

**VALLEY CITIES COUNSELING  
AND CONSULTATION**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND 2017**

**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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States 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 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 23, 2019, 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 23, 2019

**VALLEY CITIES COUNSELING AND CONSULTATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**

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	<u>2018</u>	<u>2017</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,560,162	\$ 7,334,221
Accounts and grants receivable, net of allowance for doubtful accounts of \$43,778 and \$22,167	2,374,673	2,005,022
Note receivable, Woodmont property	-	2,595,000
Prepaid expenses and deposits	<u>509,747</u>	<u>423,452</u>
<b>TOTAL CURRENT ASSETS</b>	12,444,582	12,357,695
 <b>PROPERTY AND EQUIPMENT</b>		
Buildings	34,012,753	31,366,475
Construction in progress	8,804,418	3,951,082
Leasehold improvements	1,242,606	702,183
Office and computer equipment	2,133,997	2,228,340
Vehicles	45,708	45,708
Land	<u>5,703,914</u>	<u>5,050,699</u>
	51,943,396	43,344,487
Less accumulated depreciation and amortization	<u>6,164,817</u>	<u>5,218,920</u>
<b>NET PROPERTY AND EQUIPMENT</b>	<u>45,778,579</u>	<u>38,125,567</u>
<b>TOTAL ASSETS</b>	<u>\$ 58,223,161</u>	<u>\$ 50,483,262</u>

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

**VALLEY CITIES COUNSELING AND CONSULTATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**

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**LIABILITIES AND NET ASSETS**

	2018	2017
<b>CURRENT LIABILITIES</b>		
Lines of credit	\$ 3,650,000	\$ 7,120,000
Accounts payable and accrued liabilities	955,944	1,309,238
Accrued wages, payroll taxes and benefits	2,445,894	1,865,052
Accrued interest payable	79,692	-
Rent deposits	30,125	26,779
Current portion, notes payable	6,002,342	408,368
<b>TOTAL CURRENT LIABILITIES</b>	13,163,997	10,729,437
<b>LONG-TERM LIABILITIES</b>		
Accrued interest payable	-	48,664
Notes payable, net of current portion	2,452,404	8,453,996
Refundable advances	18,042,023	9,468,324
<b>TOTAL LONG-TERM LIABILITIES</b>	20,494,427	17,970,984
<b>TOTAL LIABILITIES</b>	33,658,424	28,700,421
<b>NET ASSETS</b>		
Without donor restrictions	23,889,574	21,557,479
With donor restrictions	675,163	225,362
<b>TOTAL NET ASSETS</b>	24,564,737	21,782,841
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 58,223,161	\$ 50,483,262

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, 2018**

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<b>PUBLIC SUPPORT AND REVENUES</b>			
Public support			
United Way	\$ 352,750	\$ -	\$ 352,750
Contributions	10,176	715,678	725,854
Amortization of refundable advance	325,882	-	325,882
	<u>688,808</u>	<u>715,678</u>	<u>1,404,486</u>
Revenues			
Net client and third-party revenues			
King County prepaid health plan	28,460,983		28,460,983
King County contracts	9,072,815		9,072,815
Client and third party	302,260		302,260
Local	1,017,349		1,017,349
Medicare	111,751		111,751
Medicaid	82,036		82,036
State of Washington	769,492		769,492
Other	1,230,697	-	1,230,697
	<u>41,047,383</u>	<u>-</u>	<u>41,047,383</u>
Net assets released from restriction	265,877	(265,877)	-
	<u>42,002,068</u>	<u>449,801</u>	<u>42,451,869</u>
<b>EXPENSES</b>			
Salaries and wages	24,219,730		24,219,730
Employee benefits	3,664,950		3,664,950
Payroll taxes	2,107,188		2,107,188
	<u>29,991,868</u>		<u>29,991,868</u>
Total salaries and related expenses			
Professional fees	485,713		485,713
Sub-contractor expenses	323,017		323,017
Conference and training	335,158		335,158
Travel and vehicle	257,427		257,427
Insurance	302,959		302,959
Supplies	421,837		421,837
Interest expense	510,363		510,363
Computer expense	761,201		761,201
Telephone	882,138		882,138
Postage and delivery	89,848		89,848
Rent	1,642,831		1,642,831
Furniture and equipment	272,358		272,358
Depreciation	1,074,314		1,074,314
Utilities	310,043		310,043
Occupancy	693,544		693,544
Printing/advertising	146,068		146,068
Client assistance	926,684		926,684
Clients – special needs	189,402		189,402
Miscellaneous	53,200	-	53,200
	<u>39,669,973</u>	<u>-</u>	<u>39,669,973</u>
<b>TOTAL EXPENSES</b>			
	2,332,095	449,801	2,781,896
<b>CHANGE IN NET ASSETS</b>			
<b>NET ASSETS, beginning of year</b>	<u>21,557,479</u>	<u>225,362</u>	<u>21,782,841</u>
<b>NET ASSETS, end of year</b>	<u>\$ 23,889,574</u>	<u>\$ 675,163</u>	<u>\$ 24,564,737</u>

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**

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<b>PUBLIC SUPPORT AND REVENUES</b>			
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	23,896,345		23,896,345
King County contracts	7,164,869		7,164,869
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>33,733,461</u>
Net assets released from restriction	<u>1,329,662</u>	<u>(1,329,662)</u>	<u>-</u>
<b>TOTAL PUBLIC SUPPORT AND REVENUES</b>	<u>35,693,071</u>	<u>82,124</u>	<u>35,775,195</u>
<b>EXPENSES</b>			
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
<b>TOTAL EXPENSES</b>	<u>33,465,486</u>	<u>-</u>	<u>33,465,486</u>
<b>CHANGE IN NET ASSETS</b>	<u>2,227,585</u>	<u>82,124</u>	<u>2,309,709</u>
<b>NET ASSETS, beginning of year</b>	<u>19,329,894</u>	<u>143,238</u>	<u>19,473,132</u>
<b>NET ASSETS, end of year</b>	<u>\$ 21,557,479</u>	<u>\$ 225,362</u>	<u>\$ 21,782,841</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, 2018**

	Behavioral Health Services							
	Outpatient Clinic Locations							
	<u>Auburn</u>	<u>Enumclaw</u>	<u>Federal Way</u>	<u>Kent</u>	<u>Midway</u>	<u>North Clinics</u>	<u>Rainier Beach</u>	<u>Renton</u>
Salaries and wages	\$ 4,695,324	\$ 620,357	\$ 2,647,517	\$ 3,244,577	\$ 1,073,038	\$ 2,346,064	\$ 841,987	\$ 1,628,801
Employee benefits	789,871	94,354	419,305	512,302	181,034	357,546	107,388	259,839
Payroll taxes	<u>418,408</u>	<u>54,037</u>	<u>230,737</u>	<u>281,437</u>	<u>93,440</u>	<u>208,005</u>	<u>73,738</u>	<u>142,776</u>
Total salaries and related expenses	5,903,603	768,748	3,297,559	4,038,316	1,347,512	2,911,615	1,023,113	2,031,416
Professional fees	72,409	6,884	35,400	57,663	16,513	34,554	16,750	27,383
Sub-contractor expenses	45,000	-	-	-	-	29,958	-	-
Conference and training	37,020	3,825	18,606	20,833	6,778	17,010	5,502	10,161
Travel and vehicle	65,503	4,884	28,790	25,941	7,467	25,611	6,287	15,797
Insurance	55,513	5,962	28,721	33,349	10,909	26,009	8,813	16,379
Supplies	26,138	4,715	12,964	19,743	3,778	14,829	6,565	8,624
Interest expense	55,395	16,298	8,392	41,295	3,056	6,350	25,133	38,794
Computer expense	167,488	17,318	82,146	98,297	32,004	76,740	25,950	47,574
Telephone	185,803	22,495	94,662	115,041	37,999	91,204	31,324	57,192
Postage and delivery	19,240	2,087	10,026	11,676	3,819	9,102	3,085	5,735
Rent	379,888	15,118	215,116	84,003	110,663	341,507	22,169	52,952
Furniture and equipment	46,732	5,553	40,703	39,064	8,663	20,983	10,901	19,374
Depreciation	145,213	44,770	60,963	110,219	10,411	27,244	35,757	58,035
Utilities	38,430	8,224	16,317	28,429	2,130	6,333	17,106	14,768
Occupancy	58,939	17,016	44,826	48,992	3,501	12,228	20,293	25,225
Printing/advertising	17,757	1,746	9,249	11,877	3,312	7,991	2,895	6,412
Client assistance	2,776	863	2,827	2,061	398	2,512	1,546	931
Clients - special needs	153,402	-	36,000	-	-	-	-	-
Miscellaneous	<u>11,111</u>	<u>744</u>	<u>3,509</u>	<u>4,067</u>	<u>1,344</u>	<u>3,729</u>	<u>1,105</u>	<u>1,926</u>
<b>TOTAL EXPENSES</b>	<u>\$ 7,487,360</u>	<u>\$ 947,250</u>	<u>\$ 4,046,776</u>	<u>\$ 4,790,866</u>	<u>\$ 1,610,257</u>	<u>\$ 3,665,509</u>	<u>\$ 1,264,294</u>	<u>\$ 2,438,678</u>

**VALLEY CITIES COUNSELING AND CONSULTATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Behavioral Health Services				Support Services					
Homeless/ Housing Specialty Svc	Outpatient Clinic Sub-Total	Inpatient Clinic Sub-Total	Total Program Services	Management & General	Fundraising	Program Development/ Compliance	Total Support Services	2018 Total	
\$ 2,260,802	\$ 19,358,467	\$ 2,357,858	\$ 21,716,325	\$ 2,218,105	\$ 114,193	\$ 171,107	\$ 2,503,405	\$ 24,219,730	
333,698	3,055,337	279,164	3,334,501	280,358	15,721	34,370	330,449	3,664,950	
203,747	1,706,325	202,381	1,908,706	172,912	9,953	15,617	198,482	2,107,188	
2,798,247	24,120,129	2,839,403	26,959,532	2,671,375	139,867	221,094	3,032,336	29,991,868	
18,405	285,961	9,598	295,559	117,602	251	72,301	190,154	485,713	
246,394	321,352	-	321,352	1,665	-	-	1,665	323,017	
32,867	152,602	18,078	170,680	26,441	62	137,975	164,478	335,158	
48,856	229,136	12,475	241,611	11,411	381	4,024	15,816	257,427	
63,620	249,275	34,729	284,004	16,094	1,300	1,561	18,955	302,959	
34,975	132,331	275,041	407,372	12,032	350	2,083	14,465	421,837	
16,910	211,623	298,740	510,363	-	-	-	-	510,363	
104,232	651,749	74,952	726,701	31,253	1,476	1,771	34,500	761,201	
101,456	737,176	81,219	818,395	54,195	4,340	5,208	63,743	882,138	
9,398	74,168	8,167	82,335	6,411	466	636	7,513	89,848	
113,116	1,334,532	51,097	1,385,629	218,381	17,646	21,175	257,202	1,642,831	
31,202	223,175	31,060	254,235	16,371	577	1,175	18,123	272,358	
320,888	813,500	254,652	1,068,152	5,232	423	507	6,162	1,074,314	
132,217	263,954	45,712	309,666	320	26	31	377	310,043	
332,711	563,731	127,431	691,162	2,006	59	317	2,382	693,544	
10,813	72,052	14,151	86,203	8,064	335	51,466	59,865	146,068	
911,436	925,350	1,156	926,506	151	12	15	178	926,684	
-	189,402	-	189,402	-	-	-	-	189,402	
4,050	31,585	10,852	42,437	3,725	61	6,977	10,763	53,200	
<u>\$ 5,331,793</u>	<u>\$ 31,582,783</u>	<u>\$ 4,188,513</u>	<u>\$ 35,771,296</u>	<u>\$ 3,202,729</u>	<u>\$ 167,632</u>	<u>\$ 528,316</u>	<u>\$ 3,898,677</u>	<u>\$ 39,669,973</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  
Outpatient Clinic Locations

	<u>Auburn</u>	<u>Enumclaw</u>	<u>Federal Way</u>	<u>Kent</u>	<u>Midway</u>	<u>North Clinics</u>	<u>Rainier Beach</u>	<u>Renton</u>
Salaries and wages	\$ 4,126,118	\$ 603,465	\$ 2,763,862	\$ 3,223,058	\$ 1,123,428	\$ 1,491,043	\$ 1,053,593	\$ 1,748,533
Employee benefits	637,454	98,772	416,065	471,632	185,603	205,148	166,516	266,216
Payroll taxes	362,631	53,610	242,491	277,862	97,333	128,014	92,061	153,949
Total salaries and related expenses	5,126,203	755,847	3,422,418	3,972,552	1,406,364	1,824,205	1,312,170	2,168,698
Professional fees	99,189	14,983	56,157	83,369	27,830	31,042	31,959	46,150
Sub-contractor expenses	-	-	-	-	-	52,101	-	-
Conference and training	38,896	5,188	18,460	21,730	7,895	14,573	9,659	12,894
Travel and vehicle	58,983	6,252	36,767	28,778	9,483	21,138	13,452	19,548
Insurance	39,881	6,972	26,831	31,790	10,668	13,360	12,645	18,667
Supplies	23,837	3,680	14,876	21,200	4,597	6,154	8,752	9,682
Interest expense	61,106	17,789	10,044	44,983	3,743	4,882	29,547	30,913
Computer expense	112,534	19,961	71,538	94,255	28,736	45,104	36,665	50,725
Telephone	150,817	26,517	99,315	122,577	40,698	46,868	44,740	67,773
Postage and delivery	14,737	2,572	9,836	11,751	3,948	4,914	4,667	6,900
Rent	190,445	19,697	279,249	90,226	97,240	246,890	48,492	62,742
Furniture and equipment	41,113	6,129	28,277	39,878	9,350	14,083	13,480	17,116
Depreciation	129,058	44,307	29,709	111,824	11,691	15,122	41,086	49,365
Utilities	34,809	8,252	5,662	28,157	2,081	2,682	16,418	11,535
Occupancy	70,652	18,590	27,713	47,350	3,707	5,751	25,272	26,902
Printing/advertising	30,700	8,205	15,753	19,630	6,237	15,794	10,805	12,393
Client assistance	1,965	510	3,036	3,227	902	834	688	938
Clients - special needs	89,234	-	36,000	-	-	-	-	-
Miscellaneous	4,557	981	3,653	4,426	1,475	1,837	1,775	2,599
<b>TOTAL EXPENSES</b>	<u>\$ 6,318,716</u>	<u>\$ 966,432</u>	<u>\$ 4,195,294</u>	<u>\$ 4,777,703</u>	<u>\$ 1,676,645</u>	<u>\$ 2,367,334</u>	<u>\$ 1,662,272</u>	<u>\$ 2,615,540</u>

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

<u>Behavioral Health Services</u>				<u>Support Services</u>				
Homeless/ Housing Specialty Svc	Outpatient Clinic Sub-Total	Inpatient Clinic Sub-Total	Total Program Services	Management & General	Fundraising	Program Development/ Compliance	Total Support Services	2017 Total
\$ 1,756,527	\$ 17,889,627	\$ 282,020	\$ 18,171,647	\$ 1,910,928	\$ 191,844	\$ 151,907	\$ 2,254,679	\$ 20,426,326
293,884	2,741,290	29,734	2,771,024	314,912	24,969	26,200	366,081	3,137,105
157,921	1,565,872	20,572	1,586,444	155,914	16,270	14,123	186,307	1,772,751
2,208,332	22,196,789	332,326	22,529,115	2,381,754	233,083	192,230	2,807,067	25,336,182
30,917	421,596	1,423	423,019	29,325	321	105,321	134,967	557,986
166,021	218,122	-	218,122	-	-	-	-	218,122
23,484	152,779	25,090	177,869	35,198	1,660	35,727	72,585	250,454
45,893	240,294	1,678	241,972	13,497	1,867	3,888	19,252	261,224
55,071	215,885	12,158	228,043	14,728	1,277	1,277	17,282	245,325
18,880	111,658	24,502	136,160	11,155	434	2,711	14,300	150,460
25,029	228,036	41,379	269,415	-	-	-	-	269,415
65,695	525,213	7,445	532,658	36,499	2,158	2,811	41,468	574,126
90,752	690,057	8,017	698,074	53,410	4,566	4,566	62,542	760,616
8,172	67,497	821	68,318	6,357	589	2,718	9,664	77,982
81,142	1,116,123	3,879	1,120,002	221,926	19,293	19,293	260,512	1,380,514
30,904	200,330	38,799	239,129	14,616	757	1,648	17,021	256,150
313,827	745,989	41,320	787,309	6,933	603	603	8,139	795,448
126,427	236,023	10,886	246,909	308	27	27	362	247,271
335,291	561,228	53,469	614,697	1,347	83	83	1,513	616,210
22,972	142,489	19,330	161,819	24,635	217	83,183	108,035	269,854
953,542	965,642	231	965,873	-	-	-	-	965,873
-	125,234	-	125,234	-	-	-	-	125,234
3,337	24,640	333	24,973	4,364	62,008	15,695	82,067	107,040
<u>\$ 4,605,688</u>	<u>\$ 29,185,624</u>	<u>\$ 623,086</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**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,781,896	\$ 2,309,709
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,074,314	795,448
Amortization of refundable advance	(325,882)	(238,113)
(Gain) loss on disposal of assets	5,449	(11,619)
Cash provided (used) by changes in operating assets and liabilities:		
Accounts and grants receivable, net	(369,651)	(626,559)
Prepaid expenses and deposits	(86,295)	(17,117)
Accounts payable and accrued liabilities	(322,266)	560,462
Accrued wages, payroll taxes and benefits	580,842	491,048
Rent deposits	3,346	3,196
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	3,341,753	3,266,455
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(122,995)	(317,001)
Proceeds on asset sale	-	2,580,477
Construction in progress	(8,609,779)	(7,642,932)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	(8,732,774)	(5,379,456)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes receivable	2,595,000	-
Proceeds from (payments on) lines of credit, net	(3,470,000)	7,120,000
Proceeds from refundable advances	8,899,580	-
Principal payments on notes payable	(407,618)	(3,169,921)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	7,616,962	3,950,079
<b>NET INCREASE IN CASH</b>	2,225,941	1,837,078
<b>Cash and cash equivalents, beginning of year</b>	7,334,221	5,497,143
<b>Cash and cash equivalents, end of year</b>	\$ 9,560,162	\$ 7,334,221
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for:		
Interest	\$ 511,438	\$ 270,089
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Financed portion of real estate acquisition	\$ -	\$ 1,005,483
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, 2018 AND 2017**

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**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, St. Vincent de Paul in Aurora, and the Cohen Veterans Network in Lakewood. 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; 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 the Revenue Cycle team, 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, 2018 AND 2017**

---

**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. 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.

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, 2018 AND 2017**

---

**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.

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.

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 work 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 2019 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 support and improved skills to navigate their youth's recovery moving forward.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

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

**PURPOSE AND PROGRAMS (Continued)**

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.

Prevention and Community Support Program

In cooperation with:

Federal Way School District: Valley Cities runs the Real Talk for Teens program at multiple schools within the district. Each year 600 youths are given the opportunity to participate in a Real Talk group comprised of 10 participants who meet weekly for one hour over 8-13 weeks. The Valley Cities Prevention and Community Support Program (PCSP) works collaboratively with schools, mental health providers, and other community based organizations to amplify youth voice and bring attention and visibility to the issues impacting their lives, including poverty, racism, community violence, mental health concerns, substance abuse, climate change, mass incarceration, etc.

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 several times, and Valley Cities continues to make adjustments to have the most effective program possible.

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 and has grown to now serve 12 schools in the District. During 2018, the staff of Valley Cities provided over 900 services through this collaboration.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

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**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.

76% of Valley Cities mental health clients are unemployed. Employment Services are available to all of those clients. 488 clients requested services from our program in 2018, with 198 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, 2018 AND 2017**

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

**PURPOSE AND PROGRAMS (Continued)**

Cohen Veterans Network

In 2018, Valley Cities entered into a grant agreement with Cohen Veterans Network (CVN) to support a clinic with the purpose of providing free or low-cost mental health services to veterans (with a focus on post-9/11 veterans) and their family members. The grant is for up to \$5,382,570 in funding for the services provided at this clinic 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 Steven A. Cohen Military Family Clinic at Valley Cities (CVN Clinic) in Lakewood, Tacoma is scheduled to open in February 2019.

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 24 individuals a year who are served by King County 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.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

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

**PURPOSE AND PROGRAMS (Continued)**

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, the Bridges program provided outreach services to 138 chronically homeless adults. 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.

In 2018, Valley Cities did not renew the contract as the large service area (South, East, and North King County) made it difficult to serve the number of clients required.

Families in Shelters

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

In 2018, Valley Cities voluntarily ended the program due to certain constraints which hampered efforts to maintain a level of service and performance which Valley Cities felt it owed their clients.

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).

**VALLEY CITIES COUNSELING AND CONSULTATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

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

**PURPOSE AND PROGRAMS (Continued)**

Families First (Continued)

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 housing quickly and then providing services as needed. In 2018, 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.

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.

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.

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 within King County.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

---

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

**PURPOSE AND PROGRAMS (Continued)**

New Journeys Demonstration Project Program (Continued)

New Journeys places a strong emphasis on outreach and engagement. Valley Cities staff dedicated much of their time to “meeting participants where they are at.” They ensure participant and family engagement by offering mobile services that attempt to meet the multiple needs within recovery. The New Journeys program provides individual skills training and therapy, family skills training and support, case management, employment and education services, medication management, and peer support in an outreach setting. The Program Manager provides clinical supervision, contract monitoring, relationship building with the referral base and screening.

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 to begin providing low-barrier access to medication and related support services in response to the opioid crisis. The primary focus of the MATCH program is to induct and stabilize individuals with Medication Assisted Treatment (MAT), who meet criteria for a diagnosis of opioid use disorder with the option of on-site administration of an opioid agonist (buprenorphine) or an opioid antagonist (naltrexone, either oral or injectable).

Valley Cities inducted a total of 398 unique individuals on MAT in 2018.

Low-Barrier Buprenorphine Service Expansion Program

In 2018, Valley Cities facilitated access to buprenorphine induction and treatment services that provide a continuum of medication assisted treatment and recovery support services designed from a recovery and resiliency perspective and available to eligible individuals in King County.

Valley Cities worked cooperatively with Behavioral Health Recovery Division (BHRD) on a mutually agreed-upon process to qualitatively evaluate treatment activities to help answer questions related to buprenorphine program success and to create and identify learning opportunities while an effective low-barrier MAT network is developed in King County.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

---

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

**PURPOSE AND PROGRAMS (Continued)**

Assisted Outpatient Services Program

The Assisted Outpatient Services Program (AOSP) was created by King County in order to reduce or prevent decompensation, re-hospitalizations, and other emergency behavioral health responses for clients who have been detained in the King County community hospitals and Evaluation and Treatment (E&T) facilities. The goal of AOSP is to successfully transition clients from a higher level of care to community-based services as well as ensuring clients maintain a high level of engagement in community-based services for the duration of their Less Restrictive Alternative (LRA) placement. King County provides incentives when Valley Cities engages an AOSP enrolled client in at least 12 contacts per month, 4 of which must be face-to-face. The majority of clients are enrolled in AOSP for 3 months (90-day LRA) with some enrolled for 6 months (180-day LRA).

In 2018, an average of 39 clients were enrolled in the program each month. Valley Cities was able to meet the client participation goals with an average of 4 clients per month.

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.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

---

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 two classes of net assets: with donor restriction and without donor restriction. See also “New Accounting Standards.”

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. There are restrictions placed on cash and cash equivalent balances resulting in the inability to use some balances for general expenditures. Cash balances reserved for replacement reserves are for repairs and capital expenditures and are thus classified as current assets in the statement of financial position. See also Notes 5 and 11.

Revenue Recognition

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

Valley Cities records contributions as with or without donor restriction, 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), net assets with donor restriction are reclassified to net assets without donor restriction and reported in the Statements 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.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Functional Expense Classification and Allocation

Expenses are classified in the accompanying Statements of Functional Expenses according to whether they are behavioral health services, are related to homeless, housing or other specialty services, or inpatient 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. The grants and contracts are subject to audit, which occasionally results in adjustments to revenue.

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, 2018 and 2017, 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 \$43,778 and \$22,167 at December 31, 2018 and 2017, 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, 2018 and 2017, was \$1,074,314 and \$795,448, respectively.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 without donor restriction 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 support with donor restriction. 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 net assets with donor restriction to net assets without donor restriction 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 2018 and 2017.

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 contributions without donor restrictions.

Accordingly, refundable advances financing long-lived assets are recognized as contributions without donor restrictions as building depreciation occurs. Total refundable advances released from restrictions during 2018 and 2017 was \$325,882 and \$238,113, respectively.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
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**NOTE 1.--CENTER PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Self-Insured Health Plan

Effective January 2016, Valley Cities implemented a self-insured health plan whereby it directly reimburses medical costs for individual claims through a third-party administrator. As of December 31, 2018 and 2017, Valley Cities covered the cost of individual claims up to \$85,000, respectively. Valley Cities maintains a stop-loss policy that covers claims in excess of these amounts. Total payments to the plan for the years ended December 31, 2018 and 2017 were approximately \$1,330,000 and \$1,344,000, respectively. Total reserve for claims incurred in 2018 submitted and paid subsequent to year end and reserve for incurred but not reported was approximately \$442,000 and \$75,000 as of December 31, 2018 and 2017.

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 2018 and 2017, 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 2015 through 2018.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

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**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.

New Accounting Standards

In 2018 the Organization adopted new FASB guidance regarding the presentation of the financial statements, Accounting Standards Update 2016-14 “Not-for-Profit Entities (Topic 958), Presentation of Financial Statements for Not-For-Profit Entities.” The Organization retrospectively adopted the guidance for purposes of retaining comparability between both periods presented in these financial statements.

As a result of implementing the guidance, the net assets are now classified as net assets with and without donor restrictions. Previously these were identified as unrestricted, temporarily restricted, and permanently restricted net assets. All assets with restrictions were previously presented as temporarily restricted and these are all reported as net assets with donor restrictions in the statement of financial position.

A separate change under the new guidance is the presentation and disclosure of qualitative and quantitative information regarding the availability of cash for general expenditures within one year of the statement of financial position date. Notes regarding financial assets are expanded to discuss any restrictions placed on the use of those assets. See Note 11.

Other provisions of the guidance did not result in further changes to the presentation of the financial statements for 2018 or 2017.

**NOTE 2.--FACILITIES AND CONSTRUCTION IN PROGRESS**

As of December 31, 2018, 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 \$8.80 million as of December 31, 2018.

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

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 spring of 2019. 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 2018 and 2017 totaled approximately \$6,512,000 and \$742,000, respectively. Total costs in construction-in-progress at December 31, 2018 is approximately \$8,673,000.

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 began admitting clients in the spring of 2018. Approximately \$8.3 million was moved from construction-in-progress to property and equipment in 2017.

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

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, 2018, approximately \$65,000 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.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
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**NOTE 2.--FACILITIES AND CONSTRUCTION IN PROGRESS (Continued)**

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 position and was paid off in May 2018.

Federal Way Clinic: In August 2017, Valley Cities purchased real property in Federal Way known as 1336 336<sup>th</sup> 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, 2018 and 2017, Valley Cities has expended and capitalized approximately \$1,581,000 and \$1,698,000 million in property costs, architectural fees and permits. The building was completed in July 2018, with approximately \$3,278,000 moved from construction-in-progress to property and equipment.

Renovations:

In 2018, renovations were underway for the Renton clinic and new Kent clinic.

The Renton clinic incurred approximately \$26,000 and \$40,000 in remodel expenses for the years ended December 31, 2018 and 2017, respectively. Accumulated costs for the clinic are approximately \$66,000 and are included in construction-in-progress as of December 31, 2018.

The new clinic at Harrison Street incurred approximately \$472,000 and \$6,000 for tenant improvements for the years ended December 31, 2018 and 2017, respectively. The project was completed in November 2018 with approximately \$478,000 in costs moved from construction-in-progress to property and equipment.

**NOTE 3.--LINES OF CREDIT & NOTES PAYABLE**

In April 2017, a revolving line of credit agreement was signed for \$5,600,000. In December 2018, the available amount was reduced to \$3,650,000. The agreement expires on March 31, 2019 and subsequent to year end was extended to October 31, 2019 (see Note 12.) 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% (4.87% and 3.91% at December 31, 2018 and 2017.) At December 31, 2018 and 2017 the outstanding balance was \$3,650,000 and \$5,600,000, respectively.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
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**NOTE 3.--LINES OF CREDIT & NOTES PAYABLE (Continued)**

In August, 2017, a revolving line of credit agreement was signed for \$1,520,000. The agreement expired 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.). The balance was paid in full during 2018. At December 31, 2018 and 2017 the outstanding balance was \$0 and \$1,520,000, respectively.

Notes payable as of December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
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%, (4.44% and 3.66% at December 31, 2018 and 2017, respectively). Due April 1, 2023, with a balloon payment of \$796,681. See Note 4. Secured by the real estate financed.	\$ 1,050,361	\$ 1,102,690
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.	2,806,208	3,027,492
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.	698,195	743,698
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

**VALLEY CITIES COUNSELING AND CONSULTATION**  
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**NOTE 3.--LINES OF CREDIT & NOTES PAYABLE (Continued)**

	2018	2017
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.	896,982	985,484
	8,454,746	8,862,364
Less current portion	6,002,342	408,368
Total long-term	\$ 2,452,404	\$ 8,453,996

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

<u>Year ending December 31,</u>	
2019	\$ 6,002,342
2020	801,018
2021	155,463
2022	160,688
2023	919,135
Thereafter	416,100
	\$ 8,454,746

The carrying value of the properties serving as collateral on the lines of credit and notes at December 31, 2018 and 2017, is approximately \$22,254,000 and \$18,602,000, 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, 2018, and 2017, Valley Cities was in compliance with the restrictive covenants.

**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.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
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**NOTE 4.--INTEREST RATE SWAP AGREEMENT (Continued)**

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 4.62% and 3.66% at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the swap contract had a notional amount of \$1,050,361 and \$1,102,690, respectively. See Note 3.

Management has determined that the fair value of the interest rate swap agreement at December 31, 2018 and 2017, is immaterial and, hence, is not included in the financial statements.

**NOTE 5.--REFUNDABLE ADVANCES**

Refundable advances as of December 31 consist of:

	<u>2018</u>	<u>2017</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	4,672,881
Recovery Place Kent	6,949,580	-
Recovery Place Seattle	1,950,000	-
Accumulated amortization	<u>(1,348,058)</u>	<u>(1,022,177)</u>
	<u>\$ 18,042,023</u>	<u>\$ 9,468,324</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.

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, 2018 are approximately \$90,000 and \$178,000, respectively. The balances in the operating and reserve accounts as of December 31, 2017, were approximately \$70,000 and \$153,000, respectively.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
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**NOTE 5.--REFUNDABLE ADVANCES (Continued)**

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.

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.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
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**NOTE 5.--REFUNDABLE ADVANCES (Continued)**

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

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 2018 and 2017, Valley Cities received draws of \$0 and \$419,439, 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.

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. The refundable advance is restricted from December 31, 2015 through December 30, 2065.

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**NOTE 5.--REFUNDABLE ADVANCES (Continued)**

**Phoenix Rising (Continued)**

King County Grant (Continued): 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 26<sup>th</sup> 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.

**Recovery Place Kent**

In November 2015, Valley Cities purchased property in Kent with the intent to develop the property for a new site addressing the need in south King County for psychiatric treatment and substance use services. The location will offer secured detoxification services and inpatient evaluation and treatment services with a capacity of 32 beds.

In May 2017, Valley Cities was awarded a refundable advance by the Washington State Department of Commerce. The refundable advance will provide reimbursement of up to \$7,000,000 in costs incurred after July 1, 2015 for the purchase of real property, acquisition costs, design, engineering, architectural, and planning costs, construction management, and construction costs. During 2018, Valley Cities was reimbursed for approximately \$6,950,000 of eligible expenses incurred in acquiring and renovating the Kent site. Cumulative draws through December 31, 2018 are approximately \$6,950,000. The grant is restricted for 10 years from the date the final payment is made.

If the property is sold, transferred, or the use changes during the 10-year term of commitment, all proceeds must be applied to the purchase price of a different facility or facilities used for a similar purpose. If the proceeds are not applied to the purchase price of other facilities, the award must be paid back in full, plus interest calculated at the rate of interest on State of Washington general obligation bonds issued most closely to the effective date of the legislation in which the funding was authorized. The advance is secured by a promissory note and deed of trust on the property.

**VALLEY CITIES COUNSELING AND CONSULTATION**  
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**NOTE 5.--REFUNDABLE ADVANCES (Continued)**

**Recovery Place Seattle at Beacon Hill**

In 2017, Valley Cities acquired a facility in Seattle with the intent to provide much needed access to inpatient care, substance use detoxification, and evaluation and treatment services.

In July 2018, Valley Cities was awarded a refundable advance by the Washington State Department of Commerce. The refundable advance will provide reimbursement of up to \$1,950,000 in costs incurred after July 1, 2017 for the purchase of real property, acquisition costs, design, engineering, architectural, and planning costs, construction management, and construction costs. During 2018, Valley Cities was reimbursed for \$1,950,000 of eligible expenses incurred in acquiring and renovating the Seattle site. The grant is restricted through July 2028, 10 years from the date the final payment is made, which occurred in July 2018.

If the property is sold, transferred, or the use changes during the 10-year term of commitment, all proceeds must be applied to the purchase price of a different facility or facilities used for a similar purpose. If the proceeds are not applied to the purchase price of other facilities, the award must be paid back in full, plus interest calculated at the rate of interest on State of Washington general obligation bonds issued most closely to the effective date of the legislation in which the funding was authorized. The advance is secured by a promissory note and deed of trust on the property.

**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, 2018 and 2017, was approximately \$1,643,000 and \$1,381,000, 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>
2019	\$ 970,984	\$ 136,035	\$ 1,107,019
2020	688,285	91,623	779,908
2021	478,395	47,476	525,871
2022	486,035	11,461	497,496
2023	290,321	2,527	292,848
Thereafter	296,898	-	296,898
	<u>\$ 3,210,918</u>	<u>\$ 289,122</u>	<u>\$ 3,500,040</u>

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**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 \$472,874 in 2018 and \$461,083 in 2017 and are included in employee benefits expense on the accompanying Statements of Functional Expenses.

**NOTE 8.--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, 2018 and 2017, King County funding (including prepaid health plan) accounted for 88% and 89% of Valley Cities' client and third-party revenues. Also, amounts due from King County at December 31, 2018 and 2017, accounted for approximately 68% and 52%, respectively, of accounts receivable.

**NOTE 9.--NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are available for the following purposes at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Pathways First Program	\$ -	\$ 10,682
Seattle Foundations - Veterans	1,858	2,001
Phoenix Rising	-	16,000
Seattle Foundations - Operating Funds (Meridian Only)	28,356	15,000
Amerigroup Initiative Support	7,472	30,818
National Council for Behavioral Health - MHFA	4,294	4,945
Aven Foundation - PXR Residential	15,000	15,000
National Alliance on Mental Illness - NAMI	118,371	130,916
Medina Foundation	20,000	-
BSNF Railway Foundation	2,500	-
Boeing Grant	100,000	-
Fundraising & Other Events	29,400	-
Cohen Veterans Network	347,912	-
Total net assets with donor restrictions	<u>\$ 675,163</u>	<u>\$ 225,362</u>

**VALLEY CITIES COUNSELING AND CONSULTATION**  
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**NOTE 10.--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, 2018 and 2017, for the following purposes:

	<u>2018</u>	<u>2017</u>
Pathways First Program	\$ 10,682	\$ 32,000
Building Changes - Families First	-	5,636
Seattle Foundations - Veterans	143	522
Seattle Foundations - Operating Funds (Meridian Only)	1,644	14,286
Phoenix Rising Donations	16,000	8,000
Amerigroup Initiative Support	23,346	32,904
University of Washington (STEPS Grant)	-	523
National Council for Behavioral Health - MHFA	652	55
National Alliance on Mental Illness - NAMI	12,544	23,084
Norcliffe Foundation - Recovery Place Seattle	-	1,004,533
Bank of America - PXR Café	-	10,000
Fundraising & Other Events	35,370	198,119
Cohen Veterans Network	<u>165,496</u>	<u>-</u>
Total net assets with donor restrictions released from restrictions	<u>\$ 265,877</u>	<u>\$ 1,329,662</u>

**NOTE 11.--LIQUIDITY AND AVAILABILITY**

Valley Cities regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The agency has various sources of liquidity at its disposal, including cash and cash equivalents, money market funds, and other short-term investments.

In addition to financial assets available to meet general expenditures over the next 12 months, Valley Cities operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

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**NOTE 11.--LIQUIDITY AND AVAILABILITY (Continued)**

The table below presents financial assets available for general expenditures within one year at December 31, 2018:

Financial assets at year end:	
Cash and cash equivalents	\$ 9,560,162
Accounts and grants receivable, net of allowance for doubtful accounts	<u>2,374,673</u>
Total financial assets	11,934,835
Less designated funds for repairs and capital expenditures:	
VCL Replacement Reserves	(178,209)
PXR Replacement Reserves	<u>(79,536)</u>
Total financial assets not available for general expenditures	<u>(257,745)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 11,677,090</u>

**NOTE 12.--SUBSEQUENT EVENTS**

Subsequent to year end, the Line of Credit was extended through October 31, 2019.

Subsequent to year end, Valley Cities received a refundable advance of \$1,500,000 from the Washington Department of Commerce for the Modular Housing Project (Phoenix Rising Building C.)

Valley Cities has evaluated subsequent events through May 23, 2019 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, 2018**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	2018 Federal Expenditures
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	\$ 300,000
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	809,552
Substance Abuse and Mental Services Administration Pass-through from King County Department of Community and Human Services Behavioral Health and Recovery Division Block Grants for Prevention and Treatment of Substance Abuse	93.959	EIN	64,562
Substance Abuse and Mental Services Administration Pass-through from King County Department of Community and Human Services Behavioral Health and Recovery Division Substance Abuse & Mental Health Services Projects of Regional and National Significance	93.243	EIN	<u>17,722</u>
Total U.S. Department of Health and Human Services			1,191,836
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	12,559
Health Care for the Homeless	14.267	EIN	160,755
Pass-through from King County Housing Stability Project Solid Ground Washington Community Development Block Grant program	14.218	EIN	<u>3,320</u>
Total U.S. Department of Housing and Urban Development			176,634
U.S. Department of Education			
Pass-through from State of Washington DSHS Division of Vocational Rehabilitation	84.126	EIN	<u>98,345</u>
<b>TOTAL FEDERAL AWARDS</b>			<u>\$ 1,466,815</u>

\*Major program

See accompanying notes to Schedule of Expenditures of Federal Awards

**VALLEY CITIES COUNSELING AND CONSULTATION  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**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, 2018. 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, 2018, 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 23, 2019.

**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 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 23, 2019



**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, 2018. 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.

**Auditor's 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, 2018.

## **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 23, 2019

**VALLEY CITIES COUNSELING AND CONSULTATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2018**

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**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.