

**VALLEY CITIES COUNSELING
AND CONSULTATION**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011**

**VALLEY CITIES COUNSELING
AND CONSULTATION**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Valley Cities Counseling and Consultation
Kent, Washington

Report on Financial Statements

We have audited the accompanying financial statements of Valley Cities Counseling and Consultation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Cities Counseling and Consultation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2013, 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* in considering Valley Cities Counseling and Consultation's internal control over financial reporting and compliance.

Shannon & Associates, LLP

Kent, Washington
April 25, 2013

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,533,683	\$ 3,732,581
Accounts and grants receivable, net of allowance for doubtful accounts of \$15,000	1,545,843	979,894
Prepaid expenses and deposits	<u>78,256</u>	<u>199,326</u>
TOTAL CURRENT ASSETS	6,157,782	4,911,801
PROPERTY AND EQUIPMENT		
Buildings	12,365,892	12,365,892
Construction in progress	31,539	5,051
Leasehold improvements	55,957	55,957
Office and computer equipment	2,364,216	2,125,040
Vehicles	16,983	16,983
Land	<u>1,419,062</u>	<u>1,419,062</u>
	16,253,649	15,987,985
Less accumulated depreciation and amortization	<u>3,286,526</u>	<u>2,734,907</u>
NET PROPERTY AND EQUIPMENT	<u>12,967,123</u>	<u>13,253,078</u>
TOTAL ASSETS	<u>\$ 19,124,905</u>	<u>\$ 18,164,879</u>

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 391,705	\$ 314,304
Accrued wages, payroll taxes and benefits	861,796	940,363
Deferred revenue	534	5,283
Rent deposits	11,082	9,295
Current portion, notes payable	<u>307,504</u>	<u>335,895</u>
TOTAL CURRENT LIABILITIES	1,572,621	1,605,140
LONG-TERM LIABILITIES		
Notes payable, net of current portion	3,819,624	4,126,079
Refundable advances	<u>5,555,625</u>	<u>5,671,977</u>
TOTAL LONG-TERM LIABILITIES	<u>9,375,249</u>	<u>9,798,056</u>
TOTAL LIABILITIES	10,947,870	11,403,196
NET ASSETS		
Unrestricted	7,037,345	5,848,162
Temporarily restricted	<u>1,139,690</u>	<u>913,521</u>
TOTAL NET ASSETS	<u>8,177,035</u>	<u>6,761,683</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,124,905</u>	<u>\$ 18,164,879</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, 2012

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
PUBLIC SUPPORT AND REVENUES			
Public support			
United Way	\$ 400,601		\$ 400,601
Contributions	15,149	\$ 726,224	741,373
Amortization of refundable advance	116,353	-	116,353
	<u>532,103</u>	<u>726,224</u>	<u>1,258,327</u>
Revenues			
Net client and third-party revenues			
King County prepaid health plan	9,287,879		9,287,879
King County contracts	5,032,190		5,032,190
Client and third party	171,657		171,657
Local	366,969		366,969
Medicare	59,521		59,521
Medicaid	67,892		67,892
State of Washington	396,326		396,326
Other	658,710	-	658,710
	<u>16,041,144</u>		<u>16,041,144</u>
Net assets released from restriction	500,055	(500,055)	-
TOTAL PUBLIC SUPPORT AND REVENUES	<u>17,073,302</u>	<u>226,169</u>	<u>17,299,471</u>
EXPENSES			
Salaries and wages	9,081,200		9,081,200
Employee benefits	1,305,193		1,305,193
Payroll taxes	912,010		912,010
Total salaries and related expenses	<u>11,298,403</u>		<u>11,298,403</u>
Professional fees	463,128		463,128
Sub-contractor expenses	342,599		342,599
Conference and training	113,951		113,951
Travel and vehicle	232,011		232,011
Insurance	121,337		121,337
Supplies	76,693		76,693
Interest expense	202,778		202,778
Computer expense	149,038		149,038
Telephone	347,280		347,280
Postage and delivery	29,572		29,572
Rent	357,773		357,773
Furniture and equipment	109,788		109,788
Depreciation	551,620		551,620
Utilities	115,859		115,859
Occupancy	180,551		180,551
Printing/advertising	49,657		49,657
Client assistance	951,004		951,004
Clients – special needs	148,775		148,775
Miscellaneous	42,302	-	42,302
TOTAL EXPENSES	<u>15,884,119</u>	<u>-</u>	<u>15,884,119</u>
CHANGE IN NET ASSETS	1,189,183	226,169	1,415,352
NET ASSETS, beginning of year	<u>5,848,162</u>	<u>913,521</u>	<u>6,761,683</u>
NET ASSETS, end of year	<u>\$ 7,037,345</u>	<u>\$ 1,139,690</u>	<u>\$ 8,177,035</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>-</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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	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	\$ 1,650,770	\$ 1,593,465	\$ 431,379	\$ 757,863	\$ 396,817
Employee benefits	256,336	257,827	62,641	121,694	61,704
Payroll taxes	<u>180,139</u>	<u>174,934</u>	<u>44,872</u>	<u>79,782</u>	<u>41,566</u>
Total salaries and related expenses	2,087,245	2,026,226	538,892	959,339	500,087
Professional fees	68,089	136,103	27,173	12,281	13,819
Sub-contractor expenses	-	176,836	-	-	165,763
Conference and training	20,710	24,107	4,569	10,376	7,532
Travel and vehicle	53,159	47,315	5,197	65,657	15,202
Insurance	22,627	25,014	5,428	10,482	19,282
Supplies	18,995	20,919	3,661	2,555	6,507
Interest expense	46,616	56,466	18,486	-	15,036
Computer expense	10,934	16,046	2,380	9,635	2,876
Telephone	83,859	87,538	19,419	23,195	22,533
Postage and delivery	5,879	6,354	1,377	2,788	1,406
Rent	127,371	110,444	7,222	46,291	25,093
Furniture and equipment	29,563	28,822	5,601	5,453	7,736
Depreciation	95,440	103,197	22,371	43,180	128,726
Utilities	19,574	21,037	6,316	136	48,487
Occupancy	37,321	36,095	9,451	3,402	63,217
Printing/advertising	3,675	5,212	866	1,504	1,138
Client assistance	15,114	24,901	103	27,676	880,264
Clients - special needs	88,246	60,480	-	-	49
Miscellaneous	<u>2,596</u>	<u>2,727</u>	<u>591</u>	<u>1,159</u>	<u>599</u>
Total expenses	<u>\$ 2,837,013</u>	<u>\$ 3,015,839</u>	<u>\$ 679,103</u>	<u>\$ 1,225,109</u>	<u>\$ 1,925,352</u>

Support Services							
Medical Services	Clinical Support Services	Total Program Services	Management & General	Fundraising	Program Development/ Compliance	Total Support Services	Total
\$ 1,348,129	\$ 1,794,657	\$ 7,973,080	\$ 971,285	\$ 61,649	\$ 75,186	\$ 1,108,120	\$ 9,081,200
111,603	258,904	1,130,709	156,869	7,746	9,869	174,484	1,305,193
104,524	178,702	804,519	93,514	6,252	7,725	107,491	912,010
1,564,256	2,232,263	9,908,308	1,221,668	75,647	92,780	1,390,095	11,298,403
50,506	77,888	385,859	64,644	3,143	9,482	77,269	463,128
-	-	342,599	-	-	-	-	342,599
4,416	20,150	91,860	16,774	1,438	3,879	22,091	113,951
2,055	36,313	224,898	5,058	792	1,263	7,113	232,011
5,541	21,613	109,987	9,713	615	1,022	11,350	121,337
5,574	12,240	70,451	4,055	742	1,445	6,242	76,693
23,718	34,489	194,811	3,137	138	4,692	7,967	202,778
3,983	62,317	108,171	33,996	2,244	4,627	40,867	149,038
22,568	63,043	322,155	18,735	2,636	3,754	25,125	347,280
1,404	6,367	25,575	2,596	469	932	3,997	29,572
7,907	32,782	357,110	610	22	31	663	357,773
7,582	19,064	103,821	2,996	1,176	1,795	5,967	109,788
22,798	89,145	504,857	40,019	2,810	3,934	46,763	551,620
8,314	9,032	112,896	-	1,171	1,792	2,963	115,859
12,392	14,157	176,035	110	1,751	2,655	4,516	180,551
695	6,319	19,409	1,050	8,379	20,819	30,248	49,657
473	2,473	951,004	-	-	-	-	951,004
-	-	148,775	-	-	-	-	148,775
20	122	7,814	5,096	26,353	3,039	34,488	42,302
<u>\$ 1,744,202</u>	<u>\$ 2,739,777</u>	<u>\$ 14,166,395</u>	<u>\$ 1,430,257</u>	<u>\$ 129,526</u>	<u>\$ 157,941</u>	<u>\$ 1,717,724</u>	<u>\$ 15,884,119</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				
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>
\$ 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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,415,352	\$ 1,707,705
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	551,620	653,957
Amortization of refundable advance	(116,353)	(113,464)
Cash provided (used) by changes in operating assets and liabilities:		
Accounts and grants receivable	(565,949)	44,204
Prepaid expenses and deposits	121,070	(17,961)
Accounts payable and accrued liabilities	77,401	(368,574)
Accrued wages, payroll taxes and benefits	(78,566)	96,856
Deferred revenue	(4,749)	(5,576)
Rent deposits	<u>1,787</u>	<u>6,695</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,401,613	2,003,842
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, building and equipment	(239,177)	(674,810)
Construction in progress	<u>(26,488)</u>	<u>(5,051)</u>
NET CASH USED BY INVESTING ACTIVITIES	(265,665)	(679,861)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(334,846)	(444,806)
Proceeds from refundable advance	<u>-</u>	<u>645,065</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(334,846)</u>	<u>200,259</u>
NET INCREASE IN CASH	801,102	1,524,240
Cash and cash equivalents, beginning of year	<u>3,732,581</u>	<u>2,208,341</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,533,683</u></u>	<u><u>\$ 3,732,581</u></u>
Supplemental disclosures		
Cash paid during the year for:		
Interest	\$ 202,586	\$ 224,219

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

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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 6,075 individuals and their families during 2012.

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, 2012 AND 2011

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, 2012 AND 2011

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 five 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, 2012 AND 2011

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, 2012 AND 2011

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, 2012 and 2011, 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 2012 and 2011.

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, 2012 AND 2011

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 2012 and 2011 were \$116,353 and \$113,464, 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 2012 and 2011, 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 2009 through 2012.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include depreciation of property and equipment and the allowance for doubtful accounts.

NOTE 2.--NOTES PAYABLE

Notes payable as of December 31, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
Note payable to Bank of America in monthly installments of \$29,876 including interest at 4.60%, due October 2019, with a balloon payment of \$2,631,884, secured by the real estate financed.	\$ 3,995,573	\$ 4,161,949
Note payable to Bank of America in monthly installments of \$14,910 including interest at 4.60%, due September 2013, secured by the property financed.	<u>131,555</u>	<u>300,025</u>
	4,127,128	4,461,974
Less current portion	<u>307,504</u>	<u>335,895</u>
Total long-term	<u>\$ 3,819,624</u>	<u>\$ 4,126,079</u>

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

<u>Year ending December 31,</u>	
2013	\$ 307,504
2014	184,333
2015	193,116
2016	201,867
2017	211,937
Thereafter	<u>3,028,371</u>
	<u>\$ 4,127,128</u>

The carrying value of the properties at December 31, 2012, is approximately \$6,329,000.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 2.--NOTES PAYABLE (Continued)

The notes payable to Bank of America contain restrictive covenants relating to debt service coverage and minimum liquidity to debt. As of December 31, 2012 and 2011, Valley Cities was in compliance with the restrictive covenants.

NOTE 3.--REFUNDABLE ADVANCES

Refundable advances as of December 31 consist of:

	<u>2012</u>	<u>2011</u>
Valley Cities Landing	\$ 5,268,444	\$ 5,268,444
Valley Cities Neighborhood Stabilization Program Rental	549,187	549,187
Amortization of refundable advance	<u>(262,006)</u>	<u>(145,654)</u>
	<u>\$ 5,555,625</u>	<u>\$ 5,671,977</u>

Valley Cities Landing

In 2007, Valley Cities acquired property near its Auburn administrative office for development of low income housing units. In 2008 and 2009, various grants (refundable advances) were awarded for development and construction, as described below.

The project, Valley Cities Landing, includes 24 low income housing units owned and operated by Valley Cities. As of December 31, 2011, a total of \$5,268,444 had been advanced under the awards from State of Washington and King County shown below.

State of Washington Grant

During 2008, Valley Cities was awarded \$1,500,000 from the State of Washington Department of Community Trade and Economic Development of which \$1,382,254 was used as of December 31, 2011. This grant is restricted from January 1, 2011, until December 31, 2050, when the term of commitment ends. If the property is sold, refinanced, transferred, the use changes during the 40-year term of commitment, or Valley Cities is materially out of compliance with the terms and conditions of the grant, the award amount, plus a proportional share of the appreciated value of the property will be due and payable within 30 days of such event. The grant is secured by a promissory note and deed of trust on the property.

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

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 3.--REFUNDABLE ADVANCES (Continued)

King County Grant

A second refundable advance for \$4,098,872 was awarded to Valley Cities from the King County Department of Community and Human Services/Housing and Community Development of which \$3,886,190 was used for the same purpose as of December 31, 2011. This grant is restricted from July 1, 2010, to June 30, 2060. If the property is sold, refinanced, transferred, or the use changes during the 50-year term of commitment, the award must be paid back, plus a proportional share of the appreciated value of the property will be due and payable within 30 days of such event. The grant is secured by a promissory note and deed of trust on the property.

Rent to be paid by tenants may not exceed 30% of the monthly income of the target population and shall be adjusted for household size. The units are required to provide permanent housing for homeless, chronically mentally ill individuals of which 12 will be homeless veterans.

Valley Cities Neighborhood Stabilization Program Rental

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 as of December 31, 2011.

If the property is sold or transferred, the award must be paid back, plus a proportional share of the appreciated value of the property will be due and payable within 30 days of such event. The grant is secured by a promissory note and deed of trust on the property. The note is non-interest bearing unless a breach, default, or violation of the contract, deed of trust, covenant agreement, or promissory note occurs.

Units must be occupied by homeless individuals and families that, at the time of initial occupancy or change of tenancy following a vacancy, have incomes that do not exceed 50% of the area median incomes.

NOTE 4.--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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 4.--LEASES (Continued)

Required future minimum payments under noncancelable leases are as follows:

<u>Year Ending December 31,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2013	\$ 343,210	\$ 74,908	\$ 418,118
2014	224,352	66,866	291,218
2015	56,907	61,590	118,497
2016	-	41,949	41,949
2017	-	5,430	5,430
	<u>\$ 624,469</u>	<u>\$ 250,743</u>	<u>\$ 875,212</u>

NOTE 5.--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 \$311,942 in 2012 and \$282,897 in 2011 and are included in employee benefits expense on the accompanying Statements of Functional Expenses.

NOTE 6.--TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Pathways First Service Funds (restricted cash)	\$ 170,683	\$ 202,688
Building Changes - Families First	20,738	23,016
Auction Fund Donations	48,267	36,122
Resource Room & Warmline	49,656	73,119
Wraparound Training	-	4,806
Housing Program	2,097	11,669
Play Therapy	147	1,178
Auburn Rotary Club	1,000	1,000
Forensic Mental Health Support (SCORE)	824,847	553,923
Seattle Foundation-Veterans	5,915	6,000
NW Children's Fund (PHF Against DV)	7,500	-
United Way: Summer Meals Program	8,840	-
Total temporarily restricted net assets	<u>\$ 1,139,690</u>	<u>\$ 913,521</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 7.--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, 2012 and 2011, for the following purposes:

	2012	2011
Pathways First Service Funds (restricted cash)	\$ 32,006	\$ 35,000
Electronic Health Records	-	75,000
Building Changes - Families First	106,053	103,182
Auction Fund Donations	37,145	30,175
Resource Room & Warmline	23,463	12,880
Wraparound Training	4,806	2,040
Housing Program	9,572	3,298
Play Therapy	1,031	822
Medical Consultation	-	5,000
Federal Way Family Support	-	4,271
Auburn Rotary Club	1,500	-
Forensic Mental Health Support (SCORE)	283,234	-
Veterans Program	85	-
Domestic Violence Program	-	27,489
United Way: Summer Meals Program	1,160	-
Total temporarily restricted net assets released from restrictions	<u>\$ 500,055</u>	<u>\$ 299,157</u>

NOTE 8.--CONCENTRATIONS OF RISK

Valley Cities maintains cash accounts in several financial institutions in 2012 and 2011. Interest-bearing cash accounts are insured by the FDIC for up to \$250,000 as of December 31, 2012 and 2011. Non-interest-bearing accounts are insured up to the full account balance for 2012 and 2011. Valley Cities has not experienced any losses in such accounts. The concentration of credit risk approximated \$1,883,000 and \$1,314,000 as of December 31, 2012 and 2011, respectively.

During the years ended December 31, 2012 and 2011, King County funding (including prepaid health plan) accounted for 83% and 82%, respectively, of Valley Cities' client and third-party revenues.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 9.--SUBSEQUENT EVENTS

On March 29, 2013, Valley Cities completed the purchase of a facility in Renton for \$1.65 million. Of this amount, \$1.32 million was financed with a 10-year note requiring a balloon payment of approximately \$797,000. Interest is calculated using the monthly LIBOR rate plus 2.1%. The loan is collateralized by the facility.

Valley Cities has evaluated subsequent events through April 25, 2013, the date which the financial statements were available to be issued.

VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2012

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	2012 Federal Expenditures
MAJOR PROGRAMS		
U.S. Department of Health and Human Services		
Health Resources and Services Administration		
Pass-through from King County Mental		
Health and Chemical Abuse & Dependency		
Services Division		
Trauma-Informed Care	93.243 *	135,000
Trauma-Informed Care	93.243 *	38,748
Adult Outpatient Treatment	93.778	386
Adult Outpatient Treatment	93.778	1,155
U.S. Department of Health and Human Services		
Health Resources and Services Administration		
Pass-through from Seattle-King County Department		
of Public Health		
Health Care for the Homeless	93.224	198,000
U.S. Department of Health and Human Services		
Health Resources and Services Administration		
Pass-through from University of Washington		
Advanced Nursing Education Grant Program	93.247	12,868
Advanced Nursing Education Grant Program	93.247	18,160
U.S. Department of Housing and Urban Development		
Office of Community Planning and Development		
Pass-through from Seattle-King County Department		
of Public Health		
Supplemental Housing Grant:		
Health Care for the Homeless	14.235	40,574
Health Care for the Homeless	14.235	91,720
Health Care for the Homeless	14.235	58,308
Health Care for the Homeless	14.235	55,616
U.S. Department of Agriculture		
Food and Nutrition Service		
Pass-through frp, Washington State Office of		
Superintendent of Public Instruction		
Summer food program for Children	10.559	5,709
TOTAL FEDERAL AWARDS		\$ 656,244
*Major program		

See accompanying notes to Schedule of Expenditures of Federal Awards.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2012

NOTE 1.--BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Valley Cities Counseling and Consultation under programs of the federal government for the year ended December 31, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Valley Cities Counseling and Consultation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Valley Cities Counseling and Consultation.

NOTE 2.--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3.--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 4.--PROGRAM COSTS

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Valley Cities Counseling and Consultation
Kent, Washington

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Valley Cities Counseling and Consultation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated April 25, 2013,

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Valley Cities Counseling and Consultation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley Cities Counseling and Consultation's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Cities Counseling and Consultation's financial statements are free 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Shannon & Associates, LLP

Kent, Washington
April 25, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Directors
Valley Cities Counseling and Consultation
Kent, Washington

Report on Compliance for Each Major Federal Program

We have audited Valley Cities Counseling and Consultation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Valley Cities Counseling and Consultation's major federal programs for the year ended December 31, 2012. Valley Cities Counseling and Consultation's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Valley Cities Counseling and Consultation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination on Valley Cities Counseling and Consultation's compliance.

Opinion on Each Major Federal Program

In our opinion, Valley Cities Counseling and Consultation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Valley Cities Counseling and Consultation is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered Valley Cities Counseling and Consultation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Shannon & Associates, LLP

Kent, Washington
April 25, 2013

**VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012**

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?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be a material weakness?	No
Type of auditors' report 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 93.243	Trauma-Informed Care
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.

**VALLEY CITIES COUNSELING AND CONSULTATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2012**

**Department of Health and Human Services
Seattle-King County Department of Health**

Finding 2011-1

Condition: Valley Cities Counseling and Consultation ("VCCC") assisted a total of 78 families during the contract period. The level of effort requirement is to assist 100 or more families during the year.

Recommendation: VCCC should track and monitor the number of families assisted continuously throughout the year and regularly compare the total with the requirement of 100 families served.

Current status: The program has been discontinued, no further action is necessary.

**Department of Health and Human Services
King County Department of Health and Human Services**

Finding 2011-2

Condition: Client records were not always recorded in "TRAC" within 7 days of the Data Entry Specialist receiving the information from the peers administering the questionnaires.

Recommendation: VCCC should modify policies and procedures to require records be entered into "TRAC" within 1 day of receiving the questionnaires from the peers and peers should provide completed questionnaires to the Data Entry Specialist within 1 day of the client meeting. This policy should include time stamps to document when records are provided to and entered by the Data Entry Specialist.

Current status: The policy has been modified to have all forms provided to the Data Entry Specialist at the end of the day in which they are completed. During the 2012 audit, improvements were seen in timely submissions of the reports to the Data Entry Specialist and subsequent entry into TRAC.

**Department of Health and Human Services
King County Department of Health and Human Services**

Finding 2011-3

Condition: Several client records were not reported in "TRAC" that were required to be reported to King County.

Recommendation: VCCC should continue working diligently with King County personnel to define the requirements and implement controls to ensure those requirements are being met.

Current status: VCCC and the County are reconciling the data recorded in "TRAC" to VCCC records in the electronic health records system, "Profiler." No additional action is necessary.