

**VALLEY CITIES COUNSELING
AND CONSULTATION**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010**

**VALLEY CITIES COUNSELING
AND CONSULTATION**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Valley Cities Counseling and Consultation
Kent, Washington

We have audited the accompanying statements of financial position of Valley Cities Counseling and Consultation (a nonprofit organization) as of December 31, 2011 and 2010, 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, 2011 and 2010, 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 14, 2012, 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Shannon & Associates, LLP

Kent, Washington
May 14, 2012

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,732,581	\$ 2,208,341
Accounts and grants receivable, net of allowance for doubtful accounts of \$15,000 as of each year end	979,894	1,024,098
Prepaid expenses and deposits	<u>199,326</u>	<u>181,365</u>
TOTAL CURRENT ASSETS	4,911,801	3,413,804
PROPERTY AND EQUIPMENT		
Buildings	12,365,892	9,043,829
Construction in progress	5,051	2,845,945
Leasehold improvements	55,957	55,957
Office and computer equipment	2,125,040	1,926,349
Vehicles	16,983	16,983
Land	<u>1,419,062</u>	<u>1,419,062</u>
	15,987,985	15,308,125
Less accumulated depreciation and amortization	<u>2,734,907</u>	<u>2,080,951</u>
NET PROPERTY AND EQUIPMENT	<u>13,253,078</u>	<u>13,227,174</u>
TOTAL ASSETS	<u>\$ 18,164,879</u>	<u>\$ 16,640,978</u>

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 314,304	\$ 682,878
Accrued wages, payroll taxes and benefits	940,363	843,507
Deferred revenue	5,283	10,859
Current portion, notes payable	335,895	342,870
Rent deposits	<u>9,295</u>	<u>2,600</u>
TOTAL CURRENT LIABILITIES	1,605,140	1,882,714
LONG-TERM LIABILITIES		
Notes payable, net of current portion	4,126,079	4,563,910
Refundable advances	<u>5,671,977</u>	<u>5,140,376</u>
TOTAL LONG-TERM LIABILITIES	<u>9,798,056</u>	<u>9,704,286</u>
TOTAL LIABILITIES	11,403,196	11,587,000
NET ASSETS		
Unrestricted	5,848,162	4,756,096
Temporarily restricted	<u>913,521</u>	<u>297,882</u>
TOTAL NET ASSETS	<u>6,761,683</u>	<u>5,053,978</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,164,879</u>	<u>\$ 16,640,978</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, 2011

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
PUBLIC SUPPORT AND REVENUES			
Public support			
United Way	\$ 410,981		\$ 410,981
Contributions	12,498	\$ 914,796	927,294
Amortization of refundable advance	113,464	-	113,464
	<u>536,943</u>	<u>914,796</u>	<u>1,451,739</u>
Revenues			
Net client and third-party revenues			
King County prepaid health plan	9,702,232		9,702,232
King County contracts	5,004,350		5,004,350
Client and third party	192,139		192,139
Local	479,886		479,886
Medicare	49,873		49,873
Medicaid	107,799		107,799
State of Washington	182,268		182,268
Other	767,970		767,970
	<u>16,486,517</u>		<u>16,486,517</u>
Net assets released from restriction	299,157	(299,157)	-
TOTAL PUBLIC SUPPORT AND REVENUES	<u>17,322,617</u>	<u>615,639</u>	<u>17,938,256</u>
EXPENSES			
Salaries and wages	9,377,303		9,377,303
Employee benefits	1,302,748		1,302,748
Payroll taxes	887,918		887,918
Total salaries and related expenses	<u>11,567,969</u>		<u>11,567,969</u>
Professional fees	449,829		449,829
Sub-contractor expenses	249,657		249,657
Conference and training	146,273		146,273
Travel and vehicle	242,043		242,043
Insurance	117,575		117,575
Supplies	97,266		97,266
Interest expense	223,913		223,913
Computer expense	102,312		102,312
Telephone	320,814		320,814
Postage and delivery	28,277		28,277
Rent	362,774		362,774
Furniture and equipment	134,081		134,081
Depreciation	653,957		653,957
Utilities	128,840		128,840
Occupancy	221,265		221,265
Printing/advertising	58,844		58,844
Client assistance	967,235		967,235
Clients – special needs	109,637		109,637
Miscellaneous	47,990		47,990
TOTAL EXPENSES	<u>16,230,551</u>		<u>16,230,551</u>
CHANGE IN NET ASSETS	1,092,066	615,639	1,707,705
NET ASSETS, beginning of year	<u>4,756,096</u>	<u>297,882</u>	<u>5,053,978</u>
NET ASSETS, end of year	<u>\$ 5,848,162</u>	<u>\$ 913,521</u>	<u>\$ 6,761,683</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	96,147	\$ 241,668	337,815
Amortization of refundable advance	32,190	-	32,190
	<u>470,184</u>	<u>241,668</u>	<u>711,852</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	526,734		526,734
	<u>15,284,504</u>		<u>15,284,504</u>
Net assets released from restriction	241,570	(241,570)	-
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	<u>11,072,520</u>		<u>11,072,520</u>
Professional fees	375,752		375,752
Sub-contractor expenses	180,168		180,168
Conference and training	142,585		142,585
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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	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	\$ 1,646,095	\$ 1,636,112	\$ 486,041	\$ 995,424	\$ 525,268
Employee benefits	273,079	261,144	67,568	150,614	73,076
Payroll taxes	<u>171,409</u>	<u>170,196</u>	<u>48,589</u>	<u>96,597</u>	<u>53,247</u>
Total salaries and related expenses	2,090,583	2,067,452	602,198	1,242,635	651,591
Professional fees	57,031	99,183	22,091	13,425	11,044
Sub-contractor expenses	-	86,948	-	-	162,709
Conference and training	25,101	31,062	7,471	12,139	11,246
Travel and vehicle	52,648	35,421	4,330	78,108	18,870
Insurance	23,708	23,833	5,346	12,124	17,030
Supplies	26,174	31,418	4,106	2,339	9,763
Interest expense	55,136	71,854	16,360	-	25,875
Computer expense	10,230	5,088	1,044	1,922	2,411
Telephone	86,108	87,493	17,317	21,902	31,278
Postage and delivery	5,777	5,861	1,301	3,118	2,204
Rent	145,462	102,070	9,823	44,390	22,569
Furniture and equipment	32,022	39,720	8,216	8,588	16,075
Depreciation	118,198	118,077	26,659	60,472	153,350
Utilities	20,574	24,031	5,224	-	66,000
Occupancy	37,721	40,062	7,979	4,315	112,409
Printing/advertising	4,794	5,185	1,579	1,607	1,581
Client assistance	17,497	27,677	422	39,540	870,738
Clients - special needs	55,931	53,706	-	-	-
Miscellaneous	<u>3,852</u>	<u>5,467</u>	<u>984</u>	<u>2,119</u>	<u>1,656</u>
Total expenses	<u>\$ 2,868,547</u>	<u>\$ 2,961,608</u>	<u>\$ 742,450</u>	<u>\$ 1,548,743</u>	<u>\$ 2,188,399</u>

Support Services

<u>Medical Services</u>	<u>Clinical Support Services</u>	<u>Total Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Program Development/ Compliance</u>	<u>Total Support Services</u>	<u>Total</u>
\$ 1,216,161	\$ 1,731,546	\$ 8,236,647	\$ 978,183	\$ 58,395	\$ 104,078	\$ 1,140,656	\$ 9,377,303
88,534	220,614	1,134,629	143,437	8,636	16,046	168,119	1,302,748
89,433	151,110	780,581	91,864	5,494	9,979	107,337	887,918
1,394,128	2,103,270	10,151,857	1,213,484	72,525	130,103	1,416,112	11,567,969
29,293	121,336	353,403	95,656	231	539	96,426	449,829
-	-	249,657	-	-	-	-	249,657
7,851	21,070	115,940	20,730	2,673	6,930	30,333	146,273
1,437	39,995	230,809	8,283	991	1,960	11,234	242,043
5,477	18,477	105,995	9,970	483	1,127	11,580	117,575
6,383	10,016	90,199	5,594	414	1,059	7,067	97,266
18,792	29,757	217,774	6,139	-	-	6,139	223,913
1,103	50,580	72,378	24,967	1,490	3,477	29,934	102,312
20,548	41,306	305,952	12,804	617	1,441	14,862	320,814
1,332	4,564	24,157	2,622	451	1,047	4,120	28,277
18,002	20,127	362,443	285	14	32	331	362,774
9,957	16,959	131,537	2,482	19	43	2,544	134,081
27,307	91,891	595,954	49,975	2,408	5,620	58,003	653,957
6,172	6,123	128,124	608	45	63	716	128,840
9,679	8,818	220,983	248	10	24	282	221,265
2,024	6,125	22,895	12,512	6,948	16,489	35,949	58,844
870	9,040	965,784	-	435	1,016	1,451	967,235
-	-	109,637	-	-	-	-	109,637
4	516	14,598	5,874	26,198	1,320	33,392	47,990
<u>\$ 1,560,359</u>	<u>\$ 2,599,970</u>	<u>\$ 14,470,076</u>	<u>\$ 1,472,233</u>	<u>\$ 115,952</u>	<u>\$ 172,290</u>	<u>\$ 1,760,475</u>	<u>\$ 16,230,551</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	35,228	30,281	6,135	12,020	10,179
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
6,775	20,486	121,104	15,224	1,877	4,380	21,481	142,585
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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,707,705	\$ 1,077,326
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	653,957	415,304
Amortization of refundable advance	(113,464)	(32,190)
Cash provided (used) by changes in operating assets and liabilities:		
Accounts and grants receivable	44,204	(185,836)
Prepaid expenses and deposits	(17,961)	(73,187)
Accounts payable and accrued liabilities	(368,574)	225,794
Accrued wages, payroll taxes and benefits	96,856	174,882
Deferred revenue	(5,576)	(3,180)
Rent deposits	<u>6,695</u>	<u>1,400</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,003,842	1,600,313
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, building and equipment	(674,810)	(3,381,752)
Construction in progress	<u>(5,051)</u>	<u>(2,764,651)</u>
NET CASH USED BY INVESTING ACTIVITIES	(679,861)	(6,146,403)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	500,000
Principal payments on notes payable	(444,806)	(273,433)
Proceeds from refundable advance	<u>645,065</u>	<u>3,289,431</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>200,259</u>	<u>3,515,998</u>
NET INCREASE (DECREASE) IN CASH	1,524,240	(1,030,092)
Cash and cash equivalents, beginning of year	<u>2,208,341</u>	<u>3,238,433</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,732,581</u></u>	<u><u>\$ 2,208,341</u></u>
Supplemental disclosures		
Cash paid during the year for:		
Interest	\$ 224,219	\$ 221,921

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

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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 were provided to approximately 6,250 individuals and their families during 2011.

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, 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, 2011 AND 2010

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, 2011 AND 2010

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 four 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, 2011 AND 2010

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

Cash and Cash Equivalents

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

Revenue Recognition

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 accounting guidance under FASB ASC 958. 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.

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

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

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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 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.

Grants Receivable

Grants receivable consist of grants and contracts administered by various state and local governmental agencies awarded or earned, but not yet received. Revenue from these grants and contracts is recorded at net realizable value. It is subject to audit, which occasionally results in adjustments to revenue. The adjustments are recorded at the time that such amounts are determined and notification is made by the government agency. During the years ended December 31, 2011 and 2010, such adjustments were minimal.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are recorded on a straight-line basis over the asset's estimated useful life, ranging from 3 to 50 years. All purchases with an estimated useful life exceeding one year and costing \$1,500 or more are capitalized. Repairs and maintenance are expensed as incurred.

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 2011 and 2010.

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, 2011 AND 2010

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 2011 and 2010 were \$113,464 and \$32,190, 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 2011 and 2010, 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 2008 through 2011.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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.--CONDITIONAL PROMISES TO GIVE

Conditional promises to give consist of temporarily restricted pledges to the Adult Services program. The conditions are based on annual evaluations of the projects for which the pledges have been promised. Conditional promises to give which are not included on the Statement of Financial Position consist of a pledge of \$554,158 payable in 2012.

NOTE 3.--NOTES PAYABLE

Notes payable as of December 31, 2011 and 2010, consist of the following:

	<u>2011</u>	<u>2010</u>
Note payable to Bank of America in monthly installments of \$2,496 including interest at 7.25%, due February 2016, secured by property. Paid in full.	\$ 0	\$ 123,654
Note payable to Bank of America in monthly installments of \$29,876 including interest at 4.60%, due October 2019, with a balloon payment of \$2,631,884, secured by the Organization's properties.	4,161,949	4,322,258
Note payable to Bank of America in monthly installments of \$14,910 including interest at 4.60%, due September 2013, secured by the Organization's Kent property.	<u>300,025</u>	<u>460,868</u>
	4,461,974	4,906,780
Less current portion	<u>335,895</u>	<u>342,870</u>
Total long-term	<u>\$ 4,126,079</u>	<u>\$ 4,563,910</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 3.--NOTES PAYABLE (Continued)

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

<u>Year ending December 31,</u>	
2012	\$ 335,895
2013	307,504
2014	184,333
2015	193,116
2016	201,867
Thereafter	<u>3,239,259</u>
	<u>\$ 4,461,974</u>

In September 2009, Valley Cities received long-term real estate financing from Bank of America in the amount of \$4.5 million. The outstanding balance of the note payable is \$4,161,949 and \$4,322,258 at December 31, 2011 and 2010, respectively (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 replaced 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 and Kent buildings. The carrying value of the properties at December 31, 2011, approximated \$6,329,000.

The note payable to Bank of America contains restrictive covenants relating to debt service coverage and minimum liquidity to debt. As of December 31, 2011 and 2010, Valley Cities was in compliance with the restrictive covenants.

NOTE 4.--REFUNDABLE ADVANCES

Refundable advances as of December 31 consist of:

	<u>2011</u>	<u>2010</u>
Valley Cities Landing	\$ 5,268,444	\$4,828,566
Valley Cities Neighborhood Stabilization Program Rental	549,187	344,000
Amortization of refundable advance	<u>(145,654)</u>	<u>(32,190)</u>
	<u>\$ 5,671,977</u>	<u>\$5,140,376</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 4.--REFUNDABLE ADVANCES (Continued)

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 and 2010, \$5,268,444 and \$4,828,566 has been advanced under the awards from State of Washington and King County shown below. Total acquisition, construction and development costs were estimated at \$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 \$1,382,254 and \$1,035,631 was used as of December 31, 2011 and 2010. This grant is restricted from January 1, 2011, until December 31, 2050, when the term of commitment ends. If the property is sold, refinanced, transferred, the use changes during the 40-year term of commitment, or Valley Cities is materially out of compliance with the terms and conditions of the grant, the award amount, plus a proportional share of the appreciated value of the property will be due and payable within 30 days of such event. The grant is secured by a promissory note and deed of trust on the property.

The units must be occupied by households that at the time of initial occupancy have adjusted gross incomes at or below 50% of the median income for Seattle-Bellevue per the Housing and Mortgage Finance Agency (HMFA). Further, Valley Cities is required to make best efforts to provide 24 of the units to households that at the initial occupancy have gross annual household incomes at or below 30% of the median income for Seattle-Bellevue.

King County Grant

A second refundable advance for \$4,098,872 was awarded to Valley Cities from the King County Department of Community and Human Services/Housing and Community Development of which \$3,886,190 and \$3,792,935 was used for the same purpose as of December 31, 2011 and 2010. 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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 4.--REFUNDABLE ADVANCES (Continued)

King County Grant (Continued)

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

In 2010, Valley Cities was awarded a \$549,187 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 \$549,187 and \$344,000 as of December 31, 2011 and 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 5.--LEASES

Valley Cities has entered into various agreements to lease operating facilities, computers and office equipment under noncancelable operating leases with terms through August 2016. 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>Office Equipment</u>	<u>Facilities</u>	<u>Total</u>
2012	\$ 74,195	\$ 342,510	\$ 416,705
2013	63,756	343,210	406,966
2014	56,233	224,352	280,585
2015	46,510	56,907	103,417
2016	26,508	0	26,508
Thereafter	2,212	0	2,212
	<u>\$ 269,414</u>	<u>\$ 966,979</u>	<u>\$1,236,393</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 6.--PENSION PLAN

Valley Cities maintains a tax sheltered 403(B) annuity plan in which eligible employees may make tax deferred contributions and 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 \$282,897 in 2011 and \$211,000 in 2010 and are reflected in employee benefits on the accompanying Statements of Functional Expenses.

NOTE 7.--TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Pathways First Service Funds	\$ 202,688	\$ 237,470
Building Changes - Families First	23,016	22,423
Auction Fund Donations	36,122	4,500
Resource Room & Warmline	73,119	-
Wraparound Training	4,806	-
Play Therapy	11,669	-
Medical Consultation	1,178	-
Auburn Rotary Knitting & Crocheting	1,000	-
Forensic Mental Health Support (SCORE)	553,923	-
Seattle Foundation-Veterans	6,000	6,000
Weyerhauser: Domestic Violence Program	-	27,489
Total temporarily restricted net assets	<u>\$ 913,521</u>	<u>\$ 297,882</u>

NOTE 8.--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, 2011 and 2010, for the following purposes:

	<u>2011</u>	<u>2010</u>
Pathways First Program	\$ 35,000	\$ 35,000
Electronic Health Records	75,000	45,000
Building Changes - Families First	103,182	81,352
Auction Fund Donations	30,175	-
Resource Room & Warmline	12,880	-
Wraparound Training	2,040	-
Housing Program	3,298	54,100
Play Therapy	822	-
Medical Consultation	5,000	-
Federal Way Family Support	4,271	-
Weyerhauser: Domestic Violence Program	27,489	26,118
Total temporarily restricted net assets released from restrictions	<u>\$ 299,157</u>	<u>\$ 241,570</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 9.--CONCENTRATION OF RISK

Valley Cities maintains several cash accounts in six financial institutions in 2011 and 2010. Interest-bearing cash accounts are insured by the FDIC for up to \$250,000 as of December 31, 2011 and 2010. 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 \$1,314,000 and \$389,000 as of December 31, 2011 and 2010, respectively.

During the years ended December 31, 2011 and 2010, King County funding (including prepaid health plan) accounted for 82% and 86%, respectively, of Valley Cities' client and third-party revenues.

NOTE 10.--RECLASSIFICATIONS

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications had no effect on change in net assets as previously reported.

NOTE 11.--SUBSEQUENT EVENTS

On April 30, 2012 the Organization's contract with King County for annual funding of the Pathways Program under CFDA #14.235 will expire and will not be renewed. As a result, the program will cease operations as of April 30, 2012. Valley Cities Counseling and Consultation received and expended \$377,580 under the contract from January 1, 2011, to December 31, 2011.

Valley Cities has evaluated subsequent events through May 14, 2012, the date which the financial statements were available to be issued.

VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2011

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*	\$ 45,000
Trauma-Informed Care	93.243*	90,000
Trauma-Informed Care	93.243*	45,000
Adult Outpatient Treatment	93.778	4,000
Adult Outpatient Treatment	93.778	7,500
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	33,000
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*	41,273
Health Care for the Homeless	14.235*	336,307
Health Care for the Homeless	14.235*	68,751
Health Care for the Homeless	14.235*	<u>73,429</u>
Total expenditures of federal awards		<u>\$955,760</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, 2011**

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 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 the financial statements of Valley Cities Counseling and Consultation (a nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated May 14, 2012. 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

Management of Valley Cities Counseling and Consultation is responsible for establishing and maintaining effective 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 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.

Shannon & Associates, LLP

Kent, Washington
May 14, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND 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
Kent, Washington

Compliance

We have audited Valley Cities Counseling and Consultation's compliance 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, 2011. 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 1 through 3.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 1 through 3. *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.

Valley Cities Counseling and Consultation's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Valley Cities Counseling and Consultation's responses and, accordingly, we express no opinion on the responses.

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 14, 2012

**VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' 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?	See Section II
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?	See Section III
Type of auditors' 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)?	Yes
Identification of major programs:	
CFDA Number 14.235	Supplemental Housing Grant Health Care for the Homeless Trauma-Informed Care
CFDA Number 93.243	
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

Finding #1

CFDA No: 14.235

Program Title: Health Care for the Homeless

Federal Award Year: 2011

Name of pass-through entity: Seattle-King County Department of Public Health

Condition: VCCC assisted a total of 78 families during the year.

Criteria: The level of effort requirement is to assist 100 or more families during the year.

Cause: Availability of the Public Health nurse and the slowdown in referrals that developed from the notification that families in transitional housing were no longer eligible for the program.

Effect: Continued failure to meet the program's level of effort requirement may result in loss of funding for the program. The County issued a project improvement plan to assist VCCC in meeting the goals and requirements for the program going forward.

**VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011**

Section III - Federal Award Findings and Questioned Costs (Continued)

Recommendation: We recommend VCCC track the number of families assisted and in the program at any time along with a running total to determine where the organization is compared to the requirement.

Views of Responsible Officials and Corrective Action Plan: Over the years, the program staff at Valley Cities had undertaken a very difficult task with hundreds of homeless families with complex needs and has worked with those families to support them to improve their circumstances. However, Public Health nurse's availability and the slowdown in referrals that came after we were notified that families in transitional housing no longer were eligible for the program were the major reasons for the decrease in expected outcomes for the year reported. In the first three months of the 2012 contract, Valley Cities worked hard to rectify the level of effort requirements, but the program funders planned to end the contract as of April 30, 2012. Valley Cities staff transferred the current client families to a Pathways Home Public Health Nurse who will continue service delivery for the families until they are able to determine who will deliver the social services/housing component of the program.

Finding #2

CFDA No: 93.243

Program Title: Trauma Informed Care

Federal Award Year: 2011

Name of pass-through entity: King County Department of Health and Human Services

Condition: Records were not reported in "Track" within 7 days of data entry receiving the records from peers.

Criteria: The grant contract specifies VCCC must input the required data from the National Outcomes Measurement System (NOMS) within 7 days of the NOMS being completed and provided to data entry.

Cause: VCCC was uninformed about the requirements, and procedures were not in place to mitigate this risk such as requiring NOMS to be provided to data entry the day after the client meeting.

Effect: Required reporting of individuals assisted under the program is untimely and inaccurate.

Recommendations: We suggest implementing a program-wide policy to move the records to data entry within 1 day of the NOMS being completed with a date of this being documented in the record. NOMS and other documentation should be completed and ready to provide to data entry within 1 day of meeting with the client to administer the NOMS.

Views of Responsible Officials and Corrective Action Plan: There are three forms that need to be completed to enroll a client in the Trauma Informed Care (TIC) program: National Outcomes Measurement System (NOMS), Posttraumatic Stress Symptoms Interview (PSS-I) and the Mental Health Recovery Measure (MHRM). The PSS-I and MHRM were completed at intake. The NOMS was completed at another date. These forms were being turned in at different times for data entry; however, now the process has been changed/corrected. The current procedure is to complete all the forms at the same time, and the packet is turned in at the end of the day for data entry.

**VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011**

Section III - Federal Award Findings and Questioned Costs (Continued)

Finding #3

CFDA No: 93.243

Program Title: Trauma Informed Care

Federal Award Year: 2011

Name of pass-through entity: King County Department of Health and Human Services

Condition: Several records were not reported in Track that should have been as required by the County.

Criteria: All individuals undergoing a Posttraumatic Stress Symptoms Interview (PSS-I) are required to be reported in Track even if they opt out of additional assistance through the program. Data entry staff did not report these individuals during a portion of the year. Given that this was a new program, VCCC did not receive the requirements until October 2011. The County reporting system was not in place until the end of November.

Cause: Data entry staff were not informed or aware of the requirement to also report individuals that only received a PSS-I survey and opted not to participate.

Effects: Inaccurate reporting of clients interviewed and served.

Recommendations: VCCC should continue to be diligent and work with the County to determine the requirements and implement controls to make sure those requirements are met.

Views of Responsible Officials and Corrective Action Plan: As indicated in the report, this was a new program; thus, Valley Cities did not receive the data requirements until October 2011. The County reporting system was not in place until the end of November. We collected data at the beginning of the project through an Excel spreadsheet where we developed a tracking mechanism because both the County's and our data systems were not complete. Once the data systems were up and working, it was discovered for those clients choosing to opt out of the program, we still needed to complete the PSS-I. For those clients for whom we did not submit data because they decided not to participate in the study, we considered them discharged at that point. King County was informed at that time that we had taken the steps to discharge those clients. Since then, we have developed a procedure whereby we still collect the information on the PSS-I and the MHRM, even though the client chooses not to participate. According to the County, Valley Cities has met all the contractual requirements. Since those clients that decided not to participate in the program were discharged (without the PSS-1), it did not affect any contract compliance measure.