDULE

Adjustments Required by the Federal Acquisition Regulation (continued)

The following summary provides a reconciliation of indirect costs reported under U.S. GAAP to indirect costs that are allowable and allocable to government contracts in accordance with the FAR. Accordingly, unallowable or unallocable costs are reported in the following summary as adjustment items in order to derive indirect costs in accordance with the cost principles established by the FAR. A detail of the adjustments are as follows:

- A. **Merit Expense** – Compensation in the form of retention bonuses incidental to business acquisitions in the amount of \$6,339,164 was disallowed in accordance with FAR 31.205-6(l).
- B. **Indirect Labor** – Compensation of executives in excess of benchmark (reasonableness) compensation limits in the amount of \$1,550,593 have been disallowed in accordance with FAR 31.205-6; compensation of executives related to mergers and acquisitions in the amount of \$7,170,571 has been disallowed in accordance with FAR 31.205-27; and promotional labor for non-executives related to general marketing in the amount of \$3,010,238 has been disallowed in accordance with FAR 31.205-1, for a total disallowance of \$11,731,402.
- C. **Proposal and Promotion Expense** – Unsupported costs in the amount of \$238,146 have been disallowed in accordance with FAR 31.201-2(d); costs attributable to direct projects in the amount of \$52 have been disallowed in accordance with FAR 31.203(b); costs related to general marketing and advertising in the amount of \$5,592,292 have been disallowed in accordance with FAR 31.205-1; costs of gifts in the amount of \$28,304 have been disallowed in accordance with FAR 31.205-13; costs of entertainment and other related costs in the amount of \$393,487 have been disallowed in accordance with FAR 31.205-14; unallowable bid & proposal costs in the amount of \$84,242 have been disallowed in accordance with FAR 31.205-18; unallowable professional and consultant services costs in the amount of \$75,738 have been disallowed in accordance with FAR 31.205-33; unallowable relocation costs in the amount of \$23,500 have been disallowed in accordance with FAR 31.205-35; unallowable selling costs in the amount of \$92,336 have been disallowed in accordance with FAR 31.205-38; unallowable tradeshow costs in the amount of \$425,309 have been disallowed in accordance with FAR 31.205-43; costs in excess of allowable per diem in the amount of \$12,466 have been disallowed in accordance with FAR 31.205-46(a)(2); unallowable legal costs in the amount of \$30,899 have been disallowed in accordance with FAR 31.205-47; costs of alcohol in the amount of \$50,025 have been disallowed in accordance with FAR 31.205-51; and donations in the amount of \$641,800 have been disallowed in accordance with FAR 31.205-8, for a total disallowance of \$7,688,596.
- D. **Depreciation** – Costs in the amount of \$41,908,802 that relate to the amortization of intangible assets acquired in business combinations have been disallowed in accordance with FAR 31.205-52. The portion of depreciation of company-furnished automobiles that relates to direct project activities in the amount of \$623,793 have been disallowed in accordance with FAR 31.203(b) and depreciation costs that relate to personal use of company vehicles in the amount of \$101,201 have been disallowed in accordance with FAR 31.205-6(m)(2), for a total disallowance of \$42,633,796.

NOTES TO INDIRECT COST RATE SCHEDULE

Adjustments Required by the Federal Acquisition Regulation (continued)

- E. **Office Expense** – Unsupported costs in the amount of \$76,050 have been disallowed in accordance with FAR 31.201-2(d); costs attributable to direct project activities in the amount of \$751,263 have been disallowed in accordance with FAR 31.203(b); costs of gifts in the amount of \$336,826 have been disallowed in accordance with FAR 31.205-13; unallowable fines and penalties costs in the amount of \$5,478 have been disallowed in accordance with FAR 31.205-15; unallowable tradeshow costs in the amount of \$49,832 have been disallowed in accordance with FAR 31.205-43; and donations in the amount of \$51,610 have been disallowed in accordance with FAR 31.205-8, for a total disallowance of \$1,271,059.
- F. **Vehicle, Travel and Entertainment** – Costs of company-furnished automobiles attributable to direct project activities in the amount of \$2,972,553 have been disallowed in accordance with FAR 31.203(b); costs that relate to personal use of company vehicles in the amount of \$482,252 have been disallowed in accordance with FAR 31.205-6(m)(2); unsupported costs in the amount of \$174,486 have been disallowed in accordance with FAR 31.201-2(d); costs deemed unreasonable in the amount of \$47,034 have been disallowed in accordance with FAR 31.201-3; directly associated costs deemed unallowable in the amount of \$1,800 have been disallowed in accordance with FAR 31.201-6; costs of gifts in the amount of \$2,495,855 have been disallowed in accordance with FAR 31.205-13; costs of acquisitions in the amount of \$50,660 have been disallowed in accordance with FAR 31.205-27; unallowable tradeshow costs in the amount of \$3,556 have been disallowed in accordance with FAR 31.205-43; costs in excess of allowable per diem in the amount of \$613,841 have been disallowed in accordance with FAR 31.205-46(a)(2); and costs of alcohol in the amount of \$4,957 have been disallowed in accordance with FAR 31.205-51, for a total adjustment of \$6,846,994.
- G. **Professional Fees** – Costs deemed unreasonable in the amount of \$34,573 have been disallowed in accordance with FAR 31.201-3; costs attributable to direct project activities in the amount of \$106,444 have been disallowed in accordance with FAR 31.203(b); costs related to general marketing and advertising in the amount of \$21,734 have been disallowed in accordance with FAR 31.205-1; unallowable interest and financial costs in the amount of \$337,731 have been disallowed in accordance with FAR 31.205-20; costs of lobbying in the amount of \$49,819 have been disallowed in accordance with FAR 31.205-22; costs of acquisitions in the amount of \$219,613 have been disallowed in accordance with FAR 31.205-27; unallowable professional service costs in the amount of \$280,475 have been disallowed in accordance with FAR 31.205-33; costs related to non-specific help wanted advertising in the amount of \$31,500 have been disallowed in accordance with FAR 31.205-34; unallowable taxes in the amount of \$84,314 have been disallowed in accordance with FAR 31.205-41; and unallowable legal and other proceedings costs in the amount of \$1,569,458 have been disallowed in accordance with FAR 31.205-47, for a total disallowance of \$2,735,661.
- H. **Professional Development** – Costs related to non-specific help wanted advertising in the amount of \$38,435 have been disallowed in accordance with FAR 31.205-34; unallowable training and education costs in the amount of \$2,696 have been disallowed in accordance with FAR 31.205-44; costs in excess of allowable per diem in the amount of \$9,550 have been disallowed in accordance with FAR 31.205-46(a)(2); and costs of gifts in the amount of \$2,857 have been disallowed in accordance with FAR 31.205-13, for a total disallowance of \$53,538.

NOTES TO INDIRECT COST RATE SCHEDULE

Adjustments Required by the Federal Acquisition Regulation (continued)

- I. **Equipment Expense** – Costs attributable to direct project activities in the amount of \$6,128 have been disallowed in accordance with FAR 31.203(b); fines and penalties in the amount of \$4,158 have been disallowed in accordance with FAR 31.205-15; costs related to general marketing in the amount of \$1,650 have been disallowed in accordance with FAR 31.205-1; and unsupported costs in the amount of \$2,035 have been disallowed in accordance with FAR 31.201-2(d), for a total disallowance of \$13,971.
- J. **Community Investment** – Donations in the amount of \$959,622 have been disallowed in accordance with FAR 31.205-8.
- K. **Interest and Bank Charges** – Fines and penalties in the amount of \$335,936 have been disallowed in accordance with FAR 31.201-3.
- L. **Licenses and Taxes** – Fines and penalties in the amount of \$8,037 have been disallowed in accordance with FAR 31.205-15 and costs of lobbying in the amount of \$2,015 have been disallowed in accordance with FAR 31.205-22, for a total disallowance of \$10,052.
- M. **Memberships and Dues** – Costs related to general marketing and advertising in the amount of \$270,916 have been disallowed in accordance with FAR 31.205-1; costs of gifts in the amount of \$16,563 have been disallowed in accordance with FAR 31.205-13; costs of entertainment and other related costs in the amount of \$2,131 have been disallowed in accordance with FAR 31.205-14; costs of lobbying in the amount of \$289,250 have been disallowed in accordance with FAR 31.205-22; unallowable tradeshow costs in the amount of \$33,933 have been disallowed in accordance with FAR 31.205-43; unallowable forms of compensation in the amount of \$19,950 have been disallowed in accordance with FAR 31.205-6; and donations in the amount of \$128,471 have been disallowed in accordance with FAR 31.205-8, for a total adjustment of \$761,214.
- N. **Insurance Expense** – The portion of insurance costs of company-furnished automobiles attributable to direct project activities in the amount of \$496,613 have been disallowed in accordance with FAR 31.203(b); insurance costs that relate to personal use of company vehicles in the amount of \$80,568 have been disallowed in accordance with FAR 31.205-6(m)(2); and the portion of insurance that represents premiums paid in excess of projected losses in the amount of \$3,498,346 have been disallowed in accordance with FAR 31.205-19, for a total disallowance of \$4,075,527.
- O. **Miscellaneous Expense** – Costs attributable to direct project activities in the amount of \$1,950,572 have been disallowed in accordance with FAR 31.203(b); costs related to general marketing and advertising in the amount of \$5,000 have been disallowed in accordance with FAR 31.205-1; costs of gifts in the amount of \$7,642 have been disallowed in accordance with FAR 31.205-13; fines and penalties in the amount of \$20 have been disallowed in accordance with FAR 31.205-15; donations in the amount of \$1,298 have been disallowed in accordance with FAR 31.205-8; and unallowable costs of depreciable assets in the amount of \$10,944 have been disallowed in accordance with FAR 31.205-11, for a total disallowance of \$1,975,476.
- P. **Interest Expense** – Interest costs in the amount of \$4,301,030 have been disallowed in accordance with FAR 31.205-20.

NOTES TO INDIRECT COST RATE SCHEDULE

Adjustments Required by the Federal Acquisition Regulation (continued)**Q. Corporate Allocation** – Costs have been adjusted as summarized below:

Promotion and acquisition related labor costs - executive	\$ 421,546	FAR 31.205-1; FAR 31.205-27
Promotion and acquisition related labor costs – non-executive	1,262,753	FAR 31.205-1; FAR 31.205-27
Preferred share units paid	(2,246,458) *	FAR 31.205-6
Excess compensation	920,106	FAR 31.205-6
Unsupported costs	62,172	FAR 31.201-2(d)
Non-labor promotion costs	1,227,112	FAR 31.205-1
Non-labor acquisition costs	210,438	FAR 31.205-27
Direct costs	896	FAR 31.203(b)
Employee gifts	16,550	FAR 31.205-13
Trade show costs	9,589	FAR 31.205-43
Travel costs	37,837	FAR 31.205-46
Alcohol	8,173	FAR 31.205-51
Donations	130,741	FAR 31.205-8
Entertainment costs	4,671	FAR 31.205-14
Fines and penalties	2,773	FAR 31.205-15
Recruitment costs	195	FAR 31.205-34
Training and education costs	600	FAR 31.205-44
Legal costs	14,316	FAR 31.205-47
Interest	5,790	FAR 31.205-20
Bad Debt	486,471	FAR 31.205-3
Corporate allocation methodology adjustment	1,985,990 **	FAR 31.201-4
Total	<u>\$ 4,562,261</u>	

* In 2014 the Company introduced a Preferred Share Unit ("PSU") deferred compensation program. The Company awards the monetary equivalent of 25% of the annual bonus award in PSU's based upon the per share price at the time of award to certain executives. The PSU's vest over three years and are paid out at the then current value of the shares plus a performance metric adjustment of 100% to 200% of the award value. Pursuant to FAR 31.205-6(k)(1) and CFR 9904.415-50, the value at the time of award cannot be reasonably estimated; therefore, the amounts recorded in the year of award are disallowed. Award amounts become allowable in the year that they are redeemed and paid by the Company. In fiscal year 2017, the Company redeemed the PSU's awarded in fiscal year 2014 fiscal year resulting in a positive adjustment of \$(2,246,458) in accordance with FAR 31.205-6(k)(1).

** This adjustment was needed in order for the amount of corporate costs allocated to the Company to comply with the FAR and Cost Accounting Standards.

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF
THE INDIRECT COST RATE SCHEDULE PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*



Keegan, Linscott & Kenon, PC

Certified Public Accountants • Certified Fraud Examiners • Certified Financial and Restructuring Advisors

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE
INDIRECT COST RATE SCHEDULE PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Stantec Consulting Services, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the indirect cost rate schedule of Stantec Consulting Services, Inc. (the "Company") for the year ended December 31, 2017, and the related notes to the indirect cost rate schedule, and have issued our report thereon dated June 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the indirect cost rate schedule, we considered the Company's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the indirect cost rate schedule, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's indirect cost rate schedule prepared in accordance with Part 31 of the Federal Acquisition Regulation will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's indirect cost rate schedule is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including provisions of the applicable sections of Part 31 of the Federal Acquisition Regulation, noncompliance with which could have a direct and material effect on the determination of the amounts reported on the indirect cost rate schedule. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company'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 Company's internal control and compliance. This report is also intended solely for the use and information of the Company and government agencies or other customers related to contracts employing the cost principles of the Federal Acquisition Regulation. Accordingly, this communication is not suitable for any other purpose.

Keegan, Simnett & Kenon, P.C.

Tucson, Arizona
June 26, 2018

Veltre Engineering Inc.	From Financial Statements Dated: 12/31/18		
Address: 2899 Dickens Street			
Solicitation No.	One Year Period Covering:	12 months Ended 12/31/18	
Project Name:	Sales Volume:	\$865,927	

<u>Direct Labor</u>	<u>Total</u>	<u>Exclusions and Adjustments</u>	<u>Net Proposed</u>
1. Principals	\$ 196,000		\$ 199,920
2. Technical Staff	\$ 176,000		\$ 184,800
3. Admin/Clerical Staff			\$ -
Total Direct Labor	<u>\$ 372,000</u>	<u>\$ -</u>	<u>\$ 384,720</u>
<u>Indirect Expenses</u>			
4. Indirect Salary - Principals	\$ 64,000		\$ 64,000
5. Indirect Salary - Technical	\$ 54,000		\$ 56,700
6. Indirect Salary - Admin/Clerical	\$ 30,000		\$ 30,000
7. Bonuses	\$ 30,000		\$ 30,000
8. Vacation, Holiday, Sick	\$ 68,654		\$ 68,654
9. Payroll Taxes	\$ 46,170		\$ 46,170
10. Pension, Retirement Plans	\$ 37,370		\$ 39,238
11. Health & Life Insurance Programs	\$ 60,662		\$ 66,728
12. Training	\$ 851		\$ 851
13. Prof & General Liability Insurance	\$ 33,333		\$ 36,667
14. Dues - Professional Organizations	\$ 475		\$ 475
15. Professional & Accounting Fees	\$ 19,371		\$ 19,371
16. Office Equipment (Leased)			\$ -
17. Office Rent	\$ 24,888		\$ 48,000
18. Depreciation			\$ -
19. Telephone	\$ 2,911		\$ 3,202
20. Utilities	\$ 1,110		\$ 4,229.62
21. Auto Expenses	\$ 4,775		\$ 4,775
22. Maintenance & Repair	\$ 588		\$ 588
23. Subscriptions & Periodicals	\$ 6,369		\$ 7,006
24. Reproduction (excl. direct costs)			\$ -
25. Travel (excl. direct costs)	\$ 17,991	\$ 17,991	\$ 0
26. Supplies (excl. direct costs)	\$ 55,852		\$ 55,852
27. Federal, State and Local Taxes (FAR 31.205.41)	\$ 94,985		\$ 94,985
28. Other: computer h/w s/w base passes	\$ 32,283		\$ 35,511
Unallowable Costs found in FAR Part 31			
29. Dues - Non-professional (social clubs) FAR 31.205-14			\$ -
30. Public Relations & Advertising FAR 31.205-1	\$ 1,998		
31. Contributions & Donations FAR 31.205-8			
32. Entertainment FAR 31.205-14			
33. Financing & Interest Charges FAR 31.205-20	\$ 49		
34. Bad Debts (incl. related legal fees) FAR 31.205-3			
35. Fines & Penalties FAR 31.205-15			
36. Goodwill FAR 31.702 & Contingencies FAR 31.205-7			\$ -
37. Other:			\$ -
Total Indirect Expenses	<u>\$ 688,684</u>	<u>\$ 17,991</u>	<u>\$ 713,002</u>

Overhead Rate = Total Indirect Expenses divided by Total Direct Labor

185.3%

Explain any amounts based on budgetary forecasts: (identify with applicable category number)

1 & 4. Hiring Vice President on June 4th at \$160,000.

6. Recent hire of Admin Assistant at \$41600 per year added.

21. Planned purchase of company vehicles (2 x 50,000)

Collected income. Invoicing exceeded direct and indirect costs

Anticipated increased costs

Anticipated increased costs

Anticipated increased costs

New offices/leases.

Anticipated increased costs

New WA office as of 1/2019. Prior operation out of home.

Anticipated increased costs

Anticipated increased costs

Notes to the preparer:

1. Indicate whether the overhead analysis is based on a budgetary forecast.
2. If a budgetary forecast is not used, the data must be based on the most recently completed full fiscal or calendar year financial data. Data that is more than one year old should not be used.
3. Indicate total sales volume from financial statements.
4. Use the first column to record total unadjusted cost from the financial statements.
Use the center column to make adjustments. The last column is for net proposed costs.
5. All costs submitted on this form must be fully reconcilable to the financial statements.
Identify the source if data submitted on this form is not directly from your financial statements.
6. All supporting financial statements, schedules and documentation must be readily available upon request by the Contracting Officer or other Government representatives.
7. Exclude all costs from overhead that your firm received, or will be receiving, reimbursement for on a direct cost basis. Exclude all direct costs that are proposed on fee proposals (reproduction, travel, supplies, clerical, etc.).
8. Identify and exclude all significant non-recurring costs. For example, office relocation expenses must be excluded since they will not be incurred again.
9. Adjust costs for significant known changes for the coming year (for example, auto or equipment lease payments that will cease, increases/decreases in rent, insurance, etc.)
10. Exclude all costs that are not allowable in accordance with FAR Part 31.

Examples of unallowable costs are: bad debts, contingencies, contributions, donations, dividends, entertainment, fines, penalties, interest, idle or excess facilities losses on other contracts, organization costs, lobbying costs, defense of fraud, goodwill, alcoholic beverages, advertising promoting the contractor or its products, costs of promotional items, memberships in country clubs, gifts

11. If a significant change in sales volume is anticipated, adjust costs as appropriate and provide an explanation.

By signing below, I/we hereby certify and attest that the data submitted is accurate and correct to the best of my/our knowledge, and is in accordance with Federal Acquisition Regulations. I/we understand that any records used in preparing this form may be subject to a formal audit review by Federal Government agencies such as the Defense Contract Audit Agency and/or the Internal Revenue Service.

Prepared by and for Veltre Engineering, Inc.

Signature _____

Date 4/23/2018

John Veltre

Principal

Veltre Engineering, Inc.