

**VALLEY CITIES COUNSELING
AND CONSULTATION**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012**

**VALLEY CITIES COUNSELING
AND CONSULTATION**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Valley Cities Counseling and Consultation
Kent, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Valley Cities Counseling and Consultation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by 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 May 15, 2014, 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
May 15, 2014

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	<u>ASSETS</u>	
	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,059,649	\$ 4,533,683
Accounts and grants receivable, net of allowance for doubtful accounts of \$15,000	782,475	1,545,843
Prepaid expenses and deposits	<u>231,926</u>	<u>78,256</u>
TOTAL CURRENT ASSETS	5,074,050	6,157,782
PROPERTY AND EQUIPMENT		
Buildings	14,208,011	12,365,892
Construction in progress	96,267	31,539
Leasehold improvements	9,394	55,957
Office and computer equipment	2,150,869	2,364,216
Vehicles	16,983	16,983
Land	<u>1,921,295</u>	<u>1,419,062</u>
	18,402,819	16,253,649
Less accumulated depreciation and amortization	<u>3,560,287</u>	<u>3,286,526</u>
NET PROPERTY AND EQUIPMENT	<u>14,842,532</u>	<u>12,967,123</u>
TOTAL ASSETS	<u><u>\$ 19,916,582</u></u>	<u><u>\$ 19,124,905</u></u>

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

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 492,107	\$ 391,705
Accrued wages, payroll taxes and benefits	936,485	861,796
Deferred revenue	534	534
Rent deposits	14,517	11,082
Current portion, notes payable	<u>228,564</u>	<u>307,504</u>
TOTAL CURRENT LIABILITIES	1,672,207	1,572,621
LONG-TERM LIABILITIES		
Notes payable, net of current portion	4,881,880	3,819,624
Refundable advances	<u>5,439,272</u>	<u>5,555,625</u>
TOTAL LONG-TERM LIABILITIES	<u>10,321,152</u>	<u>9,375,249</u>
TOTAL LIABILITIES	11,993,359	10,947,870
NET ASSETS		
Unrestricted	7,200,996	7,037,345
Temporarily restricted	<u>722,227</u>	<u>1,139,690</u>
TOTAL NET ASSETS	<u>7,923,223</u>	<u>8,177,035</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,916,582</u>	<u>\$ 19,124,905</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, 2013

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
PUBLIC SUPPORT AND REVENUES			
Public support			
United Way	\$ 402,165	\$ -	\$ 402,165
Contributions	22,101	447,125	469,226
Amortization of refundable advance	116,353	-	116,353
	<u>540,619</u>	<u>447,125</u>	<u>987,744</u>
Revenues			
Net client and third-party revenues			
King County prepaid health plan	8,797,013		8,797,013
King County contracts	4,698,670		4,698,670
Client and third party	174,630		174,630
Local	424,639		424,639
Medicare	64,703		64,703
Medicaid	32,144		32,144
State of Washington	225,303		225,303
Other	738,130	-	738,130
	<u>15,155,232</u>		<u>15,155,232</u>
Net assets released from restriction	864,588	(864,588)	-
TOTAL PUBLIC SUPPORT AND REVENUES	<u>16,560,439</u>	<u>(417,463)</u>	<u>16,142,976</u>
EXPENSES			
Salaries and wages	9,336,613		9,336,613
Employee benefits	1,468,433		1,468,433
Payroll taxes	844,136		844,136
Total salaries and related expenses	<u>11,649,182</u>		<u>11,649,182</u>
Professional fees	467,981		467,981
Sub-contractor expenses	447,759		447,759
Conference and training	128,725		128,725
Travel and vehicle	232,513		232,513
Insurance	130,355		130,355
Supplies	95,616		95,616
Interest expense	225,817		225,817
Computer expense	173,885		173,885
Telephone	359,660		359,660
Postage and delivery	28,885		28,885
Rent	369,169		369,169
Furniture and equipment	111,375		111,375
Depreciation	589,077		589,077
Utilities	137,703		137,703
Occupancy	182,374		182,374
Printing/advertising	60,566		60,566
Client assistance	840,957		840,957
Clients – special needs	142,591		142,591
Miscellaneous	22,598	-	22,598
TOTAL EXPENSES	<u>16,396,788</u>	<u>-</u>	<u>16,396,788</u>
CHANGE IN NET ASSETS	163,651	(417,463)	(253,812)
NET ASSETS, beginning of year	<u>7,037,345</u>	<u>1,139,690</u>	<u>8,177,035</u>
NET ASSETS, end of year	<u>\$ 7,200,996</u>	<u>\$ 722,227</u>	<u>\$ 7,923,223</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
	532,103	726,224	1,258,327
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
	16,041,144		16,041,144
Net assets released from restriction	500,055	(500,055)	-
TOTAL PUBLIC SUPPORT AND REVENUES	17,073,302	226,169	17,299,471
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	11,298,403		11,298,403
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	15,884,119	-	15,884,119
CHANGE IN NET ASSETS	1,189,183	226,169	1,415,352
NET ASSETS, beginning of year	5,848,162	913,521	6,761,683
NET ASSETS, end of year	\$ 7,037,345	\$ 1,139,690	\$ 8,177,035

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, 2013

	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	\$ 1,727,282	\$ 1,831,772	\$ 463,110	\$ 567,303	\$ 374,002
Employee benefits	303,599	312,138	67,914	100,839	63,545
Payroll taxes	<u>165,237</u>	<u>168,501</u>	<u>42,021</u>	<u>55,033</u>	<u>37,610</u>
Total salaries and related expenses	2,196,118	2,312,411	573,045	723,175	475,157
Professional fees	83,733	119,351	14,981	14,449	8,730
Sub-contractor expenses	-	158,427	-	-	162,000
Conference and training	18,052	27,712	7,277	5,669	4,940
Travel and vehicle	67,389	54,695	7,093	44,917	15,660
Insurance	26,673	27,316	5,883	9,484	19,179
Supplies	21,722	23,126	5,889	2,402	10,076
Interest expense	62,668	62,888	24,947	-	15,117
Computer expense	13,744	9,503	2,489	765	3,159
Telephone	89,888	89,610	22,520	18,891	24,361
Postage and delivery	6,284	6,563	1,395	2,378	1,560
Rent	104,473	123,638	1,343	38,221	23,528
Furniture and equipment	28,081	27,752	7,920	3,191	9,970
Depreciation	119,665	120,185	32,463	25,528	133,249
Utilities	25,558	23,457	8,973	250	56,147
Occupancy	43,549	38,004	11,538	2,393	51,254
Printing/advertising	5,657	7,075	1,241	3,010	2,059
Client assistance	21,883	11,570	6	20,345	784,554
Clients - special needs	90,951	51,640	-	-	-
Miscellaneous	<u>4,217</u>	<u>4,410</u>	<u>943</u>	<u>1,424</u>	<u>1,048</u>
Total expenses	<u>\$ 3,030,305</u>	<u>\$ 3,299,333</u>	<u>\$ 729,946</u>	<u>\$ 916,492</u>	<u>\$ 1,801,748</u>

Support Services

Medical Services	Clinical Support Services	Total Program Services	Management & General	Fundraising	Program Development/ Compliance	Total Support Services	Total
\$ 1,433,294	\$ 1,725,601	\$ 8,122,364	\$ 1,050,221	\$ 81,153	\$ 82,875	\$ 1,214,249	\$ 9,336,613
119,886	293,477	1,261,398	179,509	13,546	13,980	207,035	1,468,433
101,136	167,300	736,838	92,582	7,279	7,437	107,298	844,136
1,654,316	2,186,378	10,120,600	1,322,312	101,978	104,292	1,528,582	11,649,182
54,375	65,778	361,397	57,660	490	48,434	106,584	467,981
99,116	23,216	442,759	-	-	5,000	5,000	447,759
3,845	15,628	83,123	17,940	11,803	15,859	45,602	128,725
1,153	32,440	223,347	6,786	1,173	1,207	9,166	232,513
6,411	23,110	118,056	10,525	865	909	12,299	130,355
6,001	17,812	87,028	4,781	150	3,657	8,588	95,616
15,344	44,084	225,048	769	-	-	769	225,817
793	94,340	124,793	46,324	1,383	1,385	49,092	173,885
22,531	71,663	339,464	16,947	1,447	1,802	20,196	359,660
1,479	5,379	25,038	2,530	685	632	3,847	28,885
18,388	59,218	368,809	307	26	27	360	369,169
7,030	25,785	109,729	1,439	55	152	1,646	111,375
29,397	95,445	555,932	28,365	2,358	2,422	33,145	589,077
6,297	17,007	137,689	-	2	12	14	137,703
9,652	24,945	181,335	889	21	129	1,039	182,374
2,695	9,086	30,823	1,092	6,523	22,128	29,743	60,566
35	2,517	840,910	47	-	-	47	840,957
-	-	142,591	-	-	-	-	142,591
551	1,994	14,587	2,308	2,703	3,000	8,011	22,598
<u>\$ 1,939,409</u>	<u>\$ 2,815,825</u>	<u>\$ 14,533,058</u>	<u>\$ 1,521,021</u>	<u>\$ 131,662</u>	<u>\$ 211,047</u>	<u>\$ 1,863,730</u>	<u>\$ 16,396,788</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 <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>
\$ 1,348,129	\$ 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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (253,812)	\$ 1,415,352
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	589,077	551,620
Amortization of refundable advance	(116,353)	(116,353)
Loss on disposal of property and equipment	3,641	-
Cash provided (used) by changes in operating assets and liabilities:		
Accounts and grants receivable	763,368	(565,949)
Prepaid expenses and deposits	(153,670)	121,070
Accounts payable and accrued liabilities	100,402	77,401
Accrued wages, payroll taxes and benefits	74,689	(78,566)
Deferred revenue	-	(4,749)
Rent deposits	<u>3,435</u>	<u>1,787</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,010,777	1,401,613
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(753,399)	(239,177)
Cash down payment for purchase of land and building	(330,000)	-
Construction in progress	<u>(64,728)</u>	<u>(26,488)</u>
NET CASH USED BY INVESTING ACTIVITIES	(1,148,127)	(265,665)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	<u>(336,684)</u>	<u>(334,846)</u>
NET INCREASE (DECREASE) IN CASH	(474,034)	801,102
Cash and cash equivalents, beginning of year	<u>4,533,683</u>	<u>3,732,581</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,059,649</u></u>	<u><u>\$ 4,533,683</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 221,745	\$ 202,586
Supplemental disclosure of noncash investing and financing activities:		
Financed portion of the \$1,650,000 real estate acquisition	\$ 1,320,000	\$ -

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

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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 continues to integrate trained and certified Peers Support Specialists into all programs, allowing their own recovery, and motivating others to find hope and growth in their recovery process.

In July 2013, Valley Cities launched two primary care integration projects with Health Point at the Auburn and Kent Offices. Health Point is at each site two days a week ensuring that our clients are getting their medical and mental health services needs met. Hundreds of people are now receiving integrated care at these two sites.

In October of 2013, Health Point opened its new clinic ("Midway Clinic") in Des Moines, Washington. Valley Cities has partnered with Health Point to provide mental health and substance abuse treatment at this site while Health Point providers are meeting the primary medical, dental and pharmacy needs of their patients. Health Point expects about 12,000 patients to be seen annually at Midway Clinic.

Also in October 2013, Valley Cities began enrolling people in the Washington Health Exchange. Hundreds of thousands of people in King County are expected to be enrolled through the exchange bringing health insurance to the uninsured in King County.

Valley Cities moved from a rental facility to the newly purchased and renovated building at 221 Wells Street in downtown Renton, Washington, in October 2013. This location was chosen primarily for its proximity to the Renton Transit Station. A new model of care, Care Coordination, is being tested at this site.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

PURPOSE AND PROGRAMS (Continued)

All clients are assigned to a Care Coordinator who then assists the client in connecting to resources in the agency and in the community. Clinicians are trained in evidenced based treatment modalities including CBT+ (Trauma Focused Cognitive Behavioral Therapy for children) and Love and Logic parenting skills.

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 more than 7,000 individuals and their families during 2013.

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.

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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

PURPOSE AND PROGRAMS (Continued)

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.

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.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

PURPOSE AND PROGRAMS (Continued)

Medical Services

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

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.

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 to be cash and cash equivalents.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Functional Expense Classification and Allocation

Expenses are classified in the accompanying Statement of Functional Expenses according to whether they relate to a specific program or 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, 2013 and 2012, such adjustments were minimal.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2013 and 2012.

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.

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 2013 and 2012 were both \$116,353.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2013 and 2012, 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 2010 through 2013.

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.--FACILITIES

During 2013, Valley Cities acquired a facility in Renton, Washington, to expand its program services. The facility was purchased for \$1,650,000 using a combination of cash in the amount of \$330,000 and \$1,320,000 in bank financing.

Additionally, Valley Cities is developing a new low-income housing complex and recovery cafe on one of its existing properties and as of December 31, 2013, has expended and capitalized approximately \$96,000 in architectural fees, street vacation and other costs. During the first quarter of 2014, Valley Cities was awarded funding by the state of Washington and King County in the amount of \$4.2 million. Valley Cities is attempting to secure additional funding of approximately \$1.1 million to complete the project. The total cost of the project is estimated to be \$5.6 million. The project is targeted for completion in 2015.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 3.--NOTES PAYABLE

Notes payable as of December 31, 2013 and 2012, consist of the following:

	<u>2013</u>	<u>2012</u>
Note payable to Bank of America in monthly principal payments as established in a loan payment schedule, plus interest based on the monthly LIBOR rate plus 2.1%, (2.27% at December 31, 2013). Due April 1, 2023, with a balloon payment of \$796,681. See Note 4. Secured by the real estate financed.	\$ 1,291,333	\$ -
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.	3,819,111	3,995,573
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. Paid in full during 2013.	-	131,555
	5,110,444	4,127,128
Less current portion	228,564	307,504
Total long-term	<u>\$ 4,881,880</u>	<u>\$ 3,819,624</u>

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

<u>Year ending December 31,</u>	
2014	\$ 228,564
2015	239,822
2016	249,977
2017	262,111
2018	274,363
Thereafter	3,855,607
	<u>\$ 5,110,444</u>

The carrying value of the properties at December 31, 2013, is approximately \$5,300,000.

The notes payable to Bank of America contain restrictive covenants relating to debt service coverage and minimum liquidity to debt. As of December 31, 2013 and 2012, Valley Cities was in compliance with the restrictive covenants.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 4.--INTEREST RATE SWAP AGREEMENT

In 2013, Valley Cities used variable-rate debt to finance the acquisition of the Renton facility. The debt obligation exposes Valley Cities to variability in interest payments due to changes in interest rates. Management believes it is prudent to limit the variability of its interest payments. To meet this objective, management entered into an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. This swap changed the variable-rate cash flows exposure on the debt to fixed cash flows. Under the terms of the interest rate swap, Valley Cities receives or pays variable interest rate payments and makes fixed interest payments, thereby creating the equivalent of fixed-rate debt.

By using a derivative financial instrument to hedge its exposure to changes in interest rates, Valley Cities exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes Valley Cities, which creates credit risk for Valley Cities. When the fair value of a derivative contract is negative, Valley Cities owes the counterparty and, therefore, it does not possess credit risk. Valley Cities minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing the monitoring parameters that limit the types and degree of market risk that may be undertaken.

On March 27, 2013, Valley Cities entered into a notional \$1,320,000 U.S. Dollar Rate Swap Transaction with an effective date of April 1, 2013, and a termination date of April 1, 2023. The swap was executed with the purpose of fixing the rate on the note payable. Under the terms of the agreement, Valley Cities pays a fixed rate of 4.145% to Bank of America on a monthly basis and, in return, Bank of America pays Valley Cities the variable rate of the monthly LIBOR rate plus 2.1%, which was 2.27% at December 31, 2013. At December 31, 2013, the swap contract had a notional amount of \$1,291,333. See Note 3.

Management has determined that the fair value of the interest rate swap agreement at December 31, 2013, is immaterial and, hence, is not included in the financial statements.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 5.--REFUNDABLE ADVANCES

Refundable advances as of December 31 consist of:

	<u>2013</u>	<u>2012</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>(378,359)</u>	<u>(262,006)</u>
	<u>\$ 5,439,272</u>	<u>\$ 5,555,625</u>

Valley Cities Landing

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

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

The agreement requires that a reasonable amount of cash be held in separate accounts for both operating and replacement reserves. The balances in the operating and reserve accounts as of December 31, 2013, are approximately \$52,000 and \$125,000, respectively. The balances in the operating and reserve accounts as of December 31, 2012, were approximately \$50,000 and \$120,000, respectively.

State of Washington Grant

During 2008, Valley Cities was awarded \$1,500,000 from the State of Washington Department of Community Trade and Economic Development of which \$1,382,254 was used as of December 31, 2011. This grant is restricted from January 1, 2011, until December 31, 2050, when the term of commitment ends. 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, 2013 AND 2012

NOTE 5.--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 6.--LEASES

Valley Cities has entered into various agreements to lease operating facilities, computers and office equipment under noncancelable operating leases with terms through 2018. Certain facilities lease agreements require Valley Cities to pay common area maintenance charges, and some of the leases are subject to escalation clauses. Total rent expense recorded for the years ended December 31, 2013 and 2012, was approximately \$467,000 and \$459,000, respectively.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 6.--LEASES (Continued)

Required future minimum payments under noncancelable leases are as follows:

Year Ending December 31,	Facilities	Equipment	Total
2014	\$ 224,352	\$ 78,103	\$ 302,455
2015	212,355	78,103	290,458
2016	208,356	65,991	274,347
2017	52,089	27,553	79,642
2018	-	8,143	8,143
	<u>\$ 697,152</u>	<u>\$ 257,893</u>	<u>\$ 955,045</u>

NOTE 7.--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 \$309,411 in 2013 and \$311,942 in 2012 and are included in employee benefits expense on the accompanying Statements of Functional Expenses.

NOTE 8.--TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2013 and 2012:

	2013	2012
Pathways First Service Funds (Restricted Cash)	\$ 138,682	\$ 170,683
Building Changes - Families First	25,943	20,738
Auction Fund Donations	33,792	48,267
Resource Room & Warmline	-	49,656
Housing Program	-	2,097
Play Therapy	-	147
Auburn Rotary Club	-	1,000
Forensic Mental Health Support	323,955	824,847
Seattle Foundations - Veterans	4,936	5,915
NW Children's Fund (PHF Against DV)	-	7,500
United Way: Summer Meals Program	-	8,840
Primary Care Integration-AGO	174,279	-
Snoqualmie-Therapy Toys	4,140	-
Puyallup Tribe - MHFA Training	6,500	-
Total temporarily restricted net assets	<u>\$ 722,227</u>	<u>\$ 1,139,690</u>

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 9.--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, 2013 and 2012, for the following purposes:

	2013	2012
Pathways First Program	\$ 32,000	\$ 32,006
Building Changes - Families First	98,570	106,053
Auction Fund Donations	14,475	37,145
Resource Room & Warmline	49,656	23,463
Wraparound Training	-	4,806
Housing Program	2,097	9,572
Play Therapy	147	1,031
Auburn Rotary Knitting & Crocheting	-	1,500
Forensic Mental Health Support (SCORE)	500,892	283,234
Veterans Program	1,979	85
NW Children's Fund (PHF Against DV)	7,500	-
United Way: Summer Meals Program	8,840	1,160
Primary Care Integration-AGO	118,432	-
Muckleshoot Casino-MHFA	5,000	-
Primary Care Integration-Seattle Foundation	25,000	-
Total temporarily restricted net assets released from restrictions	<u>\$ 864,588</u>	<u>\$ 500,055</u>

NOTE 10.--CONCENTRATIONS OF RISK

Valley Cities maintains cash balances in several financial institutions that may, at times, exceed limits insured by the FDIC. Valley Cities does not believe that it is exposed to significant credit risk on cash and cash equivalents as deposits are maintained in high quality financial institutions and Valley Cities has not experienced any losses in such accounts. Uninsured cash balances approximated \$3,100,000 and \$1,883,000 as of December 31, 2013 and 2012, respectively.

During the years ended December 31, 2013 and 2012, King County funding (including prepaid health plan) accounted for 84% and 83%, respectively, of Valley Cities' client and third-party revenues. Also, amounts due from King County at December 31, 2013 and 2012, accounted for approximately 77% and 80%, respectively, of accounts receivable.

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 11.--SUBSEQUENT EVENTS

In January 2014, Valley Cities was named in a lawsuit as one of the defendants. The case is currently in the discovery phase, and as such, the probability and amount of loss cannot be estimated.

Valley Cities has evaluated subsequent events through May 15, 2014, the date which the financial statements were available to be issued.

VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2013

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	2013 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 *	\$ 116,252
Trauma-Informed Care	93.243 *	27,637
Adult Outpatient Treatment	93.778	1,000
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	49,500
Health Care for the Homeless	93.224	155,700
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	33,042
Advanced Nursing Education Grant Program	93.247	18,727
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	75,852
Health Care for the Homeless	14.235	62,544
U.S. Department of Housing and Urban Development		
Pass-through from King County Housing Stability Project		
Solid round Washington		
Community Development Block Grant Program	14.218	2,794
U.S. Department of Agriculture		
Food and Nutrition Service		
Pass-through from Washington State Office of		
Superintendent of Public Instruction		
Summer food program for Children	10.559	3,473
U.S. Department of Health and Human Services		
Pass-through from Seattle-King County Department		
of Public Health		
Health Benefit Exchange In-Person Assister Network	93.525	7,353
TOTAL FEDERAL AWARDS		\$ 553,874

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2013

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, 2013. 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, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated May 15, 2014,

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
May 15, 2014

**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, 2013. 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 2013-1 and 2013-2. Our opinion on each major federal program is not modified with respect to these matters.

Valley Cities Counseling and Consultation's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Valley Cities Counseling and Consultation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Valley Cities Counseling and Consultation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Valley Cities Counseling and Consultation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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
May 15, 2014

**VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013**

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

Findings reported; see following page.

**VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013**

Section III - Federal Award Findings and Questioned Costs

Finding 2013-1

CFDA No: 93.243

Program Title: Trauma Informed Care

Federal Award Year: 2013

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

Criteria: Clients, with the assistance of practitioners, are requested to complete the following questionnaires every six months: 1) the Mental Health Recovery Measure (MHRM), 2) the National Outcomes Measurement System (NOMS), and 3) the Posttraumatic Stress Symptoms Interview (PSS-I). These evaluations, even if not performed, are required to be documented in TRAC for each client through the date of the participant's discharge from the program.

Condition: Valley Cities procedures did not include recording the required administrative records for the MHRM, NOMS, and PSS-I in TRAC when a client opted not to fill out the questionnaire or did not seek treatment for a six-month period.

Effect: Valley Cities is out of compliance with the above-mentioned reporting requirement.

Cause: Valley Cities Trauma Informed Care ("TIC") staff were not informed by King County until several reporting periods passed in 2013 that an administrative record needed to be documented in TRAC when a client did not participate in the evaluation. As a result, administrative records in TRAC are missing for the periods where the clients did not participate.

Recommendation: We recommend that procedures be updated to include entering an administrative record in TRAC for each instance where a client does not participate for the evaluation period.

Corrective Action Plan: King County did not inform Valley Cities in the beginning, so it wasn't known that an administrative record was required. TIC staff has been working closely with the County since to ensure that old data is being repaired correctly and that new data is accurate.

**VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013**

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

Finding 2013-2

CFDA No: 93.243

Program Title: Trauma Informed Care

Federal Award Year: 2013

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

Criteria: The information collected with the MHRM, NOMS, and PSS-I questionnaires is required to be reported to King County in a timely manner via the TRAC system. In prior years, King County specified a 7-day requirement for reporting in TRAC. For 2013, King County informally designated “timely” to be not later than the month ended in which the information is or should have been obtained.

Condition: For 10 of 25 client files tested, the recorded date in TRAC is more than 2 months after the date the questionnaires were completed.

Effect: Valley Cities is out of compliance with the above-mentioned reporting requirement.

Cause: There were several potential causes for the issue identified above. First, TRAC only discloses the most recent input date; therefore, the initial entry could not always be verified. Second, TRAC limits the ability of the data entry specialist to record an evaluation if the client came in less than 6 months after the previous evaluation. Third, Valley Cities experienced turnover of program personnel during 2013 which may have resulted in inconsistency in reporting during the year. Finally, Valley Cities implemented electronic health records software in July 2012 which changed documentation processes and may have resulted in inconsistency in reporting.

Recommendation: We recommend that procedures be added or modified to retain and make available the date information is initially entered into TRAC in addition to the dates of any subsequent changes made to the reported information. We also recommend that internal reviews be performed to verify consistent compliance with reporting and other requirements.

Corrective Action Plan: There is a time limit to when Valley Cities can enter and/or repair data in TRAC before the system locks out for entry. When repairing the old data, Valley Cities can enter into Profiler (Valley Cities’ Electronic Health Record system) the actual date the data was completed, but cannot do the same in the TRAC system. Given that the TRAC system does not allow for input of the actual date of the NOMS data, it has caused the record dates to be different between the systems. TIC staff has been working closely with the County to ensure timeliness of data entry.