

**VALLEY CITIES COUNSELING
AND CONSULTATION**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009**

**VALLEY CITIES COUNSELING
AND CONSULTATION**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Valley Cities Counseling and Consultation
Auburn, Washington

We have audited the accompanying statements of financial position of Valley Cities Counseling and Consultation (a nonprofit organization) as of December 31, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Cities Counseling and Consultation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2011, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Valley Cities Counseling and Consultation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Shannon & Associates, LLP

Kent, Washington
May 9, 2011

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,208,341	\$ 3,238,433
Accounts and grants receivable, net of allowance for doubtful accounts of \$15,000 as of each year end	1,024,098	838,262
Prepaid expenses and deposits	<u>181,365</u>	<u>108,178</u>
TOTAL CURRENT ASSETS	3,413,804	4,184,873
PROPERTY AND EQUIPMENT		
Buildings	9,043,829	4,561,256
Construction in progress	2,845,945	1,746,682
Leasehold improvements	55,957	52,823
Equipment	1,926,349	1,665,149
Vehicles	16,983	16,983
Land	<u>1,419,062</u>	<u>1,339,248</u>
	15,308,125	9,382,141
Less accumulated depreciation	<u>2,080,951</u>	<u>1,886,066</u>
NET PROPERTY AND EQUIPMENT	<u>13,227,174</u>	<u>7,496,075</u>
TOTAL ASSETS	<u><u>\$ 16,640,978</u></u>	<u><u>\$ 11,680,948</u></u>

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 682,878	\$ 457,084
Accrued wages, payroll taxes and benefits	843,507	668,625
Deferred revenue	10,859	14,039
Current portion, notes payable	342,870	234,320
Rent deposits	<u>2,600</u>	<u>1,200</u>
TOTAL CURRENT LIABILITIES	1,882,714	1,375,268
LONG-TERM LIABILITIES		
Notes payable, net of current portion	4,563,910	4,445,893
Refundable advances	<u>5,140,376</u>	<u>1,883,135</u>
TOTAL LONG-TERM LIABILITIES	<u>9,704,286</u>	<u>6,329,028</u>
TOTAL LIABILITIES	11,587,000	7,704,296
NET ASSETS		
Unrestricted	4,756,096	3,678,868
Temporarily restricted	<u>297,882</u>	<u>297,784</u>
TOTAL NET ASSETS	<u>5,053,978</u>	<u>3,976,652</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 16,640,978</u></u>	<u><u>\$ 11,680,948</u></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, 2010

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
PUBLIC SUPPORT AND REVENUES			
Public support			
United Way	\$ 341,847		\$ 341,847
Contributions	40,785	\$ 241,668	282,453
Amortization of refundable advance	-	32,190	32,190
	<u>382,632</u>	<u>273,858</u>	<u>656,490</u>
Revenues			
Net client and third-party revenues			
King County prepaid health plan	9,226,425		9,226,425
King County contracts	4,455,734		4,455,734
Client and third party	196,184		196,184
Local	521,037		521,037
Medicare	60,398		60,398
Medicaid	139,957		139,957
State of Washington	158,035		158,035
Other	582,096		582,096
	<u>15,339,866</u>		<u>15,339,866</u>
Net assets released from restriction	273,760	(273,760)	-
TOTAL PUBLIC SUPPORT AND REVENUES	<u>15,996,258</u>	<u>98</u>	<u>15,996,356</u>
EXPENSES			
Salaries and wages	9,053,758		9,053,758
Employee benefits	1,195,599		1,195,599
Payroll taxes	823,163		823,163
Total salaries and related expenses	11,072,520		11,072,520
Professional fees	375,752		375,752
Sub-contractor expenses	180,168		180,168
Conference and training	84,825		84,825
Membership fees and dues	57,760		57,760
Travel and vehicle	225,440		225,440
Insurance	130,332		130,332
Supplies	109,132		109,132
Interest expense	230,231		230,231
Computer expense	69,270		69,270
Telephone	285,698		285,698
Postage and delivery	30,432		30,432
Rent	377,128		377,128
Furniture and equipment	131,758		131,758
Depreciation	415,304		415,304
Utilities	71,593		71,593
Occupancy	148,545		148,545
Printing/advertising	75,951		75,951
Client assistance	696,697		696,697
Clients – special needs	75,530		75,530
Miscellaneous	74,964		74,964
TOTAL EXPENSES	<u>14,919,030</u>		<u>14,919,030</u>
CHANGE IN NET ASSETS	1,077,228	98	1,077,326
NET ASSETS, beginning of year	<u>3,678,868</u>	<u>297,784</u>	<u>3,976,652</u>
NET ASSETS, end of year	<u>\$ 4,756,096</u>	<u>\$ 297,882</u>	<u>\$ 5,053,978</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, 2009

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
PUBLIC SUPPORT AND REVENUES			
Public support			
United Way	\$ 312,441		\$ 312,441
Contributions	<u>24,598</u>	<u>\$ 31,449</u>	<u>56,047</u>
	337,039	31,449	368,488
Revenues			
Net client and third-party revenues			
King County prepaid health plan	9,176,900		9,176,900
King County contracts	3,379,614		3,379,614
Client and third party	230,963		230,963
Local	441,221		441,221
Medicare	56,334		56,334
Medicaid	157,137		157,137
State of Washington	117,025		117,025
Other	<u>432,182</u>		<u>432,182</u>
	13,991,376		13,991,376
Net assets released from restriction	<u>60,000</u>	<u>(60,000)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUES	14,388,415	(28,551)	14,359,864
EXPENSES			
Salaries and wages	8,195,415		8,195,415
Employee benefits	1,013,323		1,013,323
Payroll taxes	<u>702,154</u>		<u>702,154</u>
Total salaries and related expenses	9,910,892		9,910,892
Professional fees	303,166		303,166
Sub-contractor expenses	79,403		79,403
Conference and training	93,700		93,700
Membership fees and dues	46,858		46,858
Travel and vehicle	193,944		193,944
Insurance	127,650		127,650
Supplies	96,524		96,524
Interest expense	159,951		159,951
Computer expense	77,826		77,826
Telephone	191,512		191,512
Postage and delivery	28,856		28,856
Rent	424,895		424,895
Furniture and equipment	112,563		112,563
Depreciation	310,056		310,056
Utilities	74,162		74,162
Occupancy	182,682		182,682
Printing/advertising	70,739		70,739
Client assistance	557,194		557,194
Clients – special needs	54,673		54,673
Miscellaneous	<u>54,040</u>		<u>54,040</u>
TOTAL EXPENSES	<u>13,151,286</u>		<u>13,151,286</u>
CHANGE IN NET ASSETS	1,237,129	(28,551)	1,208,578
NET ASSETS, beginning of year	<u>2,441,739</u>	<u>326,335</u>	<u>2,768,074</u>
NET ASSETS, end of year	<u>\$ 3,678,868</u>	<u>\$ 297,784</u>	<u>\$ 3,976,652</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, 2010

	Program Services				
	Child and Family <u>Services</u>	Adult <u>Services</u>	Older Adult <u>Services</u>	Homeless Family <u>Services</u>	Housing Support <u>Services</u>
Salaries and wages	\$ 1,698,280	\$ 1,582,611	\$ 473,064	\$ 893,140	\$ 458,187
Employee benefits	277,655	245,984	69,843	140,507	63,236
Payroll taxes	<u>167,713</u>	<u>158,978</u>	<u>48,901</u>	<u>84,981</u>	<u>43,519</u>
 Total salaries and related expenses	 2,143,648	 1,987,573	 591,808	 1,118,628	 564,942
 Professional fees	 54,062	 131,268	 17,723	 15,144	 5,586
Sub-contractor expenses	-	66,757	-	-	113,411
Conference and training	22,251	17,504	3,038	6,415	5,500
Membership fees and dues	12,977	12,777	3,097	5,605	4,679
Travel and vehicle	57,391	26,199	5,419	71,292	17,337
Insurance	29,013	28,098	6,985	14,927	8,563
Supplies	27,677	32,988	5,856	3,110	8,040
Interest expense	67,952	76,868	22,527	-	11,933
Computer expense	9,603	9,237	2,050	4,199	2,070
Telephone	84,505	83,654	18,642	14,377	20,616
Postage and delivery	6,786	6,608	1,500	3,053	1,632
Rent	140,403	118,638	8,998	43,285	33,428
Furniture and equipment	35,345	37,653	9,215	7,224	13,333
Depreciation	86,228	83,509	20,759	44,373	53,392
Utilities	17,754	18,636	5,863	8	18,353
Occupancy	44,881	42,324	10,209	6,396	19,331
Printing/advertising	5,946	6,282	1,991	2,340	2,210
Client assistance	17,139	14,534	635	27,027	634,557
Clients - special needs	41,030	34,500	-	-	-
Miscellaneous	<u>11,724</u>	<u>14,176</u>	<u>2,571</u>	<u>2,658</u>	<u>2,431</u>
 Total expenses	 <u>\$ 2,916,315</u>	 <u>\$ 2,849,783</u>	 <u>\$ 738,886</u>	 <u>\$ 1,390,061</u>	 <u>\$ 1,541,344</u>

Support Services

Medical Services	Clinical Support Services	Total Program Services	Management & General	Fundraising	Program Development/ Compliance	Total Support Services	Total
\$ 1,111,652	\$ 1,654,938	\$ 7,871,872	\$ 1,020,517	\$ 48,411	\$ 112,958	\$ 1,181,886	\$ 9,053,758
54,922	190,094	1,042,241	129,669	7,107	16,582	153,358	1,195,599
77,525	137,147	718,764	89,621	4,433	10,345	104,399	823,163
1,244,099	1,982,179	9,632,877	1,239,807	59,951	139,885	1,439,643	11,072,520
30,977	97,499	352,259	22,391	331	771	23,493	375,752
-	-	180,168	-	-	-	-	180,168
3,499	12,968	71,175	8,867	1,435	3,348	13,650	84,825
3,276	7,518	49,929	6,357	442	1,032	7,831	57,760
2,510	34,342	214,490	8,696	676	1,578	10,950	225,440
5,644	22,690	115,920	12,338	622	1,452	14,412	130,332
8,160	14,265	100,096	5,678	1,007	2,351	9,036	109,132
20,085	29,199	228,564	1,667	-	-	1,667	230,231
1,727	26,025	54,911	10,353	1,202	2,804	14,359	69,270
17,757	37,180	276,731	7,759	362	846	8,967	285,698
1,343	4,646	25,568	2,591	682	1,591	4,864	30,432
15,508	16,766	377,026	88	4	10	102	377,128
9,635	15,377	127,782	3,663	94	219	3,976	131,758
16,774	67,437	372,472	36,665	1,850	4,317	42,832	415,304
4,903	6,318	71,835	(243)	-	1	(242)	71,593
9,703	13,366	146,210	2,014	96	225	2,335	148,545
4,919	5,870	29,558	24,623	6,531	15,239	46,393	75,951
40	2,618	696,550	-	45	102	147	696,697
-	-	75,530	-	-	-	-	75,530
1,626	3,341	38,527	5,855	9,175	21,407	36,437	74,964
<u>\$ 1,402,185</u>	<u>\$ 2,399,604</u>	<u>\$ 13,238,178</u>	<u>\$ 1,399,169</u>	<u>\$ 84,505</u>	<u>\$ 197,178</u>	<u>\$ 1,680,852</u>	<u>\$ 14,919,030</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, 2009

	Program Services				
	Child and Family <u>Services</u>	Adult <u>Services</u>	Older Adult <u>Services</u>	Homeless Family <u>Services</u>	Housing Support <u>Services</u>
Salaries and wages	\$ 1,583,385	\$ 1,469,196	\$ 420,304	\$ 777,386	\$ 311,757
Employee benefits	248,710	186,324	65,478	114,600	39,787
Payroll taxes	<u>148,737</u>	<u>139,847</u>	<u>42,713</u>	<u>68,051</u>	<u>27,377</u>
Total salaries and related expenses	1,980,832	1,795,367	528,495	960,037	378,921
Professional fees	59,545	100,757	10,493	17,703	4,617
Sub-contractor expenses	-	28,317	-	-	51,086
Conference and training	23,966	25,805	2,539	7,387	5,084
Membership fees and dues	12,612	14,049	3,227	4,335	2,257
Travel and vehicle	55,144	22,243	5,162	65,143	12,573
Insurance	30,797	32,036	7,181	12,231	5,848
Supplies	25,960	28,767	6,810	4,866	4,534
Interest expense	44,792	45,230	20,383	-	6,257
Computer expense	12,193	12,160	2,144	3,689	1,623
Telephone	52,223	52,328	12,794	13,597	7,839
Postage and delivery	6,316	6,532	1,568	2,819	1,480
Rent	166,446	160,472	11,510	32,903	25,460
Furniture and equipment	32,504	31,679	10,481	9,341	5,095
Depreciation	74,103	76,863	17,487	30,603	12,929
Utilities	19,728	20,889	7,553	70	13,602
Occupancy	49,214	49,394	14,039	9,772	19,238
Printing/advertising	13,455	15,034	3,632	4,381	3,211
Client assistance	11,034	3,375	317	7,812	518,335
Clients - special needs	20,173	34,500	-	-	-
Miscellaneous	<u>5,119</u>	<u>5,853</u>	<u>1,357</u>	<u>1,058</u>	<u>2,874</u>
Total expenses	<u>\$ 2,696,156</u>	<u>\$ 2,561,650</u>	<u>\$ 667,172</u>	<u>\$ 1,187,747</u>	<u>\$ 1,082,863</u>

Support Services							
Medical <u>Services</u>	Clinical Support <u>Services</u>	Total Program <u>Services</u>	Management & General	Fundraising	Program Development/ <u>Compliance</u>	Total Support <u>Services</u>	<u>Total</u>
\$ 999,162	\$ 1,530,989	\$ 7,092,179	\$ 925,958	\$ 56,729	\$ 120,549	\$ 1,103,236	\$ 8,195,415
56,514	160,727	872,140	122,217	6,069	12,897	141,183	1,013,323
69,035	114,530	610,290	76,591	4,888	10,385	91,864	702,154
1,124,711	1,806,246	8,574,609	1,124,766	67,686	143,831	1,336,283	9,910,892
29,551	63,333	285,999	15,466	544	1,157	17,167	303,166
-	-	79,403	-	-	-	-	79,403
2,420	12,250	79,451	9,933	1,381	2,935	14,249	93,700
2,212	2,275	40,967	2,679	1,028	2,184	5,891	46,858
1,725	22,908	184,898	6,956	669	1,421	9,046	193,944
5,125	20,519	113,737	11,844	662	1,407	13,913	127,650
4,636	14,070	89,643	5,069	580	1,232	6,881	96,524
10,851	28,917	156,430	3,521	-	-	3,521	159,951
1,539	27,018	60,366	13,656	1,217	2,587	17,460	77,826
8,931	31,491	179,203	10,503	578	1,228	12,309	191,512
1,080	4,289	24,084	2,848	616	1,308	4,772	28,856
19,076	9,028	424,895	-	-	-	-	424,895
8,641	12,475	110,216	1,990	114	243	2,347	112,563
12,309	50,952	275,246	29,632	1,657	3,521	34,810	310,056
4,426	7,643	73,911	239	4	8	251	74,162
9,330	23,960	174,947	6,601	362	772	7,735	182,682
5,135	9,958	54,806	3,677	3,922	8,334	15,933	70,739
7	1,857	542,737	-	4,626	9,831	14,457	557,194
-	-	54,673	-	-	-	-	54,673
408	942	17,611	2,305	10,920	23,204	36,429	54,040
<u>\$ 1,252,113</u>	<u>\$ 2,150,131</u>	<u>\$ 11,597,832</u>	<u>\$ 1,251,685</u>	<u>\$ 96,566</u>	<u>\$ 205,203</u>	<u>\$ 1,553,454</u>	<u>\$ 13,151,286</u>

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

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,077,326	\$ 1,208,578
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	415,304	310,056
Amortization of refundable advance	(32,190)	-
Cash provided (used) by changes in operating assets and liabilities:		
Accounts and grants receivable	(185,836)	102,176
Prepaid expenses and deposits	(73,187)	(51,838)
Accounts payable and accrued liabilities	225,794	153,070
Accrued wages, payroll taxes and benefits	174,882	144,098
Deferred revenue	(3,180)	(20,806)
Rent deposits	<u>1,400</u>	<u>(1,925)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,600,313	1,843,409
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, building and equipment	(3,381,752)	(1,653,808)
Construction in progress	<u>(2,764,651)</u>	<u>(1,305,557)</u>
NET CASH USED BY INVESTING ACTIVITIES	(6,146,403)	(2,959,365)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	500,000	4,500,000
Principal payments on notes payable	(273,433)	(2,746,095)
Proceeds from refundable advance	<u>3,289,431</u>	<u>1,088,070</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>3,515,998</u>	<u>2,841,975</u>
NET INCREASE (DECREASE) IN CASH	(1,030,092)	1,726,019
Cash and cash equivalents, beginning of year	<u>3,238,433</u>	<u>1,512,414</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,208,341</u></u>	<u><u>\$ 3,238,433</u></u>
Supplemental disclosures		
Cash paid during the year for:		
Interest	\$ 221,921	\$ 159,951

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

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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 mental health center, was established by community members of South King County in 1965. It has been a United Way member agency since 1967 and has been accredited by the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO).

The organization provides licensed mental health and chemical dependency treatment for youth and adults; domestic violence services for victims and perpetrators; outreach services and housing programs for the homeless; family support programs offering youth and family activities; and specialized veterans services that deliver counseling and family support services to veterans and their families. A Development Department carries out fundraising, marketing, public relations, grant writing, and public policy advocacy responsibilities. The Human Resources Department oversees personnel, staff training, student intern, and volunteer functions, and the Administration and Finance Department oversees all information management systems, support staff, accounting and payroll operations.

Valley Cities is committed to quality mental health care delivered from a recovery orientation, meaning that its treatments and interventions extend beyond symptom improvement to a more holistic approach to care that helps its clients live, work, learn, and fully participate in their communities. Various public and private funding sources and individual client fees are used to fund services. A sliding fee scale is available to help individuals gain access to services. Services are provided to approximately 6,200 individuals and their families each year.

Valley Cities' programs consist of:

Child and Family Services

Child and Family Services (CFS) is designed to meet the mental health service needs of children and youth and their families with mental illnesses or emotional disturbances; children, youth and families who are in crisis; and children and youth who are victims of trauma or family violence. CFS services include individual and family counseling; in-home family support and advocacy; school-based counseling; crisis intervention; case management; psychiatric assessment; case coordination with other service providers; medication management; support groups and skills training for 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, 2010 AND 2009

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

PURPOSE AND PROGRAMS (Continued)

Child and Family Services (Continued)

CFS has a Developmental Disabilities program that provides specialized services for children and youth with developmental disabilities that include individual, family and group counseling; parent support; and case management services. CFS has a Wraparound program that provides an intensive, individualized care management process for children and youth with serious or complex needs by using a team of individuals who are relevant to the well-being of the child (family, friends, agency representatives and service providers) and blending formal services and interventions with community services and interpersonal support. Additionally, Valley Cities operates a Veterans Services program that provides counseling and family support services specifically tailored to meet the unique needs of veterans and active duty military families. The Veterans Services program supports veterans and their families through outreach, education and counseling services.

Adult Services

Adult Services assists adults and their families with mental health and chemical dependency treatment services. In addition, specialized services are available to those who have experienced sexual abuse or domestic violence. Services are designed with an emphasis on recovery and hope. Valley Cities also provides employment and education 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 who have co-occurring mental health and chemical dependency problems.

Older Adult Services

Older Adult Services provides behavioral healthcare to meet the special needs of older adults and their families. Older Adult Services contracts with a number of nursing homes and assisted living facilities throughout King County to provide a full range of services to clients and families. An interdisciplinary team provides psychiatric evaluation, individual, family and group therapies to residents, and consultation services to primary care physicians and facility staff. Outpatient, senior center and some in-home services are also provided.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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

PURPOSE AND PROGRAMS (Continued)

Homeless Family Services

Valley Cities operates a street-based and shelter-based outreach program that uses teams of clinicians from a range of clinical backgrounds that specialize in providing interdisciplinary services on an outreach basis to homeless families. Homeless Family Services (HFS) is comprised of three closely-linked teams, each of which provides unique and specialized outreach services to homeless families throughout King County. HFS strives to create conditions in which families are able to address their personal circumstances, obtain the treatment and services they need, and gradually acquire the confidence and stability to reconnect to their own communities of support and care.

Housing Support Services

Valley Cities operates eight different permanent supported housing programs and two transitional supported housing programs that provide rental assistance with home-based case management services for homeless individuals and homeless families. Supportive services in these programs address events and circumstances that underlie or contribute to the inability to obtain and maintain affordable, stable housing. This includes Valley Cities Landing, a 24-unit permanent supportive housing project completed in September 2010 dedicated to serving individuals with mental illness and history of homelessness. Twelve of the 24 units are dedicated for homeless veterans. Residents engage in on-site and community-based services that help them live with stability, autonomy and dignity.

Medical Services

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

Clinical Support Services

Clinical Support Services includes Information Systems, Access Services including all telephone screening and initial intake services, After-Hours Crisis Team, Front Desk Support, Medical Records, and Quality Management Services. These programs directly support all clinical programs by providing either client assistance and/or data collection and reporting in order to manage client care.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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 and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Valley Cities presents its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117 (FASB ASC 958), *Financial Statements of Not-for-Profit Organizations*. Under this standard, Valley Cities is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, Valley Cities considers all unrestricted highly liquid investments with an initial maturity of eighteen months or less to be cash equivalents.

Public Support

To ensure observance of limitations and restrictions placed on the use of resources available to Valley Cities, the accounts are maintained in accordance with the Statement of Financial Accounting Standards (SFAS) No. 116 (FASB ASC 958), *Accounting for Contributions Received and Contributions Made*. As such, contributions are recognized as revenue when they are received or unconditionally pledged. Valley Cities records contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Client and Third-Party Revenues

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

Functional Expense Classification and Allocation

Expenses are classified in the accompanying Statement of Functional Expenses according to whether they relate to a specific program and supporting service classifications on the basis of time records and estimates made by Valley Cities' management. 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 is recorded on a straight-line basis over the asset's estimated useful life, ranging from 3 to 50 years. All purchases with an estimated useful life exceeding one year and costing \$1,500 or more are capitalized.

Donated Services

Donated services, if deemed material in amount, are recorded at their estimated values. The estimated values of donated services are reported as both support and expenses in the accompanying Statement of Activities. Valley Cities did not receive a material amount of donated services in 2010 and 2009.

Donated Property and Equipment

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

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Property and Equipment (Continued)

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

Refundable Advances

Valley Cities records grant awards accounted for as exchange transactions as refundable advances until certain restrictions related to the advance have been fulfilled. As services are provided in accordance with the grant agreement, a related and corresponding amount of the refundable advance is recognized in the statement of activities as an unrestricted contribution. Accordingly, refundable advances financing long-lived assets are recognized as unrestricted contributions as building depreciation occurs. Total refundable advances released from restrictions during 2010 and 2009 were \$32,190 and \$0, respectively.

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 2010 and 2009, Valley Cities did not generate any taxable income and therefore no provision for federal income tax is necessary. In addition, Valley Cities qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

FASB ASC 740 requires nonpublic entities to determine and evaluate uncertain tax positions. The standard requires entities to measure, recognize, and disclose uncertain tax positions. The term tax position includes, but is not limited to, a decision not to file a return, the characterization of income or a decision to exclude reporting taxable income on a tax return, and the entity's tax exempt status. Management believes Valley Cities does not have any uncertain tax positions. Valley Cities may be subject to examination by the Internal Revenue Service for calendar years 2007 through 2010.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Significant estimates include depreciation of property and equipment and the allowance for doubtful accounts.

NOTE 2.--NOTES PAYABLE

Notes payable as of December 31, 2010 and 2009, consist of the following:

	<u>2010</u>	<u>2009</u>
Note payable to Bank of America in monthly installments of \$2,496 including interest at 7.25%, due February 2016, secured by property.	\$ 123,654	\$ 143,835
Note payable to Bank of America in monthly installments of \$29,876 including interest at 4.60%, due October 2019, with a balloon payment of \$2,631,884, secured by property.	4,322,258	4,475,281
Note payable to CIT Technology Financial Services, Inc., in monthly installments of \$15,532 including interest of 7.41%, due April 2010, secured by computer equipment. Paid in full.	0	61,097
Note payable to Bank of America in monthly installments of \$14,910 including interest at 4.60%, due September 2013, secured by property.	<u>460,868</u>	<u>0</u>
	4,906,780	4,680,213
Less current portion	<u>342,870</u>	<u>234,320</u>
Total long-term	<u>\$ 4,563,910</u>	<u>\$ 4,445,893</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 2.--NOTES PAYABLE (Continued)

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

<u>Year ending December 31,</u>	
2011	\$ 342,870
2012	359,217
2013	332,575
2014	211,283
2015	219,732
Thereafter	<u>3,441,103</u>
	<u>\$ 4,906,780</u>

In September 2009, Valley Cities received long-term real estate financing from Bank of America in the amount of \$4.5 million. The amount of the note payable is \$4,322,258 at December 31, 2010 (as listed above).

The financing from Bank of America was used to satisfy the principal balloon payment due Wells Fargo in 2010 with the balance of the proceeds used to acquire land and building in Kent (approximately \$1.4 million) and to partially fund the remodel and expansion of the Kent building. Total remodeling and expansion costs are estimated to be approximately \$2.1 million. The Kent property will replace facilities leased in Kent and house some administrative services. Work was completed in December 2010 with occupancy occurring in January 2011.

The note is secured by the Auburn administrative building and the new Kent property.

The note payable to Bank of America contains restrictive covenants relating to debt service coverage and minimum liquidity to debt. As of December 31, 2010, Valley Cities was in compliance with the restrictive covenants.

NOTE 3.--REFUNDABLE ADVANCES

Refundable advances as of December 31 consist of:

	<u>2010</u>	<u>2009</u>
Valley Cities Landing	\$ 4,828,566	\$1,883,135
Valley Cities Neighborhood Stabilization Program Rental	344,000	-
Amortization of refundable advance	<u>(32,190)</u>	<u>-</u>
	<u>\$ 5,140,376</u>	<u>\$1,883,135</u>
<u>Valley Cities Landing</u>		

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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 3.--REFUNDABLE ADVANCES (Continued)

Valley Cities Landing (Continued)

The project, Valley Cities Landing, includes twenty-five low income housing units to be owned and operated by Valley Cities. As of December 31, 2010, \$4,828,566 has been advanced under the awards from State of Washington and King County shown below. Total acquisition, construction and development cost was approximately \$5.7 million. The "Landing" project was completed in September 2010.

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 \$1,035,631 was used. 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 forty-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 thirty 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 twenty-four of the units to households that at the initial occupancy have gross annual household incomes at or below 30% of the median income for Seattle-Bellevue.

King County Grant

A second refundable advance for \$4,098,872 was awarded to Valley Cities from the King County Department of Community and Human Services/Housing and Community Development of which \$3,792,935 was used for the same purpose. 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 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 COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 3.--REFUNDABLE ADVANCES (Continued)

Valley Cities Neighborhood Stabilization Program Rental

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 \$344,000 as of December 31, 2010.

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.

NOTE 4.--LEASES

Valley Cities has entered into various agreements to lease operating facilities and copiers under noncancelable operating leases with terms through June 2015. Certain facilities lease agreements require Valley Cities to pay common area maintenance charges, and some of the leases are subject to escalation clauses. Required future minimum payments under noncancelable leases are as follows:

<u>Year ending December 31,</u>	<u>Copiers</u>	<u>Facilities</u>	<u>Total</u>
2011	\$ 53,206	\$ 346,055	\$ 399,261
2012	23,425	289,438	312,863
2013	14,521	271,032	285,553
2014	13,147	224,352	237,499
2015	7,696	56,907	64,603
	<u>\$ 111,995</u>	<u>\$1,187,784</u>	<u>\$1,299,779</u>

NOTE 5.--PENSION PLAN

Valley Cities maintains a tax sheltered 403(B) annuity plan for which employees are eligible to receive employer contributions after completing two years of service. Employer contributions to the plan are based on compensation and years of service and are immediately vested through annuity contracts. Employer contributions to the plan totaled \$211,000 in 2010 and totaled \$183,617 in 2009 and are reflected in employee benefits on the accompanying Statement of Functional Expenses.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 6.--TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2010 and 2009, consist of a grant received from the Bill and Melinda Gates Foundation to support homeless families. The grant period is July 1, 2008, to June 30, 2017.

NOTE 7.--CONCENTRATION OF RISK

Valley Cities maintains several cash accounts in six financial institutions in 2010 and 2009. Interest-bearing cash accounts are insured by the FDIC for up to \$250,000 as of December 31, 2010 and 2009. Non-interest-bearing accounts are insured up to the full account balance. Valley Cities has not experienced any losses in such accounts. The concentration of credit risk approximated \$389,000 and \$920,000 as of December 31, 2010 and 2009, respectively.

During the years ended December 31, 2010 and 2009, King County funding (including prepaid health plan) accounted for 86% and 90%, respectively, of Valley Cities' client and third-party revenues.

NOTE 8.--SUBSEQUENT EVENT

Valley Cities has evaluated subsequent events through May 9, 2011, the date which the financial statements were available to be issued.

VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2010

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services: Pass-through from King County Mental Health and Chemical Abuse and Dependency Services Division Trauma-Informed Care	93.243	\$ 30,000
U.S Department of Health and Human Services: Pass-through from Seattle-King County Department of Public Health Health Care for the Homeless	93.778	62,700
Health Care for the Homeless	93.778	13,500
Health Care for the Homeless	93.224	198,000
U.S. Department of Housing and Urban Development: Pass-through from Seattle-King County Department of Public Health Supplemental Housing Grant		
Health Care for the Homeless	14.235*	58,937
Health Care for the Homeless	14.235*	384,755
Health Care for the Homeless	14.235*	67,999
U.S. Department of Agriculture Pass-through from Washington State Office of Superintendent of Public Instruction Summer Food Program for Children	10.559	<u>4,649</u>
Total expenditures of federal awards		<u><u>\$820,540</u></u>

*Major programs

See accompanying notes to Schedule of Expenditures of Federal Awards.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2010

NOTE 1.--BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as Valley Cities Counseling and Consultation's (Valley Cities) financial statements. Valley Cities uses the accrual basis of accounting.

NOTE 2.--MAJOR PROGRAMS

The asterisk (*) to the right of the CFDA number identifies the grant as a major federal program as defined by OMB Circular A-133.

NOTE 3.--PROGRAM COSTS

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



**INDEPENDENT AUDITOR'S 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
Auburn, Washington

We have audited the financial statements of Valley Cities Counseling and Consultation (a nonprofit organization) as of and for the year ended December 31, 2010, and have issued our report thereon dated May 9, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Valley Cities Counseling and Consultation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Cities Counseling and Consultation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors charged with governance, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Shannon & Associates, LLP". The signature is written in a cursive, flowing style.

Kent, Washington
May 9, 2011



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Valley Cities Counseling and Consultation
Auburn, Washington

Compliance

We have audited the compliance of Valley Cities Counseling and Consultation with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. Valley Cities Counseling and Consultation's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Valley Cities Counseling and Consultation's management. Our responsibility is to express an opinion on Valley Cities Counseling and Consultation's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valley Cities Counseling and Consultation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Valley Cities Counseling and Consultation's compliance with those requirements.

In our opinion, Valley Cities Counseling and Consultation complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

The management of Valley Cities Counseling and Consultation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Valley Cities Counseling and Consultation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Valley Cities Counseling and Consultation's internal control over compliance.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors charged with governance, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Shannon & Associates, LLP

Kent, Washington
May 9, 2011

**VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be a material weakness?	None reported
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?	None reported
Type of auditor's report on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	No
Identification of major programs:	
CFDA Number 14.235	Supplemental Housing Grant Health Care for the Homeless
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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.