

**VALLEY CITIES COUNSELING
AND CONSULTATION**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018**

**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, 2019 and 2018, 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, 2019 and 2018, 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 26, 2020, 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 26, 2020

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

<u>ASSETS</u>		
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,797,760	\$ 9,560,162
Accounts and grants receivable, net of allowance for doubtful accounts of \$27,302 and \$43,778	2,672,034	2,374,673
Prepaid expenses and deposits	400,216	509,747
TOTAL CURRENT ASSETS	13,870,010	12,444,582
PROPERTY AND EQUIPMENT		
Buildings	43,018,427	34,012,753
Construction in progress	1,188,451	8,804,418
Leasehold improvements	1,243,782	1,242,606
Office and computer equipment	2,397,743	2,133,997
Vehicles	81,677	45,708
Land	6,138,227	5,703,914
	54,068,307	51,943,396
Less accumulated depreciation and amortization	7,536,206	6,164,817
NET PROPERTY AND EQUIPMENT	46,532,101	45,778,579
TOTAL ASSETS	\$ 60,402,111	\$ 58,223,161

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

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Line of credit	\$ -	\$ 3,650,000
Accounts payable and accrued liabilities	911,819	943,643
Accrued wages, payroll taxes and benefits	3,114,241	2,445,894
Accrued interest payable	3,449	91,993
Rent deposits	29,299	30,125
Current portion, notes payable	488,148	6,002,342
TOTAL CURRENT LIABILITIES	4,546,956	13,163,997
LONG-TERM LIABILITIES		
Notes payable, net of current portion	11,256,940	2,452,404
Refundable advances	18,976,613	18,042,023
TOTAL LONG-TERM LIABILITIES	30,233,553	20,494,427
TOTAL LIABILITIES	34,780,509	33,658,424
NET ASSETS		
Without donor restrictions	24,606,427	23,889,574
With donor restrictions	1,015,175	675,163
TOTAL NET ASSETS	25,621,602	24,564,737
TOTAL LIABILITIES AND NET ASSETS	\$ 60,402,111	\$ 58,223,161

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, 2019

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Public support			
United Way	\$ 65,000	\$ -	\$ 65,000
Contributions	17,434	1,647,280	1,664,714
	<u>82,434</u>	<u>1,647,280</u>	<u>1,729,714</u>
Revenues			
Net client and third-party revenues			
King County prepaid health plan	29,461,659		29,461,659
King County contracts	11,563,199		11,563,199
Client and third party	442,211		442,211
Local	862,352		862,352
Medicare	122,518		122,518
Medicaid	84,021		84,021
State of Washington	984,622		984,622
Other	925,085	-	925,085
	<u>44,445,667</u>		<u>44,445,667</u>
Net assets released from restriction	<u>1,307,268</u>	<u>(1,307,268)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUES	45,835,369	340,012	46,175,381
EXPENSES			
Salaries and wages	27,759,323		27,759,323
Employee benefits	3,948,735		3,948,735
Payroll taxes	2,424,044		2,424,044
Total salaries and related expenses	<u>34,132,102</u>		<u>34,132,102</u>
Professional fees	508,927		508,927
Sub-contractor expenses	316,063		316,063
Conference and training	430,962		430,962
Travel and vehicle	298,046		298,046
Insurance	354,615		354,615
Supplies	803,480		803,480
Interest expense	399,549		399,549
Computer expense	786,936		786,936
Telephone	1,048,364		1,048,364
Postage and delivery	100,812		100,812
Rent	1,415,117		1,415,117
Furniture and equipment	311,350		311,350
Depreciation and amortization	1,371,388		1,371,388
Utilities	350,905		350,905
Occupancy	931,084		931,084
Printing/advertising	184,469		184,469
Client assistance	1,007,939		1,007,939
Clients – special needs	189,821		189,821
Miscellaneous	176,587	-	176,587
TOTAL EXPENSES	45,118,516	-	45,118,516
CHANGE IN NET ASSETS	716,853	340,012	1,056,865
NET ASSETS, beginning of year	23,889,574	675,163	24,564,737
NET ASSETS, end of year	<u>\$ 24,606,427</u>	<u>\$ 1,015,175</u>	<u>\$ 25,621,602</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, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Public support			
United Way	\$ 352,750	\$ -	\$ 352,750
Contributions	10,176	715,678	725,854
Amortization of refundable advance	<u>325,882</u>	<u>-</u>	<u>325,882</u>
	688,808	715,678	1,404,486
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	<u>1,230,697</u>	<u>-</u>	<u>1,230,697</u>
	41,047,383		41,047,383
Net assets released from restriction	<u>265,877</u>	<u>(265,877)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUES	42,002,068	449,801	42,451,869
EXPENSES			
Salaries and wages	24,219,730		24,219,730
Employee benefits	3,664,950		3,664,950
Payroll taxes	<u>2,107,188</u>		<u>2,107,188</u>
Total salaries and related expenses	29,991,868		29,991,868
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 and amortization	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	<u>53,200</u>	<u>-</u>	<u>53,200</u>
TOTAL EXPENSES	<u>39,669,973</u>	<u>-</u>	<u>39,669,973</u>
CHANGE IN NET ASSETS	2,332,095	449,801	2,781,896
NET ASSETS, beginning of year	<u>21,557,479</u>	<u>225,362</u>	<u>21,782,841</u>
NET ASSETS, end of year	<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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Behavioral Health Services				Support Services				Grand Total
	Outpatient Services	Inpatient Services	Homeless/ Housing Specialty Svc	Total Program Services	Management & General	Fundraising	Program Development/ Compliance	Total Support Services	
Salaries and wages	\$ 18,474,481	\$ 4,808,760	\$ 2,255,122	\$ 25,538,363	\$ 2,064,130	\$ 61,314	\$ 95,516	\$ 2,220,960	\$ 27,759,323
Employee benefits	2,756,168	548,555	349,906	3,654,629	263,975	9,109	21,022	294,106	3,948,735
Payroll taxes	<u>1,610,075</u>	<u>432,631</u>	<u>202,095</u>	<u>2,244,801</u>	<u>164,725</u>	<u>5,699</u>	<u>8,819</u>	<u>179,243</u>	<u>2,424,044</u>
Total salaries and related expenses	22,840,724	5,789,946	2,807,123	31,437,793	2,492,830	76,122	125,357	2,694,309	34,132,102
Professional fees	281,790	24,655	12,006	318,451	123,179	236	67,061	190,476	508,927
Sub-contractor expenses	38,107	-	277,956	316,063	-	-	-	-	316,063
Conference and training	150,500	73,591	20,199	244,290	10,511	112	176,049	186,672	430,962
Travel and vehicle	187,615	31,001	62,577	281,193	14,975	172	1,706	16,853	298,046
Insurance	192,225	80,953	61,040	334,218	18,249	1,074	1,074	20,397	354,615
Supplies	104,756	617,777	64,378	786,911	13,916	274	2,379	16,569	803,480
Interest expense	185,105	185,702	28,742	399,549	-	-	-	-	399,549
Computer expense	486,586	197,230	68,260	752,076	33,043	736	1,081	34,860	786,936
Telephone	687,167	194,574	97,428	979,169	61,911	3,642	3,642	69,195	1,048,364
Postage and delivery	64,904	19,758	8,702	93,364	6,356	731	361	7,448	100,812
Rent	952,961	112,753	103,122	1,168,836	220,357	12,962	12,962	246,281	1,415,117
Furniture and equipment	168,803	103,969	24,164	296,936	13,424	495	495	14,414	311,350
Depreciation and amortization	591,909	415,659	358,318	1,365,886	4,922	290	290	5,502	1,371,388
Utilities	133,070	87,384	129,765	350,219	614	36	36	686	350,905
Occupancy	292,303	333,554	301,854	927,711	3,153	110	110	3,373	931,084
Printing/advertising	103,529	28,577	9,425	141,531	6,076	332	36,530	42,938	184,469
Client assistance	70,261	5,349	931,993	1,007,603	32	3	301	336	1,007,939
Clients - special needs	189,821	-	-	189,821	-	-	-	-	189,821
Miscellaneous	<u>18,591</u>	<u>6,627</u>	<u>2,774</u>	<u>27,992</u>	<u>132,888</u>	<u>1,251</u>	<u>14,456</u>	<u>148,595</u>	<u>176,587</u>
TOTAL EXPENSES	<u>\$ 27,740,727</u>	<u>\$ 8,309,059</u>	<u>\$ 5,369,826</u>	<u>\$ 41,419,612</u>	<u>\$ 3,156,436</u>	<u>\$ 98,578</u>	<u>\$ 443,890</u>	<u>\$ 3,698,904</u>	<u>\$ 45,118,516</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				Support Services				
	Outpatient Services	Inpatient Services	Homeless/ Housing Specialty Svc	Total Program Services	Management & General	Fundraising	Program Development/ Compliance	Total Support Services	Grand Total
Salaries and wages	\$ 17,189,637	\$ 2,357,973	\$ 2,168,715	\$ 21,716,325	\$ 2,218,105	\$ 114,193	\$ 171,107	\$ 2,503,405	\$ 24,219,730
Employee benefits	2,724,487	278,899	331,115	3,334,501	280,358	15,721	34,370	330,449	3,664,950
Payroll taxes	1,510,766	202,597	195,342	1,908,705	172,913	9,953	15,617	198,483	2,107,188
Total salaries and related expenses	21,424,890	2,839,469	2,695,172	26,959,531	2,671,376	139,867	221,094	3,032,337	29,991,868
Professional fees	270,318	9,792	15,448	295,558	117,603	251	72,301	190,155	485,713
Sub-contractor expenses	74,958	-	246,394	321,352	1,665	-	-	1,665	323,017
Conference and training	122,046	27,527	21,109	170,682	26,439	62	137,975	164,476	335,158
Travel and vehicle	180,369	12,562	48,681	241,612	11,410	381	4,024	15,815	257,427
Insurance	185,917	37,846	60,240	284,003	16,095	1,300	1,561	18,956	302,959
Supplies	99,814	275,066	32,492	407,372	12,032	350	2,083	14,465	421,837
Interest expense	194,712	298,740	16,911	510,363	-	-	-	-	510,363
Computer expense	570,564	77,346	78,791	726,701	31,253	1,476	1,771	34,500	761,201
Telephone	637,990	83,749	96,657	818,396	54,194	4,340	5,208	63,742	882,138
Postage and delivery	64,859	8,446	9,031	82,336	6,410	466	636	7,512	89,848
Rent	1,221,417	51,114	113,099	1,385,630	218,380	17,646	21,175	257,201	1,642,831
Furniture and equipment	197,273	31,083	25,882	254,238	16,368	577	1,175	18,120	272,358
Depreciation and amortization	492,680	254,981	320,491	1,068,152	5,232	423	507	6,162	1,074,314
Utilities	131,858	56,334	121,475	309,667	319	26	31	376	310,043
Occupancy	231,758	152,225	307,179	691,162	2,006	59	317	2,382	693,544
Printing/advertising	63,502	14,353	8,347	86,202	8,065	335	51,466	59,866	146,068
Client assistance	13,916	1,166	911,425	926,507	150	12	15	177	926,684
Clients - special needs	189,402	-	-	189,402	-	-	-	-	189,402
Miscellaneous	27,547	10,973	3,918	42,438	3,724	61	6,977	10,762	53,200
TOTAL EXPENSES	\$ 26,395,790	\$ 4,242,772	\$ 5,132,742	\$ 35,771,304	\$ 3,202,721	\$ 167,632	\$ 528,316	\$ 3,898,669	\$ 39,669,973

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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,056,865	\$ 2,781,896
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,371,388	1,074,314
Amortization of refundable advance	-	(325,882)
(Gain) loss on disposal of assets	-	5,449
Cash provided (used) by changes in operating assets and liabilities:		
Accounts and grants receivable, net	(297,361)	(369,651)
Prepaid expenses and deposits	109,531	(86,295)
Accounts payable and accrued liabilities	(120,368)	(322,266)
Accrued wages, payroll taxes and benefits	668,347	580,842
Rent deposits	(826)	3,346
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,787,576	3,341,753
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(171,423)	(122,995)
Construction in progress	(1,953,487)	(8,609,779)
NET CASH USED BY INVESTING ACTIVITIES	(2,124,910)	(8,732,774)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes receivable	-	2,595,000
Proceeds from (payments on) lines of credit, net	(3,650,000)	(3,470,000)
Proceeds from refundable advances	934,590	8,899,580
Proceeds from notes payable	10,080,000	-
Principal payments on notes payable	(6,789,658)	(407,618)
NET CASH PROVIDED BY FINANCING ACTIVITIES	574,932	7,616,962
NET INCREASE IN CASH	1,237,598	2,225,941
Cash and cash equivalents, beginning of year	9,560,162	7,334,221
Cash and cash equivalents, end of year	\$ 10,797,760	\$ 9,560,162
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 488,093	\$ 480,410

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

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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.

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, 2019 AND 2018

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 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, 2019 AND 2018

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 throughout King County, with a primary focus in South King County, 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 family's 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 2020 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, 2019 AND 2018

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.

Mental Health First Aid

In 2019, Valley Cities entered a partnership with King County to design a program to increase the number of people in the community trained in Mental Health First Aid (MHFA) in order to reduce the stigma associated with behavioral health disorders and connect individuals with services before they reach a crisis. Trainings are provided for a variety of groups and populations including, but not limited to the public, peers, behavioral health workforce, and other private and public organizations. The MHFA program is operated by the MHFA Coordinator.

Valley Cities trained 2,187 individuals, which was comprised of 1,212 adults, 761 youths, 145 older adults, and 69 veterans.

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, the school-to-prison pipeline, etc.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

PURPOSE AND PROGRAMS (Continued)

Prevention and Community Support Program (Continued)

Federal Way School District (Continued): 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: Youth mental health symptoms have been on the rise in the last 15 years. Youth spend a large amount of their time in schools, but school districts are not set up to meet the mental health needs of all of their students. Valley Cities School Based Program provides much needed mental health treatment within the schools and reduces many barriers for youth and their families. In 2019 the team provided over 1,400 services in 12 schools.

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.

73% of Valley Cities mental health clients are unemployed. Employment Services are available to all of those clients. 376 clients requested services from our program in 2019, with 142 clients being served and enrolled in the program.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

PURPOSE AND PROGRAMS (Continued)

Veterans Services

Throughout 2019, the Valley Cities Veterans team continued to provide behavioral health and outreach services to Veterans and family members. These services included outreach and connection with appropriate community resources as well as behavioral health screening and treatment. The team consisted of veterans who work with veterans and their family members in a culturally competent manner.

These services were funded by Public Health and Washington Department of Veteran Affairs (WDVA) under the expiring King County Veterans Levy. Valley Cities successfully bid for two contracts under the new Veterans, Seniors, and Human Services Levy and so will now provide Pathfinding for Veterans of Color as well as Housing Navigator. Public Health has offered Valley Cities a contract through 2020 to provide behavioral health services. Valley Cities is also continuing to provide behavioral health services as a sub-contractor for the WDVA although the new RFP under the newest Levy has not yet been released.

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. 100% of funding is provided through September 2021. The Steven A. Cohen Military Family Clinic at Valley Cities (CVN Clinic) in Lakewood, Tacoma opened for services February 14, 2019.

CVN served 776 clients and provided over 5000 clinical services during 2019. CVN also tripled the clinical staff and is one of the largest and busiest clinics in the network.

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 and stable housing. This includes Pathways First, Homeless Service Enhancement, Shelter Plus Care, Valley Cities Landing, Valley Cities Place and Phoenix Rising permanent supportive housing projects dedicated to serving individuals and families. 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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

PURPOSE AND PROGRAMS (Continued)

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.

Families First

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

The primary goal of the program is to assist families in achieving housing stability and increase self-sufficiency using an approach that centers on providing homeless people housing quickly and then providing services as needed. In 2019, Valley Cities achieved a 92% 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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

PURPOSE AND PROGRAMS (Continued)

Coming-Up Youth Program (Continued)

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.

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

The New Journeys Demonstration Project's 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) via the NAVIGATE model. The program participants are ages 15-40, with the majority of participants from ages 15-25 who are experiencing a first episode of psychosis who also meet the diagnostic criteria or whose symptoms are on the Schizophrenia spectrum. They have an IQ of 70 or greater, reside within King County and do not have a developmental delay or autism spectrum disorder.

New Journeys places a strong emphasis on outreach and engagement. Valley Cities staff dedicates 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, group therapy, family skills training and support, case management, employment and education services and peer support in an outreach setting. The program also offers medication management at a clinic for enrolled participants. The Program Manager provides clinical supervision, contract monitoring, relationship building with the referral base, community education about the schizophrenia spectrum and screening for prospective clients. In addition to helping enrolled clients, the Program Manager also offers support to individuals who do not meet eligibility criteria by helping them identify resources and available treatment options.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

PURPOSE AND PROGRAMS (Continued)

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

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, primarily in the form of an extended-release injectable).

Valley Cities inducted a total of 273 unique individuals on MAT in 2019.

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.

Assisted Outpatient Services Program

The Assisted Outpatient Services Program (AOSP) was created by King County in order to reduce or prevent decompensation, re-hospitalization, and other emergency behavioral health responses for clients who have been discharged from King County community hospitals and Evaluation and Treatment (E&T) facilities on a Less Restrictive Order (LRO), Less Restrictive Alternative (LRA) or Conditional Release (CR). The goal of AOSP is to successfully transition clients from a higher level of care to outpatient behavioral health services as well as ensure that clients maintain a high level of engagement in outpatient services for the duration of their LRO, LRA or CR. King County provides incentive payment when Valley Cities engages an AOSP enrolled client in at least 12 contacts per month. Clients are enrolled in AOSP for the duration of their LRO, LRA or CR which is typically 3 months but can be 6 months or 12 months. In 2019, an average of 47 clients were enrolled in AOSP each month. Valley Cities reached incentive payment for an average of 11 (23%) clients per month.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

PURPOSE AND PROGRAMS (Continued)

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.

Recovery Place Seattle (RPS)

Recovery Place Seattle (RPS) is a residential treatment facility and houses a licensed medically monitored 33 bed detoxification unit which provides medical detoxification inpatient services for people who need support to safely withdraw from drug or alcohol use. This 33-bed unit provides services for a 3-5 day typical stay. RPS also houses a 42 bed 28-day intensive inpatient program for individuals living with substance use disorder and mental health concerns. This program offers structured, holistic, and evidence-based practices, including relapse prevention, coping mechanisms (both abstinence-based and harm reduction), and re-connection to community and resources. Clients participate in counseling and support groups. The average census for Detox and Residential for 2019 was 19 and 16, respectfully.

Recovery Place Kent (RPK)

The Recovery Place Kent (RPK) Evaluation and Treatment program opened in December 2019 and houses 16 beds and provides inpatient crisis stabilization services to individuals who have been detained under the Involuntary Treatment Act (ITA) for danger to self, danger to others, or grave disability related to a psychiatric illness. The interdisciplinary treatment team provides psychiatric evaluation, medication management, individual mental health and substance use disorder counseling, group activities, peer support, coordination with King County ITA court, and discharge planning to re-connect clients to community supports. The Secure Withdrawal Management program has 16 beds and opened the end of February 2020.

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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Valley Cities have been prepared on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America.

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.

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 statements of financial position. See also Notes 5 and 11.

Revenue Recognition

Valley Cities provides various mental health, substance abuse, and housing services to low income and homeless individuals and families in King County. Services are funded primarily through King County's prepaid health plan (PHP), third-party payors (Medicaid/Medicare/Insurance/others), and through receipt of contributions and grants with restricted use.

Net patient service revenue

Net patient service revenue is reported at the estimated net realizable amounts from PHP, third-party payors (including government payors), patients, and others for satisfying performance obligations. The Organization has agreements with governmental and other third-party payors that provide for payments to the Organization at amounts different from established charges. Payment arrangements for major third-party payors may be based on prospectively determined rates, reimbursed costs, discounted charges, per diem payments, and include variable consideration for incentives or adjustments based on performance and reviews.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Net patient service revenue (continued)

Revenue is recognized as the performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on the output method depending on payor agreement. For PHP, revenue depends upon the number of eligible clients enrolled for services during the period. The Organization receives funds monthly for standing ready to provide services to clients over a period of 12 months. For Medicaid/Medicare/Insurance and other third-party payors, the services provided and days of occupancy are used to measure the satisfaction of performance obligations. Performance obligations satisfied over time for PHP relates to the Organization providing access to behavioral health services upon request during the performance period. For Medicaid/Medicare/Insurance and other third-party payors, providing behavioral health services to clients results in recognition over time as clients receive the benefits simultaneously with the provision of service. Under PHP, the Organization measures the performance obligation as each month the Organization has a requirement to stand ready to provide services. The Organization measures the performance obligation from admission date to the discharge date for inpatient services not covered by PHP. For outpatient services, the number of clients served during the performance period or the number of client visits is used to measure the performance obligation. The Organization believes these methods provide a faithful depiction of the transfer of services over the term of the performance obligation.

Net patient service revenues are recognized over time as the services are made available to patients under PHP and as services are provided to patients for all others. Revenue is recorded in the amount at which the Organization expects to collect, which may include variable components. Variable consideration is included in the transaction price to the extent that it is probable that a significant reversal in the amount of revenue recognized will not occur when the performance metrics associated with the variable consideration are measured. Adjustments resulting from the final measurement of variable consideration were not material for the years ended December 31, 2019 and 2018.

Generally, services are reported within 3 days of the date of service through electronic upload or transmission of batch files to the payors. Batches are processed and submitted daily. Contracts provide up to 12 months from the date of service to report the services provided.

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. Historically receivable balances are collectible as the majority of balances involve receivables with government agencies.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Net patient service revenue (Continued)

The expected losses on accounts receivable balances of \$2,699,336 and \$2,418,451 as of December 31, 2019 and 2018, respectively, are estimated to be \$27,302 and \$43,778, respectively.

The opening and closing balances of trade receivables, net is \$2,374,673 and \$2,672,034, respectively, as of January 1, 2019 and December 31, 2019 and there were no contract assets or contract liabilities.

None of the Organizations' contracts have a significant financing component.

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, King County, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Eligibility for services (client registered address and income levels) can result in services provided to clients that become ineligible
- Method of reimbursement (case rate, fee for service, or reimbursement)
- Organization's line of business that provided the service (inpatient, outpatient, homeless & housing specialty services)

Net patient service revenues received from PHP and third-party payors (Medicaid/Medicare/Insurance, etc.) totaled \$29,461,659 and \$648,750, respectively, for the year ended December 31, 2019. Net patient service revenues received from PHP and third-party payors (Medicaid/Medicare/Insurance, etc.) totaled \$28,460,983 and \$496,047, respectively for the year ended December 31, 2018.

Contributions and Grants

Contributions

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

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Contributions and Grants (Continued)

Contributions (Continued)

Consequently, at December 31, 2019 and 2018, contributions approximating \$1,748,000 and \$3,362,000, respectively have not been recognized in the accompanying statements of activities because the conditions on which they depend have not yet been met. The conditional contributions depend on the Organization meeting level of service, reporting, and other requirements for its operations at the Steven A Cohen Military Family Clinic at Valley Cities.

Contributions of \$1,729,714 and \$1,404,486 were recognized for the years ended December 31, 2019 and 2018, respectively.

Government Contracts & Grants

Federal, state, and local governments have awarded cost-reimbursable and unit-of-service grants and contracts to support Valley Cities program activities, primarily for the benefit of the public. The grants and contracts are conditioned on performing certain services or incurring certain reimbursable expenditures. The grant and contract revenue is recognized in the month services are performed or as expenses are incurred and subsequently invoiced. Invoices are contractually required to be submitted within 30 days, under most grants and contracts, to the appropriate government entity and is reported as an increase in net assets without donor restrictions because the restrictions on use of the funds are met in the same year that the grant or contracted funds are received. Grant and contract terms specify the rate of payment for services and allowability of expenses for reimbursements.

Revenues received from these government grants and contracts totaled \$13,410,173 and \$10,859,656 for the years ended December 31, 2019 and 2018, respectively.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)
Contributions and Grants (Continued)

Refundable Advances

Certain promissory notes to the State of Washington or King County are recorded as refundable advances and will be forgiven in future periods provided certain conditions are met. The forgiveness of these notes will be recorded as contribution income when the required conditions have been met. These conditions consist principally of the Organization's compliance with the terms and conditions of the loan agreements as per the Accounting Standards Update ASU 2018-08. Valley Cities adopted this standard on a modified prospective basis, effective January 1, 2019 as it is applicable and required. Prior to adoption, the Organization recognized in income a portion of the advance based on the term of each advance. The Organization previously recognized amortization of \$1,348,058 on the refundable advances. After adoption, the advances are no longer amortized and income will be recognized in full in the year the requirements of the advances are substantially met resulting in a deferral of up to 50 years depending upon the performance period of the advances. See also Note 5. No additional material changes were identified upon adoption of this standard. See also Recently Issued Accounting Guidance in Note 1 below.

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 restrictions. 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 restrictions to net assets without donor restrictions 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 2019 and 2018.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, inpatient services, or outpatient services. 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.

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, 2019 and 2018, was \$1,371,388 and \$1,074,314, respectively.

Self-Insured Health Plan

Effective January 2016, Valley Cities implemented a self-insured health plan whereby it directly reimburses medical costs for individual claims through a third-party administrator. As of December 31, 2019 and 2018, 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, 2019 and 2018 were approximately \$1,903,000 and \$1,330,000, respectively. Total reserve for claims incurred in 2019 submitted and paid subsequent to year end and reserve for incurred but not reported was approximately \$607,000 and \$442,000 as of December 31, 2019 and 2018 and is included in the accompanying statements of financial position.

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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

During 2019 and 2018, 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 2016 through 2019.

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. The change in net assets was not affected by these changes.

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.

Recently Issued Accounting Guidance

The Organization adopted Accounting Standards Update ("ASU") 2014-09 (ASC Topic 606), "Revenue from Contracts with Customers" using the modified retrospective method, effective January 1, 2019 because it is applicable and required. Upon adoption, the Organization evaluated existing contracts with customers and determined that the adoption did not change the timing or the amounts of previously recognized revenues.

When the Organization enters into a customer contract it performs the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) a performance obligation is satisfied.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2018, the FASB issued ASU 2018-08, “Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.” The standard is intended to clarify and improve the scope and the accounting guidance for contributions received and made. The Organization adopted this standard on a modified prospective basis, effective January 1, 2019, because it is applicable and required. Prior to adoption, the Organization recognized in income a portion of the advance based on the term of each advance. The Organization previously recognized amortization of \$1,348,058 on the refundable advances. After adoption, the advances are no longer amortized and income will be recognized in full in the year the requirements of the advances are substantially met resulting in a deferral of revenue of up to 50 years depending upon the performance period of the advances. See also Note 5. No additional material changes were identified upon adoption of this standard.

NOTE 2.--FACILITIES AND CONSTRUCTION IN PROGRESS

As of December 31, 2019, 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 \$1.2 million as of December 31, 2019.

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, 2019, approximately \$1,110,000 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.

Renovations: In 2019, renovations were underway for the Renton clinic and new Kent clinic.

The Renton clinic incurred approximately \$43,000 and \$26,000 in remodel expenses for the years ended December 31, 2019 and 2018, respectively. Accumulated costs for the clinic are approximately \$69,000 and are included in construction-in-progress as of December 31, 2019.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

The new clinic at Harrison Street incurred approximately \$11,000 and \$472,000 for tenant improvements for the years ended December 31, 2019 and 2018, respectively. The initial phase of the project was completed in November 2018 with approximately \$478,000 in costs moved from construction-in-progress to property and equipment. Phase II began in November 2019 to redesign the space and increase the number of clinician offices at the site. Accumulated costs for Phase II are approximately \$11,000 and are included in construction-in-progress as of December 31, 2019.

NOTE 3.--LINE OF CREDIT & NOTES PAYABLE

In April 2017, a revolving line of credit agreement was signed for \$5,600,000. The proceeds were used to fund the completion of Recovery Place of Seattle. In December 2018, the available amount was reduced to \$3,650,000. The agreement expired on March 31, 2019 and was extended to October 31, 2019. The terms of the agreement were for interest only payments to be made at LIBOR plus 2.35% (4.87% at December 31, 2018.) Effective September 20, 2019, the line of credit along with the Bank of America note due October 2019, Rainier Valley Community Development Fund note due April 2020, and the Washington State Housing Finance Commission note due May 2020 were consolidated into a new loan assigned to Bank of America in the amount of \$10,200,000. The consolidation loan was initially issued by the Washington Health Care Facilities Authority and funded via Revenue Bond, Series 2019 (Valley Cities Counseling and Consultation) prior to assignment to Bank of America, see the note payable details below.

	2019	2018
<p>Note payable to Bank of America in monthly principal payments as established in a loan payment schedule, plus interest based on the monthly LIBOR rate plus 2.1%, (3.80% and 4.44% at December 31, 2019 and 2018, respectively). Due April 1, 2023, with a balloon payment of \$796,681. See Note 4. Secured by the real estate financed.</p>	\$ 995,787	\$ 1,050,361
<p>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. Paid in full via consolidation loan, see Bank of America loan below.</p>	-	2,806,208

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

Notes payable as of December 31, 2019 and 2018 consist of the following:

	2019	2018
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. Paid in full via consolidation loan, see Bank of America loan below.	-	698,195
Note payable to Washington State Housing Finance Commission with no monthly payments. Principal and accrued interest of 1% due May 31, 2019 and extended to May 31, 2020. Secured by real estate financed. Paid in full via consolidation loan, see Bank of America loan below.	-	3,003,000
Note payable to Washington State Housing Finance Commission with monthly installments of \$9,541, including interest at 2.75% due October 31, 2027. Secured by real estate financed.	806,015	896,982
Note payable to Bank of America in monthly principal payments of \$56,377 including interest at 3.1%. Due October 1, 2029, with a balloon payment of \$5,854,716. Secured by two properties financed under the consolidated loans, see above.	9,943,286	-
	11,745,088	8,454,746
Less current portion	(488,148)	(6,002,342)
Total long-term	\$ 11,256,940	\$ 2,452,404

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

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

<u>Year ending December 31,</u>	
2020	\$ 488,148
2021	535,542
2022	552,886
2023	1,323,841
2024	521,231
Thereafter	<u>8,323,440</u>
	<u>\$ 11,745,088</u>

The carrying value of the properties serving as collateral on the line of credit and notes payable at December 31, 2019 and 2018, is approximately \$18,505,145 and \$22,254,000, 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, 2019, and 2018, 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.

On March 27, 2013, Valley Cities entered into a notional \$1,320,000 U.S. Dollar Rate Swap Transaction with an effective date of April 1, 2013, and a termination date of April 1, 2023. Under the terms of the agreement, Valley Cities pays a fixed rate of 4.145% to Bank of America on a monthly basis and, in return, Bank of America pays Valley Cities the variable rate of the monthly LIBOR rate plus 2.1%, which was 3.80% and 4.44% at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the swap contract had a notional amount of \$995,787 and \$1,050,361, respectively. See Note 3.

Management has determined that the fair value of the interest rate swap agreement at December 31, 2019 and 2018, is immaterial and, hence, is not included in the financial statements.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5.--REFUNDABLE ADVANCES

Refundable advances as of December 31 consist of:

	<u>2019</u>	<u>2018</u>
Valley Cities Landing	\$ 5,268,444	\$ 5,268,444
Valley Cities Neighborhood Stabilization Program Rental	549,176	549,176
Phoenix Rising	5,557,051	4,672,881
Recovery Place Kent	7,000,000	6,949,580
Recovery Place Seattle	1,950,000	1,950,000
Accumulated amortization	<u>(1,348,058)</u>	<u>(1,348,058)</u>
	<u>\$ 18,976,613</u>	<u>\$ 18,042,023</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, 2019 and 2018 total approximately \$90,000 and \$178,000, respectively.

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

State of Washington Grant (Continued): 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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5.--REFUNDABLE ADVANCES (Continued)

Valley Cities Landing (Continued)

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.

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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5.--REFUNDABLE ADVANCES (Continued)

Phoenix Rising (Continued)

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. 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.

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

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

State of Washington Grant: In 2019, Valley Cities was awarded a \$1,500,000 refundable advance by the Department of Commerce for construction of 12 modular affordable rental housing units located at 915 26th Street NE, Auburn, WA. Draws in accordance with this award totaled \$884,171 for 2019. The grant is restricted for 40 years, ending June 30, 2059. The units must be restricted for housing individuals with income at or below 80% of the area median income. If the property is sold or changes use, the funds are required to be repaid plus a proportional share of the appreciated value of the property.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5.--REFUNDABLE ADVANCES (Continued)

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 2019 and 2018, Valley Cities was reimbursed for approximately \$50,000 and \$6,950,000, respectively, of eligible expenses incurred in acquiring and renovating the Kent site. Cumulative draws through December 31, 2019 and 2018 are approximately \$7,000,000 and \$6,950,000. The grant is restricted for 10 years from the date the final payment is made, which occurred in April 2019.

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.

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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 2025.

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, 2019 and 2018, was approximately \$1,415,117 and \$1,643,000, 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>
2020	\$ 683,785	\$ 138,069	\$ 821,854
2021	478,395	91,915	570,310
2022	486,035	55,464	541,499
2023	290,321	18,404	308,725
2024	153,565	-	153,565
Thereafter	143,333	-	143,333
	<u>\$ 2,235,434</u>	<u>\$ 303,852</u>	<u>\$ 2,539,286</u>

See also Note 12.

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 \$525,137 in 2019 and \$472,874 in 2018 and are included in employee benefits expense on the accompanying statements of activities and 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, 2019 and 2018, King County funding (including prepaid health plan) accounted for 89% and 88% of Valley Cities' client and third-party revenues. Also, amounts due from King County at December 31, 2019 and 2018, accounted for approximately 72% and 54%, respectively, of accounts receivable.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9.--NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Seattle Foundations - Veterans	\$ 1,858	\$ 1,858
Seattle Foundations - Operating Funds (Meridian Only)	28,356	28,356
Amerigroup Initiative Support	7,472	7,472
National Council for Behavioral Health - MHFA	4,294	4,294
Aven Foundation - PXR Residential	-	15,000
National Alliance on Mental Illnes - NAMI	114,596	118,371
Medina Foundation	-	20,000
BSNF Railway Foundation	-	2,500
Boeing Grant 1 (CVN)	77,626	100,000
Boeing Grant 2 (CVN)	146,937	-
Cohen Veterans Network (Year 0)	-	347,912
Cohen Veterans Network (Year 1)	604,636	-
Fundraising & Other Events	<u>29,400</u>	<u>29,400</u>
Total net assets with donor restrictions	<u>\$ 1,015,175</u>	<u>\$ 675,163</u>

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, 2019 and 2018, for the following purposes:

	<u>2019</u>	<u>2018</u>
Pathways First Program	\$ -	\$ 10,682
Seattle Foundations - Veterans	-	143
Seattle Foundations - Operating Funds (Meridian Only)	-	1,644
Phoenix Rising Donations	-	16,000
Amerigroup Initiative Support	-	23,346
National Council for Behavioral Health - MHFA	-	652
National Alliance on Mental Illnes - NAMI	3,776	12,544
Aven Foundation - PXR Residential	15,000	-
Medina Foundation	20,000	-
BSNF Railway Foundation	2,500	-
Boeing Grant 1 (CVN)	22,374	-
Boeing Grant 2 (CVN)	46,063	-
Cohen Veterans Network (Year 0)	347,912	165,496
Cohen Veterans Network (Year 1)	849,643	-
Fundraising & Other Events	<u>-</u>	<u>35,370</u>
Total net assets with donor restrictions released from restrictions	<u>\$ 1,307,268</u>	<u>\$ 265,877</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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.

The table below presents financial assets available for general expenditures within one year at December 31, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 10,797,760
Accounts and grants receivable, net of allowance for doubtful accounts	<u>2,672,034</u>
Total financial assets	13,469,794
Less designated funds for repairs and capital expenditures:	
VCL Replacement Reserves	(178,262)
PXR Replacement Reserves	<u>(79,560)</u>
Total financial assets not available for general expenditures	<u>(257,822)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 13,211,972</u></u>

NOTE 12.--SUBSEQUENT EVENTS

Subsequent to year end, physical and economic conditions worldwide have been impacted by the COVID-19 pandemic. There are uncertainties surrounding COVID-19's impact on the economy as a whole and on businesses. There is also uncertainty regarding the positive impact of any federal government relief efforts through the date of this report. Accordingly, the impact of the global pandemic on the operations and financial plans or future results of the Organization is unknown.

Effective March 1, 2020, the Organization signed a new lease for the facility hosting the administrative team in Federal Way. The commencement date is June 1, 2020 with a 60-month term ending May 31, 2025. The agreement contains an option to renew for an additional 60-month term.

Effective March 12, 2020, the Organization entered into a lease for a new clinical site in Seattle. The term of the lease includes a tenant improvement period plus 60 months. The agreement has an option to renew for an additional 60-month term.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 12.--SUBSEQUENT EVENTS (Continued)

Valley Cities has evaluated subsequent events through May 26, 2020 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, 2019**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number		Pass-through Entity Identifying Number	2019 Federal Expenditures
U.S. Department of Health and Human Services				
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	93.243		EIN	\$ 73,914
Pass-through from Washington HCA				
Division of Behavioral Health and Recovery				
Opioid STR	93.788	*	TI080249	297,825
Opioid STR	93.788	*	TI081705	519,129
Pass-through from King County				
Department of Community and Human Services				
Behavioral Health and Recovery Division				
Block Grants for Community Mental Health Services	93.958		EIN	300,000
Pass-through from Washington HCA				
Division of Behavioral Health and Recovery				
Block Grants for Community Mental Health Services	93.958		EIN	10,000
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	<u>142,322</u>
Total U.S. Department of Health and Human Services				1,343,190
U.S. Department of Housing and Urban Development:				
Pass-through from King County Housing Stability Project				
Solid Ground Washington				
Community Development Block Grant program	14.218		EIN	3,320
Pass-through from King County				
Housing, Homelessness and Community Development Division				
Continuum of Care Program	14.267		EIN	<u>66,947</u>
Total U.S. Department of Housing and Urban Development				70,267
U.S. Department of Education				
Pass-through from State of Washington				
DSHS Division of Vocational Rehabilitation				
Rehabilitation Services--Vocational Rehabilitation Grants to States	84.126		EIN	<u>52,910</u>
TOTAL FEDERAL AWARDS				<u>\$ 1,466,367</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, 2019**

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, 2019. 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, 2019, 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 26, 2020.

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 26, 2020



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, 2019. 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, 2019.

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 26, 2020

**VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2019**

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.