

**VALLEY CITIES COUNSELING
AND CONSULTATION**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

**VALLEY CITIES COUNSELING
AND CONSULTATION**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Valley Cities Counseling and Consultation
Kent, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Valley Cities Counseling and Consultation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Cities Counseling and Consultation as of December 31, 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 of America.

Other Matters

Other 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. 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2018, on our consideration of Valley Cities Counseling and Consultation'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Valley Cities Counseling and Consultation's 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 Valley Cities Counseling and Consultation's internal control over financial reporting and compliance.

Shannon & Associates, LLP

Kent, Washington
May 21, 2018

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

<u>ASSETS</u>		
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,334,221	\$ 5,497,143
Accounts and grants receivable, net of allowance for doubtful accounts of \$22,167 and \$21,982	2,005,022	1,378,463
Note receivable, Woodmont property	2,595,000	-
Prepaid expenses and deposits	423,452	406,335
Assets held for sale	<u>-</u>	<u>5,419,898</u>
TOTAL CURRENT ASSETS	12,357,695	12,701,839
PROPERTY AND EQUIPMENT		
Buildings	31,366,475	21,724,980
Construction in progress	3,951,082	7,482,906
Leasehold improvements	702,183	702,183
Office and computer equipment	2,228,340	2,179,427
Vehicles	45,708	31,893
Land	<u>5,050,699</u>	<u>2,744,404</u>
	43,344,487	34,865,793
Less accumulated depreciation and amortization	<u>5,218,920</u>	<u>5,166,234</u>
NET PROPERTY AND EQUIPMENT	<u>38,125,567</u>	<u>29,699,559</u>
TOTAL ASSETS	<u>\$ 50,483,262</u>	<u>\$ 42,401,398</u>

The accompanying notes are an integral part of these financial statements.

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Lines of credit	\$ 7,120,000	\$ -
Accounts payable and accrued liabilities	1,309,238	779,316
Accrued wages, payroll taxes and benefits	1,865,052	1,374,004
Rent deposits	26,779	23,583
Current portion, notes payable	408,368	3,155,615
TOTAL CURRENT LIABILITIES	10,729,437	5,332,518
 LONG-TERM LIABILITIES		
Accrued interest payable	48,664	18,124
Notes payable, net of current portion	8,453,996	7,876,670
Refundable advances	9,468,324	9,700,954
TOTAL LONG-TERM LIABILITIES	17,970,984	17,595,748
TOTAL LIABILITIES	28,700,421	22,928,266
 NET ASSETS		
Unrestricted	21,557,479	19,329,894
Temporarily restricted	225,362	143,238
TOTAL NET ASSETS	21,782,841	19,473,132
TOTAL LIABILITIES AND NET ASSETS	\$ 50,483,262	\$ 42,401,398

The accompanying notes are an integral part of these financial statements.

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
PUBLIC SUPPORT AND REVENUES			
Public support			
United Way	\$ 359,000	\$ -	\$ 359,000
Contributions	32,835	1,411,786	1,444,621
Amortization of refundable advance	238,113	-	238,113
	<u>629,948</u>	<u>1,411,786</u>	<u>2,041,734</u>
Revenues			
Net client and third-party revenues			
King County prepaid health plan	25,058,245		25,058,245
King County contracts	6,002,969		6,002,969
Client and third party	224,051		224,051
Local	636,666		636,666
Medicare	98,003		98,003
Medicaid	23,192		23,192
State of Washington	765,449		765,449
Other	924,886	-	924,886
	<u>33,733,461</u>	<u>-</u>	<u>33,733,461</u>
Net assets released from restriction	<u>1,329,662</u>	<u>(1,329,662)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUES	35,693,071	82,124	35,775,195
EXPENSES			
Salaries and wages	20,426,326		20,426,326
Employee benefits	3,137,105		3,137,105
Payroll taxes	1,772,751		1,772,751
Total salaries and related expenses	<u>25,336,182</u>		<u>25,336,182</u>
Professional fees	557,986		557,986
Sub-contractor expenses	218,122		218,122
Conference and training	250,454		250,454
Travel and vehicle	261,224		261,224
Insurance	245,325		245,325
Supplies	150,460		150,460
Interest expense	269,415		269,415
Computer expense	574,126		574,126
Telephone	760,616		760,616
Postage and delivery	77,982		77,982
Rent	1,380,514		1,380,514
Furniture and equipment	256,150		256,150
Depreciation	795,448		795,448
Utilities	247,271		247,271
Occupancy	616,210		616,210
Printing/advertising	269,854		269,854
Client assistance	965,873		965,873
Clients – special needs	125,234		125,234
Miscellaneous	107,040	-	107,040
TOTAL EXPENSES	33,465,486	-	33,465,486
CHANGE IN NET ASSETS	2,227,585	82,124	2,309,709
NET ASSETS, beginning of year	19,329,894	143,238	19,473,132
NET ASSETS, end of year	\$ 21,557,479	\$ 225,362	\$ 21,782,841

The accompanying notes are an integral part of these financial statements

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
PUBLIC SUPPORT AND REVENUES			
Public support			
United Way	\$ 379,000	\$ -	\$ 379,000
Contributions	15,349	150,065	165,414
Amortization of refundable advance	<u>173,011</u>	<u>-</u>	<u>173,011</u>
	567,360	150,065	717,425
Revenues			
Net client and third-party revenues			
King County prepaid health plan	20,888,008		20,888,008
King County contracts	4,865,798		4,865,798
Client and third party	203,384		203,384
Local	574,216		574,216
Medicare	128,072		128,072
Medicaid	70,433		70,433
State of Washington	709,111		709,111
Other	<u>796,153</u>	<u>-</u>	<u>796,153</u>
	28,235,175		28,235,175
Net assets released from restriction	<u>135,450</u>	<u>(135,450)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUES	28,937,985	14,615	28,952,600
EXPENSES			
Salaries and wages	14,883,186		14,883,186
Employee benefits	2,342,381		2,342,381
Payroll taxes	<u>1,326,298</u>		<u>1,326,298</u>
Total salaries and related expenses	18,551,865		18,551,865
Professional fees	685,613		685,613
Sub-contractor expenses	321,718		321,718
Conference and training	178,130		178,130
Travel and vehicle	249,063		249,063
Insurance	221,442		221,442
Supplies	117,169		117,169
Interest expense	242,594		242,594
Computer expense	404,109		404,109
Telephone	607,556		607,556
Postage and delivery	70,020		70,020
Rent	901,080		901,080
Furniture and equipment	236,515		236,515
Depreciation	623,886		623,886
Utilities	208,630		208,630
Occupancy	574,431		574,431
Printing/advertising	199,950		199,950
Client assistance	899,522		899,522
Clients – special needs	119,760		119,760
Miscellaneous	<u>75,751</u>	<u>-</u>	<u>75,751</u>
TOTAL EXPENSES	<u>25,488,804</u>	<u>-</u>	<u>25,488,804</u>
CHANGE IN NET ASSETS	3,449,181	14,615	3,463,796
NET ASSETS, beginning of year	<u>15,880,713</u>	<u>128,623</u>	<u>16,009,336</u>
NET ASSETS, end of year	<u>\$ 19,329,894</u>	<u>\$ 143,238</u>	<u>\$ 19,473,132</u>

The accompanying notes are an integral part of these financial statements

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

Behavioral Health Services

Clinic Locations

	<u>Auburn</u>	<u>Enumclaw</u>	<u>Federal Way</u>	<u>Kent</u>	<u>Meridian</u>	<u>Midway</u>
Salaries and wages	\$ 4,126,118	\$ 603,465	\$ 2,763,862	\$ 3,223,058	\$ 1,491,043	\$ 1,123,428
Employee benefits	637,454	98,772	416,065	471,632	205,148	185,603
Payroll taxes	<u>362,631</u>	<u>53,610</u>	<u>242,491</u>	<u>277,862</u>	<u>128,014</u>	<u>97,333</u>
Total salaries and related expenses	5,126,203	755,847	3,422,418	3,972,552	1,824,205	1,406,364
Professional fees	99,189	14,983	56,157	83,369	31,042	27,830
Sub-contractor expenses	-	-	-	-	52,101	-
Conference and training	38,896	5,188	18,460	21,730	14,573	7,895
Travel and vehicle	58,983	6,252	36,767	28,778	21,138	9,483
Insurance	39,881	6,972	26,831	31,790	13,360	10,668
Supplies	23,837	3,680	14,876	21,200	6,154	4,597
Interest expense	61,106	17,789	10,044	44,983	4,882	3,743
Computer expense	112,534	19,961	71,538	94,255	45,104	28,736
Telephone	150,817	26,517	99,315	122,577	46,868	40,698
Postage and delivery	14,737	2,572	9,836	11,751	4,914	3,948
Rent	190,445	19,697	279,249	90,226	246,890	97,240
Furniture and equipment	41,113	6,129	28,277	39,878	14,083	9,350
Depreciation	129,058	44,307	29,709	111,824	15,122	11,691
Utilities	34,809	8,252	5,662	28,157	2,682	2,081
Occupancy	70,652	18,590	27,713	47,350	5,751	3,707
Printing/advertising	30,700	8,205	15,753	19,630	15,794	6,237
Client assistance	1,965	510	3,036	3,227	834	902
Clients - special needs	89,234	-	36,000	-	-	-
Miscellaneous	<u>4,557</u>	<u>981</u>	<u>3,653</u>	<u>4,426</u>	<u>1,837</u>	<u>1,475</u>
TOTAL EXPENSES	<u>\$ 6,318,716</u>	<u>\$ 966,432</u>	<u>\$ 4,195,294</u>	<u>\$ 4,777,703</u>	<u>\$ 2,367,334</u>	<u>\$ 1,676,645</u>

**VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

			Support Services						
			Total	Program			Total		
			Program	Management	Development/	Support			
Rainier	Renton	Homeless/ Housing Specialty Svc	Services	& General	Fundraising	Compliance	Services	2017	Total
\$ 1,053,593	\$ 1,748,533	\$ 2,038,547	\$ 18,171,647	\$ 1,910,928	\$ 191,844	\$ 151,907	\$ 2,254,679	\$	20,426,326
166,516	266,216	323,618	2,771,024	314,912	24,969	26,200	366,081		3,137,105
<u>92,061</u>	<u>153,949</u>	<u>178,493</u>	<u>1,586,444</u>	<u>155,914</u>	<u>16,270</u>	<u>14,123</u>	<u>186,307</u>		<u>1,772,751</u>
1,312,170	2,168,698	2,540,658	22,529,115	2,381,754	233,083	192,230	2,807,067		25,336,182
31,959	46,150	32,340	423,019	29,325	321	105,321	134,967		557,986
-	-	166,021	218,122	-	-	-	-		218,122
9,659	12,894	48,574	177,869	35,198	1,660	35,727	72,585		250,454
13,452	19,548	47,571	241,972	13,497	1,867	3,888	19,252		261,224
12,645	18,667	67,229	228,043	14,728	1,277	1,277	17,282		245,325
8,752	9,682	43,382	136,160	11,155	434	2,711	14,300		150,460
29,547	30,913	66,408	269,415	-	-	-	-		269,415
36,665	50,725	73,140	532,658	36,499	2,158	2,811	41,468		574,126
44,740	67,773	98,769	698,074	53,410	4,566	4,566	62,542		760,616
4,667	6,900	8,993	68,318	6,357	589	2,718	9,664		77,982
48,492	62,742	85,021	1,120,002	221,926	19,293	19,293	260,512		1,380,514
13,480	17,116	69,703	239,129	14,616	757	1,648	17,021		256,150
41,086	49,365	355,147	787,309	6,933	603	603	8,139		795,448
16,418	11,535	137,313	246,909	308	27	27	362		247,271
25,272	26,902	388,760	614,697	1,347	83	83	1,513		616,210
10,805	12,393	42,302	161,819	24,635	217	83,183	108,035		269,854
688	938	953,773	965,873	-	-	-	-		965,873
-	-	-	125,234	-	-	-	-		125,234
<u>1,775</u>	<u>2,599</u>	<u>3,670</u>	<u>24,973</u>	<u>4,364</u>	<u>62,008</u>	<u>15,695</u>	<u>82,067</u>		<u>107,040</u>
<u>\$ 1,662,272</u>	<u>\$ 2,615,540</u>	<u>\$ 5,228,774</u>	<u>\$ 29,808,710</u>	<u>\$ 2,856,052</u>	<u>\$ 328,943</u>	<u>\$ 471,781</u>	<u>\$ 3,656,776</u>		<u>\$ 33,465,486</u>

The accompanying notes are an integral part of these financial statements.

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Behavioral Health Services						
	Clinic Locations						
	<u>Auburn</u>	<u>Bellevue</u>	<u>Enumclaw</u>	<u>Federal Way</u>	<u>Kent</u>	<u>Meridian</u>	<u>Midway</u>
Salaries and wages	\$ 3,231,363	\$ 55,468	\$ 304,780	\$ 2,211,983	\$ 2,261,568	\$ 687,492	\$ 782,873
Employee benefits	519,596	8,966	52,299	335,043	357,561	94,461	135,585
Payroll taxes	<u>294,695</u>	<u>5,371</u>	<u>27,518</u>	<u>195,685</u>	<u>202,496</u>	<u>61,040</u>	<u>70,654</u>
Total salaries and related expenses	4,045,654	69,805	384,597	2,742,711	2,821,625	842,993	989,112
Professional fees	146,076	4,194	11,119	150,619	94,261	23,765	30,233
Sub-contractor expenses	-	-	-	-	-	69,668	-
Conference and training	27,541	837	3,773	18,293	19,336	5,573	7,507
Travel and vehicle	59,195	880	4,405	38,029	25,618	14,205	9,792
Insurance	43,717	1,485	3,899	28,325	28,901	7,482	10,120
Supplies	21,645	268	6,485	14,042	18,018	3,858	3,656
Interest expense	76,750	381	1,489	12,263	52,221	2,972	3,766
Computer expense	90,239	1,951	9,421	58,963	59,067	16,974	20,139
Telephone	143,189	3,096	14,222	96,856	102,731	21,257	34,226
Postage and delivery	15,712	617	2,483	10,271	10,589	2,697	3,651
Rent	70,553	9,068	6,722	175,860	52,592	162,454	81,060
Furniture and equipment	49,479	640	7,597	36,901	34,716	7,126	7,603
Depreciation	128,437	1,335	26,064	30,843	101,192	7,853	10,321
Utilities	40,284	235	9,593	6,372	25,555	1,552	1,982
Occupancy	55,264	867	18,727	23,315	44,508	2,971	4,602
Printing/advertising	23,138	464	4,517	14,275	13,302	5,637	5,039
Client assistance	4,852	44	80	12,055	2,923	204	925
Clients - special needs	83,760	-	-	36,000	-	-	-
Miscellaneous	<u>6,267</u>	<u>155</u>	<u>588</u>	<u>4,077</u>	<u>4,202</u>	<u>1,075</u>	<u>1,445</u>
TOTAL EXPENSES	<u><u>\$ 5,131,752</u></u>	<u><u>\$ 96,322</u></u>	<u><u>\$ 515,781</u></u>	<u><u>\$ 3,510,070</u></u>	<u><u>\$ 3,511,357</u></u>	<u><u>\$ 1,200,316</u></u>	<u><u>\$ 1,225,179</u></u>

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

			Support Services						
		Homeless/ Housing Specialty Svc	Total Program Services	Management & General	Fundraising	Program Development/ Compliance	Total Support Services	2016 Total	
<u>Rainier</u>	<u>Renton</u>								
\$ 661,613	\$ 1,131,285	\$ 1,745,239	\$ 13,073,664	\$ 1,541,186	\$ 132,772	\$ 135,564	\$ 1,809,522	\$ 14,883,186	
104,023	180,596	263,733	2,051,863	252,293	13,943	24,282	290,518	2,342,381	
<u>59,245</u>	<u>103,395</u>	<u>154,461</u>	<u>1,174,560</u>	<u>127,471</u>	<u>11,288</u>	<u>12,979</u>	<u>151,738</u>	<u>1,326,298</u>	
824,881	1,415,276	2,163,433	16,300,087	1,920,950	158,003	172,825	2,251,778	18,551,865	
24,141	40,757	44,066	569,231	39,470	257	76,655	116,382	685,613	
-	-	252,050	321,718	-	-	-	-	321,718	
5,859	9,842	24,267	122,828	24,008	188	31,106	55,302	178,130	
11,766	16,652	46,801	227,343	17,184	1,743	2,793	21,720	249,063	
8,115	14,232	57,858	204,134	14,190	955	2,163	17,308	221,442	
7,387	6,289	16,537	98,185	9,936	249	8,799	18,984	117,169	
26,524	30,053	32,495	238,914	3,017	199	464	3,680	242,594	
16,151	28,490	45,781	347,176	48,973	2,367	5,593	56,933	404,109	
24,258	43,942	77,130	560,907	38,402	2,474	5,773	46,649	607,556	
2,929	5,135	7,781	61,865	5,702	555	1,898	8,155	70,020	
13,351	23,321	50,418	645,399	236,393	5,786	13,502	255,681	901,080	
9,436	14,198	45,971	213,667	15,295	628	6,925	22,848	236,515	
32,741	43,023	229,961	611,770	9,933	655	1,528	12,116	623,886	
14,920	10,584	97,221	208,298	272	18	42	332	208,630	
19,990	31,428	366,824	568,496	4,945	305	685	5,935	574,431	
5,805	8,645	13,788	94,610	8,698	434	96,208	105,340	199,950	
736	965	873,533	896,317	-	-	3,205	3,205	899,522	
-	-	-	119,760	-	-	-	-	119,760	
<u>1,153</u>	<u>2,029</u>	<u>3,967</u>	<u>24,958</u>	<u>3,451</u>	<u>34,096</u>	<u>13,246</u>	<u>50,793</u>	<u>75,751</u>	
<u>\$ 1,050,143</u>	<u>\$ 1,744,861</u>	<u>\$ 4,449,882</u>	<u>\$ 22,435,663</u>	<u>\$ 2,400,819</u>	<u>\$ 208,912</u>	<u>\$ 443,410</u>	<u>\$ 3,053,141</u>	<u>\$ 25,488,804</u>	

The accompanying notes are an integral part of these financial statements.

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,309,709	\$ 3,463,796
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	795,448	623,886
Amortization of refundable advance	(238,113)	(173,011)
(Gain) loss on disposal of assets	(11,619)	-
Cash provided (used) by changes in operating assets and liabilities:		
Accounts and grants receivable, net	(626,559)	422,922
Prepaid expenses and deposits	(17,117)	199,890
Accounts payable and accrued liabilities	560,462	(319,623)
Accrued wages, payroll taxes and benefits	491,048	205,002
Rent deposits	3,196	15,389
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,266,455	4,438,251
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(317,001)	(4,514,993)
Proceeds on asset sale	2,580,477	-
Construction in progress	(7,642,932)	(355,190)
NET CASH USED BY INVESTING ACTIVITIES	(5,379,456)	(4,870,183)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	7,120,000	-
Proceeds from refundable advances	-	1,287,657
Principal payments on notes payable	(3,169,921)	(291,621)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,950,079	996,036
NET INCREASE IN CASH	1,837,078	564,104
Cash and cash equivalents, beginning of year	5,497,143	4,933,039
Cash and cash equivalents, end of year	\$ 7,334,221	\$ 5,497,143
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 270,089	\$ 242,898
Supplemental disclosure of noncash investing and financing activities:		
Financed portion of real estate acquisition	\$ 1,005,483	\$ 3,003,000
Note receivable from sale of Woodmont property	\$ 2,595,000	\$ -

The accompanying notes are an integral part of these financial statements.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND PROGRAMS

Valley Cities Counseling and Consultation (Valley Cities), a not-for-profit community behavioral health center, has been the local source for quality behavioral health counseling and chemical dependency since 1965 in Washington State with clinics in Auburn, Federal Way, Kent, Renton, Meridian at Northgate, Rainier Beach, Enumclaw, Midway, Pike Place, Lake City, and St. Vincent de Paul Aurora. It has been a United Way agency since 1967 and has been accredited by the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO).

Valley Cities provides licensed mental health and chemical dependency treatment for youth and adults; supported employment and education services; domestic violence services for victims and perpetrators; outreach services and housing programs for the homeless; family support programs offering youth and family activities; and specialized veterans services that deliver counseling and family support services to veterans and their families. The development department carries out fundraising, marketing, public relations, grant writing, and public policy advocacy. The human resources department oversees personnel, staff training, student intern, and volunteer functions, and the administration and finance departments oversee information management systems, support staff, accounting and payroll operations.

Valley Cities continues to integrate trained and certified Peer Support Specialists into all programs, allowing their own recovery, and motivating others to find hope and growth in their recovery process.

Valley Cities clinics offer a unique Model of Care, Care Coordination. All clients are assigned to a Care Coordinator who then assists them in connecting to resources in the agency and in the community. Clinicians are trained in evidenced based treatment modalities including CBT+ (Trauma Focused Cognitive Behavioral Therapy for children) and Love and Logic parenting skills. Through Care Coordination, Valley Cities still treats children, adults and older adults, but as a team approach so each individual gets the focus that they need.

Services are provided to meet the needs of children, youth and their families with mental illnesses or emotional disturbances; children, youth and families who are in crises; and children and youth who are victims of trauma or family violence. These services include individual and family counseling; in home family support and advocacy; school-based counseling; crises intervention; case management; psychiatric assessment; case coordination with other service providers; medication management; support groups and skills for training parents; outreach clinical teams for homeless families; community consultation and education; and specialized treatment for those with co-occurring mental health and substance use disorders.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PURPOSE AND PROGRAMS (Continued)

Services are also provided to assist adults and their families with mental health and chemical dependency treatment services. In addition, specialized services are available to those who have experienced sexual abuse or domestic violence. Services are designed with an emphasis on recovery and hope. Valley Cities provides employment and educational services so that clients can be supported to return to work or school. The chemical dependency services include intensive outpatient and specialized relapse prevention services and are integrated with the mental health services for those clients that have co-occurring mental health and chemical dependency problems.

Valley Cities is committed to quality mental health care delivered from a recovery orientation, meaning that its treatments and interventions extend beyond symptom improvement to a more holistic approach to care that helps its clients live, work, learn, and fully participate in their communities. Various public and private funding sources and individual client fees are used to fund services. A sliding fee scale is available to help individuals gain access to services. Services are provided to more than 13,000 individuals and their families every year.

Valley Cities' programs consist of:

Care Coordination at each outpatient clinic

A Care Coordinator will be the main point of contact at Valley Cities. They will help walk the client through how to get services at Valley Cities, ask them about what difficulties they are having and try to find ways to help. They will connect the client with the appropriate level of care that is needed, which can include counseling, medications, peer support, or groups. They can also help connect them to services in the community, like a primary care physician or a dentist. The Care Coordinator helps manage all of the expertise needed to provide the best outcomes for our clients.

Peer Support Services

Valley Cities proudly offers a range of support services provided by certified Peer Counselors. Peers are an integral part of the Care Team at Valley Cities, offering insight, empowerment, and engagement from life experience. Peer support is based on the philosophy that someone who has faced life circumstances similar to yours may be the person who can understand you the most. Peers are living, walking examples of Hope and that recovery is possible.

Peer Support Counselors have been trained, tested, and certified to inspire hope and provide unique support to people receiving mental health and chemical dependency services. Because of their unique experience with mental illness and mental health services, peer counselors provide expertise that professional training cannot replicate.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PURPOSE AND PROGRAMS (Continued)

Peer Support Services (Continued)

Peers at Valley Cities offer many services, and each peer has personal lived experience in the field in which they work. Peers participate regularly in clinical team meetings and offer valuable input and insight that only lived experience can offer. They are provided on-going clinical training and supervision.

Children's Wraparound Services

Valley Cities Wraparound serves high needs youth in the Kent, Auburn, Federal Way and Enumclaw school districts who are eligible for one of two Wraparound Programs offered in King County. 1) Wraparound with Intensive Services - WISe (youth utilizing Medicaid funded Mental Health treatment) OR 2) MIDD Wraparound (youth involved in at least two of the following systems: Mental Health, Special Education, Juvenile Justice, Child Welfare, DDA - Development Disabilities, and Chemical Dependency.)

Wraparound facilitators, parent partners and youth peers worked collaboratively with the youth, families, providers and community members to develop a cross system care plan driven by the youth and families identified needs and goals. Wraparound staff follow ten guiding principles as they support the team planning process. These principles are: Family Voice and Choice, Team Based, Natural Supports, Collaboration, Community-Based, Culturally Competent, Individualized, Strengths Based, Persistence and Outcomes Based.

Valley Cities serves about 260 youth per year, a number that will grow in 2018 as the program continues to expand. The average youth is served in Wraparound for 18 months and outcomes include fewer hospital visits, increased school attendance and achievement and fewer police contacts. Families leave Wraparound with increased ongoing supports and improved skills to navigate their youth's recovery moving forward

Family Treatment Court Wraparound

Family Treatment Court is an alternative to regular dependency court and is designed to improve the safety and well-being of children in the dependency system by providing parents access to drug and alcohol treatment, judicial monitoring of their sobriety and individualized services to support the entire family. Valley Cities is the only wraparound program in the state of Washington to work with adults as the identified client, to amplify the parent's voice in the dependency process. A wraparound facilitator works with the team to discover the individual's strengths, set goals, determine major needs, and develop strength-based options to meet those needs.

Valley Cities facilitator works with 15 families at a time to provide this critical resource in order to keep families together in a safe and healthy environment.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PURPOSE AND PROGRAMS (Continued)

Prevention and Community Support Program

In cooperation with:

Federal Way School District: Valley Cities runs the Real Talk for Teens program, formerly known as Girls Circle at multiple schools within the district. Each year 160 high-risk youth, 10 at-a-time, meet once a week for 13 weeks to work on life skills and decision making. In collaboration with the school district, youth enrolled in the program work to increase their school attendance, academic performance, and ability to handle stressful events at home, in the community, and at school.

Youth chosen for the program are not only at high risk for dropping out of school, but are also at a higher risk for involvement with gangs, unplanned pregnancy, and entering the criminal justice system. Valley Cities' goal is to help these youths finish school and become positive contributors to the community.

Valley Cities has adopted the methods developed by the Center for Youth Program Quality and is committed to a constant engagement in self-assessment and continual program improvement. Valley Cities program has been favorably graded by them, and Valley Cities continues to make adjustments to have the most effective program possible.

In addition to Real Talk for Teens, Valley Cities has offered Youth Mental Health First Aid training-to several staff members within the district in an effort to better support youth who may be experiencing a mental health challenge and/or crisis. Both of these programs are rooted in prevention and early intervention.

Kent School District: In response to the high degree of mental health/substance use problems in schools, the needs of students and staff limitations in addressing those needs, the District and Valley Cities collaborates to provide prevention, early intervention and treatment services to the students in Kent School District. This program started in 2016.

Bridges

Valley Cities' Bridges program provides site based mental health engagement, screening, and assessment services on an outreach basis to individuals who are enduring homelessness.

During 2017, Valley Cities Bridges program provided outreach services to 138 chronically homeless adults.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PURPOSE AND PROGRAMS (Continued)

Bridges (Continued)

Valley Cities-Mental Health Outreach Specialists provide services to these clients at various emergency shelters, community church dinners, transitional housing sites, motels, jails, hospitals, and at various locations throughout the community, including, libraries, coffee shops, food banks, parks, street corners, and even wooded areas. Valley Cities' providers are "In-Person Assisters." They can help homeless adults enroll in healthcare benefits through the Washington Health Exchange.

Families in Shelters

Families in Shelters program provides outreach services to 188 chronically homeless families in various emergency shelters and transitional housing sites throughout Seattle and South King County. The team provides face-to-face client meetings where they assess, counsel, and assist clients in the areas of mental health, chemical dependency, application for DSHS benefits and/or Social Security Disability benefits, housing, and referrals to primary care, dental care, WIC, community mental health and/or community substance abuse treatment.

Due to the hard work and collaborative efforts of the Families in Shelters staff, 72 families moved forward in their recovery in 2017.

Families First

The Families First program is an exciting project that was designed to provide housing placement and supportive services to 24 high need families in King County. The Families First program provides individualized, intensive services to families along with a Family Unification Program (FUP) Section 8 voucher that can be used in private market housing (tenant-based vouchers).

The primary goal of the program is to assist families in achieving housing stability and increase self-sufficiency using an approach that centers on providing homeless people with housing quickly and then providing services as needed. In 2017, Valley Cities achieved a 96% housing stability rating. Families First is currently endorsed by the United States Interagency Council on Homelessness (USICH) as a "best practice" for governments and service-agencies to use in their fight to end chronic homelessness in America.

Clients in this program have achieved new employment, enrollment in mental health and chemical dependency services, enrollment in Early Learning/Head start, regular medical care for chronic health conditions, obtained SSA/SSDI/SSI benefits, and access to local food banks.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PURPOSE AND PROGRAMS (Continued)

Employment Services

Valley Cities is the largest supported employment program in King County. Valley Cities does much more than look for jobs for those in the program. Valley Cities helps clients with diagnosed disabilities learn the necessary job search skills to make them successful in their job search, such as how to write resumes, apply for a job, and interview.

A huge focus of the program is to make good job matches that benefit not only the new employee, but also the employer. Valley Cities works closely with these individuals to plan for potential challenges on the job and outside of work that could make long-term employment difficult. Valley Cities supports the individual with job coaching, assistance with training and works with their integrated treatment team to ensure there are natural supports in place so that they can be successful in their employment for the long term. Valley Cities works closely with employers in the community to ensure Valley Cities knows the details necessary to provide a good fitting candidate. Once Valley Cities matches a client with an employer, Valley Cities works in coordination with the Department of Vocational Rehabilitation to support both the client and the employer to resolve situations before they become problems to job success.

Research shows that people who have a mental illness who go to work have increased income, improved self-esteem, improved ability to manage symptoms, and increased quality of life.

85% of Valley Cities mental health clients are unemployed. Employment Services are available to all of those clients. 458 clients requested services from our program in 2017, with 189 clients being served and enrolled in the program.

Veterans Services

Valley Cities provides veterans services to qualified veterans by contract with King County Public Health. Valley Cities provides outreach, engagement and linkage strategies to connect veterans and their families to appropriate medical care, mental health/chemical dependency services, and/or family community resources. Valley Cities' staff provides mobile consultation, screening, treatment, referral and crisis management in addition to support and consultation to community agencies on veteran cultural competence.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PURPOSE AND PROGRAMS (Continued)

Housing Support Services

Valley Cities operates both permanent and transitional supported housing programs that provide rental assistance with home-based case management services for homeless individuals and homeless families. Supportive services in these programs address events and circumstances that underlie or contribute to the inability to obtain and maintain affordable, stable housing. This includes Valley Cities Landing, Valley Cities Place and Phoenix Rising permanent supportive housing projects dedicated to serving individuals with mental illness and history of homelessness. Twelve units at Valley Cities Landing are dedicated for homeless “veterans”. Residents engage in on-site and community-based services that help them live with stability, autonomy and dignity.

Standard Supportive Housing

Standard Supportive Housing provides housing and outpatient care for clients who may require regular staff contact and the availability of staff 24-hours-a -day, seven-days-a-week, but who do not need the physical safety and structure of a residential facility.

The program offers the benefits included in all outpatient treatment services, in addition to support services that assist program participants to develop a daily structure and meaningful activities in their lives, make connections to community social, employment, educational, leisure and spiritual activities and support, acquire the skills and means to meet basic nutritional needs and means to move to a less intensive service level within two years.

Valley Cities serves an average of 32 individuals a year who are served by the King County Regional Support Network (RSN) and meet the Access to Care Standards. Priority is given to clients from Western State Hospital or from another local psychiatric hospital. Second priority are clients who need an extended period of time for stabilization, are a frequent or high utilizer of psychiatric hospitals or jails, are at risk of hospitalization, or who are chronically homeless.

Coming-Up Youth Program

The Coming-Up Youth Program (CUP) is a supportive housing program subsidized in large part through King County Housing Authority (KCHA), King County, and United Way. CUP provides housing and agency support services to up to 22 homeless young adults in South King County ages 18-24. The program switched service providers from Auburn Youth Resources (now known as Nexus Youth) to Valley Cities in November 2016. The CUP team consists of one case manager, one peer support specialist, housing specialist, a housing manager, program manager, and finance support staff, plus access to a mental health therapist and an outreach manager. There are many levels of service provided to clients from both agencies.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PURPOSE AND PROGRAMS (Continued)

Coming-Up Youth Program (Continued)

There are an estimated 1,200 homeless young adults in South King County at any given time and few housing programs specifically designated for those homeless young adults. The goal of the CUP program is to provide program participants with a wraparound approach to services and support that will enable them to achieve self-sufficiency. The program enables them to gain life skills necessary to gain education and employment, maintain their health, finances, and homes, and maintain housing stability.

Resource Rooms

The community resource rooms at all locations are open to the community-at-large and provide individual support, skill-building and a variety of free resources to assist those who might not have a network of support. Valley Cities promotes recovery by involving consumers in their own process of finding the support and resources they need.

Valley Cities provides computers, fax and phones, employment and housing information, family/youth and health services, and community and transportation services. All resource rooms are run by peers and community volunteers. Hours vary by location and are based on volunteer availability.

Domestic Violence Program

The Domestic Violence program served court-ordered domestic violence perpetrators, private clients and others who were ordered into treatment. Program participants attended at least 35 group sessions of treatment over one year. These single gender treatment groups was provided to no more than 12 people per group.

The goal of the program was effective treatment in which the perpetrator becomes accountable for their actions and works to change their behaviors, with the goal of stopping all forms of abuse (sexual, emotional and/or verbal).

Several groups were available most days of the week, including Saturday. Separate groups were provided for men and women and specialty groups focused on improving parenting skills and managing anger. In addition to attending groups, program participants received an initial assessment and recommendations for services. Program staff provided monthly reports and were in regular communication with probation officers. Because victim safety was the ultimate goal, the program required the participant to sign a release of information with all victims and program staff talked with them throughout treatment as needed.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PURPOSE AND PROGRAMS (Continued)

Domestic Violence Program (Continued)

To successfully complete services, program participants must have paid all program fees, had no additional legal charges, had shown that they had stopped all forms of physical violence and decreased psychological and emotional abuse, as noted with input from collateral contacts, written and shared a responsibility plan, accepted responsibility for their actions, documented compliance with legal conditions, and completed other required treatments.

Services were not offered as part of Valley Cities' general mental health services. Program participants were required to pay for services, as part of their accountability.

In 2016, Valley Cities ended this program because the program did not fit any longer with the strategic direction of the agency.

New Journeys Demonstration Project Program

In 2016, Valley Cities entered a partnership with King County for The New Journeys Demonstration Project. The goal is to deliver and implement a program for first-episode psychosis (FEP) treatment that creates a positive clinical climate and maintains fidelity to the clinical concepts and core elements of Coordinated Specialty Care (CSC). The program participants are transition ages 15-40, with the majority of participants in the 15-25 year old range who are experiencing a first episode psychosis, who meet the diagnostic criteria of a diagnosis on the Schizophrenia spectrum or have symptoms which appear to be related to a diagnosis on the Schizophrenia spectrum, have an IQ of 70 or greater, and reside in King County.

New Journeys places a strong emphasis on outreach and engagement. Valley Cities staff time dedicated to these activities offers a central point of referral and coordinated entry to the program. Valley Cities staff develop referral pathways, cultivate relationship, and provide community outreach. They will be responsible for client and family engagement, which includes assertive outreach, rapid contract after referral, efficient enrollment, and ongoing education and support.

Hub and Spokes Services also known as MATCH (Medication-Assisted Treatment & Community Health)

In 2017, Valley Cities entered into a contract with DSHS Behavioral Health Administration for Hub and Spokes services in response to the Opioid Crisis. Its primary focus is to induct and stabilize individuals with Medication Assisted Treatment (MAT) and to provide prospective patients with an option of administration on-site of at least one opioid agonist (Methadone, Buprenorphine) and one opioid antagonist (Naltrexone, oral and injectable) for individuals with an opioid use disorder.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PURPOSE AND PROGRAMS (Continued)

Hub and Spokes Services also known as MATCH (Medication-Assisted Treatment & Community Health) (Continued)

Valley Cities monitored MAT to 296 unique individuals in 2017.

Medical Services

Medical Services includes both staff psychiatrists and nurse practitioners. They provide psychiatric evaluations and medication management services to any client who needs psychiatric care. In addition, the medical staff provides psychiatric consultation to a range of community health centers throughout King County, advising the primary care staff with diagnostic information and recommendations on psychotropic medications that can be prescribed in the primary care setting. All expenses related to these staff are captured in this program.

Clinical Support Services

Clinical Support Services includes information systems, access services including all telephone screening and initial intake services, after-hours crises team, front desk support, medical records, call center and quality management services. These programs directly support all clinical programs by providing either client assistance and/or data collection and reporting in order to manage client care.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

Valley Cities presents its financial statements in accordance with accounting guidance under FASB ASC 958, *Not-for-Profit Entities*. Under this standard, Valley Cities is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Valley Cities has no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, Valley Cities considers checking, savings, and certificates of deposit to be cash and cash equivalents.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged.

Valley Cities records contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Revenue for services performed under various state and local government contracts is recognized as expenses are incurred and subsequently invoiced to the appropriate government entity.

Net client and third-party revenues are reported in the period the service is provided at the estimated net realizable amount from clients, third-party payers, and others for services rendered, including estimated contractual allowances under agreements with third-party payers.

Functional Expense Classification and Allocation

Expenses are classified in the accompanying Statements of Functional Expenses according to whether they are behavioral health services or are related to homeless, housing or other specialty services. Behavioral health services are further categorized by the clinic locations. Classifications are made on the basis of time records and estimates made by Valley Cities' management as well as by where services are performed. Management and general expenses include those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of Valley Cities. Fundraising expenses include salaries and related expenses and other expenses directly related to this support activity. Program development/compliance expenses are those associated with developing new services and programs, marketing and community education, and contracts administration of new and renewing contracts.

Grants, Accounts Receivable and Allowance for Doubtful Accounts

Grants and accounts receivable consist of grants and contracts administered by various state and local governmental agencies, as well as other nongovernmental sources, which have been awarded or earned but not yet received. Revenue from these grants and contracts is recorded at net realizable value. It is subject to audit, which occasionally results in adjustments to revenue.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants, Accounts Receivable and Allowance for Doubtful Accounts (Continued)

The adjustments are recorded at the time that such amounts are determined and notification is made by the agency. During the years ended December 31, 2017 and 2016, such adjustments were minimal.

Valley Cities uses the allowance method of valuing doubtful accounts receivable which is based on historical experience, coupled with a review of the status of receivables at year end. No interest is charged on overdue accounts. The allowance for doubtful accounts was \$22,167 and \$21,982 at December 31, 2017 and 2016, respectively.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are recorded on a straight-line basis over the asset's estimated useful life, ranging from 3 to 50 years.

Leasehold improvements are amortized over the shorter of their useful lives or lease terms. All purchases with an estimated useful life exceeding one year and costing \$1,500 or more are capitalized. Repairs and maintenance are expensed as incurred. Depreciation and amortization expense charged to operations for the years ended December 31, 2017 and 2016, was \$795,448 and \$623,886, respectively.

Donated Property and Equipment

Contributions of property and equipment are recorded as support at their estimated fair value at the date of donation. Such contributions are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Valley Cities reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Valley Cities reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated Services

Donated services, if deemed material in amount, are recorded at their estimated fair values. The estimated fair values of donated services are reported as both support and expenses in the accompanying Statements of Activities. Valley Cities did not receive a material amount of donated services in 2017 and 2016.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Refundable Advances

Valley Cities records grant awards accounted for as exchange transactions as refundable advances until certain restrictions related to the advance have been fulfilled. As services are provided in accordance with the grant agreement, a related and corresponding amount of the refundable advance is recognized in the statement of activities as an unrestricted contribution.

Accordingly, refundable advances financing long-lived assets are recognized as unrestricted contributions as building depreciation occurs. Total refundable advances released from restrictions during 2017 and 2016 was \$238,113 and \$173,011, respectively.

Self-Insured Health Plan

Effective January 2016, Valley Cities implemented a self-insured health plan whereby it directly reimburses medical costs for individual claims up to \$85,000 annually through a third party administrator. Valley Cities maintains a stop-loss policy that covers claims in excess of this amount. Total payments to the plan for the years ended December 31, 2017 and 2016 were approximately \$1,344,000 and \$958,000, respectively. Claims incurred in 2017 submitted and paid subsequent to year were approximately \$64,000.

Income Taxes

Valley Cities is a not-for-profit corporation under the provisions of Section 501(c)(3) of the Internal Revenue Code and, as such, is subject to income taxes only to the extent of taxable unrelated business income.

During 2017 and 2016, Valley Cities did not generate any taxable income and therefore no provision for federal income tax is necessary. In addition, Valley Cities qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

FASB ASC 740 requires nonpublic entities to determine and evaluate uncertain tax positions. The standard requires entities to measure, recognize, and disclose uncertain tax positions. The term tax position includes, but is not limited to, a decision not to file a return, the characterization of income or a decision to exclude reporting taxable income on a tax return, and the entity's tax-exempt status. Management believes Valley Cities does not have any uncertain tax positions. Valley Cities may be subject to examination by the Internal Revenue Service for calendar years 2014 through 2017.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2.--FACILITIES AND CONSTRUCTION IN PROGRESS

As of December 31, 2017, Valley Cities has several projects underway as part of the expansion plan for new service locations as well as to provide additional capacity and access to services. These projects are listed below and comprise the total balance of construction-in-progress of approximately \$3.95 million as of December 31, 2017.

Recovery Place of Kent: In November 2015, Valley Cities acquired a facility in Kent, Washington to create a 16-bed in-patient evaluation and treatment facility and a 16-bed substance abuse and detox unit. The facility was purchased for \$1,000,000 using funding awarded by King County. Valley Cities is performing a major remodel of the facility, which is expected to cost approximately \$9,200,000 and expected to be completed by the fall of 2018. Valley Cities was awarded \$7,000,000 by the Washington State Department of Commerce for the capital costs and to complete the project. Costs expended and capitalized in 2017 and 2016 totaled approximately \$742,000 and \$1,420,000, respectively. Total costs in construction-in-progress at December 31, 2017 is approximately \$2,162,000. Costs expended and capitalized in the first three months of 2018 totaled approximately \$1,215,000.

Recovery Place of Seattle: In January 2016, Valley Cities purchased a facility in Seattle for \$4,000,000. This facility is to be used for much needed access to inpatient care for people in need of substance use detoxification, treatment and recovery services. The facility features residential beds, patient examination rooms, group therapy rooms, nurse medical stations, a pharmacy, and special amenities for patients, including a dining room, lounge/TV room, and laundry. The project was completed in November 2017 and detox unit admitted clients December 12, 2017. The in-patient unit is expected to admit clients in spring of 2018. Approximately \$8.3 million was moved from construction-in-progress to property and equipment.

Phoenix Rising: Valley Cities developed a low-income housing complex and recovery cafe on one of its existing properties.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2.--FACILITIES AND CONSTRUCTION IN PROGRESS (Continued)

Phoenix Rising (Continued): The housing complex (buildings A & B) was placed into service in June 2016 and approximately \$4,550,000 was moved from construction-in-progress to property and equipment. In April 2017, the construction on the Recovery Café was completed and approximately \$1.7 million was moved from construction-in-progress to property and equipment. As of December 31, 2017, approximately \$45,000 remains in construction-in-progress for building C. During 2015, Valley Cities was awarded funding by the State of Washington, King County and city of Auburn in the amount of \$4.495 million for this project. The total cost of the project is estimated to be \$6.762 million.

Woodmont Evaluation and Treatment Center: During 2014, Valley Cities was awarded a contract by King County to develop an in-patient evaluation and treatment center. In August 2015, Valley Cities entered into an agreement to purchase real property in Des Moines, Washington for a total of \$4.75 million. As of December 31, 2016, Valley Cities has expended and capitalized approximately \$5,420,000 in property costs, architectural fees and permits. King County awarded \$1 million toward the purchase of the land, and approximately \$480,000 for start-up costs. \$2,850,000 was financed using a bridge loan from Bank of America. In 2016 a decision was made to sell the property and a purchase and sale agreement was signed for a total sale price of \$5,965,000. In June 2017, the Woodmont property was sold. The buyer signed a promissory note to pay the balance of \$2,595,000 in six equal monthly installments starting August 31, 2017, which is included as a note receivable on the statement of financial condition and was paid off subsequent to year end in May 2018. See Note 11.

Federal Way Clinic: In August 2017, Valley Cities purchased a real property in Federal Way known as 1336 336th Street to move the clinical services out of a rented, older building in Federal Way. \$1,520,000 was financed using the Bank of America Revolving Line of Credit (see Note 3). As of December 31, 2017, Valley Cities has expended and capitalized approximately \$1.7 million in property costs, architectural fees and permits. The building is expected to be completed in May 2018. Additional amounts capitalized during the first three months of 2018 totaled approximately \$1.1 million.

NOTE 3.--LINES OF CREDIT & NOTES PAYABLE

During April 2017, a revolving line of credit agreement was signed for \$5,600,000. The agreement expires on May 30, 2018. The proceeds were used to fund the completion of Recovery Place of Seattle. The terms of the agreement are for interest only payments to be made at LIBOR plus 2.35% (3.91% at December 31, 2017) and the balance paid in full at the expiration date. At December 31, 2017 the outstanding balance was \$5,600,000.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 3.--LINES OF CREDIT & NOTES PAYABLE (Continued)

During August, 2017, a revolving line of credit agreement was signed for \$1,520,000. The agreement expires on May 30, 2018. The proceeds were used to fund the purchase of the Federal Way building. The terms of the agreement are for interest only payments to be made at LIBOR plus 2.35% (3.91% at December 31, 2017) and the balance paid in full at the expiration date. At December 31, 2017 the outstanding balance was \$1,520,000.

Valley Cities is working with the bank to extend the lines of credit through December 31, 2018.

Notes payable as of December 31, 2017 and 2016 consist of the following:

	2017	2016
Note payable to Bank of America in monthly principal payments as established in a loan payment schedule, plus interest based on the monthly LIBOR rate plus 2.1%, (3.66% and 2.71% at December 31, 2017 and 2016, respectively). Due April 1, 2023, with a balloon payment of \$796,681. See Note 4. Secured by the real estate financed.	\$ 1,102,690	\$ 1,152,864
Note payable to Bank of America in monthly installments of \$29,876 including interest at 4.60%, due October 2019, with a balloon payment of \$2,631,884, secured by the real estate financed.	3,027,492	3,239,219
Note payable to Bank of America with interest only monthly payments with interest based on the daily floating LIBOR rate plus 2.5%, (3.27% at December 31, 2016). Secured by the real estate financed. See Note 11.	-	2,850,000

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 3.--LINES OF CREDIT & NOTES PAYABLE (Continued)

	2017	2016
Note payable to Rainier Valley Community Development Fund in monthly installments of \$6,503, including interest at 4.5% due April 30, 2020, with a balloon payment of \$630,050, secured by the real estate financed.	743,698	787,202
Note payable to Washington State Housing Finance Commission with no monthly payments. Principal and accrued interest of 1% due May 31, 2019. Secured by real estate financed.	3,003,000	3,003,000
Note payable to Washington State Housing Finance Commission with monthly installments of \$9,541, including interest at 2.75% due October 31, 2027. Secured by real estate financed.	985,484	-
	8,862,364	11,032,285
Less current portion	408,368	3,155,615
Total long-term	\$ 8,453,996	\$ 7,876,670

Maturities of long-term obligations for the next five years and thereafter are as follows:

<u>Year ending December 31,</u>	
2018	\$ 408,368
2019	6,001,591
2020	801,018
2021	155,463
2022	160,688
Thereafter	1,335,236
	\$ 8,862,364

The carrying value of the properties serving as collateral on the lines of credit and notes at December 31, 2017 and 2016, is approximately \$18,602,000 and \$16,822,000, respectively.

The notes payable to Bank of America contain restrictive covenants relating to debt service coverage and minimum liquidity to debt. As of December 31, 2017, and 2016, Valley Cities was in compliance with the restrictive covenants.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 4.--INTEREST RATE SWAP AGREEMENT

In 2013, Valley Cities used variable-rate debt to finance the acquisition of the Renton facility. The debt obligation exposes Valley Cities to variability in interest payments due to changes in interest rates. Management believes it is prudent to limit the variability of its interest payments. To meet this objective, management entered into an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. This swap changed the variable-rate cash flows exposure on the debt to fixed cash flows. Under the terms of the interest rate swap, Valley Cities receives or pays variable interest rate payments and makes fixed interest payments, thereby creating the equivalent of fixed-rate debt.

On March 27, 2013, Valley Cities entered into a notional \$1,320,000 U.S. Dollar Rate Swap Transaction with an effective date of April 1, 2013, and a termination date of April 1, 2023. Under the terms of the agreement, Valley Cities pays a fixed rate of 4.145% to Bank of America on a monthly basis and, in return, Bank of America pays Valley Cities the variable rate of the monthly LIBOR rate plus 2.1%, which was 3.66% and 2.71% at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the swap contract had a notional amount of \$1,102,690 and \$1,152,864, respectively. See Note 3.

Management has determined that the fair value of the interest rate swap agreement at December 31, 2017 and 2016, is immaterial and, hence, is not included in the financial statements.

NOTE 5.--REFUNDABLE ADVANCES

Refundable advances as of December 31 consist of:

	<u>2017</u>	<u>2016</u>
Valley Cities Landing	\$ 5,268,444	\$ 5,268,444
Valley Cities Neighborhood Stabilization		
Program Rental	549,176	549,176
Phoenix Rising	4,672,881	4,667,398
Accumulated amortization	<u>(1,022,177)</u>	<u>(784,064)</u>
	<u>\$ 9,468,324</u>	<u>\$ 9,700,954</u>

Valley Cities Landing

In 2007, Valley Cities acquired property near its Auburn administrative office for development of low income housing units. In 2008 and 2009, various grants (refundable advances) were awarded for development and construction, as described below.

The project, Valley Cities Landing, includes 24 low income housing units owned and operated by Valley Cities. As of December 31, 2011, a total of \$5,268,444 had been advanced under the awards from State of Washington and King County shown below.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 5.--REFUNDABLE ADVANCES (Continued)

Valley Cities Landing (Continued)

The agreement requires that a reasonable amount of cash be held in separate accounts for both operating and replacement reserves. The balances in the operating and reserve accounts as of December 31, 2017 are approximately \$70,000 and \$153,000, respectively. The balances in the operating and reserve accounts as of December 31, 2016, were approximately \$60,000 and \$140,000, respectively.

State of Washington Grant: During 2008, Valley Cities was awarded \$1,500,000 from the State of Washington Department of Community Trade and Economic Development of which \$1,382,254 was used as of December 31, 2011. This grant is restricted from January 1, 2011, until December 31, 2050, when the term of commitment ends.

If the property is sold, refinanced, transferred, the use changes during the 40-year term of commitment, or Valley Cities is materially out of compliance with the terms and conditions of the grant, the award amount, plus a proportional share of the appreciated value of the property will be due and payable within 30 days of such event. The grant is secured by a promissory note and deed of trust on the property. The units must be occupied by households that at the time of initial occupancy have adjusted gross incomes at or below 50% of the median income for Seattle-Bellevue per the Housing and Mortgage Finance Agency (HMFA). Further, Valley Cities is required to make best efforts to provide 24 of the units to households that at the initial occupancy have gross annual household incomes at or below 30% of the median income for Seattle-Bellevue.

King County Grant: A second refundable advance for \$4,098,872 was awarded to Valley Cities from the King County Department of Community and Human Services/Housing and Community Development of which \$3,886,190 was used for the same purpose as of December 31, 2011. This grant is restricted from July 1, 2010, to June 30, 2060.

If the property is sold, refinanced, transferred, or the use changes during the 50-year term of commitment, the award must be paid back, plus a proportional share of the appreciated value of the property will be due and payable within 30 days of such event. The grant is secured by a promissory note and deed of trust on the property. Rent to be paid by tenants may not exceed 30% of the monthly income of the target population and shall be adjusted for household size. The units are required to provide permanent housing for homeless, chronically mentally ill individuals of which 12 will be homeless veterans.

Valley Cities Neighborhood Stabilization Program Rental (Valley Cities Place)

In 2010, Valley Cities purchased a 4-plex (multi-family residence) for \$344,000 to provide low income housing for families. A grant was awarded to Valley Cities for purchase and renovation of the property. The property includes four 2-bedroom, 2-bath units owned and operated by Valley Cities.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 5.--REFUNDABLE ADVANCES (Continued)

Valley Cities Neighborhood Stabilization Program Rental (Valley Cities Place)
(Continued)

Also, in 2010, Valley Cities was awarded a \$549,176 refundable advance by the King County Department of Community and Human Services for the full projected costs. The grant is for acquisition and rehabilitation of property located at 3858 D Place SE, Auburn, Washington. The grant is restricted from June 30, 2010, to December 30, 2060. Valley Cities has made draws on the grant of \$549,176 as of December 31, 2011.

If the property is sold or transferred, the award must be paid back, plus a proportional share of the appreciated value of the property will be due and payable within 30 days of such event. The grant is secured by a promissory note and deed of trust on the property. The note is non-interest bearing unless a breach, default, or violation of the contract, deed of trust, covenant agreement, or promissory note occurs. Units must be occupied by homeless individuals and families that, at the time of initial occupancy or change of tenancy following a vacancy, have incomes that do not exceed 50% of the area median incomes.

Phoenix Rising

In 2001, Valley Cities purchased a single-family residence in Auburn with the intent develop it for use in Valley Cities' operations. In 2015, a decision was made to construct housing units and a recovery café. Up to 48 units may be constructed, with an initial project to produce 24 single occupancy units for permanent housing of young adults.

State of Washington Grant: In 2015, Valley Cities was awarded a \$2,659,021 refundable advance by the Department of Commerce Housing Trust Fund for construction of a 24 unit apartment complex located at 915 26th Street NE, Auburn, WA. During 2016 and 2017, Valley Cities received draws of \$419,439 and \$5,483, respectively, with cumulative draws of \$2,659,021. The grant is restricted from October 1, 2015, to September 30, 2055.

If the property is sold, transferred, use changed during the commitment period, or the contractor is out of compliance with terms, the award amount, plus a proportional share of the appreciated value of the property will be due and payable to the Housing Trust Fund within 30 days of such event. Units are to be targeted to homeless youth between the ages of 18 and 26 with gross annual household income at or below 30% of the median income for Seattle-Bellevue WA HMFA as adjusted annually by HUD. Lease terms are set at a standard of one year unless tenants request a shorter term of not less than three months.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 5.--REFUNDABLE ADVANCES (Continued)

King County Grant: In 2015, Valley Cities was awarded a \$1,771,360 refundable advance by the Department of Community and Human Services Community Services of which \$625,718 and \$0 was received in draws during 2016 and 2017, respectively, with cumulative draws of \$1,771,360. The refundable advance is restricted from December 31, 2015 through December 30, 2065.

If the property is sold, transferred, or the use changes during the 50-year term of commitment, the award must be paid back, plus a proportional share of the appreciated value of the property will be due and payable. The advance is secured by a promissory note and deed of trust on the property. Units are to provide permanent housing for homeless young adults ages 18 through 26 with gross annual household income at or below 30% of the median income for the Seattle-Everett Primary Metropolitan Statistical Area as published annually by HUD. The agreement requires that a reasonable amount of cash be held in a separate account for both operating and replacement reserves.

State of Washington Grant: In 2016, Valley Cities was awarded a \$242,500 refundable advance by the Department of Commerce for construction of the Recovery Café located at 915 26th Street NE, Auburn, WA. The grant is restricted for 10 years from December 23, 2016. If the property is sold and proceeds are not applied to a project with a similar purpose, the funds are required to be repaid including interest.

NOTE 6.--LEASES

Valley Cities has entered into various agreements to lease operating facilities, computers and office equipment under noncancelable operating leases with terms through 2021.

Certain facilities lease agreements require Valley Cities to pay common area maintenance charges, and some of the leases are subject to escalation clauses. Total rent expense recorded for the years ended December 31, 2017 and 2016, was approximately \$1,380,000 and \$1,038,000, respectively.

Required future minimum payments under noncancelable operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2018	\$ 1,101,909	\$ 147,245	\$1,249,154
2019	968,932	147,245	1,116,177
2020	675,120	94,559	769,679
2021	457,607	43,022	500,629
2022	446,739	7,912	454,651
Thereafter	582,136	-	582,136
	<u>\$4,232,443</u>	<u>\$ 439,983</u>	<u>\$4,672,426</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 7.--RETIREMENT PLANS

Valley Cities maintains a tax sheltered 403(B) plan in which eligible employees may make tax deferred contributions and are eligible to receive employer contributions after completing two years of service. In addition, Valley Cities maintains a 457(b) plan for employees considered highly compensated under Title 1 of ERISA. Employer contributions to the plans are based on compensation and years of service and are immediately vested. Employer contributions to the plans totaled \$461,083 in 2017 and \$372,185 in 2016 and are included in employee benefits expense on the accompanying Statements of Functional Expenses.

NOTE 8.--TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Pathways First Program	\$ 10,682	\$ 42,682
Seattle Foundations - Veterans	2,001	2,523
WFF Systems Innovation - Housing	-	5,636
Phoenix Rising	16,000	8,000
Seattle Foundations - Operating Funds (Meridian Only)	15,000	14,286
Fundraising & Other Events	-	35,866
University of Washington (STEPS Grant)	-	523
Amerigroup Initiative Support	30,818	33,722
National Council for Behavioral Health - MHFA	4,945	-
Aven Foundation - PXR Residential	15,000	-
National Alliance on Mental Illnes - NAMI	<u>130,916</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 225,362</u>	<u>\$ 143,238</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 9.--NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses to satisfy the restricted purposes or by occurrence of other events specified by donors. Net assets were released from restrictions during the years ended December 31, 2017 and 2016, for the following purposes:

	<u>2017</u>	<u>2016</u>
Pathways First Program	\$ 32,000	\$ 32,000
Building Changes - Families First	5,636	-
Seattle Foundations - Veterans	522	1,600
Seattle Foundations - Operating Funds (Meridian Only)	14,286	714
Seattle Foundations - Operating	-	20,000
WFF Systems Innovation - Housing	-	10,482
United Way - Summer Meals Program	-	5,000
Phoenix Rising Donations	8,000	25,700
Amerigroup Initiative Support	32,904	1,278
University of Washington (STEPS Grant)	523	2,477
National Council for Behavioral Health - MHFA	55	-
National Alliance on Mental Illness - NAMI	23,084	-
Norcliffe Foundation - Recovery Place Seattle	1,004,533	-
Bank of America - PXR Café	10,000	-
Miscellaneous	-	2,500
Fundraising & Other Events	<u>198,119</u>	<u>33,699</u>
Total temporarily restricted net assets released from restrictions	<u>\$1,329,662</u>	<u>\$ 135,450</u>

NOTE 10.--CONCENTRATIONS OF RISK

Valley Cities maintains cash balances in several financial institutions that may, at times, exceed limits insured by the FDIC. Valley Cities does not believe that it is exposed to significant credit risk on cash and cash equivalents as deposits are maintained in high quality financial institutions and Valley Cities has not experienced any losses in such accounts.

During the years ended December 31, 2017 and 2016, King County funding (including prepaid health plan) accounted for 89% and 91% of Valley Cities' client and third-party revenues. Also, amounts due from King County at December 31, 2017 and 2016, accounted for approximately 52% and 67%, respectively, of accounts receivable.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 11.--SUBSEQUENT EVENTS

Costs of approximately \$2.36 million were expended and capitalized to construction in progress on various projects during the first three months of 2018. See Note 2.

The Woodmont property note receivable was fully collected in May 2018.

Effective February 15, 2018, Valley Cities entered into a grant agreement with the Cohen Veteran's Network (CVN) to establish a new site with the purpose of providing free or low-cost outpatient mental health services to veterans and their families, with a focus on post 9/11 veterans. The grant is for up to \$5,382,570 in funding for the services provided at this site through September 2021 with the goal of creating a self-sustaining program. The CVN year zero payment of \$513,408 was received in February 2018. The new site is scheduled to open by fall 2018.

Valley Cities has evaluated subsequent events through May 21, 2018 the date which the financial statements were available to be issued.

**VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	2017 Federal Expenditures
U.S. Department of Health and Human Services			
Pass-through from Seattle-King County Department of Public Health			
Health Care for the Homeless	93.224	EIN	212,014
Pass-through from King County Department of Community and Human Services Behavioral Health and Recovery Division			
Community Mental Health Services Block Grant Program	93.958	*	EIN 350,001
Substance Abuse and Mental Services Administration			
Pass-through from State of Washington Department of Community and Human Services Behavioral Health and Recovery Division			
Opioid STR	93.788	EIN	<u>472,273</u>
Total U.S. Department of Health and Human Services			<u>1,034,288</u>
U.S. Department of Housing and Urban Development:			
Pass-through from Seattle-King County Department of Public Health			
Supplemental Housing Grant:			
Health Care for the Homeless	14.267	EIN	82,510
Health Care for the Homeless	14.267	EIN	146,637
Pass-through from King County Housing Stability Project			
Solid Ground Washington			
Community Development Block Grant program	14.218	EIN	<u>2,490</u>
Total U.S. Department of Housing and Urban Development			<u>231,637</u>
U.S. Department of Education			
Pass-through from State of Washington			
DSHS Division of Vocational Rehabilitation	84.126	EIN	<u>178,205</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 1,444,130</u></u>

*Major program

**VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1.--BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Valley Cities Counseling and Consultation under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Valley Cities Counseling and Consultation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Valley Cities Counseling and Consultation.

NOTE 2.--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Valley Cities Counseling and Consultation has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3.--MAJOR PROGRAMS

The asterisk (*) to the right of the CFDA number identifies the grant as a major federal program as defined by the Uniform Guidance.

NOTE 4.--PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal portion of the program costs. Actual program costs may be more than shown.

**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***

Board of Directors
Valley Cities Counseling and Consultation
Kent, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Valley Cities Counseling and Consultation (a nonprofit organization), which comprise the statement of financial position as of December 31, 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 May 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Valley Cities Counseling and Consultation'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 Valley Cities Counseling and Consultation's internal control. Accordingly, we do not express an opinion on the effectiveness of Valley Cities Counseling and Consultation's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Cities Counseling and Consultation'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*.

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.

Shannon & Associates, LLP

Kent, Washington
May 21, 2018



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

Board of Directors
Valley Cities Counseling and Consultation
Kent, Washington

Report on Compliance for Each Major Federal Program

We have audited Valley Cities Counseling and Consultation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Valley Cities Counseling and Consultation's major federal programs for the year ended December 31, 2017. Valley Cities Counseling and Consultation's major federal programs are identified in the summary of auditor's 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Valley Cities Counseling and Consultation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valley Cities Counseling and Consultation'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 Valley Cities Counseling and Consultation's compliance.

Opinion on Each Major Federal Program

In our opinion, Valley Cities Counseling and Consultation 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 December 31, 2017.

Report on Internal Control over Compliance

Management of Valley Cities Counseling and Consultation 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 Valley Cities Counseling and Consultation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Valley Cities Counseling and Consultation's internal control over compliance.

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

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

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.

Shannon ? Associates, LLP

Kent, Washington
May 21, 2018

**VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017**

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (unmodified, qualified, adverse, or disclaimer): Unmodified

Internal control over financial reporting:

* Material weakness(es) identified? No

* Significant deficiencies identified No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over financial reporting:

* Material weakness(es) identified? No

* Significant deficiencies identified that are not considered to be a material weakness? No

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

CFDA Number 93.958 Community Mental Health Services Block Grant Program

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

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.