

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Volunteers of America Western Washington and Subsidiary
Everett, Washington

We have audited the accompanying consolidated financial statements of Volunteers of America Western Washington and Subsidiary ("the Organization"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Matters – Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of non-federal government awards on pages 27 and 28 is also presented for the purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards and the schedule of non-federal governmental awards are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of the Organization'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 Organization's internal control over financial reporting and compliance.

Peterston Sullivan LLP.

December 14, 2018

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

ASSETS	2018	2017
Current Assets		
Cash and cash equivalents	\$ 686,533	\$ 1,274,653
Accounts receivable, net	953,149	943,167
Pledges receivable	105,651	116,734
Prepaid expenses	77,761	92,994
Property held for sale	1,280,133	1,280,133
Other current assets	39,307	30,396
Total current assets	3,142,534	3,738,077
Property and Equipment		
Land	1,093,091	1,093,091
Buildings and improvements	5,837,342	5,837,342
Furniture and equipment	1,410,957	1,409,305
Construction in progress	82,207	76,514
Accumulated depreciation	(5,464,197)	(5,348,137)
Total property and equipment, net	2,959,400	3,068,115
Other Assets		
Designated/restricted assets	2,287,869	2,176,806
Other long-term assets	66,276	68,874
Total other assets	2,354,145	2,245,680
Total assets	\$ 8,456,079	\$ 9,051,872
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 433,694	\$ 260,067
Accrued payroll expenses	1,240,878	1,255,931
Current portion of notes and loans payable	9,919	9,919
Line of credit - related party	745,000	745,000
Other current liabilities	46,911	162,751
Total current liabilities	2,476,402	2,433,668
Notes and Loans Payable, less current portion	3,363,286	3,373,204
Total liabilities	5,839,688	5,806,872
Net Assets		
Unrestricted	1,239,338	1,906,545
Temporarily restricted	624,779	589,683
Permanently restricted	752,274	748,772
Total net assets	2,616,391	3,245,000
Total liabilities and net assets	\$ 8,456,079	\$ 9,051,872

See Notes to Consolidated Financial Statements

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue from Operations								
Public support received directly								
Contributions	\$ 338,638	\$ 595,854	\$ 6,100	\$ 940,592	\$ 426,251	\$ 443,014	\$ 26,000	\$ 895,265
In-kind contributions of food	4,903,335			4,903,335	5,136,740			5,136,740
In-kind contributions of rent	16,032			16,032	10,000			10,000
Public support received indirectly								
United Way	1,869	83,248		85,117	8,478	18,500		26,978
Volunteers of America, Inc.					7,613			7,613
Total public support	5,259,874	679,102	6,100	5,945,076	5,589,082	461,514	26,000	6,076,596
Revenue and grants from governmental agencies	16,725,526			16,725,526	16,297,965			16,297,965
Other revenue								
Program service fees	333,801			333,801	432,874			432,874
Rental income	110,103			110,103	115,881			115,881
Other operating income					861			861
Total other revenue	443,904			443,904	549,616			549,616
Net Assets Released from Restrictions								
Released from time restrictions	175,535	(175,535)			363,813	(363,813)		
Released from purpose restrictions	507,997	(507,997)			454,199	(454,199)		
Total net assets released from restrictions	683,532	(683,532)			818,012	(818,012)		
Total public support and revenue from operations	23,112,836	(4,430)	6,100	23,114,506	23,254,675	(356,498)	26,000	22,924,177

See Notes to Consolidated Financial Statements

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF ACTIVITIES
(Continued)

For the Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses								
Program services								
Encouraging Positive Development	\$ 819,263	\$ -	\$ -	\$ 819,263	\$ 897,030	\$ -	\$ -	\$ 897,030
Fostering Independence	9,367,406			9,367,406	8,462,582			8,462,582
Promoting Self-Sufficiency	10,286,706			10,286,706	10,877,150			10,877,150
Total program services	20,473,375			20,473,375	20,236,762			20,236,762
Supporting services								
Management and general	2,529,901			2,529,901	2,716,012			2,716,012
Fundraising	545,619			545,619	434,655			434,655
Total supporting services	3,075,520			3,075,520	3,150,667			3,150,667
Affiliate fees	376,380			376,380	376,953			376,953
Total expenses	23,925,275			23,925,275	23,764,382			23,764,382
Change in net assets from operations	(812,439)	(4,430)	6,100	(810,769)	(509,707)	(356,498)	26,000	(840,205)
Non-Operating Gains (Losses)								
Interest and dividend income	31,790	9,733		41,523	29,939	8,636		38,575
Gain on investments	103,832	29,793		133,625	119,116	36,357		155,473
Gain on sale of property and equipment	8,000			8,000	4,192			4,192
Other non-operating gains (losses)	1,610		(2,598)	(988)	5,104		(3,040)	2,064
Capital campaign expenses					(6,617)			(6,617)
Change in net assets from non-operating activities	145,232	39,526	(2,598)	182,160	151,734	44,993	(3,040)	193,687
Total change in net assets	(667,207)	35,096	3,502	(628,609)	(357,973)	(311,505)	22,960	(646,518)
Net Assets, beginning of year	1,906,545	589,683	748,772	3,245,000	2,264,518	901,188	725,812	3,891,518
Net Assets, end of year	\$ 1,239,338	\$ 624,779	\$ 752,274	\$ 2,616,391	\$ 1,906,545	\$ 589,683	\$ 748,772	\$ 3,245,000

See Notes to Consolidated Financial Statements

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018

	Program Services				Supporting Services			Total
	Encouraging	Fostering Independence	Promoting	Total	Management and General	Fundraising	Total	
	Positive Development		Self-Sufficiency	Program Services			Supporting Services	
Salaries and wages	\$ 585,845	\$ 7,644,919	\$ 3,542,627	\$ 11,773,391	\$ 976,249	\$ 298,243	\$ 1,274,492	\$ 13,047,883
Payroll taxes	53,472	896,718	308,093	1,258,283	85,278	22,027	107,305	1,365,588
Employee benefits	34,541	379,119	284,211	697,871	156,340	30,191	186,531	884,402
Total payroll expenses	673,858	8,920,756	4,134,931	13,729,545	1,217,867	350,461	1,568,328	15,297,873
Specific assistance to individuals	500	32,884	5,562,173	5,595,557				5,595,557
Other professional fees	4,299	95,588	253,447	353,334	303,786	156,027	459,813	813,147
Occupancy expense	53,485	58,807	47,213	159,505	278,016	12,566	290,582	450,087
Depreciation and amortization	1,710	30,137	1,050	32,897	237,911		237,911	270,808
Travel and transportation	14,108	91,997	110,204	216,309	32,018	1,239	33,257	249,566
Telecommunications	7,126	46,654	33,502	87,282	105,502	2,815	108,317	195,599
Supplies	44,639	55,012	57,283	156,934	23,969	1,437	25,406	182,340
Insurance	11,096	23,906	22,710	57,712	81,130		81,130	138,842
Legal fees					103,624		103,624	103,624
Interest					70,563		70,563	70,563
Accounting fees					51,619		51,619	51,619
Equipment rental and maintenance	5,891	6,149	21,587	33,627	7,685	1,068	8,753	42,380
Other	1,818	1,977	18,452	22,247	8,540	8,122	16,662	38,909
Conferences and meetings	260	1,165	15,264	16,689	2,471	2,167	4,638	21,327
Printing and publications	290	1,928	7,296	9,514	1,077	6,675	7,752	17,266
Postage	183	446	1,594	2,223	4,123	3,042	7,165	9,388
Total functional expenses	<u>\$ 819,263</u>	<u>\$ 9,367,406</u>	<u>\$ 10,286,706</u>	<u>\$ 20,473,375</u>	<u>\$ 2,529,901</u>	<u>\$ 545,619</u>	<u>\$ 3,075,520</u>	23,548,895
Affiliate fees								376,380
Total expenses								<u>\$ 23,925,275</u>

See Notes to Consolidated Financial Statements

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	Program Services				Supporting Services			Total
	Encouraging	Fostering	Promoting	Total	Management	Fundraising	Total	
	Positive		Self-Sufficiency	Program			Supporting	
	Development	Independence		Services	and General		Services	
Salaries and wages	\$ 595,134	\$ 6,759,891	\$ 3,659,591	\$ 11,014,616	\$ 1,163,708	\$ 118,235	\$ 1,281,943	\$ 12,296,559
Payroll taxes	85,072	860,791	357,824	1,303,687	105,759	9,406	115,165	1,418,852
Employee benefits	35,713	344,474	313,663	693,850	171,711	10,154	181,865	875,715
Total payroll expenses	715,919	7,965,156	4,331,078	13,012,153	1,441,178	137,795	1,578,973	14,591,126
Specific assistance to individuals	1,049	149,241	6,036,286	6,186,576		575	575	6,187,151
Other professional fees	9,109	99,214	204,206	312,529	295,625	236,985	532,610	845,139
Occupancy expense	66,319	50,994	38,993	156,306	305,523	7,009	312,532	468,838
Depreciation and amortization	1,710	11,940	7,773	21,423	244,721		244,721	266,144
Travel and transportation	12,310	92,601	85,426	190,337	34,270	699	34,969	225,306
Telecommunications	8,266	44,984	36,145	89,395	122,905	980	123,885	213,280
Supplies	59,538	16,194	57,972	133,704	3,578	1,216	4,794	138,498
Insurance	13,694	18,470	16,007	48,171	94,821	199	95,020	143,191
Legal fees					21,001	293	21,294	21,294
Interest					64,448		64,448	64,448
Accounting fees					46,730		46,730	46,730
Equipment rental and maintenance	4,694	8,237	22,948	35,879	13,793	292	14,085	49,964
Other	3,108	3,967	14,040	21,115	14,861	20,913	35,774	56,889
Conferences and meetings	591	825	14,623	16,039	4,876	1,465	6,341	22,380
Printing and publications	409	270	8,910	9,589	3,153	1,394	4,547	14,136
Postage	314	489	2,743	3,546	4,529	24,840	29,369	32,915
Total functional expenses	\$ 897,030	\$ 8,462,582	\$ 10,877,150	\$ 20,236,762	\$ 2,716,012	\$ 434,655	\$ 3,150,667	23,387,429
Affiliate fees								376,953
Total expenses								\$ 23,764,382

See Notes to Consolidated Financial Statements

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ (628,609)	\$ (646,518)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	270,808	266,144
Gain on sale of property and equipment	(8,000)	(4,192)
Gain on sale of investments	(133,625)	(155,473)
Contributions restricted for endowment investment	(6,100)	(26,000)
Changes in operating assets and liabilities		
Accounts receivable	(9,982)	380,567
Pledges receivable	11,083	298,765
Prepaid expenses	15,233	124,716
Other current assets	(6,313)	7,446
Accounts payable	173,627	(304,360)
Accrued payroll expenses	(15,053)	55,979
Other current liabilities	(115,840)	23,845
Net cash flows from operating activities	(452,771)	20,919
Cash Flows from Investing Activities		
Proceeds from sales of investments and designated/restricted assets	656,209	558,375
Purchases of investments and designated/restricted assets	(633,647)	(330,641)
Proceeds from sales of property and equipment	8,000	4,192
Purchases of property and equipment	(162,093)	(155,693)
Net cash flows from investing activities	(131,531)	76,233
Cash Flows from Financing Activities		
Principal payments on notes and loans payable	(9,918)	(9,919)
Contributions restricted for endowment investment	6,100	26,000
Net cash flows from financing activities	(3,818)	16,081
Net change in cash and cash equivalents	(588,120)	113,233
Cash and Cash Equivalents, beginning of year	1,274,653	1,161,420
Cash and Cash Equivalents, end of year	\$ 686,533	\$ 1,274,653
Supplemental Disclosure of Cash Flow Information		
Interest paid on a cash basis	\$ 70,563	\$ 64,448

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

The consolidated financial statements for Volunteers of America Western Washington include Volunteers of America Western Washington and its subsidiary, VOA Western Washington Properties, which collectively are referred to as "the Organization." Volunteers of America Western Washington is a spiritually based human services nonprofit organization incorporated in Washington State that provides social services within Western Washington under a charter from Volunteers of America, Inc., a national spiritually based nonprofit organization providing local human service programs and opportunities for individual and community involvement. VOA Western Washington Properties is a nonprofit organization incorporated in Washington state that holds property for use by Volunteers of America Western Washington.

The staff and volunteers of the Organization reach, uplift, and empower those the Organization serves. Services from any of the Organization's programs have a lasting impact on the individual, family, the community, and future generations. People get the help they need as well as the support and resources to help themselves into the future.

The Organization's programs and services create a comprehensive framework that:

- Encourages positive development,
- Fosters independence, and
- Promotes self-sufficiency.

Encouraging Positive Development

The Organization provides services to encourage positive development for troubled and at-risk children and youth while also promoting the healthy development of all children, adolescents, and their families. The Organization's programs provide a continuum of care and support for young people ages birth to 21 through prevention, early intervention, crisis intervention, and long-term services.

The Organization's programs and services in this impact area include:

- **Children and Youth**
 - **Early Childhood Education and Assistance Program (ECEAP)** (Everett, Granite Falls, Gold Bar, and Sultan, Snohomish County) – Free preschool for qualifying families, including a large percentage with English as a Second Language. Kids from low-income families get the opportunity to start kindergarten at the same level of development as their more affluent peers.
 - **Rural Youth Development** (East Snohomish County) – Programs and activities that support child and youth development and safe environments in Sultan and other communities to the east.
 - **Crisis Intervention Around Challenging Youth Behaviors** (Snohomish County) – Support for families, ECEAP teachers, child care providers, and the children they care for around challenging youth behaviors. This support increases child development by addressing adverse behaviors that impact children, the adults in their lives, and their classmates.

- **Community Enhancement**

- **Sky Valley Family Resource Center** (East Snohomish County) – Integrated neighborhood service center that brings together youth programs (including a partnership with the Sultan Boys & Girls Club), hunger prevention, homeless programs, mental health counseling (partnership with Sunrise Services), senior center meals and events, and other services.
- **North Sound 2-1-1** (Skagit, Island, San Juan, Whatcom, and Snohomish Counties) – Comprehensive information and referral connecting individuals with health and human service resource information 24/7.
- **Care Crisis Response Services** (Skagit, Island, San Juan, Whatcom, and Snohomish Counties) – Crisis line for the greater community, and triage line for emergency service professionals, providing 24/7 access to crisis intervention and mental health emergency services.

Fostering Independence

The Organization fosters the health and independence of persons with disabilities, mental illness, and HIV/AIDS through quality affordable housing, personal support, and a wide range of community services.

The Organization's programs and services in this impact area include:

- **Community Enhancement**

- **North Sound 2-1-1** (Skagit, Island, San Juan, Whatcom, and Snohomish Counties) – Comprehensive information and referral connecting individuals with health and human service resource information 24/7.

- **Disabilities Services**

- **Meaningful Day Program** (greater community) – Escorted recreational trips for adults with developmental disabilities who enjoy the social interaction and excitement of "real" vacations at interesting locations. This service decreases isolation, improves socialization skills, and promotes positive community acceptance of people with disabilities.
- **Disability Services** (King, Skagit, Snohomish, and Whatcom Counties) – Supported living program for adults with developmental disabilities emphasizing self-determination, dignity, and the development of independent living skills.

- **Elderly Services**

- **Sultan Senior Center** (Snohomish County) – Provides activities and meals for seniors in Skykomish Valley (East Snohomish County). The program gives seniors multiple opportunities to gather each week and also encourages them to get out of the house and look after each other.

Promoting Self-Sufficiency

The Organization promotes self-sufficiency for individuals and families who have experienced homelessness or other personal crisis, including chemical dependency, involvement with the corrections system, and unemployment. The Organization focuses on solution-oriented approaches, using a continuum of services from prevention to intervention to long-term support.

The Organization's programs and services in this impact area include:

- **Community Enhancement**

- **North Sound 2-1-1** (Skagit, Island, San Juan, Whatcom, and Snohomish Counties) – Comprehensive information and referral connecting individuals with health and human service resource information 24/7.
- **Dispute Resolution Center of Snohomish, Skagit, and Island Counties** – Nationally acclaimed conflict resolution training and mediation services for issues related to landlord/tenant, home and family, school, courts, and the workplace.
- **Sky Valley Family Resource Center** (East Snohomish County) – Integrated neighborhood service center that brings together youth programs (including a partnership with the Sultan Boys & Girls Club), hunger prevention, homeless programs, mental health counseling (partnership with Sunrise Services), and senior center meals and events. This family support center reaches out to all community members, particularly youth, seniors, people with disabilities, and homeless and low-income families in the Skykomish Valley. Events, programs, and basic needs services such as housing and clothing, and educational opportunities are provided to strengthen individuals and families resulting in a healthier, safer, more inclusive community.
- **Reduced Isolation for Sky Valley Seniors** (Snohomish County) – Sultan Senior Center enhances independence by providing affordable meals for seniors, group activities, and a sense of community.

- **Emergency Services**

- **Care Crisis Response Services** (Skagit, Island, San Juan, Whatcom, and Snohomish Counties) – Crisis line for the greater community, and triage line for emergency service professionals, providing 24/7 access to crisis intervention and mental health emergency services.
- **Food Banks** (located in Everett, Mill Creek, and Sultan in Snohomish County, and North Seattle in King County) – Supplemental food supply for those in need throughout the areas served.
- **Snohomish County Food Bank Distribution Center** – Distribution center feeds those that are hungry in their own neighborhoods by receiving, processing, and distributing more than three million pounds of food annually to 21 community food banks and numerous local feeding programs. It also coordinates monthly home deliveries of fresh produce to seniors.

- **Homeless Services**

- **Homeless Services** (Snohomish County) – Homeless families and individuals work with navigators to improve self-sufficiency when housing options are not available. Families and individuals who are at risk of losing their apartments or homes work with prevention navigators who explore mediation/conciliation and/or rent subsidies to ensure they retain their shelter. The agency also provides supportive services for families in permanent housing.

- **Employment and Training Services**

- **Dispute Resolution Center of Snohomish, Skagit, and Island Counties** – Nationally acclaimed conflict resolution training and mediation services for issues related to landlord/tenant, home and family, school, courts, and the workplace.

- **Housing**

- **Maud's House** (Snohomish County) – An emergency shelter program serving homeless women with children located in Marysville, Washington. Maud's House provides temporary shelter and supportive services to women with children who are experiencing barriers to permanent housing.

Note 2. Significant Accounting Policies

Basis of Accounting

The accounting policies of the Organization conform to accounting principles generally accepted in the United States as applicable to voluntary health and welfare organizations.

Principles of Consolidation

The consolidated financial statements include the accounts of Volunteers of America Western Washington and its wholly owned subsidiary, VOA Western Washington Properties. All material inter-organization transactions have been eliminated.

Cash Equivalents

Cash equivalents are all highly liquid investments with a maturity of three months or less when purchased, unless held for reinvestment as part of the investment portfolio, pledged to secure loan agreements, or otherwise restricted or designated. The carrying amount approximates fair value because of the short maturity of those instruments. On occasion, the Organization has cash balances in excess of federally insured limits.

Accounts Receivable

Accounts receivable are stated at net realizable value and consist primarily of amounts due from government agencies. The Organization considers accounts greater than 30 days old to be past due and uses the allowance method for recognizing bad debts (based on historical collection rates). When an account is deemed uncollectible, it is generally written off against the allowance. The Organization does not require collateral for its accounts receivable. In addition, the Organization does not charge interest on its accounts receivable. There was no allowance for doubtful accounts related to accounts receivable as of June 30, 2018 or 2017.

Contributions/Pledges Receivable

Contributions are generally recorded only upon receipt unless evidence of an unconditional promise to give has been received. Unconditional promises expected to be collected within one year are valued at the amount of the promise less an allowance for doubtful accounts, if any. Unconditional promises to give that are expected to be collected in future years are recorded at the net present value of the amounts expected to be collected using an estimated discount rate. Unconditional promises expected to be collected in the future are also discounted for potentially uncollectible amounts. This results in long-term pledges being recorded at fair value. Conditional promises to give are not included as support until such time the conditions are substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor or by law. Promises to give from four and two donors represented 100% and 86% of total pledges receivable as of June 30, 2018 and 2017, respectively. No allowance for doubtful accounts was deemed necessary as of June 30, 2018 or 2017. All pledges receivable were considered current as of June 30, 2018 and 2017, and totaled \$105,651 and \$116,734, respectively.

Property and Equipment/Property Held for Sale

Land, buildings, and equipment purchased by the Organization are recorded at cost. All expenditures for land, buildings, and equipment over \$3,000 are capitalized; the fair value of donated fixed assets is similarly capitalized. Depreciation is computed on the straight-line method based upon the estimated useful lives of the assets as follows:

Furniture and equipment	5 - 15 years
Buildings and improvements	5 - 40 years

In March 2016, The Learning Center property in Lynnwood, Washington, was vacated by the Organization and listed for sale. Accordingly, the building and related land are shown as an asset held for sale at June 30, 2018 and 2017, on the consolidated statements of financial position, with a net book value of \$1,280,133 as of June 30, 2018 and 2017.

Designated/Restricted Assets/Investments

Designated and restricted assets represent the total of all assets that are encumbered by donor restrictions, legal agreements, and board designation, or are otherwise unavailable for the general use of the Organization. This category generally includes client/custodial funds, escrow/reserve funds, temporarily and permanently restricted assets, and securities that are pledged and held by the lender as collateral for financing.

Designated and restricted assets were categorized as follows as of June 30:

	<u>2018</u>	<u>2017</u>
Future development and capital improvements	\$ 16,366	\$ 59,312
Endowment fund	1,791,626	1,659,874
Assets held by a trust	479,877	457,620
	<u>\$ 2,287,869</u>	<u>\$ 2,176,806</u>

The Organization has completed a feasibility study and entered into a collaborative agreement with Trinity Lutheran Church to potentially build an integrated service center in South Snohomish County. The purpose of this agreement is to build a multi-generational gathering place where acceptance and diversity enhance service solutions.

The collaborative agreement calls for an oversight committee that consists of an equal number of representatives from each organization that will manage and govern the capital campaign and facilities development efforts. The Organization will lead the capital campaign, create the design for the facility, and after approval by the oversight committee, will engage the resources necessary to construct the facility. Trinity Lutheran Church will own the ground under the center and will enter into a long-term land lease with the Organization, which will own the completed facility.

As of June 30, 2018 and 2017, \$16,366 and \$59,312, respectively, of unspent capital campaign funds are included in future development and capital improvements on the schedule above. During the years ended June 30, 2018 and 2017, certain funds were spent to pay for architectural costs as the Organization worked on the design of the building. These amounts are considered construction in progress.

In order to facilitate the creation of this center, one donor pledged \$2 million toward the capital campaign that is conditional upon whether (1) the Organization has secured the funds needed to build the center in accordance with the approved plan from the feasibility study noted above and (2) the donor has reviewed and approved the plan. As of June 30, 2018, the Organization has not met the conditions of this grant. Accordingly, no amounts related to this donation have been recognized in these consolidated financial statements.

Designated and restricted assets consist of the following at June 30:

	2018	2017
Cash and cash equivalents	\$ 16,366	\$ 59,312
Investment in mutual funds		
Bond/fixed income funds	638,818	645,311
International equity funds	218,628	131,784
Large cap equity funds	234,795	257,418
Equity growth funds	405,698	344,384
Equity value funds	120,865	108,510
Other global asset funds	172,822	172,467
Total mutual funds	1,791,626	1,659,874
Assets held in trust	479,877	457,620
	<u>\$ 2,287,869</u>	<u>\$ 2,176,806</u>

Investments include a variety of mutual funds (which are listed above) and are recorded at fair value (see Note 13) using Level 1 inputs (which consist of quoted market prices for identical assets) and Level 2 inputs (which consists of quoted market prices for similar assets).

Assets held by a trust are valued using Level 3 inputs and are discussed in Note 13.

Contributed Goods and Services

The Organization receives donations of food for distribution from the federal government, businesses, and individuals. Federal commodities and donations are recognized based on an average value per pound basis, as determined by Feeding America. Food contributed for the years ended June 30, 2018 and 2017, was \$4,903,335 and \$5,136,740, of which \$2,588,720 and \$2,512,467, respectively, was from non-federal sources.

The Organization also recognizes contribution revenue for certain services received at the fair value of the services, provided those services create or enhance non-financial assets or require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. There were no such services recognized as contributed to the Organization for the years ended June 30, 2018 or 2017.

A number of volunteers donated services with an estimated value of \$1,155,000 and \$1,121,000 primarily to promoting self-sufficiency programs for the years ended June 30, 2018 and 2017, respectively. The contributed services to these programs are not reflected in the consolidated financial statements, as they do not meet the recognition criteria.

In-kind rent contributed during the years ended June 30, 2018 and 2017, is discussed in Note 6.

Other Revenue

Contribution revenue recognition is described above. Other revenue is recognized as follows:

- Revenue from most grants with governmental organizations is recognized when an expenditure related to the grant is made. Fee-based grant and contract revenue is recognized as the services are performed.
- Program service fees are recognized when the service is performed and amounts are due.
- Rental income is recognized on a straight-line basis in accordance with rental terms.

Net Assets

The Organization classifies net assets into three categories: unrestricted, temporarily restricted, and permanently restricted. All net assets are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets include contributions with temporary donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted and are reported in the statements of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting use of all or part of the investment income earned.

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

	2018	2017
Unappropriated endowment earnings	\$ 473,179	\$ 433,653
Promoting self-sufficiency programs	100,860	34,145
United Way Programs	34,374	62,573
Capital Campaign - Neighborhood Community Center	16,366	59,312
	<u>\$ 624,779</u>	<u>\$ 589,683</u>

Permanently restricted net assets consist of the following as of June 30:

	2018	2017
Endowment fund	\$ 216,359	\$ 216,359
Contributions received but not yet transferred to endowment fund	32,100	26,000
Assets held in trust (permanent corpus)	437,539	437,539
Other	66,276	68,874
	<u>\$ 752,274</u>	<u>\$ 748,772</u>

Operations

The Organization defines operations as all program and supporting activity undertaken (see Note 1). Revenues that result from these activities and their related expenses are reported as operations. Gains, losses, and other revenue that result from ancillary activities such as investing liquid assets and disposing of fixed or other assets are reported as non-operating.

Income Taxes

Under provision of Section 501(c)(3) of the Internal Revenue Code and the applicable tax regulations of the State of Washington, Volunteers of America Western Washington is exempt from income taxes, except for net income from unrelated business income, as a subordinate unit of Volunteers of America, Inc. Volunteers of America, Inc. is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as a religious organization described in Section 501(c)(3). There were no unrelated business activities in 2018 or 2017, so no tax expense was incurred during the years ended June 30, 2018 or 2017.

VOA Western Washington Properties is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a)(3).

Based on the discussions above, no provision for income tax is reflected in these consolidated financial statements.

Allocation of Functional Expenses

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the various functions.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts from the 2017 consolidated financial statements have been reclassified to conform to the 2018 financial statement presentation.

Subsequent Events

Management has evaluated events through the date these consolidated financial statements were available to be issued, which was December 14, 2018.

Note 3. Line of Credit – Related Party

The Organization has a line of credit from Volunteers of America, Inc., a related party. Maximum borrowing under the line of credit is \$745,000. The line bears interest at a rate of the 30-day LIBOR rate plus 1.5% (resulting in a rate of 3.59% as of June 30, 2018), and interest-only payments are payable monthly. The line matures on December 31, 2018; however, if the balance has not been fully repaid by the term-end, the due date is to be renewed automatically for an additional year unless the lender receives a written notice 30 days prior to the term-end to discontinue the renewal. The line is collateralized by 50% of the Organization's assets invested in the National Investment Program (assets invested totaled \$1,791,626 as of June 30, 2018, resulting in collateral of \$895,813 at that date) and no interim payments are required as long as the amount outstanding is equal to or less than the collateral value. If the amount borrowed were to exceed the collateral value, the difference is due upon demand by the lender.

Note 4. Notes and Loans Payable

Notes and loans payable consist of the following at June 30:

	2018	2017
<u>Notes and Loans</u>		
Promissory note payable to Lynnwood Rotary Community Foundation, collateralized by first deed of trust on real property with a carrying value of \$1,263,572 at June 30, 2018. Interest is at 5%, and interest-only payments are due monthly until maturity on August 1, 2020.	\$ 950,000	\$ 950,000
Non-interest-bearing notes payable to the State of Washington, due in annual installments of \$8,130 through January 1, 2055, and secured by a deed of trust on real property with a carrying value of \$186,779 at June 30, 2018. The note expires and the estimated remaining debt of \$250,000 shall be forgiven on January 1, 2055, provided that no default has occurred. The Organization fully intends to comply with the terms of the notes.	550,789	558,918
Non-interest-bearing note payable to the State of Washington, to be paid in annual installments of \$1,789 until it becomes due in January 1, 2055. The note is secured by a deed of trust on real property with a carrying value of \$23,415 at June 30, 2018.	66,200	67,989
Total non-forgivable loans	<u>\$ 1,566,989</u>	<u>\$ 1,576,907</u>

	<u>2018</u>	<u>2017</u>
<u>Forgivable Loans</u>		
Non-interest-bearing mortgage note payable to Snohomish County, secured by a deed of trust on real property with a carrying value of \$896,205 at June 30, 2018. The note expires and the debt shall be forgiven on December 31, 2018, provided that no default has occurred. The Organization fully intends to comply with the terms of this and all other forgivable loans, which were all funded by the Federal Community Development Block Grant Program.	\$ 845,774	\$ 845,774
Non-interest-bearing note payable to City of Everett, secured by a deed of trust on real property with a carrying value of \$896,205 at June 30, 2018. The note expires and the debt shall be forgiven on July 1, 2024, provided that no default has occurred. In the event of default, the balance is due along with interest of \$7,500 for each year the loan has been outstanding.	250,000	250,000
Non-interest-bearing note payable to Snohomish County, secured by a deed of trust on real property with a carrying value of \$178,724 at June 30, 2018. The note expires and the debt shall be forgiven on May 31, 2023, provided that no default has occurred.	225,000	225,000
Non-interest-bearing note payable to Snohomish County, secured by a deed of trust on real property with a carrying value of \$574,676 at June 30, 2018. The note expires and the debt shall be forgiven on September 1, 2024, provided that no default has occurred.	167,969	167,969
Non-interest-bearing notes payable to Snohomish County, secured by a deed of trust on real property with carrying values totaling \$186,779 at June 30, 2018. The notes expire and the debt shall be forgiven on June 30, 2046, provided that no default has occurred.	<u>317,473</u>	<u>317,473</u>
Total forgivable loans	<u>1,806,216</u>	<u>1,806,216</u>
Total notes and loans payable	3,373,205	3,383,123
Less: current maturities	<u>9,919</u>	<u>9,919</u>
	<u>\$ 3,363,286</u>	<u>\$ 3,373,204</u>

The principal of the forgivable note due on December 31, 2018, is not included in current maturities as it is not expected to use current resources. It is included with the "thereafter" category below.

Scheduled principal reductions are as follows for the years ending June 30:

2019	\$	9,919
2020		9,919
2021		959,919
2022		9,919
2023		9,919
Thereafter		2,373,610
	\$	<u>3,373,205</u>

Note 5. Related Party – Other

The Organization is affiliated with Volunteers of America, Inc., which provides supporting services to the Organization for a fee. Affiliate fees for the years ended June 30, 2018 and 2017, totaled \$376,380 and \$376,953, respectively. Amounts due to Volunteers of America, Inc. totaled \$59,721 and \$50,127 at June 30, 2018 and 2017, respectively. Amounts due from Volunteers of America, Inc. totaled \$0 and \$7,613 at June 30, 2018 and 2017, respectively. Amounts due to and from Volunteers of America, Inc. are netted together for financial statement presentation and are included with accounts payable at June 30, 2018 and 2017, on the consolidated statements of financial position.

Note 6. Sultan Agreement

The Organization has an agreement with another nonprofit entity that allows the nonprofit entity to use land owned by the Organization in Sultan, Washington. The agreement is for a period of 50 years and ends in the fiscal year ending June 30, 2064. The nonprofit entity built a building on the site for its operations. The building will revert to the Organization at the end of the agreement period. In exchange, the Organization will also receive 1,247 square feet of space in the building to use for its kindergarten program in Snohomish County. Management has determined that the substance of the transaction is a nonmonetary exchange and has estimated that the fair value of the land use contributed to the other nonprofit entity and the classroom use that the Organization will receive approximate each other and are valued at \$10,000 per year. In-kind revenue and expense of \$10,000 was recognized during both years ended June 30, 2018 and 2017, and is included in in-kind contributions of rent on the consolidated statements of activities and rent expense on the consolidated statements of functional expenses.

Note 7. Operating Leases

The Organization has certain noncancelable leases for office space that expire through 2020, with certain options to renew. Rent expense was \$101,614 and \$105,162 for the years ended June 30, 2018 and 2017, respectively, and is included with occupancy expenses. Future minimum lease payments under operating leases with remaining lease terms greater than one year are as follows for the years ending June 30:

2019	\$	72,335
2020		63,290
	\$	<u>135,625</u>

The Organization also has agreements to lease space to other nonprofit entities. Rental income for these leases was \$110,103 and \$115,881 for the years ended June 30, 2018 and 2017, respectively. All agreements are currently month-to-month.

Note 8. Deferred Compensation Plans

The Organization offers a tax deferred annuity program for its employees. The Organization collects and remits the employee-designated contributions to the contracting insurance company and does not make its own contributions to the program.

The Organization also offers a tax deferred annuity thrift program for all employees who have completed two years of employment. The Organization matches an amount equal to \$0.50 on the dollar for employees with two to five years of tenure, \$0.60 on the dollar for employees with five to ten years of tenure, and \$0.70 on the dollar for employees with ten or more years of tenure. This match is made on all employee contributions up to 5% of the employee's salary. Employer contributions for the years ended June 30, 2018 and 2017, totaled \$71,076 and \$66,154, respectively.

The Organization participates in and offers a non-contributory defined benefit pension and retirement plan with Volunteers of America, Inc. and its affiliates called The Volunteers of America National Pension Plan to its Chief Executive Officer. The plan's employer identification number is 13-1692595 and the plan year-end is December 31. This plan is a multi-employer plan and the Organization is not required to record the unfunded pension liability in its financial statements. The plan's information regarding the accumulated benefit obligation and unfunded status as they relate solely to the Organization is not available, which is typical for multi-employer plans. Because this plan is a church plan and not subject to the Employment Retirement Income Security Act of 1974 ("ERISA"), Volunteers of America, Inc. is not required to file a Form 5500. This unfunded liability is collectively the liability of all participating employers. If there were any cash shortfalls in the plan, the plan would look towards the participating employers to help fund these amounts. As the participating employers of this plan are affiliated with Volunteers of America, Inc., it is not anticipated that any employer would choose to stop participating.

The financial health of the multi-employer pension plan is indicated by the zone status, as defined by the Pension Protection Act of 2006, which represents the funded status of the plan as certified by the plan's actuary. Plans in the red zone are less than 65% funded, in the yellow zone are between 65% and 80% funded, and in the green zone are at least 80% funded. Because the Plan is not subject to ERISA, a funding improvement plan is not required; however, Volunteers of America, Inc. has voluntarily implemented a contribution assessment. Plan financial status is summarized as follows:

	<u>January 1, 2018</u>	<u>January 1, 2017</u>
Market value of plan assets	\$ 63,734,000	\$ 54,513,000
Present value of accumulated plan benefits	68,785,000	66,010,000
Actuarial valuation of the unfunded pension liability	<u>\$ 5,051,000</u>	<u>\$ 11,497,000</u>
	<u>At June 30, 2018</u>	<u>At June 30, 2017</u>
Funded status	Less than 65%	Less than 65%
The Organization's contribution to the plan	\$ 43,437	\$ 42,602
Total contributions received by the plan	4,559,000	4,196,000
The Organization's contribution >5% of total contributions to the plan	No	No
Total fair value of plan assets	\$ 65,073,000	\$ 59,371,000

Note 9. Advertising

The Organization uses advertising to promote its programs among the communities it serves. The cost of advertising is expensed as incurred. For the years ended June 30, 2018 and 2017, advertising costs totaled \$85,179 and \$114,037, respectively, and are included with professional fees on the consolidated statements of functional expenses.

Note 10. Revenue and Grants from Governmental Agencies

Revenue from grants and governmental agencies consists of grants and contracts administered by various federal, state, and local agencies. The following schedule reconciles federal and non-federal awards to total revenue and grants from governmental agencies for the years ended June 30:

	2018	2017
Total federal awards	\$ 4,774,392	\$ 5,168,350
Less: federal food commodities included with in-kind contributions	(2,314,615)	(2,624,273)
Less: forgivable loans with continuing compliance requirement	(1,855,434)	(1,855,434)
	<u>604,343</u>	<u>688,643</u>
Non-federal awards (state and local)	16,121,183	15,609,322
Revenue and grants from governmental agencies	<u>\$ 16,725,526</u>	<u>\$ 16,297,965</u>

Note 11. Federal Emergency Food and Shelter Grant

The financial activity of one of the Federal Emergency Food and Shelter ("FEMA") grants is required to be disclosed in these consolidated financial statements by terms of the contract. The following is the activity for the years ended June 30:

	2018	2017
Revenue	<u>\$ 195,984</u>	<u>\$ 153,832</u>
Food expenditures	\$ 179,789	\$ 153,832
Administrative fee	6,998	
Clothing and housing	9,197	
	<u>\$ 195,984</u>	<u>\$ 153,832</u>

Note 12. Self-Insurance Programs

The Organization is self-insured for state unemployment insurance. The ultimate costs of claims are accrued when incidents occur that give rise to claims. At June 30, 2018 and 2017, respectively, \$43,800 and \$47,320 was held on deposit with 501(c) Agencies Trust and is included in prepaid expenses. Management's estimate of claims incurred but not reported totaled \$21,492 and \$35,879 at June 30, 2018 and 2017, respectively, which is included with other current liabilities in the consolidated statements of financial position.

Note 13. Fair Value Measurements

The Organization values at fair value certain financial assets included in designated and restricted assets that are measured and reported at fair value at each reporting period.

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Fair values of assets measured on a recurring basis at June 30, 2018 and 2017, were as follows:

Fair Value Measurements at June 30, 2018, Using:				
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Mutual funds	\$ 1,695,159	\$ 96,467	\$ -	\$ 1,791,626
Assets held by a trust			479,877	479,877
	<u>\$ 1,695,159</u>	<u>\$ 96,467</u>	<u>\$ 479,877</u>	<u>\$ 2,271,503</u>

Fair Value Measurements at June 30, 2017, Using:				
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Mutual funds	\$ 1,576,971	\$ 82,903	\$ -	\$ 1,659,874
Assets held by a trust			457,620	457,620
	<u>\$ 1,576,971</u>	<u>\$ 82,903</u>	<u>\$ 457,620</u>	<u>\$ 2,117,494</u>

Assets held by a trust consist of a 30% interest in a charitable trust fund. Interests in the trust fund are not readily transferable, but the investments in the trust have readily determinable fair values. The trust is invested into equities (71% and 63% as of June 30, 2018 and 2017, respectively) and various other investment pools, and the value of the trust was supplied by the trustee. The following is a summary of changes in assets held in trust for the years ended June 30, 2018 and 2017:

Fair value as of June 30, 2016	\$ 434,350
Change in fair value of underlying assets	43,173
Payments received from trust	<u>(19,903)</u>
Fair value as of June 30, 2017	457,620
Change in fair value of underlying assets	39,295
Payments received from trust	<u>(17,038)</u>
Fair value as of June 30, 2018	<u>\$ 479,877</u>

Note 14. Endowments

The Organization's endowment fund includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment ("quasi-endowment"). The income is considered unrestricted. Both the donor-restricted and board-designated funds provide investment returns for the Organization. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization have interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment plus (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the endowment fund
- The purposes of the Organization and donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Endowment net assets consisted of the following at June 30:

	2018			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds - general	\$ -	\$ 473,179	\$ 216,359	\$ 689,538
Board-designated funds	<u>1,102,088</u>			<u>1,102,088</u>
	<u>\$ 1,102,088</u>	<u>\$ 473,179</u>	<u>\$ 216,359</u>	<u>\$ 1,791,626</u>

	2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds - general	\$ -	\$ 433,653	\$ 216,359	\$ 650,012
Board-designated funds	<u>1,009,862</u>			<u>1,009,862</u>
	<u>\$ 1,009,862</u>	<u>\$ 433,653</u>	<u>\$ 216,359</u>	<u>\$ 1,659,874</u>

The beneficial interest in a perpetual trust included in permanently restricted net assets of \$437,539 for the years ended June 30, 2018 and 2017, is not included in these disclosures, as it is managed by a trustee and the Board of Directors does not have any ability to determine how the assets are invested.

Changes in endowment net assets are as follows for the years ended June 30:

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 1,009,862	\$ 433,653	\$ 216,359	\$ 1,659,874
Investment return				
Investment income	22,710	9,733		32,443
Net gain (realized and unrealized)	69,516	29,793		99,309
Total investment return	92,226	39,526		131,752
Endowment net assets, end of year	<u>\$ 1,102,088</u>	<u>\$ 473,179</u>	<u>\$ 216,359</u>	<u>\$ 1,791,626</u>
	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 910,729	\$ 388,660	\$ 216,359	\$ 1,515,748
Investment return				
Investment income	20,150	8,636		28,786
Net gain (realized and unrealized)	78,983	36,357		115,340
Total investment return	99,133	44,993		144,126
Endowment net assets, end of year	<u>\$ 1,009,862</u>	<u>\$ 433,653</u>	<u>\$ 216,359</u>	<u>\$ 1,659,874</u>

Return Objectives and Risk Parameters

The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods, as well as quasi-endowment funds. Under the policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to prevent the fixed income returns from underperforming the Lehman Govt. – Corporate fixed income index by 3% in any quarter. Also, the Organization expects to maintain the equity portfolio at a risk level equivalent to that of the equity market as a whole, with the objective of exceeding its results annually over a three-year moving time period.

The general investment objectives of the endowment accounts are to (1) limit risk exposure through adequate diversification and credit quality; (2) manage for current income in income-only endowment accounts; (3) protect principal by managing total return in growth and income accounts; and (4) control costs of administering and managing the portfolio.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk bases. The Organization's investment policy guidelines for all investments is reviewed and reconfirmed or revised on at least an annual basis. Performance of the Organization's investments and the Organization's investment manager is reviewed by the Finance Committee of the Board of Directors and reported to the Organization's Board of Directors on a regular basis.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization does not have a formal spending policy with regard to endowment funds.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires. There were no deficiencies as of June 30, 2018 or 2017.

S U P P L E M E N T A R Y I N F O R M A T I O N

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

SCHEDULE OF NON-FEDERAL GOVERNMENTAL AWARDS

For the Year Ended June 30, 2018

Grantor/Program Title	Contract Number	July 1, 2017 - June 30, 2018
State of Washington		
GRO Intensive Tenant Support - Admin	1712-95835 2N	\$ 882,888
GRO Training Fees	1712-95835 2N	142,117
GRO Intensive Tenant Support - Client Allowance	1712-95835 2N	4,191
GRO ISS Direct Care	1712-95835 2N	5,812,211
Nurse Delegation	1712-95835 2N	3,753
GRO Transportation	1712-95835 2N	102,650
GRO Professional Services	1712-95835 2N	7,096
GRO Intensive Tenant Support - Admin	1712-95841 2S	302,592
GRO Training Fees	1712-95841 2S	58,017
GRO Iss Direct Care	1712-95841 2S	2,339,312
Nurse Delegation	1712-95841 2S	967
GRO Transportation	1712-95841 2S	36,769
GRO Professional Services	1712-95841 2S	9,899
Emergency Food Assistance Program	K2187	382,955
CARE Crisis Response Services	NSBHO-VOA-BHSC-16-18 (1)	2,780,764
CARE Crisis Response Services	BHO-VOA-Medicaid-16-18 (2)	554,486
DOH Virtual Call Center	CB023072	174,925
State Legislative Funds - Snohomish Co.	S14-31445-001	20,649
State Legislative Funds - Skagit Co.	S14-31445-001	20,805
Trauma Informed Services	18-46108-002	9,676
State of Washington Subtotal		13,646,722
Snohomish County		
LIHEAP Rent Assistance Administration	PS-HS-18-06	4,000
Housing Retention Support Program	HCS-17-62-1717-018	102,677
Sky Valley Resource Center	HCS-17-75-04-018	23,948
Sky Valley Resource Center	HCS-18-75-04-018	14,257
Early Childhood Education Assistance Program	EL-17-60-17-018(2)	871,800
Community Information Line	HCS-17-62-1731-018	40,200
Community Information Line	HCS-18-62-1731-018	32,318
Rental Housing Certification	HCS-17-62-1719-018(1)	125,159
safeTALK Training Services	TS-HS-17-13	1,050
Snohomish County Surcharge	HCS-17-80-01-018	52,265
Snohomish County Surcharge	HCS-18-80-01-018	52,444
Targeted Prevention	HCS-17-62-1720-018	175,000
Targeted Prevention	HCS-17-62-1720-018	58,366
Info & Referral & Community Navigation Program	MH-16-10-11-018(1)	165,715
Information & Referral Services	BH-18-42-01-018	53,383
Info & Referral & Community Navigation Program	MH-16-10-11-018(1)	21,409

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

SCHEDULE OF NON-FEDERAL GOVERNMENTAL AWARDS
(Continued)

For the Year Ended June 30, 2018

Grantor/Program Title	Contract Number	July 1, 2017 - June 30, 2018
Community Navigation Program	BH-18-20-01-018	\$ 19,122
Prevention Navigation Services	HCS-17-62-1718-018(1)	448,767
Fair Housing Services	HCS-17-24-1609-018	3,037
Fair Housing Services	HCS-17-24-1609-018	7,705
Fair Housing Services	HCS-17-24-1609-018	7,099
Building Inclusive Communities	DD-17-90-09-018	8,672
Building Inclusive Communities	DD-18-90-09-018	5,088
Snohomish County Subtotal		2,293,481
Island County		
Dispute Resolution Center/Island County	None	5,609
Dispute Resolution Center/Island County	None	4,858
Island County Subtotal		10,467
Skagit County		
DRC Surcharge	C20140580 / C20160333	12,250
DRC Surcharge	C20170578	11,615
General Fund	C20140580 / C20160333	23,319
General Fund	C20170578	23,731
Skagit County Subtotal		70,915
City of Everett		
Human Needs Grant - Hunger Prevention Services	None	4,833
Human Needs Grant - Hunger Prevention Services	None	12,105
Human Needs Grant - Homeless Services	None	11,612
Human Needs Grant - Homeless Services	None	4,723
City of Everett Subtotal		33,273
Public Hospital District #2		
So. Snoho. Cnty 2-1-1 CR Advocate Program	None	39,325
So. Snoho. Cnty 2-1-1 CR Advocate Program	None	27,000
Public Hospital District #2 Subtotal		66,325
Total Non-Federal Governmental Awards		<u>\$ 16,121,183</u>

SUPPLEMENTARY REPORTS AND
SCHEDULES IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
AND THE UNIFORM GUIDANCE

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Volunteers of America Western Washington and Subsidiary
Everett, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Volunteers of America Western Washington and Subsidiary ("the Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged by 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 Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Peterson Sulli LLP.

December 14, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Volunteers of America Western Washington and Subsidiary
Everett, Washington

Report on Compliance for Each Major Federal Program

We have audited Volunteers of America Western Washington and Subsidiary's ("the Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal programs for the year ended June 30, 2018. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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; 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* (CFR) 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 Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and are described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Organization 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 Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for 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 Organization'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; therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

The Organization's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Peterson Sulli LLP.

December 14, 2018

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

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

Federal Grantor/Pass-Through Grantor	Contract	Federal CFDA Number	Contract Number	Federal Expenditures
U.S. Department of Agriculture - Food and Nutrition Service				
<i>State of Washington</i>				
Child and Adult Care Food Program	Child Nutrition - ECEAP	10.558	31-07-0363	\$ 29,335
Food Distribution Cluster				
<i>State of Washington</i>				
Commodity Supplemental Food Program	Commodity Supplemental Food Program (Administrative Costs)	10.565*	K2187 Amendment #1	47,360
Commodity Supplemental Food Program	Commodity Supplemental Food Program (Food Commodities)	10.565*	K2187 Amendment #1	314,148
<i>State of Washington</i>				
Emergency Food Assistance Program (Administrative Costs)	TEFAP Commodities Distribution (Administrative Costs)	10.568*	K2187 Amendment #1	133,543
Emergency Food Assistance Program (Food Commodities)	TEFAP Commodities Distribution (Food Commodities)	10.569*	K2187 Amendment #1	<u>2,000,467</u>
Total Food Distribution Cluster				<u>2,495,518</u>
Total U.S. Department of Agriculture - Food and Nutrition Service				<u>2,524,853</u>
			Page Subtotal	2,524,853

* Program tested as major

See Notes to Schedule of Expenditures of Federal Awards

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor	Contract	Federal CFDA Number	Contract Number	Federal Expenditures
U.S. Department of Housing and Urban Development - Office of Community Planning and Development				
CDBG - Entitlement Grants Cluster				
<i>Snohomish County</i>				
Community Development Block Grants/Entitlement Grants	Fair Housing Services EHP	14.218	HCS-17-24-1709-018	\$ 28,375
Community Development Block Grants/Entitlement Grants	Sultan Food Bank	14.218	HCS-16-21-1606-018(3)	11,158
Community Development Block Grants/Entitlement Grants**	Improvements to Sites 2,3,4,5	14.218	HCD 1996 #43 & HCD 1989 #38	49,219
Community Development Block Grants/Entitlement Grants**	Food Distribution Center	14.218	HCD 1996 #51	801,336
Community Development Block Grants/Entitlement Grants**	Food Distribution Center	14.218	HCD 1997 #34	44,438
Community Development Block Grants/Entitlement Grants**	Sky Valley Resource Center	14.218	2001 CDBG # 39 & 2000 CDBG #43	225,000
Community Development Block Grants/Entitlement Grants**	Camp Volasuca	14.218	HCD-08-21-0807-018	167,969
<i>City of Everett</i>				
Community Development Block Grants/Entitlement Grants	Rental Housing Meditation Service	14.218	N/A	13,144
Community Development Block Grants/Entitlement Grants**	Food Distribution Center	14.218	N/A	<u>250,000</u>
Total CDBG - Entitlement Grants Cluster				1,590,639
<i>Snohomish County</i>				
Home Investment Partnerships Program**	Home Investment Partnerships Program, Sites 2, 3, 4, and 5	14.239	HOME 1995 #7	<u>317,472</u>
Total U.S. Department of Housing and Urban Development - Office of Community Planning and Development				<u>1,908,111</u>
Page Subtotal				1,908,111

** Forgivable loans with continuing compliance requirements

See Notes to Schedule of Expenditures of Federal Awards

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor	Contract	Federal CFDA Number	Contract Number	Federal Expenditures
U.S. Department of Health and Human Services Administration				
<i>Linked2Health Solutions</i>				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	Lifeline Chat	93.243	N/A	\$ 70,000
<i>Washington State Department of Health</i>				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	DOH	93.243	N/A	<u>25,297</u>
Total Substance Abuse and Mental Health Services Projects of Regional and National Significance				95,297
<i>Snohomish County</i>				
Low-Income Home Energy Assistance	LIHEAP	93.568	PS-HS-18-06	40,000
<i>Washington State Department of Social and Health Services</i>				
Grants to States for Access and Visitation Programs	Access & Visitation	93.597	1713-13783	<u>10,147</u>
Total from U.S. Department of Health and Human Services Administration				145,444
Department of Homeland Security				
Emergency Food and Shelter National Board Program	Emergency Food & Shelter National Board Program	97.024	892400-003	<u>195,984</u>
Total Department of Homeland Security				195,984
			Page Subtotals Carried Forward	<u>4,432,964</u>
			Total Expenditures of Federal Awards	<u>\$ 4,774,392</u>

See Notes to Schedule of Expenditures of Federal Awards

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards ("the Schedule") includes the federal grant activity of Volunteers of America Western Washington ("the Organization") under programs of the federal government for the year ended June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2. Summary of Significant Accounting Principles

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Food commodities consist of donated food; all other expenditures are cash expenditures. Such expenditures are recognized following the cost principles contained in 2 CFR 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.

Pass-through entity identifying numbers are presented where available.

Note 3. Indirect Cost Rate

The Organization has not elected to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

Note 4. Food Distribution

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair value of the food commodities received and disbursed. At June 30, 2018, the Organization had food commodities in inventory totaling \$39,307 (\$8,900 related to the Commodity Supplemental Food Program and \$30,407 related to the Emergency Food Assistance Program), which is included with other current assets on the consolidated statements of financial position.

Note 5. Loans Outstanding

In prior years, the Organization received loan proceeds from Snohomish County and the City of Everett. As required by the Uniform Guidance, the loan balance outstanding at the end of the year is included in the federal expenditures presented in the Schedule, as there are continuing compliance requirements. The Organization received no additional loans during the year. The balance of all loans outstanding at June 30, 2018, was \$1,855,434.

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

A. Summary of Audit Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal Control Over Financial Reporting

Material weaknesses identified: No

Significant deficiencies identified not considered
to be material weaknesses: No

Noncompliance material to financial statements noted: No

Federal Awards

Material weaknesses identified: No

Significant deficiencies identified not considered
to be material weaknesses: Yes

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported: Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.565 / 10.568 / 10.569	Food Distribution Cluster

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

Auditee qualified as low-risk auditee: No

B. Findings - Financial Statement Audit None

C. Findings and Questioned Costs – Major Federal Award Programs Audits

Significant Deficiencies

2018-001: Eligibility

Food Distribution Cluster – CFDA No. 10.565, 10.568, 10.569

Condition/Criteria: The program requires that participants must be at least 60 years of age, have self-declared income less than 130% of the U.S. poverty level, and be certified within six months prior to services being provided.

The Organization does not have an effective process in place to ensure that certification documents for Commodity Supplemental Food Program ("CSFP") participants are completed within six months prior to services being provided and does not always maintain documentation showing it complied with this requirement.

Context: This finding was noted in the process of testing internal controls and compliance for this requirement. We obtained listings of service dates and certification documentation (when available) and selected a sample of 60 participants. Out of these samples, 5 participant certifications were not able to be located, 15 participants had certifications done but not in the six-month period prior to services provided, 2 participants had incomplete documentation, and 1 participant was ineligible due to the amount of self-declared income.

Cause: The Organization relies on volunteer personnel (that do not have adequate training) at the food bank. In addition, there has been significant turnover in food bank personnel.

Effect: There is a reasonable possibility that services were provided to individuals who were not eligible.

Questioned Costs: N/A

Recommendation: Formal policies and procedures should be designed and implemented to ensure that certifications are performed and documentation is maintained. Appropriate personnel should also have adequate training related to eligibility compliance requirements.

Views of Responsible Officials: Management concurs with the finding and recommendation. See the attached unaudited correction action plan on page 45.

2018-002: Reporting

Food Distribution Cluster – CFDA No. 10.565, 10.568, 10.569

Condition/Criteria: Program requirements include monthly reporting of inventory and expenses that must be filed by the 20th day of the following month, an annual report that must be filed by May 20 each year, and bills of lading/delivery receipts that must be filed within two days of receiving food shipments.

The Organization does not have an effective process in place to ensure reports are completed accurately and filed in a timely manner.

Context: This finding was noted in the process of testing internal controls and compliance for this requirement. We selected a sample eight monthly reports and noted that four were not filed timely. Supporting information was not provided for the annual report. Additionally, there was no documented review of monthly or annual reports.

Cause: The Organization relies on volunteer personnel (that do not have adequate training) at the food bank. In addition, there has been significant turnover in food bank personnel.

Effect: Reports were not filed timely.

Questioned Costs: N/A

Recommendation: Formal policies and procedures should be designed and implemented to ensure that reports are completed accurately and documentation is maintained. Appropriate personnel should also have adequate training related to reporting requirements.

Views of Responsible Officials: Management concurs with the finding and recommendation. See the attached unaudited correction action plan on page 45.

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2018

2017-001: Schedule of Expenditures of Federal Awards

Condition/Criteria: The Uniform Guidance states that the auditee must prepare a Schedule of Expenditures of Federal Awards ("the Schedule") for the period covered by the financial statements.

The Organization does not have an effective process in place to ensure that all items are properly included on the Schedule, specifically related to expenditures related to loan programs that have continuing compliance requirements.

Context: During our financial statement audit, it was brought to our attention that the Organization had loans outstanding with Snohomish County and the City of Everett that were federally funded and had continuing compliance requirements, which would require these to be presented on the Schedule.

Cause: The Organization has had turnover between the original loan issuance (as the loans were issued over 10 years ago), and as they were originally excluded from the Schedule, current management did not realize that they had been improperly excluded. Further, the loan documents that had been provided by Snohomish County and the City of Everett did not list the loans as having been federally funded.

Effect: There is a reasonable possibility that the Schedule could be misstated if not all federal programs are identified and properly reported. There is also a reasonable possibility that as management was not aware that the programs were federal, they may not be in compliance with the applicable requirements.

Questioned Costs: N/A

Status: This finding is corrected for the year ended June 30, 2018.

2017-002: In-Kind Food Revenue

Significant Deficiency

Condition/Criteria: It was discovered that a significant portion of non-governmental donated food received directly by the Organization's food banks was not recognized by the Organization in the consolidated financial statements for the year ended June 30, 2016. Additionally, it was discovered that the Organization did not maintain some supporting documentation for non-governmental donated food received by the food banks during the year ended June 30, 2017.

Procedures should be in place to accurately track and recognize non-governmental food donations received and disbursed through the Organization's food banks.

Context: This finding was noted during our testing of non-governmental in-kind food revenue as part of the financial statement audit.

Cause: Significant turnover of accounting personnel and a lack of clarity surrounding reporting received by the accounting department from the Organization's food banks.

Effect: In-kind food revenue and expense was understated by \$1,898,339 during the year ended June 30, 2016, and as result, management restated its 2016 consolidated financial statements. The prior-year restatement had no effect on the change in net assets for the year ended June 30, 2016, or on beginning or ending net assets for the year ended June 30, 2016.

Questioned Costs: N/A

Status: This finding is corrected for the year ended June 30, 2018.

2017-003: Schedule of Expenditures of Federal Awards

This finding is corrected for the year ended June 30, 2018; see discussion over this finding at 2017-001.

2017-004: Eligibility

Food Distribution Cluster – CFDA No. 10.565, 10.568, 10.569

Condition/Criteria: The program requires that participants must be at least 60 years of age, have self-declared income less than 130% of the U.S. poverty level, and be certified within six months prior to services being provided.

The Organization does not have an effective process in place to ensure certification documents for CSFP participants are completed within six months prior to services being provided and does not always maintain documentation showing it complied with this requirement.

Context: This finding was noted in the process of testing internal controls and compliance for this requirement. We obtained listings of service dates and certification documentation (when available) and selected a sample of 40 participants. Out of these samples, four participant certifications were not able to be located, and four participants had certifications done but not in the six-month period prior to services provided.

Cause: The Organization relies on volunteer personnel (that do not have adequate training) at the food bank. In addition, there has been significant turnover in food bank personnel.

Effect: There is a reasonable possibility that services were provided to individuals who were not eligible.

Questioned Costs: N/A

Status: This finding is repeated for the year ended June 30, 2018. See Finding 2018-001 for discussion.

2017-005 – Reporting

Food Distribution Cluster – CFDA No. 10.565, 10.568, 10.569

Condition/Criteria: Program requirements include monthly reporting of inventory and expenses that must be filed by the 20th day of the following month, an annual report that must be filed by May 20 each year, and bills of lading/delivery receipts that must be filed within two days of receiving food shipments.

The Organization does not have an effective process in place to ensure reports are completed accurately and filed timely.

Context: This finding was noted in the process of testing internal controls and compliance for this requirement. We selected a sample six monthly reports and noted that four were not filed timely. The annual report was filed late, and supporting information was not provided. Additionally, there was an incomplete population available for fiscal year 2017 bills of loading/delivery receipts.

Cause: The Organization relies on volunteer personnel (that do not have adequate training) at the food bank. In addition, there has been significant turnover in food bank personnel.

Effect: Reports were not filed timely.

Questioned Costs: N/A

Status: This finding is repeated for the year ended June 30, 2018. See Finding 2018-002 for discussion.

CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2018

Finding - 2018-001: Eligibility

Food Distribution Cluster – CFDA No. 10.565, 10.568, 10.569

Name of Contact Person: Kimberly Conant, Vice President/Interim Senior Director Hunger Prevention |
Email: kconant@voaww.org | 425-212-2906

Corrective Action: The Commodity Supplement Food Program (“CSFP”) requires a significant amount of administration but does not provide adequate funding to staff and train personnel to properly manage the program and federal reporting requirements. Additionally, the number of participants in the program has decreased as both individuals and partner food banks find the required documentation to be burdensome.

In December of 2017, VOAWW notified the Washington State Department of Agriculture (“WSDA”) that the agency did not plan on renewing the CSFP contract. A temporary employee has been hired to assist with the remainder of the program and closeout of the contract. Working closely with the personnel at WSDA, VOAWW stopped providing CSFP food on October 31, 2018, and the contract officially ends on December 31, 2018.

VOAWW has determined that the cancellation of the CSFP program will not result in a significant amount of increased food insecurity for those enrolled as they are also eligible to utilize the local food banks, which provide nearly all the same food products.

Proposed Completion Date: December 31, 2018

Finding - 2018-002: Reporting

Food Distribution Cluster – CFDA No. 10.565, 10.568, 10.569

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Corrective Action: VOAWW will create and maintain a Hunger Prevention Services Contract & Grant Compliance Schedule to track and monitor all required documentation and reporting deadlines and submittals. This schedule will be saved in a secured location with limited shared access to the Hunger Prevention Team and the Accounting Department. This will allow multiple layers of visibility to ensure compliance with federal and state reporting timelines.

To ensure reports are completed accurately and documentation is maintained, VOAWW will create and implement a process for reporting. This will include training of multiple staff members and require a documented second-level review prior to submittal.

Proposed Completion Date: December 31, 2018