

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2017

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Note: There were no prior year findings or questioned costs relative to federal awards, so a schedule of prior audit findings is not included.

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, 2017 and **2016**, 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 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 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, 2017 and **2016**, 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.

Correction of Error

As discussed in Note 3 to the financial statements, certain errors resulting in the understatement of amounts previously reported for in-kind food donations for the year ended June 30, 2016, were discovered by management of the Organization during the year ended June 30, 2017. Accordingly, amounts reported for in-kind food donations and program expenses for specific assistance to individuals have been restated for the June 30, 2016, financial statements now presented. There was no change made to net assets as of June 30, 2016, as a result of the error correction. Our opinion is not modified with respect to that matter.

Other Matters - Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of non-federal government awards on pages 29 and 30 is also presented for the purposes of additional analysis and is not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. 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 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 March 23, 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.



March 23, 2018

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents	\$ 1,274,653	\$ 1,161,420
Accounts receivable, net	943,167	1,323,734
Pledges receivable - current	116,734	406,452
Prepaid expenses	92,994	217,710
Property held for sale	1,280,133	1,280,133
Other current assets	30,396	34,802
Total current assets	3,738,077	4,424,251
Property and Equipment		
Land	1,093,091	1,093,091
Buildings and improvements	5,837,342	5,785,219
Furnishings and equipment	1,409,305	1,427,138
Construction in progress	76,514	
Accumulated depreciation	(5,348,137)	(5,126,882)
Total property and equipment	3,068,115	3,178,566
Other Assets		
Designated/restricted assets	2,176,806	2,249,067
Pledges receivable - long-term		9,047
Other long-term assets	68,874	71,914
Total other assets	2,245,680	2,330,028
Total assets	\$ 9,051,872	\$ 9,932,845
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 260,067	\$ 564,427
Accrued payroll expenses	1,255,931	1,199,952
Current portion of notes and loans payable	9,919	9,919
Line of credit - related party	745,000	745,000
Other current liabilities	162,751	138,906
Total current liabilities	2,433,668	2,658,204
Notes and Loans Payable, less current portion	3,373,204	3,383,123
Total liabilities	5,806,872	6,041,327
Net Assets		
Unrestricted	1,906,545	2,264,518
Temporarily restricted	589,683	901,188
Permanently restricted	748,772	725,812
Total net assets	3,245,000	3,891,518
Total liabilities and net assets	\$ 9,051,872	\$ 9,932,845

See Notes to Consolidated Financial Statements

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue from Operations								
Public support received directly								
Contributions	\$ 426,251	\$ 443,014	\$ 26,000	\$ 895,265	\$ 68,937	\$ 1,165,242	\$ -	\$ 1,234,179
In-kind contributions of food	5,136,740			5,136,740	5,673,042			5,673,042
In-kind contributions of rent	10,000			10,000	10,000	18,096		28,096
In-kind contributions of services					920			920
Public support received indirectly								
United Way	8,478	18,500		26,978	117,015	250,294		367,309
Volunteers of America, Inc.	7,613			7,613		7,616		7,616
Total public support	5,589,082	461,514	26,000	6,076,596	5,869,914	1,441,248		7,311,162
Revenue and grants from governmental agencies	16,297,965			16,297,965	15,459,592			15,459,592
Other revenue								
Program service fees	432,874			432,874	658,728			658,728
Rental income	115,881			115,881	147,363			147,363
Other operating income	861			861	17,318			17,318
Total other revenue	549,616			549,616	823,409			823,409
Net Assets Released from Restrictions								
Released from time restrictions	363,813	(363,813)			294,207	(294,207)		
Released from purpose restrictions	454,199	(454,199)			1,178,267	(1,178,267)		
Total net assets released from restrictions	818,012	(818,012)			1,472,474	(1,472,474)		
Total public support and revenue from operations	23,254,675	(356,498)	26,000	22,924,177	23,625,389	(31,226)		23,594,163

See Notes to Consolidated Financial Statements

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF ACTIVITIES

(Continued)

For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses								
Program services								
Encouraging Positive Development	\$ 897,030	\$ -	\$ -	\$ 897,030	\$ 1,027,487	\$ -	\$ -	\$ 1,027,487
Fostering Independence	8,462,582			8,462,582	10,545,895			10,545,895
Promoting Self-Sufficiency	10,877,150			10,877,150	10,032,258			10,032,258
Total program services	20,236,762			20,236,762	21,605,640			21,605,640
Supporting services								
Management and general	2,716,012			2,716,012	2,353,240			2,353,240
Fundraising	434,655			434,655	517,037			517,037
Total supporting services	3,150,667			3,150,667	2,870,277			2,870,277
Affiliate fees	376,953			376,953	295,234			295,234
Total expenses	23,764,382			23,764,382	24,771,151			24,771,151
Change in net assets from operations	(509,707)	(356,498)	26,000	(840,205)	(1,145,762)	(31,226)		(1,176,988)
Non-Operating Gains (Losses)								
Interest and dividend income	29,939	8,636		38,575	33,276	9,604		42,880
Gain/(losses) on investments	119,116	36,357		155,473	(44,711)	(11,067)		(55,778)
Gain on sale of property and equipment	4,192			4,192	160,771			160,771
Other non-operating gains (losses)	5,104		(3,040)	2,064	166,867		(2,578)	164,289
Contributions restricted for capital campaign						1,000		1,000
Capital campaign expenses	(6,617)			(6,617)	(36,279)			(36,279)
Change in net assets from non-operating activities	151,734	44,993	(3,040)	193,687	279,924	(463)	(2,578)	276,883
Total change in net assets	(357,973)	(311,505)	22,960	(646,518)	(865,838)	(31,689)	(2,578)	(900,105)
Net Assets, beginning of year	2,264,518	901,188	725,812	3,891,518	3,130,356	932,877	728,390	4,791,623
Net Assets, end of year	\$ 1,906,545	\$ 589,683	\$ 748,772	\$ 3,245,000	\$ 2,264,518	\$ 901,188	\$ 725,812	\$ 3,891,518

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, 2017

	Program Services				Supporting Services			Total
	Encouraging		Promoting Self-Sufficiency	Total Program Services	Management and General	Fundraising	Total Supporting Services	
	Positive Development	Fostering Independence						
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	149,240	6,036,286	6,186,575		575	575	6,187,150
Occupancy	71,877	106,398	86,367	264,642	591,858	7,355	599,213	863,855
Professional fees	8,994	67,753	158,294	235,041	108,790	236,829	345,619	580,660
Depreciation and amortization	1,710	11,940	7,773	21,423	244,721		244,721	266,144
Travel and transportation	17,746	109,982	99,240	226,968	36,123	699	36,822	263,790
Telecommunications	7,218	21,731	35,896	64,845	79,791	855	80,646	145,491
Supplies	58,469	15,223	39,007	112,699	2,505	1,121	3,626	116,325
Equipment rental and maintenance	5,762	9,209	41,913	56,884	14,866	386	15,252	72,136
Interest					64,448		64,448	64,448
Other	3,108	3,967	14,040	21,115	14,861	20,914	35,775	56,890
Accounting fees					46,730		46,730	46,730
Insurance	3,864	399	980	5,243	36,582	134	36,716	41,959
Postage	314	489	2,743	3,546	4,529	24,840	29,369	32,915
Conferences and meetings	591	825	14,623	16,039	4,876	1,465	6,341	22,380
Legal fees					21,001	293	21,294	21,294
Printing and publications	409	270	8,910	9,589	3,153	1,394	4,547	14,136
Total functional expenses	<u>\$ 897,030</u>	<u>\$ 8,462,582</u>	<u>\$ 10,877,150</u>	<u>\$ 20,236,762</u>	<u>\$ 2,716,012</u>	<u>\$ 434,655</u>	<u>\$ 3,150,667</u>	23,387,429
Affiliate fees								<u>376,953</u>
Total expenses								<u>\$ 23,764,382</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, 2016

	Program Services				Supporting Services			Total
	Encouraging Positive Development	Fostering Independence	Promoting Self-Sufficiency	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 664,545	\$ 7,946,390	\$ 2,102,899	\$ 10,713,834	\$ 1,346,228	\$ 163,599	\$ 1,509,827	\$ 12,223,661
Payroll taxes	102,949	974,990	183,294	1,261,233	86,682	12,723	99,405	1,360,638
Employee benefits	93,069	474,352	187,300	754,721	204,302	18,464	222,766	977,487
Total payroll expenses	860,563	9,395,732	2,473,493	12,729,788	1,637,212	194,786	1,831,998	14,561,786
Specific assistance to individuals	17,944	46,105	6,721,706	6,785,755				6,785,755
Occupancy	75,436	261,599	397,200	734,235	36,650	7,682	44,332	778,567
Professional fees	27,022	307,663	129,613	464,298	45,521	265,143	310,664	774,962
Depreciation and amortization		32,453	19,968	52,421	267,084		267,084	319,505
Travel and transportation	18,027	145,518	117,619	281,164	24,536	3,931	28,467	309,631
Telecommunications	13,019	115,873	81,480	210,372	20,235	4,832	25,067	235,439
Supplies	7,344	40,568	21,429	69,341	26,606	2,960	29,566	98,907
Equipment rental and maintenance	5,416	17,038	35,405	57,859	35,895	1,919	37,814	95,673
Interest					156,297		156,297	156,297
Other		160,039	336	160,375	3,505	2	3,507	163,882
Accounting fees					46,746		46,746	46,746
Insurance	1,817	917	637	3,371	19,929	2,166	22,095	25,466
Postage	157	1,206	2,693	4,056	7,474	4,165	11,639	15,695
Conferences and meetings		11,240	7,096	18,336	4,948	1,909	6,857	25,193
Legal fees		124	750	874	8,610		8,610	9,484
Printing and publications	742	9,820	22,833	33,395	11,992	27,542	39,534	72,929
Total functional expenses	\$ 1,027,487	\$ 10,545,895	\$ 10,032,258	\$ 21,605,640	\$ 2,353,240	\$ 517,037	\$ 2,870,277	24,475,917
Affiliate fees								295,234
Total expenses								\$ 24,771,151

See Notes to Consolidated Financial Statements

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ (646,518)	\$ (900,105)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	266,144	319,505
Gain on sale of property and equipment	(4,192)	(160,771)
(Gain)/loss on investments	(155,473)	55,778
Contributions restricted for purchase of long-term assets		(1,000)
Contributions restricted for endowment investment	(26,000)	
Changes in operating assets and liabilities		
Accounts receivable	380,567	(217,477)
Pledges receivable	298,765	(22,129)
Prepaid expenses	124,716	73,215
Other current assets	7,446	13,012
Accounts payable	(304,360)	131,909
Accrued payroll expenses	55,979	61,119
Refundable advance		(54,706)
Accrued post-retirement benefit costs		(54,082)
Other current liabilities	23,845	(22,799)
Net cash flows from operating activities	20,919	(778,531)
Cash Flows from Investing Activities		
Proceeds from sales of investments and designated/restricted assets	558,375	304,801
Purchases of investments and designated/restricted assets	(330,641)	(297,402)
Proceeds from sales of property and equipment	4,192	2,843,620
Purchases of property and equipment	(155,693)	(362,745)
Net cash flows from investing activities	76,233	2,488,274
Cash Flows from Financing Activities		
Proceeds from line of credit - related party		745,000
Principal payments on notes and loans payable	(9,919)	(2,039,363)
Contributions restricted for endowment investment	26,000	
Contributions received for long-term asset purchases		1,000
Net cash flows from financing activities	16,081	(1,293,363)
Net change in cash and cash equivalents	113,233	416,380
Cash and Cash Equivalents, beginning of year	1,161,420	745,040
Cash and Cash Equivalents, end of year	\$ 1,274,653	\$ 1,161,420
Supplemental Disclosure of Cash Flow Information		
Interest paid on a cash basis	\$ 64,448	\$ 156,297

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 Property Corporation of NWW, which collectively are referred to as "the Organization." Volunteers of America Western Washington is a nonprofit spiritually-based human services organization incorporated in Washington that provides social services within Western Washington under a charter from Volunteers of America, Inc., a national nonprofit spiritually-based organization providing local human service programs and opportunities for individual and community involvement. VOA Property Corporation of NWW is a nonprofit organization incorporated in Washington 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. Our 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.
 - **Supporting Parenting Teen School Success** (Granite Falls, Snohomish County) – Child care offered in the Granite Falls alternative high school to remove the barrier of child care for teen parents striving to complete their high school education.

- **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) – Program 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 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 3 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**
 - **Housing Services** (Snohomish County) – Homeless families and individuals work with expert case managers to achieve self-sufficiency and secure permanent, affordable housing. Individualized services include homelessness prevention, shelter, and case management.

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 Property Corporation of NWW. 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, 2017. The allowance for doubtful accounts related to accounts receivable was \$15,000 at June 30, 2016.

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 (the discount was not significant at June 30, 2017 or 2016). 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 two donors represented 86% and 81% of total pledges receivable at June 30, 2017 and 2016, respectively. No allowance for doubtful accounts was deemed necessary as of June 30, 2017 or 2016.

Pledges receivable are due as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 116,734	\$ 406,452
One to five years		9,047
	<u>\$ 116,734</u>	<u>\$ 415,499</u>

Property and Equipment/Land 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
Transportation vehicles	3 - 7 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 attached land are shown as an asset held for sale at June 30, 2017 and 2016, on the consolidated statements of financial position, with a net book value of \$1,280,133 as of June 30, 2017 and 2016.

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>2017</u>	<u>2016</u>
Future development and capital improvements	\$ 59,312	\$ 298,969
Endowment fund	1,659,874	1,515,748
Assets held by a trust	<u>457,620</u>	<u>434,350</u>
	<u>\$ 2,176,806</u>	<u>\$ 2,249,067</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, consisting 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.

During the years ended June 30, 2017 and 2016, \$0 and \$1,000, respectively, was contributed for the capital campaign related to the feasibility study. As of June 30, 2017 and 2016, \$59,312 and \$65,929, respectively, of unspent capital campaign funds are included in future development and capital improvements on the schedule above. During the year ended June 30, 2017, funds were spent to pay for architectural costs as the Organization worked on the design of the building.

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, 2017, 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 consisted of the following at June 30:

	2017	2016
Cash and cash equivalents	\$ 59,312	\$ 73,532
Investment in certificates of deposit		225,437
Investment in mutual funds		
Bond/fixed income funds	645,311	608,987
International equity funds	131,784	117,222
Large cap equity funds	257,418	206,191
Equity growth funds	344,384	307,352
Equity value funds	108,510	118,947
Other global asset funds	172,467	157,049
Total mutual funds	1,659,874	1,515,748
Assets held in trust	457,620	434,350
	<u>\$ 2,176,806</u>	<u>\$ 2,249,067</u>

Investments consisted of certificates of deposit, which are recorded at cost plus accrued interest (which approximates fair value) and represent debt agreements with original maturities of longer than three months. Certificates of deposit had maturities up to 36 months with interest rates of 0.01%. Certificates of deposit were held at multiple banks so that the deposits did not exceed federally insured limits.

Investments also include a variety of mutual funds (which are listed above) and are recorded at fair value (see Note 14) 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 14.

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, 2017 and 2016, was \$5,136,740 and \$5,673,042, of which \$2,512,467 and \$3,161,366, 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 \$920 of recognized services contributed to the Organization for the year ended June 30, 2016 (none recognized during the year ended June 30, 2017.)

A number of volunteers donated services with an estimated value of \$1,121,000 and \$1,681,000 to other programs for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, is discussed in Notes 7 and 8.

Other Revenue

Contribution revenue recognition was described earlier in this note. 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:

	<u>2017</u>	<u>2016</u>
Unappropriated endowment earnings	\$ 433,653	\$ 388,660
Promoting self-sufficiency programs	34,145	169,163
United Way Programs	62,573	250,294
Capital Campaign - Neighborhood Community Center	59,312	65,929
Value of donated facilities to be used in future periods		27,142
	<u>\$ 589,683</u>	<u>\$ 901,188</u>

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

	<u>2017</u>	<u>2016</u>
Endowment fund	\$ 216,359	\$ 216,359
Contributions received but not yet transferred to endowment fund	26,000	
Assets held in trust (permanent corpus)	437,539	437,539
Other	68,874	71,914
	<u>\$ 748,772</u>	<u>\$ 725,812</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 2017 or 2016, so no tax expense was incurred during the years ended June 30, 2017 or 2016.

VOA Property Corporation of NWW 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 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 financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts from the 2016 consolidated financial statements have been reclassified to conform to the 2017 financial statement presentation.

Subsequent Events

Management has evaluated events through the date these consolidated financial statements were available to be issued, which was March 23, 2018.

Note 3. Prior Year Restatement

During the year ended June 30, 2017, management of the Organization discovered an error in the tracking and reporting of its in-kind food donations. As a result, the Organization has restated its previously issued financial statements to correct this error. The effect of the restatement was an increase in in-kind contributions of food of \$1,898,339 and an increase in specific assistance to individuals promoting self-sufficiency program expenses of \$1,898,339. Total revenue and total expenses increased by the same amount. The prior year restatement had no effect on change in net assets for the year ended June 30, 2016, or on beginning or ending net assets at June 30, 2016.

Note 4. 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 2.73% as of June 30, 2017), and interest-only payments are payable monthly. The line matures on December 31, 2017; 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 \$1,659,874 as of June 30, 2017, resulting in collateral of \$829,937 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 5. Notes and Loans Payable

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

	<u>2017</u>	<u>2016</u>
<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, 2017. Interest is at 5% and monthly payments are interest-only 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 a deed of trust on real property with a carrying value of \$211,130 at June 30, 2017. 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	558,918	567,048
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 \$27,944 at June 30, 2017.	<u>67,989</u>	<u>69,778</u>
Total non-forgivable loans	<u>\$ 1,576,907</u>	<u>\$ 1,586,826</u>

	2017	2016
<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 \$944,995 at June 30, 2017. 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. This and all forgivable loans were 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 \$944,995 at June 30, 2017. The note expires and the debt shall be forgiven on July 1, 2024, provided that no default has occurred. In the event of default, interest of \$7,500 for each year the loan has been outstanding is due in full.	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 \$189,341 at June 30, 2017. 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 \$583,103 at June 30, 2017. 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 \$211,130 at June 30, 2017. The notes expire and the debt shall be forgiven on June 30, 2046, provided that no default has occurred.	317,473	317,473
Total forgivable loans	1,806,216	1,806,216
Total notes and loans payable	3,383,123	3,393,042
Less: current maturities	9,919	9,919
	\$ 3,373,204	\$ 3,383,123

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

2018	\$ 9,919
2019 (including \$845,774 forgivable)	855,693
2020	9,919
2021	959,919
2022	9,919
Thereafter	1,537,754
	\$ 3,383,123

Note 6. 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 fiscal years ended June 30, 2017 and 2016, totaled \$376,953 and \$295,234, respectively. Amounts due to Volunteers of America, Inc. totaled \$50,127 and \$32,337 at June 30, 2017 and 2016, respectively. Amounts due from Volunteers of America, Inc. totaled \$7,613 and \$26,236 at June 30, 2017 and 2016, 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, 2017 and 2016, on the consolidated statements of financial position.

During the year ended June 30, 2016, Volunteers of America, Inc. assisted the Organization with its car donation program. Vehicles donated to the Organization under this program are turned over to Volunteers of America, Inc., which auctions the vehicle and gives the proceeds of the sale back to the Organization less a selling fee. Car sales revenue totaled \$215,170 for the year ended June 30, 2016, and this amount is included in public support contributions on the consolidated statements of activities. Car sales expenses, which include the selling fee kept by the related organization, totaled \$158,895 for the year ended June 30, 2016, and is included in professional fees on the statements of functional expenses. Beginning in May 2016, the Organization started to manage car donation sales without the assistance of Volunteers of America, Inc.

The Organization received a grant from Volunteers of America, Inc. of \$7,616 for the year ended June 30, 2016.

Note 7. Sultan Agreement

At June 30, 2014, the Organization entered into an agreement with another nonprofit entity. The agreement allows the nonprofit entity to use land owned by the Organization in Sultan, Washington, for a period of 500 years. The nonprofit entity plans to build 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 the fair value of the land use contributed to the other nonprofit entity and classroom use 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, 2017 and 2016, and are included in in-kind contributions of rent on the consolidated statements of activities and rent expense on the consolidated statements of functional expenses.

Note 8. Operating Leases

The Organization has certain non-cancelable leases for office space that expire through 2020, with certain options to renew. Rent expense was \$105,162 and \$108,277 for the years ended June 30, 2017 and 2016, 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:

2018	\$	68,795
2019		55,132
2020		<u>47,087</u>
	\$	<u><u>171,014</u></u>

The Organization also has agreements to lease space to other nonprofit entities. Rental income for these leases was \$115,881 and \$147,363 for the years ended June 30, 2017 and 2016, respectively. All agreements are currently month-to-month.

Note 9. 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 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, 2017 and 2016, totaled \$66,154 and \$77,299, respectively.

The Organization participates in 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. 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, the yellow zone are between 65% and 80% funded, and 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, 2017</u>	<u>January 1, 2016</u>
Market value of plan assets	\$ 54,513,000	\$ 52,265,000
Present value of accumulated plan benefits	<u>66,010,000</u>	<u>64,179,000</u>
Actuarial valuation of the unfunded pension liability	<u>\$ 11,497,000</u>	<u>\$ 11,914,000</u>
	<u>At June 30, 2017</u>	<u>At June 30, 2016</u>
Funded status	Less than 65%	Less than 65%
The Organization's contribution to the plan	\$ 42,602	\$ 51,691
Total contributions received by the plan	4,196,000	4,023,000
The Organization's contribution >5% of total contributions to the plan	No	No
Total fair value of plan assets at June 30	\$ 59,371,000	\$ 53,424,000

Note 10. 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, 2017 and 2016, advertising costs totaled \$114,037 and \$193,360, respectively, and are included with professional fees on the consolidated statements of functional expenses.

Note 11. Revenue and Grants from Governmental Agencies

Revenue from grants and governmental agencies consist 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:

	<u>2017</u>	<u>2016</u>
Total federal awards	\$ 5,168,350	\$ 5,039,219
Less: federal food commodities included with in-kind contributions	(2,624,273)	(2,511,676)
Less: forgivable loans with continuing compliance requirement	<u>(1,855,434)</u>	<u>(1,855,434)</u>
	688,643	672,109
Non-federal awards (state and local)	<u>15,609,322</u>	<u>14,787,483</u>
Revenue and grants from governmental agencies	<u>\$ 16,297,965</u>	<u>\$ 15,459,592</u>

Note 12. 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:

	2017	2016
Revenues	\$ 153,832	\$ 128,566
Food expenditures	\$ 153,832	\$ 127,633
Administrative fee		933
	\$ 153,832	\$ 128,566

Note 13. 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, 2017 and 2016, respectively, \$47,320 and \$108,314 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 \$35,879 and \$75,316 at June 30, 2017 and 2016, respectively, which is included with other current liabilities in the consolidated statements of financial position.

Note 14. 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, 2017 and 2016, were as follows:

	Fair Value Measurements at June 30, 2017			Total
	Level 1	Level 2	Level 3	
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>
	Fair Value Measurements at June 30, 2016			Total
	Level 1	Level 2	Level 3	
Mutual funds	\$ 1,455,754	\$ 59,994	\$ -	\$ 1,515,748
Assets held by a trust			434,350	434,350
	<u>\$ 1,455,754</u>	<u>\$ 59,994</u>	<u>\$ 434,350</u>	<u>\$ 1,950,098</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 (65% and 63% as of June 30, 2017 and 2016, 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, 2017 and 2016:

Fair value as of June 30, 2015	\$ 465,325
Change in fair value of underlying assets	(9,459)
Payments received from trust	<u>(21,516)</u>
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	<u>\$ 457,620</u>

Note 15. 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 are to 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:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds - general	\$ -	\$ 433,653	\$ 216,359	\$ 650,012
Board-designated funds	1,009,862			1,009,862
	<u>\$ 1,009,862</u>	<u>\$ 433,653</u>	<u>\$ 216,359</u>	<u>\$ 1,659,874</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds - general	\$ -	\$ 388,660	\$ 216,359	\$ 605,019
Board-designated funds	910,729			910,729
	<u>\$ 910,729</u>	<u>\$ 388,660</u>	<u>\$ 216,359</u>	<u>\$ 1,515,748</u>

The beneficial interest in a perpetual trust included in permanently restricted net assets of \$437,539 for the years ended June 30, 2017 and 2016, 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:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 914,141	\$ 390,123	\$ 216,359	\$ 1,520,623
Investment return				
Investment income	22,410	9,604		32,014
Net loss (realized and unrealized)	(25,822)	(11,067)		(36,889)
Total investment return	(3,412)	(1,463)		(4,875)
Endowment net assets, end of year	<u>\$ 910,729</u>	<u>\$ 388,660</u>	<u>\$ 216,359</u>	<u>\$ 1,515,748</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 for 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, 2017 or 2016.

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, 2017

Grantor/Program Title	Contract Number	July 1, 2016 - June 30, 2017
State of Washington		
GRO Intensive Tenant Support	1512-42793	\$ 6,494,138
GRO Intensive Tenant Support	1512-42899	2,580,168
Nurse Delegation	1512-42793	5,104
Nurse Delegation	1512-42899	1,250
EFAP Thru Food Resources	K1184	2,314
Emergency Food Assistance Program	K1678	381,910
CARE Crisis Response Services	NSMHA-VOA-Medicaid, AMD4	3,331,836
State of Washington Subtotal		12,796,720
Snohomish County		
Dispute Resolution Center/Snohomish County Surcharge	HCS-16-80-01-018/ HCS-17-80-01-018	106,041
Dispute Resolution Center Rental Housing Certificate	HCS-16-62-1624-018	125,159
Building Inclusive Communities	DD-17-90-09-018	13,272
Housing Navigation Project	HCS-15-62-1629-018	89,841
Prevention Navigation Services	HCS-16-62-1621-018	436,589
Fair Housing	HCS-16-24-1609-018	17,841
Rapid ReHousing	HCS-15-62-1512-018	141,600
Targeted Prevention	HCS-16-62-1628-018	259,000
First Responders	HCS-15-15-01-018	18,556
safeTALK Training Services	TS-HS-17-13	1,050
Sky Valley Resource Center	HCS-16-75-04-018	19,924
Sky Valley Resource Center	HCS-17-75-04-018	18,039
Early Childhood Education Assistance Program	EL-16-60-17-018	840,000
Community Information Line	HCS-15-75-05-018	41,209
Community Information Line	HCS-17-62-1731-018	27,909
Community Navigator	MH-16-10-11-018	148,126
Community Navigator	MH-15-10-11-018	149,869
Snohomish County Subtotal		2,454,025
Island County		
Dispute Resolution Center/Island County	PS-HS-14-01	9,614
Island County Subtotal		9,614

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

SCHEDULE OF NON-FEDERAL GOVERNMENTAL AWARDS
(Continued)

For the Year Ended June 30, 2017

Grantor/Program Title	Contract Number	July 1, 2016 - June 30, 2017
Kitsap County		
DRS State Legislative Funds-Snohomish	S14-31445-001	\$ 20,671
AGO Grant Award	None	94,250
Kitsap County Subtotal		<u>114,921</u>
Skagit County		
DRC Surcharge	C20140580	22,915
General Fund	C20140580	46,498
State Leg Funds	S14-31445-001	20,653
Skagit County Subtotal		<u>90,066</u>
City of Everett		
Community Information Line	None	15,870
Human Needs Grant	None	49,095
City of Everett Subtotal		<u>64,965</u>
City of Sedro-Woolley		
Community Information Line	None	1,510
City of Sedro-Woolley Subtotal		<u>1,510</u>
Public Hospital District #2		
South Snohomish County 2-1-1 CR Advocate Program	None	77,501
Public Hospital District #2 Subtotal		<u>77,501</u>
		<u><u>\$ 15,609,322</u></u>

S U P P L E M E N T A R Y R E P O R T S A N D
S C H E D U L E S I N A C C O R D A N C E W I T H
G O V E R N M E N T A U D I T I N G S T A N D A R D S
A N D T H E U N I F O R M G U I D A N C E

**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 financial statements of Volunteers of America Western Washington and Subsidiary ("the Organization"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2017-001.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency: 2017-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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*.

Organization's Response to Findings

The Organization's response to the findings 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 financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in blue ink that reads "Peterson Sullivan LLP". The signature is written in a cursive, flowing style.

March 23, 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 *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the Organization's major federal programs for the year ended June 30, 2017. 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, 2017.

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 which are described in the accompanying schedule of findings and questioned costs as items 2017-003, 2017-004, and 2017-005. 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 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. We considered the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-003 to be a material weakness.

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. We consider the deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-004 and 2017-005, 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.

March 23, 2018

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

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	OSPI Child Nutrition - ECEAP	10.558	31-07-0363	\$ 26,410
Food Distribution Cluster				
<i>State of Washington</i>				
Commodity Supplemental Food Program	Commodity Supplemental Food Program (Administrative Costs)	10.565*	K1678	45,178
Commodity Supplemental Food Program	Commodity Supplemental Food Program (Food Commodities)	10.565*	K1678	412,966
<i>State of Washington</i>				
Emergency Food Assistance Program	TEFAP Commodities Distribution (Administrative Costs)	10.568*	K1678	83,422
Emergency Food Assistance Program	TEFAP Commodities Distribution (Food Commodities)	10.569*	K1678	<u>2,211,307</u>
Total Food Distribution Cluster				<u>2,752,873</u>
Total U.S. Department of Agriculture - Food and Nutrition Service				<u>2,779,283</u>
			Page Subtotal	2,779,283

* 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, 2017

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-16-24-1609-018	28,375
Community Development Block Grants/Entitlement Grants**	Improvements to Sites 2, 3, 4, and 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	14,289
Community Development Block Grants/Entitlement Grants**	Food Distribution Center	14.218*	N/A	<u>250,000</u>
Total CDBG - Entitlement Grants Cluster				1,580,626
<i>Snohomish County</i>				
Home Investment Partnerships Program**	Sites 2, 3, 4, and 5	14.239*	HOME 1995 #7	317,472
<i>Snohomish County</i>				
Continuum of Care Program	HUD Supportive Housing (Housing First for Families)	14.267	HCS-16-50-1582-018	<u>83,365</u>
Total U.S. Department of Housing and Urban Development - Office of Community Planning and Development				<u>1,981,463</u>
Page Subtotal				1,981,463

* Program tested as major

** 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, 2017

Federal Grantor/Pass-Through Grantor	Contract	Federal CFDA Number	Contract Number	Federal Expenditures
U.S. Department of Justice				
<i>WA State Department of Commerce</i>				
Antiterrorism Emergency Reserve	Victims of Crime Act	16.321	F15-31119-506	<u>\$ 79,658</u>
Total from U.S. Department of Justice				79,658
U.S. Department of Health and Human Services Administration				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	Linked2Health Solutions	93.243	N/A	<u>69,999</u>
477 Cluster				
<i>Snohomish County</i>				
Community Services Block Grant	First Responders	93.569	HCS-15-15-01-018(2)	<u>104,115</u>
Total 477 Cluster				<u>104,115</u>
Total from U.S. Department of Health and Human Services Administration				174,114
Department of Homeland Security				
Emergency Food and Shelter National Board Program	FEMA	97.024	33-8924-00-003	<u>153,832</u>
Total Department of Homeland Security				153,832
			Page Subtotals Carried Forward	<u>4,760,746</u>
			Total Expenditures of Federal Awards	<u><u>\$ 5,168,350</u></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, 2017. 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, 2017, the Organization had food commodities in inventory totaling \$30,396 (\$22,208 related to the Commodity Supplemental Food Program and \$8,188 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, 2017, was \$1,855,434.

**VOLUNTEERS OF AMERICA WESTERN WASHINGTON
AND SUBSIDIARY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

A. Summary of Audit Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal Control Over Financial Reporting

Material weaknesses identified: Yes

Significant deficiencies identified not considered
to be material weaknesses: Yes

Noncompliance material to financial statements noted: No

Federal Awards

Material weaknesses identified: Yes

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
14.218	CDBG - Entitlement Grants Cluster
14.239	Home Investment Partnership Program

**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

Material Weakness

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 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

Recommendation: Formal policies and procedures should be designed and implemented to ensure that all federal programs, including those with continuing loan requirements, are properly included and reported on the Schedule. We also recommend that management establish policies and procedures to inquire with grantors when receiving funding if federal funds are included in the awards. This will ensure continuing compliance with these and future loans.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the finding and recommendation. See the attached unaudited correction action plan on page 46.

Significant Deficiency

2017-002: In-Kind Food Revenue

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

Recommendation: Control processes should be implemented related to in-kind food donations made through the food banks to ensure that the proper amounts are recognized and that proper supporting documentation is maintained to support the amounts recognized in the consolidated financial statements.

Views of Responsible Officials: Management concurs with the finding and recommendation. See the attached unaudited correction action plan on page 46.

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

Material Weakness

2017-003: Schedule of Expenditures of Federal Awards

See the discussion over this finding at 2017-001.

Significant Deficiencies

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

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 46.

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 lading/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

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 46.

CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2017

Finding – 2017-001 & 2017-003: Schedule of Expenditures of Federal Awards

Name of Contact Person: David Allard, CFO | Phone: 425.212.2928 | Email: dallard@voaww.org

Corrective Action: VOAWW will review its process for ensuring that all federal programs are properly included and reported on the SEFA schedule. This process will be updated and will include procedures to inquire whether a grant or loan includes federal funds that should be included on the schedule.

Proposed Completion Date: March 31, 2018

Finding – 2017-002: In-Kind Food Revenue

Name of Contact Person: David Allard, CFO | Phone: 425.212.2928 | Email: dallard@voaww.org

Corrective Action: VOAWW will review its process for documenting and reporting on non-governmental food donations. A new process alongside an updated reporting template will be documented and implemented to ensure adequate supporting documentation is maintained and in-kind food revenue is recorded properly.

Proposed Completion Date: December 31, 2017

Finding – 2017-004: Eligibility

Name of Contact Person: Alison Cook, Senior Director | Email: acook@voaww.org

Corrective Action: VOAWW will review its processes for assessing and maintaining information concerning client eligibility for CSFP resources. Emphasis will be placed ensuring necessary training is conducted and that certifications are performed according to time standards and properly documented. VOAWW will augment new processes with increased supervisor involvement to monitor compliance with established federal and state requirements.

Proposed Completion Date: January 31, 2018

Finding – 2017-005: Reporting

Contact Person: Alison Cook, Senior Director | Email: acook@voaww.org

Corrective Action: VOAWW will review its processes for completing reports and maintaining documentation. Focus will be placed on ensuring necessary training is conducted and that reports are submitted according to government standards, are completed accurately, and are documented as necessary. VOAWW will augment new processes with increased supervisor involvement to monitor compliance with established federal and state requirements.

Proposed Completion Date: January 31, 2018