

**VALLEY CITIES COUNSELING
AND CONSULTATION**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021**

**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 Audit of the Financial Statements

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Valley Cities Counseling and Consultation as of December 31, 2022 and 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Valley Cities Counseling and Consultation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Valley Cities Counseling and Consultation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Valley Cities Counseling and Consultation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Valley Cities Counseling and Consultation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations 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 schedule of expenditures of federal awards 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, 2023, 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, 2023

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,922,718	\$ 17,638,336
Restricted cash - Valley Cities Landing Reserves (Note 5)	268,237	268,211
Restricted cash - Phoenix Rising Reserves (Note 5)	<u>104,660</u>	<u>104,649</u>
Total cash and cash equivalents	22,295,615	18,011,196
Accounts and grants receivable, net of allowance for doubtful accounts of \$5,644 and \$29,043	5,304,083	5,635,454
Prepaid expenses and deposits	<u>269,261</u>	<u>515,347</u>
TOTAL CURRENT ASSETS	27,868,959	24,161,997
 PROPERTY AND EQUIPMENT		
Buildings	44,930,999	44,927,992
Construction in progress	131,775	-
Leasehold improvements	1,399,684	1,399,684
Office and computer equipment	2,108,243	2,414,077
Vehicles	64,694	81,677
Land	<u>6,138,227</u>	<u>6,138,227</u>
	54,773,622	54,961,657
Less accumulated depreciation and amortization	<u>(11,765,131)</u>	<u>(10,607,190)</u>
	43,008,491	44,354,467
Operating lease right-of-use assets	2,565,891	-
Finance lease right-of-use assets	<u>63,841</u>	<u>-</u>
NET PROPERTY AND EQUIPMENT	<u>45,638,223</u>	<u>44,354,467</u>
TOTAL ASSETS	<u>\$ 73,507,182</u>	<u>\$ 68,516,464</u>

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

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

LIABILITIES AND NET ASSETS

	2022	2021
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 768,793	\$ 709,474
Accrued wages, payroll taxes and benefits	3,098,752	3,301,380
Accrued interest payable	26,686	27,909
Rent deposits	28,549	28,549
Short-term operating lease liabilities	1,041,858	-
Short-term finance lease liabilities	14,514	-
Current portion, notes payable	1,323,840	521,136
TOTAL CURRENT LIABILITIES	6,302,992	4,588,448
LONG-TERM LIABILITIES		
Long-term operating lease liabilities	1,405,668	-
Long-term finance lease liabilities	48,858	-
Notes payable, net of current portion	8,812,782	10,168,373
Refundable advances	19,592,443	19,592,443
TOTAL LONG-TERM LIABILITIES	29,859,751	29,760,816
TOTAL LIABILITIES	36,162,743	34,349,264
NET ASSETS		
Without donor restrictions	35,606,551	32,462,042
With donor restrictions	1,737,888	1,705,158
TOTAL NET ASSETS	37,344,439	34,167,200
TOTAL LIABILITIES AND NET ASSETS	\$ 73,507,182	\$ 68,516,464

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, 2022

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Public support			
Contributions	\$ 23,340	\$ 2,001,728	\$ 2,025,068
Revenues			
Net client and third-party revenues			
King County prepaid health plan	23,274,506		23,274,506
King County contracts	16,200,986		16,200,986
Client and third party	598,606		598,606
Local	1,705,137		1,705,137
Medicare	162,845		162,845
Medicaid	3,077,419		3,077,419
State of Washington	5,673,640		5,673,640
Other	651,465	-	651,465
	51,344,604		51,344,604
Net assets released from restriction	1,968,998	(1,968,998)	-
TOTAL PUBLIC SUPPORT AND REVENUES	53,336,942	32,730	53,369,672
EXPENSES			
Salaries and wages	32,485,611		32,485,611
Employee benefits	4,074,502		4,074,502
Payroll taxes	2,820,959		2,820,959
Total salaries and related expenses	39,381,072		39,381,072
Professional fees	203,408		203,408
Sub-contractor expenses	406,251		406,251
Conference and training	271,207		271,207
Travel and vehicle	105,896		105,896
Insurance	519,344		519,344
Supplies	1,267,436		1,267,436
Interest expense	335,279		335,279
Computer expense	695,777		695,777
Telephone	1,041,318		1,041,318
Postage and delivery	123,279		123,279
Rent	1,748,353		1,748,353
Furniture and equipment	247,614		247,614
Depreciation and amortization	1,506,694		1,506,694
Utilities	462,050		462,050
Occupancy	1,075,253		1,075,253
Printing/advertising	149,733		149,733
Client assistance	548,119		548,119
Clients – special needs	52,693		52,693
Miscellaneous	51,657	-	51,657
TOTAL EXPENSES	50,192,433	-	50,192,433
CHANGE IN NET ASSETS	3,144,509	32,730	3,177,239
NET ASSETS, beginning of year	32,462,042	1,705,158	34,167,200
NET ASSETS, end of year	<u>\$ 35,606,551</u>	<u>\$ 1,737,888</u>	<u>\$ 37,344,439</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, 2021

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Public support			
Contributions	\$ 56,928	\$ 2,363,061	\$ 2,419,989
Revenues			
Net client and third-party revenues			
King County prepaid health plan	24,422,073		24,422,073
King County contracts	13,883,112		13,883,112
Federal contracts	527,233		527,233
Client and third party	1,481,077		1,481,077
Local	1,532,479		1,532,479
Medicare	223,266		223,266
Medicaid	2,010,510		2,010,510
State of Washington	5,109,474		5,109,474
Other	832,249	-	832,249
	50,021,473		50,021,473
Net assets released from restriction	1,700,716	(1,700,716)	-
TOTAL PUBLIC SUPPORT AND REVENUES	51,779,117	662,345	52,441,462
EXPENSES			
Salaries and wages	32,313,623		32,313,623
Employee benefits	4,364,182		4,364,182
Payroll taxes	2,877,167		2,877,167
Total salaries and related expenses	39,554,972		39,554,972
Professional fees	302,021		302,021
Sub-contractor expenses	372,327		372,327
Conference and training	230,205		230,205
Travel and vehicle	83,781		83,781
Insurance	502,939		502,939
Supplies	1,061,018		1,061,018
Interest expense	376,446		376,446
Computer expense	600,268		600,268
Telephone	990,080		990,080
Postage and delivery	110,349		110,349
Rent	1,617,224		1,617,224
Furniture and equipment	205,143		205,143
Depreciation and amortization	1,555,367		1,555,367
Utilities	435,470		435,470
Occupancy	988,209		988,209
Printing/advertising	113,008		113,008
Client assistance	776,081		776,081
Clients – special needs	53,281		53,281
Miscellaneous	57,666	-	57,666
TOTAL EXPENSES	49,985,855	-	49,985,855
CHANGE IN NET ASSETS	1,793,262	662,345	2,455,607
NET ASSETS, beginning of year	30,668,780	1,042,813	31,711,593
NET ASSETS, end of year	<u>\$ 32,462,042</u>	<u>\$ 1,705,158</u>	<u>\$ 34,167,200</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, 2022

	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	\$ 16,340,846	\$ 11,090,088	\$ 2,970,029	\$ 30,400,963	\$ 1,760,586	\$ 177,576	\$ 146,486	\$ 2,084,648	\$ 32,485,611
Employee benefits	2,256,494	1,136,930	437,458	3,830,882	201,054	16,277	26,289	243,620	4,074,502
Payroll taxes	1,457,854	921,158	271,558	2,650,570	140,693	16,448	13,248	170,389	2,820,959
Total salaries and related expenses	20,055,194	13,148,176	3,679,045	36,882,415	2,102,333	210,301	186,023	2,498,657	39,381,072
Professional fees	54,530	61,898	30,996	147,424	2,847	369	52,768	55,984	203,408
Sub-contractor expenses	32,280	-	373,971	406,251	-	-	-	-	406,251
Conference and training	89,190	76,712	31,139	197,041	21,656	2,586	49,924	74,166	271,207
Travel and vehicle	52,429	19,400	26,651	98,480	7,044	280	92	7,416	105,896
Insurance	247,596	150,126	96,270	493,992	21,730	2,817	805	25,352	519,344
Supplies	64,297	972,656	222,254	1,259,207	7,158	719	352	8,229	1,267,436
Interest expense	183,007	108,976	43,296	335,279	-	-	-	-	335,279
Computer expense	402,279	184,983	76,856	664,118	29,589	1,603	467	31,659	695,777
Telephone	585,393	277,382	120,305	983,080	49,918	6,469	1,851	58,238	1,041,318
Postage and delivery	69,841	32,603	13,619	116,063	6,203	788	225	7,216	123,279
Rent	1,118,157	185,685	164,170	1,468,012	240,292	31,149	8,900	280,341	1,748,353
Furniture and equipment	122,831	70,582	39,997	233,410	12,416	1,282	506	14,204	247,614
Depreciation and amortization	574,805	515,797	414,409	1,505,011	1,441	184	58	1,683	1,506,694
Utilities	146,178	156,220	158,567	460,965	930	121	34	1,085	462,050
Occupancy	304,109	461,415	308,593	1,074,117	1,022	89	25	1,136	1,075,253
Printing/advertising	60,507	27,547	14,449	102,503	6,441	790	39,999	47,230	149,733
Client assistance	25,688	17,048	504,383	547,119	-	1,000	-	1,000	548,119
Clients - special needs	52,693	-	-	52,693	-	-	-	-	52,693
Miscellaneous	19,628	22,608	4,071	46,307	4,795	43	512	5,350	51,657
TOTAL EXPENSES	\$ 24,260,632	\$ 16,489,814	\$ 6,323,041	\$ 47,073,487	\$ 2,515,815	\$ 260,590	\$ 342,541	\$ 3,118,946	\$ 50,192,433

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, 2021

	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	\$ 17,705,627	\$ 10,301,752	\$ 2,120,524	\$ 30,127,903	\$ 1,945,317	\$ 163,750	\$ 76,653	\$ 2,185,720	\$ 32,313,623
Employee benefits	2,644,319	1,120,864	340,300	4,105,483	226,812	18,025	13,862	258,699	4,364,182
Payroll taxes	1,579,106	919,502	196,028	2,694,636	160,054	15,330	7,147	182,531	2,877,167
Total salaries and related expenses	21,929,052	12,342,118	2,656,852	36,928,022	2,332,183	197,105	97,662	2,626,950	39,554,972
Professional fees	156,758	30,769	11,929	199,456	3,388	321	98,856	102,565	302,021
Sub-contractor expenses	31,898	-	340,429	372,327	-	-	-	-	372,327
Conference and training	68,087	58,523	11,230	137,840	8,200	2,091	82,074	92,365	230,205
Travel and vehicle	37,184	21,119	19,662	77,965	5,551	159	106	5,816	83,781
Insurance	247,541	155,150	76,669	479,360	19,894	2,211	1,474	23,579	502,939
Supplies	51,398	866,164	134,457	1,052,019	6,598	272	2,129	8,999	1,061,018
Interest expense	207,486	137,890	31,070	376,446	-	-	-	-	376,446
Computer expense	342,506	183,942	43,204	569,652	28,432	1,479	705	30,616	600,268
Telephone	566,605	292,346	77,539	936,490	45,250	5,016	3,324	53,590	990,080
Postage and delivery	63,701	32,764	7,786	104,251	5,146	565	387	6,098	110,349
Rent	1,052,946	190,845	87,845	1,331,636	242,015	26,533	17,040	285,588	1,617,224
Furniture and equipment	113,994	52,065	23,182	189,241	14,078	1,111	713	15,902	205,143
Depreciation and amortization	632,497	538,618	381,951	1,553,066	1,941	216	144	2,301	1,555,367
Utilities	143,575	147,232	143,935	434,742	615	68	45	728	435,470
Occupancy	276,321	432,278	278,685	987,284	884	25	16	925	988,209
Printing/advertising	50,562	25,707	6,057	82,326	4,779	617	25,286	30,682	113,008
Client assistance	24,062	32,653	718,367	775,082	-	999	-	999	776,081
Clients - special needs	53,281	-	-	53,281	-	-	-	-	53,281
Miscellaneous	32,085	17,725	3,973	53,783	3,803	49	31	3,883	57,666
TOTAL EXPENSES	\$ 26,081,539	\$ 15,557,908	\$ 5,054,822	\$ 46,694,269	\$ 2,722,757	\$ 238,837	\$ 329,992	\$ 3,291,586	\$ 49,985,855

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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,177,239	\$ 2,455,607
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,506,694	1,555,367
Amortization of right-of-use assets	1,094,762	-
Cash provided (used) by changes in operating assets and liabilities:		
Accounts and grants receivable, net	331,371	(736,783)
Prepaid expenses and deposits	246,086	(123,709)
Accounts payable and accrued liabilities	58,096	(282,166)
Accrued wages, payroll taxes and benefits	(202,628)	(238,064)
Operating lease liabilities	(1,209,259)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,002,361	2,630,252
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(28,943)	(78,463)
Construction in progress	(131,775)	-
NET CASH USED BY INVESTING ACTIVITIES	(160,718)	(78,463)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for principal portion of finance lease liabilities	(4,337)	-
Principal payments on notes payable	(552,887)	(536,695)
NET CASH USED BY FINANCING ACTIVITIES	(557,224)	(536,695)
NET INCREASE IN CASH	4,284,419	2,015,094
Cash and cash equivalents and restricted cash, beginning of year	18,011,196	15,996,102
Cash and cash equivalents and restricted cash, end of year	\$ 22,295,615	\$ 18,011,196

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

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 336,502	\$ 352,015
Cash paid for interest on finance lease liabilities	\$ 673	\$ -
Supplemental non-cash investing and financing activity:		
Right-of-use assets obtained in exchange for operating lease obligations	\$ 3,656,785	\$ -
Right-of-use assets obtained in exchange for finance lease obligations	\$ 67,709	\$ -
Cash and cash equivalents and restricted cash consist of:		
Cash and cash equivalents	\$ 21,922,718	\$ 17,638,336
Restricted cash - Valley Cities Landing Reserves	268,237	268,211
Restricted cash - Phoenix Rising Reserves	104,660	104,649
	\$ 22,295,615	\$ 18,011,196

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

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, Bitter Lake, and the Cohen Veterans Network in Lakewood. Valley Cities serves approximately 20,000 individuals each year. Valley Cities is accredited by the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO) and Commission on Accreditation of Rehabilitation Facilities (CARF).

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 conducts 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, Team-based Care. All clients are assigned to a Case Manager 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, 2022 AND 2021

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 chemical dependency treatment services. Services are trauma-informed and 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' programs consist of:

Case Manager at Each Outpatient Clinic

The Case Manager is the main point of contact at Valley Cities. They 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 connect the client with the appropriate level of care that is needed, which can include counseling, medications, peer support, or groups. They also help connect them to services in the community, like a primary care physician or a dentist. The Case Manager helps manage all the expertise needed to provide the best outcomes for clients.

Peer Support Services

Peers are living, walking examples of hope and that recovery is possible. 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. 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, mental health services, as well as substance abuse experience and services, peer counselors provide expertise that professional training cannot replicate.

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. 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, clinicians, 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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

PURPOSE AND PROGRAMS (Continued)

Children's Wraparound Services (Continued)

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. In 2022, this program provided intensive services to a total of 83 youth. 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.

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. One FTE 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 up to 15 families at a time to provide this critical resource to keep families together in a safe and healthy environment. This program is contracted by King County and funded through the MIDD tax initiative.

Mental Health First Aid (MHFA) Program

Valley Cities continues its partnership with King County to maintain a program designed to increase the number of people in the community trained in Mental Health First Aid (MHFA). The focus is to reduce the stigma associated with behavioral health disorders, teach participants the signs and symptoms of mental health challenges, how to talk with someone experiencing a challenge and how to connect them to professional resources. Training is provided to the public, including partnerships with many organizations, with the focus on inclusion for all regardless of geographic location, race, or nationality. In 2022, 793 individuals participated in a MHFA training and 85 MHFA trainings were held; 39 of those were on youth mental health and 46 were on adult mental health, 3 were taught in Spanish. In response to COVID-19, MHFA trainings were held virtually with direction and tools from the National Council of Behavioral Health. The first bounce back to in-person MHFA training occurred in November 2022 and was a success.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

PURPOSE AND PROGRAMS (Continued)

School Based Services (Auburn, Federal Way, and Kent School Districts)

Valley Cities School Based Team reduces barriers and improves youth's lives by meeting students where they spend much of their, their school. The unique skills of the School Based Team fill a need in the community by providing mental health and prevention services the schools are not set up to meet. Through partnerships with the school districts the program's services support the whole youth, helping them thrive in school, at home, and improve overall wellness. The Valley Cities team has contracts that support this work including City of Federal Way, Auburn School District, Federal Way School District, Kent School District, as well as funding through Medicaid. In 2022 Valley Cities received special ESSER funding through the Office of Superintendent of Public Instruction. During 2022 the team provided counseling services to 254 youth. While most students are served at the school during the school day, the School Based Team also offers telehealth appointments and community outreach during school breaks. In 2022 special contracts allowed the team to also provide community-based supports to youth and families not enrolled in services. The team currently has four clinicians, a manager, and support from the Specialty Program Support.

Prevention & Community Support (PCSP) Program

The Prevention and Community Support Program (PCSP) collaborates with schools, mental health providers, and other community-based organizations to provide one-on-one and small group advocacy, mentoring, and psychoeducation sessions for youth designed to improve overall mental health outcomes. In addition to program facilitation, PCSP staff also provide professional development workshops and training opportunities to various stakeholders to improve service provision for LGBTQ+ people. Program staff are trained in youth program quality improvement and are committed to amplifying youth voice, encouraging positive identity development, and bringing attention and visibility to the issues impacting young people's lives, including poverty, racism, community violence, mental health concerns, substance abuse, climate change, the school-to-prison pipeline, etc. The PCSP has been designed to support the diverse needs of marginalized and minoritized vulnerable youth and emerging adult populations. One such program, Real Talk for Teens, partners with several South King County schools to meet the nuanced needs of LGBTQ+ youth and their allies. These long-haul efforts have been guided by one dedicated full-time staff person who has been with the program for almost twelve years. In 2022, they served 48 youth ages 11-20 years old and provided 584 hours of advocacy, mentorship, and psychoeducation services that were offered year-round including out-of-school times. As a result of program participation, youth were better equipped to handle difficult life events using healthy coping strategies and identified having someone to talk to as the primary benefit of participating in the Real Talk program. The PCSP is funded by two contracts through King County's Best Starts for Kids and the Youth and Family Services Association, as well as donations provided in support of LGBTQ+ youth.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

PURPOSE AND PROGRAMS (Continued)

Expanded Community Services (ECS) Program

Clients receive personal care services, medication oversight, and contracted behavior support services. Residential providers may offer increased staff or activities to support the client in the residence. Client services and supports are available 24-hours per day by on-site staff who provide supervision and support. The contracted behavior support services include person-centered, on-site client training for the client and caregiving staff, homeowners, guardians and families; an individualized crisis response and behavior support plan that is reviewed monthly and modified as the client's needs change; and monthly psychopharmacological medication reviews. ECS is available in adult family homes, assisted living facilities, and enhanced adult residential care facilities. ECS is funded through DSHS who receives and distributes referrals to Valley Cities. The goal of this program is to support clients in being successful in community and staying out of psychiatric hospitals and jails. In 2022, this program served 121 clients.

Senior Center Program

Senior Center is a contract with both City of Kent and Seattle. Valley Cities brings group and individual treatment to Kent and Seattle (Pike street) Senior Centers. These groups are support by staff at the Kent, Auburn, Pike clinics and ECS staff. Through this contract Valley Cities can provide services to the older adult population, specifically those who are on Medicare, a widely underserved population due to lack of providers. In 2022, the program offered 5 different groups, and between 4-5 sessions a week were offered to seniors at the Kent and Pike centers. Group topics included Grief and Loss, Support group, Tai Chi, Be Well workshops, and a Women's Group. In 2022, this program was able to provide 208 individual treatment appointments for those in need.

Employment Services (ES) Program

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. 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 focus of the program is to connect clients to jobs that are a good fit and benefit not only the new employee, but also the employer. Valley Cities collaborates 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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

PURPOSE AND PROGRAMS (Continued)

Employment Services (ES) Program (Continued)

Once Valley Cities matches a client with an employer. The Employment Program currently has contracts with King County Supported Employment, Amerigroup Foundational Community Supports (FCS), and Division of Vocational Rehabilitation (DVR). In 2022, out of all Valley Cities clients who reported whether they are employed or unemployed, 58% reported that they were unemployed, and 120 outpatient Valley Cities clients requested employment services. Valley Cities was able to enroll and serve 88 clients through the Supported Employment program.

Veteran Services

Throughout 2022 and despite continuing restrictions of COVID19, the Valley Cities Veterans team continued to provide behavioral health, Pathfinder, and Navigation services for Veterans and family members under funding provided by the King County Veteran, Seniors, and Human Services Levy. Behavioral health services were provided to 25 clients under a contract with the Washington Department of Veterans Affairs. Both the Pathfinder for Veterans of Color and the Housing Navigator programs served 105 clients.

Cohen Veterans Network

In 2022, the Cohen Clinic provided approximately 9,033 services to 1,141 veterans, active-duty service members and their families with outpatient behavioral healthcare. While the clinic was not fully staffed for the entire year, there are currently 30.25 FTE budgeted positions. Over 90% of Valley Cities clients would refer their friends and family to the clinic for care. Almost 60% of clients with anxiety, 72% with PTSD, and 59% with depression experience overall improvement in symptoms at the end of their treatment. Primary funding sources included: CVN grant, Boeing Grant, Tricare, Triwest and other commercial insurances.

Housing Support Services

Valley Cities operates permanent supportive 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 and eight units in the Homeless Service Enhancement program 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, 2022 AND 2021

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

PURPOSE AND PROGRAMS (Continued)

Housing Support Services (Continued)

In 2022, this program served 149 clients. Funding sources included King County, HUD, WA State Dept. of Commerce; Plymouth Housing; and King County Housing Authority.

Families First

With funding from the King County Housing Authority (24 vouchers), the Families First program is designed to provide housing placement and supportive services to 24 high needs families in King County who have had at least one child or are in imminent danger of having a child removed from the home by Child Protective Services. The goal of the project is reunification of the family and increasing housing stability and self-sufficiency. This is accomplished through individualized, intensive services to families along with a Family Unification Program (FUP) Section 8 voucher (tenant-based vouchers) that can be used in the private housing market. In 2022, this program served 34 individuals and a success rate of 82% of families remaining stably housed for at least 1 or more years.

Coming-Up Youth Program

The Coming Up Program (CUP) is a supportive housing program subsidized through King County Housing Authority (KCHA) and King County. CUP provided housing and support services to up to 22 homeless young adults in South King County ages 18-24. The goal of the CUP program was to provide program participants with a wraparound approach to services and support that would enable them to achieve self-sufficiency. In 2022, Valley Cities worked with the King County Housing Authority (KCHA) to move from master leased units to tenant-based Sec. 8 vouchers. After a year of working closely with KCHA to complete this transition, Valley Cities searched for an apartment complex within the South King County community that could provide 22 set-aside units that would accept tenant-based Sec. 8 vouchers. Unfortunately, due to the current rental market, management companies that in the past were willing to partner are no longer willing to provide set-aside units for the population Valley Cities serves. Valley Cities was unable to locate a community apartment complex that would provide 22 set-aside units to meet the grant requirements. Consequently, in 2022, Valley Cities made the difficult decision to end the CUP program as of December 30, 2022. All current CUP participants were provided advocacy to locate alternative housing programs or were provided assistance to graduate with a Sec. 8 Move-On voucher to permanent housing.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

PURPOSE AND PROGRAMS (Continued)

New Journeys Demonstration Project Program

The New Journeys Demonstration Project’s goal is to deliver and implement a model for first-episode psychosis (FEP) treatment that creates a positive climate and maintains fidelity to the clinical concepts and core elements of Coordinated Specialty Care (CSC) via the NAVIGATE model. Participants are King County residents between ages 15-40 who have a primary diagnosis on the Schizophrenia spectrum with symptoms for less than two years. The mental health symptoms are not a direct result of or strongly impacted by an autism spectrum disorder, significant developmental delays, learning disabilities or other medical conditions. New Journeys places a strong emphasis on outreach and engagement. Valley Cities staff dedicate their time to “meeting participants where they are at.” They ensure participant and engagement of supports by offering mobile services to meet the varying needs within recovery. New Journeys provides individual skills training and therapy, group therapy, family education and support, case management, employment and education services and peer support in community settings. They also offer medication management at a clinic for enrolled participants. The manager provides screenings for referrals, clinical supervision, contract monitoring, relationship building with the referral base and community education about both the schizophrenia spectrum and services offered by New Journeys. In addition to working with enrolled participants and their supports, the manager also explores resources and treatment options for those individuals who do not meet the eligibility criteria for New Journeys. In 2022, New Journeys provided 5,980 services and travelled more than 9,000 miles to engage participants and their support systems.

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

In 2017, Valley Cities Behavioral Health entered a contract with SAMHSA and the Health Care Authority to begin providing low-barrier, rapid access to Medications for Opiate Use Disorder (MOUD) and related support services in response to the opioid epidemic. The primary focus of the MATCH program is to induct and stabilize individuals with MOUD, who meet diagnostic criteria for an 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 extended-release injectable). An additional focus of MATCH is reducing barriers to increase the ease of access to MOUD, treatment and care navigation. MATCH services can be accessed in the community at one of Valley Cities’ outpatient facilities throughout King County or at one of the two inpatient programs, Recovery Place Seattle (RPS) and Recovery Place Kent (RPK). In response to the onset of fentanyl and the subsequent spike in overdose, overdose death and accidental poisoning, the MATCH program is working assertively to ensure consistent access to naloxone and fentanyl test strips. These lifesaving items are distributed at all Valley Cities locations. The MATCH program works closely with its community partners to provide individualized, equitable services.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

PURPOSE AND PROGRAMS (Continued)

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

Valley Cities Care Navigators, Peer Support Specialist, Data Coordinator and Nurse Care Manager all work directly with the client to connect them with the services they are seeking to include (but not limited to), primary care, dental, behavioral health, housing, employment, and recovery support services. To provide evidence-based, trauma-informed care, the MATCH program regularly attends continuing education opportunities and engages with other MOUD providers as a cohort, to better understand the community Valley Cities is serving and to stay up to date on the most effective treatment strategies. In that spirit, MATCH provides quantitative and qualitative data to the Washington State Healthcare Authority, DBHR and SAMHSA to further the mutual goal of helping those who continue to struggle with Opiate Use Disorder. In 2022, MATCH served 467 clients and 396 of those were new inductions.

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 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 an 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 2022, a total of 306 clients were enrolled in AOSP. An average of 25 clients were served each month.

Medical Services

Medical Services includes both staff psychiatrists and nurse practitioners. They provide psychiatric evaluations and medication management services to any client who needs psychiatric care.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

PURPOSE AND PROGRAMS (Continued)

Medical Services (Continued)

In addition, the medical staff provides psychiatric consultation to a range of community health centers throughout King County, advising the primary care staff with diagnostic information and recommendations on psychotropic medications that can be prescribed in the primary care setting. All expenses related to these staff are captured in this program.

Clinical Support Services

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

Recovery Place Seattle (RPS)

Recovery Place Seattle (RPS) is a residential treatment facility and houses a licensed medically monitored 33 bed detoxification service which provides medical detoxification inpatient services for people who need support to safely withdraw from drug or alcohol use. This 33-bed service 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 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 daily census for Detox and Residential for 2022 was 10 and 25, respectively.

Recovery Place Kent (RPK)

Recovery Place Kent (RPK) opened in December 2019 with 32 beds and is Washington State's first dually licensed Chemical Dependency & Psychiatric facility. The Evaluation and Treatment program 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 opened December 2019 in response to House Bill 1713 "Ricky's Law". The Secure Withdrawal Management Services provides both Medical Management of withdrawal from addictive substances, psychiatric evaluation and support, substance use assessment and counseling, medication management, group activities, peer support, coordination with King County ITA Court, and discharge planning to community supports.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 statements 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 12.

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, 2022 AND 2021

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. Effective October 1, 2020, PHP payments are for a case rate for the period with adjustments based on the services provided to authorized clients for the period as opposed to the number of clients authorized for the period. Timing of revenue recognition did not change. 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, 2022 and 2021.

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 COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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)

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.

The expected losses on accounts receivable balances of \$5,309,727 and \$5,664,497 as of December 31, 2022 and 2021, respectively, are estimated to be \$5,644 and \$29,043, respectively.

The opening and closing balances of trade receivables, net is \$5,635,454 and \$5,304,083, respectively, as of January 1, 2022 and December 31, 2022 and there were no contract assets or contract liabilities.

The opening and closing balances of trade receivables, net is \$4,898,671 and \$5,635,454, respectively, as of January 1, 2021 and December 31, 2021 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 \$23,274,506 and \$3,838,870, respectively, for the year ended December 31, 2022. Net patient service revenues received from PHP and third-party payors (Medicaid/Medicare/Insurance, etc.) totaled \$24,422,073 and \$3,714,853, respectively for the year ended December 31, 2021.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)
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.

Consequently, at December 31, 2022 and 2021, contributions approximating \$5,625,000 and \$0, 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, matching, reporting, and other requirements for its operations at the Steven A Cohen Military Family Clinic at Valley Cities.

Contributions of \$2,025,068 and \$2,419,989 were recognized for the years ended December 31, 2022 and 2021, respectively.

Agency Contracts & Grants

The Organization also enters into agreements of varying length with local, county and state government agencies and local non-government agencies in providing mental health and recovery services to the general public, as funding under these agreements is subject to change based on contract amendments and dependent upon services rendered, expenses incurred, level of effort and other requirements, the amount of future funding committed under those agreements is indeterminable.

These agencies 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 agency 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 agency grants and contracts totaled \$23,579,763 and \$21,052,298 for the years ended December 31, 2022 and 2021, respectively.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made." Valley Cities adopted this standard on a modified prospective basis, effective January 1, 2020 as it was 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 recognized amortization of \$1,348,058 on the refundable advances prior to January 1, 2020. 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.

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 2022 and 2021.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 1 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 \$2,500 or more are capitalized. Repairs and maintenance are expensed as incurred. Depreciation and amortization expense charged to operations for the years ended December 31, 2022 and 2021, was \$1,506,694 and \$1,555,367, respectively.

Leases

The Company leases buildings and equipment. The Company determines if an arrangement is a lease at inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Operating leases are included in operating lease right-of-use (ROU) assets, and operating lease liabilities current and long-term on the statement of financial position as of December 31, 2022. Finance leases are included in finance lease right of use assets, and finance lease liabilities current and long-term on the statement of financial position as of December 31, 2022.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of the lease payments over the lease term. The Company uses the implicit rate when it is readily determinable. As most of the Company's leases do not provide an implicit rate, the Company uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The ROU assets also include any lease payments made, plus any initial direct costs, and exclude any lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. Finance lease costs are recognized as amortization and interest expense.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company has lease agreements with lease and non-lease components, which are accounted for separately. Non-lease components related to finance leases are primarily comprised of sales taxes, maintenance, and image charges. Non-lease components related to operating leases are primarily comprised of common area maintenance, property taxes, and utilities expenses that are passed on from the lessor in proportion to the space leased, in addition to sales taxes, maintenance and image charges. These charges are recognized in operating expenses in the period in which the obligation for those payments was incurred.

The Company has elected to apply the short-term lease exemption to all the classes of underlying assets. In 2022, the Company had no short-term leases.

In evaluating contracts to determine if they qualify as a lease, the Company considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if it can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

In allocating consideration in the contract to the separate lease components and the non-lease components, the Company uses the standalone prices of the lease and non-lease components. Observable standalone prices are used, if available. If the standalone price for a component has a high level of variability or uncertainty, this allocation may require significant judgment.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Self-Insured Health Plan

Effective January 2016, Valley Cities implemented a self-insured health plan whereby it directly reimburses medical costs for individual claims through a third-party administrator. As of December 31, 2022 and 2021, Valley Cities covered the cost of individual claims up to \$125,000. 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, 2022 and 2021 were approximately \$2,513,000 and \$4,050,000, respectively, with stoploss reimbursements received of approximately \$266,000 and \$1,340,000, respectively. Total reserves for claims incurred and paid in the subsequent year and for incurred but not reported claims was approximately \$302,000 and \$409,000 as of December 31, 2022 and 2021 and the reserves are 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.

During 2022 and 2021, 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 is no longer subject to examinations by the Internal Revenue Service for the years prior to 2019.

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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impacts of COVID-19

The outbreak of the COVID-19 pandemic has severely impacted and continues to severely impact the U.S. and global economies. The Organization experienced labor pool shortages limiting revenue generation.

The full impact of the COVID-19 outbreak and resulting inflation continues to evolve as of the date the financial statements were available to be issued. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, industry, and workforce.

Recently Adopted Accounting Guidance

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted the standard and related updates effective January 1, 2022 and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

The Company elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Guidance (Continued)

As a result of the adoption of the new lease accounting guidance, the Company recognized on January 1, 2022 a lease liability of \$3,512,394, which represents the present value of the remaining operating lease payments of \$3,727,519, discounted using the Company's risk-free rate for the various terms of the leases that ranged from .40% to 3.74%, and a right-of-use asset of \$3,512,394, which represents the operating lease liability of \$3,512,394.

The standard had a material impact on the statement of financial position but did not have an impact on the statement of activities, nor the statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while the Company's accounting for finance leases remained substantially unchanged.

NOTE 2.--FACILITIES AND CONSTRUCTION IN PROGRESS

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

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 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. In January 2021, approximately \$1,830,000 was moved from construction-in-progress to property and equipment. The project was completed in January 2021.

Mobile clinic van: During 2022, Valley Cities expended approximately \$131,800 for the purchase and retrofit of a van to use as a mobile clinic in providing clients and the community greater access to mental health services.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 3.-- NOTES PAYABLE

Notes payable as of December 31, 2022 and 2021 consist of the following:

	2022	2021
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%, (total rate of 6.22% and 2.19% at December 31, 2022 and 2021, respectively). Due April 1, 2023, with a balloon payment of \$799,433 including interest. Secured by the real estate financed. See Notes 4 and 13.	\$ 817,605	\$ 879,512
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.	517,630	616,411
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 including interest. Secured by two properties financed.	<u>8,801,387</u>	<u>9,193,586</u>
	10,136,622	10,689,509
Less current portion	<u>(1,323,840)</u>	<u>(521,136)</u>
Total long-term portion	<u>\$ 8,812,782</u>	<u>\$ 10,168,373</u>

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

<u>Year ending December 31,</u>	
2023	\$ 1,323,840
2024	521,232
2025	538,168
2026	554,896
2027	553,040
Thereafter	<u>6,645,446</u>
	<u>\$ 10,136,622</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 3.--NOTES PAYABLE (Continued)

The carrying value of the properties serving as collateral on the line of credit and notes payable at December 31, 2022 and 2021, are approximately \$17,080,998 and \$17,604,325, 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, 2022, 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 a total rate of 6.22% and 2.19% at December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, the swap contract had a notional amount of \$817,604 and \$879,512, respectively. The underlying note was paid off subsequent to year end. See Notes 3 and 13.

Management has determined that the fair value of the interest rate swap agreement at December 31, 2022 and 2021, is immaterial and, hence, is not included in the financial statements.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 5.--REFUNDABLE ADVANCES

Refundable advances as of December 31 consist of:

	<u>2022</u>	<u>2021</u>
Valley Cities Landing	\$ 5,268,444	\$ 5,268,444
Valley Cities Neighborhood Stabilization Program Rental	549,176	549,176
Phoenix Rising	6,172,881	6,172,881
Recovery Place Kent	7,000,000	7,000,000
Recovery Place Seattle	1,950,000	1,950,000
Accumulated amortization	<u>(1,348,058)</u>	<u>(1,348,058)</u>
	<u>\$ 19,592,443</u>	<u>\$ 19,592,443</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 replacement reserve accounts as of December 31, 2022 and 2021 total approximately \$268,000.

State of Washington Grant: During 2008, Valley Cities was awarded \$1,500,000 from the State of Washington Department of Community Trade and Economic Development, of which \$1,382,254 was used as of December 31, 2011. This grant is restricted from January 1, 2011, until December 31, 2050, when the term of commitment ends. If the property is sold, refinanced, transferred, the use changes during the 40-year term of commitment, or Valley Cities is materially out of compliance with the terms and conditions of the grant, the award amount, plus a proportional share of the appreciated value of the property will be due and payable within 30 days of such event. The grant is secured by a promissory note and deed of trust on the property. The units must be occupied by households that at the time of initial occupancy have adjusted gross incomes at or below 50% of the median income for Seattle-Bellevue per the Housing and Mortgage Finance Agency (HMFA). Further, Valley Cities is required to make best efforts to provide 24 of the units to households that at the initial occupancy have gross annual household incomes at or below 30% of the median income for Seattle-Bellevue.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, 2022 AND 2021

NOTE 5.--REFUNDABLE ADVANCES (Continued)

Phoenix Rising (Continued)

In 2015, 2016, and 2019 Valley Cities was awarded several grants (refundable advances) for development and construction of the housing units and recovery café. As of December 31, 2020, all of the funds, a total of \$6,172,881, 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 replacement reserve accounts as of December 31, 2022 and 2021 total approximately \$105,000.

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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 5.--REFUNDABLE ADVANCES (Continued)

Phoenix Rising (Continued)

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. 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. The grant is secured by a promissory note and deed of trust on the property.

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. The grant is restricted through April 2029, 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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 5.--REFUNDABLE ADVANCES (Continued)

Recovery Place Seattle at Beacon Hill (Continued)

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

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

NOTE 6.--LEASES 2021

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 year ended December 31, 2021 was approximately \$1,778,000.

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>
2022	\$ 1,091,019	\$ 144,533	\$ 1,235,552
2023	917,284	103,775	1,021,059
2024	801,373	83,946	885,319
2025	396,594	54,922	451,516
2026	-	7,346	7,346
Thereafter	-	200	200
	<u>\$ 3,206,270</u>	<u>\$ 394,722</u>	<u>\$ 3,600,992</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 7.--LEASES 2022

The Company has operating and finance leases for buildings and certain equipment. The leases have remaining lease terms of 1 to 5 years.

The components of lease expense were as follows for the year ended December 31 2022:

Lease expense

Finance lease expense	
Amortization of ROU assets	\$ 3,867
Interest on lease liabilities	673
Operating lease expense	1,234,446
Variable lease expense	-
Total	<u>\$ 1,238,986</u>

Other Information

Weighted-average remaining lease term in years for finance leases	4.72
Weighted-average remaining lease term in years for operating leases	2.51
Weighted-average discount rate for finance leases	3.69%
Weighted-average discount rate for operating leases	1.18%

Future minimum lease payments under non-cancellable leases as of December 31, 2022 are as follows:

<u>Year ending December 31,</u>	<u>Finance</u>	<u>Operating</u>
2023	\$ 14,784	\$ 1,046,906
2024	14,784	912,608
2025	14,784	475,186
2026	14,784	35,067
2027	9,774	16,691
Thereafter	-	-
Total undiscounted cash flows	68,910	2,486,458
Less: present value discount	(5,538)	(38,932)
Total lease liabilities	<u>\$ 63,372</u>	<u>\$ 2,447,526</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 8.--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 \$825,070 in 2022 and \$728,483 in 2021 and are included in employee benefits expense on the accompanying statements of activities and statements of functional expenses.

NOTE 9.--NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Seattle Foundation - Covid 19 Relief Fund	\$ -	\$ 13,698
Seattle Foundation - General Support for the Highest Good	18,371	22,101
National Alliance on Mental Illnes - NAMI	40,409	59,456
Boeing Grant (CVN)	289,015	317,725
Cohen Veterans Network	1,025,454	947,032
Greater Tacoma (CVN)	9,237	-
Snoqualmie Tribe (CVN)	-	10,667
Fidelity Charitable Fund (CVN)	25,000	-
Milton and Charlotte Kramer Charitable Foundation	487	1,811
Windermere Youth Development	790	1,327
Glaser Foundation - Youth and School Based Program	-	20,000
MJ Murdock Charitable Trust - Mobile Clinic	60,098	171,149
BNSF Railway Foundation - PXR Residents Supplies & Support	4,789	2,016
Puyallup Indian Tribe - PXR Residents/CAFÉ Food Supplies	5,000	4,951
The Norcliffe Foundation - Payroll	25,000	25,000
Union Pacific Foundation - DEI Training	-	10,000
HealthierHere Engagement Coordinator	15,860	48,247
Pete Von Reichebauer - PXR Housing Stability Grant	16,325	18,104
Renton Regional Community Foundation - Renton Telehealth Access Grant	-	2,872
Fundraising & Other Events	6,194	29,002
McEachern Trust - School Based	1,152	-
Kawabe Memorial Fund - PSH Transition Supplies	3,962	-
Deacon Charitable Foundation - School Based	3,045	-
Fred & Gretel Biel Charitable Trust - PSH Supplies	5,000	-
Tulalip Tribes - RPS	3,200	-
Quincy Ells - General Support 3 Years Pledge	30,000	-
AOF/Pacitic Affordable Housing Grant - Renton Clinic	16,000	-
MJ Murdock Charitable Trust - New Technology	113,500	-
Mick Lamb Foundation - PXR Facilities	15,000	-
Bella Foundation - General Support	5,000	-
Total net assets with donor restrictions	<u>\$ 1,737,888</u>	<u>\$ 1,705,158</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, 2022 and 2021, for the following purposes:

	<u>2022</u>	<u>2021</u>
Seattle Foundation - General Support for the Highest Good	\$ 3,730	\$ 2,352
Seattle Foundation - Defibrillator	-	5,000
Seattle Foundation - VCCC Operating Funds	13,698	13,504
National Alliance on Mental Illness - NAMI	19,047	34,522
Boeing Grant (CVN)	108,709	120,496
Cohen Veterans Network	1,389,070	1,438,067
Greater Tacoma (CVN)	763	13,064
Fidelity Charitable Fund (CVN)	-	10,000
Boeing Spirit of the Holidays Drive (CVN)	-	5,236
Snoqualmie Tribe (CVN)	10,667	5,333
Franz Bakery Foundation - PXR Operations	-	2,500
WA Youth Devt - Schools Out Grant	-	20,000
Milton and Charlotte Kramer Charitable Foundation	1,323	3,189
Windermere Youth Development	3,037	1,173
MJ Murdock Charitable Trust - Mobile Clinic	111,050	3,851
BNSF Railway Foundation - PXR Residents Supplies & Support	2,227	484
Puyallup Indian Tribe - PXR Residents/CAFÉ Food Supplies	4,951	49
Pete Von Reichebauer - PXR Client Housing Stability Grant	1,779	1,896
Bella Foundation - School BH Issues Grant	-	20,000
Glaser Foundation - Youth and School Based Program	20,000	-
McEachern Trust - School Based	3,448	-
Kawabe Memorial Fund - PSH Transition Supplies	1,038	-
Deacon Charitable Foundation - School Based	955	-
Lucky Seven Foundation - SEP	5,000	-
Quincy Ells - General Support 3 Years Pledge	15,000	-
Union Pacific Foundation - Evidence Based DEI Training	24,000	-
HealthierHere Engagement Coordinator	80,634	-
Renton Regional Community Foundation - Renton Telehealth Access Grant	2,872	-
Muckle Indian Casino - RPS	118,000	-
Fundraising & Other Events	<u>28,000</u>	<u>-</u>
Total net assets with donor restrictions released from restrictions	<u>\$ 1,968,998</u>	<u>\$ 1,700,716</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 11.--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, 2022 and 2021, King County funding (including prepaid health plan) accounted for 80% and 77% of Valley Cities' client and third-party revenues. Also, amounts due from King County at December 31, 2022 and 2021, accounted for approximately 57% and 50%, respectively, of accounts receivable. Federal agencies accounted for less than 10% of accounts receivable as of December 31, 2022 and 2021.

NOTE 12.--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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 22,295,615	\$ 18,011,196
Accounts and grants receivable, net of allowance for doubtful accounts	<u>5,304,083</u>	<u>5,635,454</u>
Total financial assets	27,599,698	23,646,650
Less restricted assets:		
Valley Cities Landing Reserves (Note 5)	(268,237)	(268,211)
Phoenix Rising Reserves (Note 5)	(104,660)	(104,649)
Donor restrictions	<u>(1,737,888)</u>	<u>(1,705,158)</u>
Total financial assets not available for general expenditures	<u>(2,110,785)</u>	<u>(2,078,018)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 25,488,913</u>	<u>\$ 21,568,632</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 13.--SUBSEQUENT EVENTS

Effective February 28, 2023, the note payable to Bank of America with an outstanding balance of \$817,605 as of December 31, 2022, was paid off. See Note 3.

Valley Cities has evaluated subsequent events through May 26, 2023 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, 2022**

Federal Grantor/Pass-through Grantor/Program Title	Assistance Listing Number	Pass-through Entity Identifying Number	2022 Federal Expenditures
U.S. Department of Health and Human Services			
Provider Relief Fund and COVID-19 American Rescue Plan (ARP) Rural Distribution (Phase 4)	93.498	EIN	\$ 527,233
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	868332433	115,499
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	868332433	150,000
Pass-through from Washington HCA Division of Behavioral Health and Recovery			
Opioid STR	93.788	* 868332433	564,054
Opioid STR	93.788	* 868332433	183,780
Pass-through from Thurston-Mason Behavioural Health Administrative Services Organization			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	868332433	<u>5,370</u>
Total U.S. Department of Health and Human Services			\$ 1,545,936
U.S. Department of Housing and Urban Development:			
Pass-through from King County Housing and Community Development Division			
Pass-through from Solid Ground Washington CDBG - Entitlement Grants Cluster			
Community Development Block Grant program/Entitlement Grants	14.218	EIN	1,950
Pass-through from King County Department of Community and Human Services Community Services Division			
Continuum of Care Program	14.267	086832433	96,005
Continuum of Care Program	14.267	KTY3NEXN42K7	<u>154,340</u>
Total U.S. Department of Housing and Urban Development			\$ 252,295
U.S. Department of Treasury			
Pass-through from King County Department of Community and Human Services Behavioral Health and Recovery Division			
Covid-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	868332433	33,568
U.S. Department of Education (ED)			
Pass-through from Washington State Office of Superintendent of Public Instruction American Rescue Plan - Elementary and Secondary Schools			
Covid-19 Emergency Relief Fund (ARP - ESSER)	84.425U	868332433	<u>94,826</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,926,625</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, 2022**

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, 2022. 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 Assistance Listing 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.

NOTE 5.--OTHER FEDERAL AWARDS

The Organization received funding in the amount of \$2,695,345 from Behavioral Health Workforce Stabilization Funding (Assistance Listing Number 21.027) during the year ended December 31, 2022. As the Organization was the beneficiary and not a subrecipient, the funds are excluded from presentation in the Schedule of Expenditures of Federal Awards.



**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, 2022, 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, 2023.

Report on 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) as a basis for designing 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 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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, 2023



**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

Opinion on Each Major Federal Program

We have audited Valley Cities Counseling and Consultation's compliance with the types of compliance requirements identified as subject to audit 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, 2022. Valley Cities Counseling and Consultation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Valley Cities Counseling and Consultation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Valley Cities Counseling and Consultation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Valley Cities Counseling and Consultation's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Valley Cities Counseling and Consultation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Valley Cities Counseling and Consultation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Valley Cities Counseling and Consultation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Valley Cities Counseling and Consultation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 ABC Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2023

**VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2022**

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:

Assistance Listing Number 93.788 Opioid STR

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.