VALLEY CITIES COUNSELING
AND CONSULTATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

**VALLEY CITIES COUNSELING
AND CONSULTATION**

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Shannon & Associates LLP
Certified Public Accountants
Management Consultants

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, 2014 and 2013, 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 audits 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.

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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, 2014 and 2013, 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 13, 2015, 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 13, 2015

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	$ 4,732,959	$ 4,059,649
Accounts and grants receivable, net of allowance for doubtful accounts of $15,000	1,156,566	782,475
Prepaid expenses and deposits	77,479	231,926
TOTAL CURRENT ASSETS	5,967,004	5,074,050
PROPERTY AND EQUIPMENT		
Buildings	14,214,092	14,208,011
Construction in progress	3,103,522	96,267
Leasehold improvements	9,394	9,394
Office and computer equipment	2,155,521	2,150,869
Vehicles	16,983	16,983
Land	1,921,295	1,921,295
	21,420,807	18,402,819
Less accumulated depreciation and amortization	4,162,042	3,560,287
NET PROPERTY AND EQUIPMENT	17,258,765	14,842,532
TOTAL ASSETS	$ 23,225,769	$ 19,916,582

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

VALLEY CITIES COUNSELING AND CONSULTATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

LIABILITIES AND NET ASSETS

	2014	2013
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 881,765	$ 492,107
Accrued wages, payroll taxes and benefits	965,787	936,485
Deferred revenue	-	534
Rent deposits	15,069	14,517
Current portion, notes payable	239,245	228,564
TOTAL CURRENT LIABILITIES	2,101,866	1,672,207
LONG-TERM LIABILITIES		
Notes payable, net of current portion	4,642,184	4,881,880
Refundable advances	5,322,919	5,439,272
TOTAL LONG-TERM LIABILITIES	9,965,103	10,321,152
TOTAL LIABILITIES	12,066,969	11,993,359
NET ASSETS		
Unrestricted	10,874,113	7,200,996
Temporarily restricted	284,687	722,227
TOTAL NET ASSETS	11,158,800	7,923,223
TOTAL LIABILITIES AND NET ASSETS	$ 23,225,769	$ 19,916,582

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, 2014

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
PUBLIC SUPPORT AND REVENUES			
Public support			
United Way	$ 398,309	$ -	$ 398,309
Contributions	11,133	202,928	214,061
Amortization of refundable advance	116,353	-	116,353
	525,795	202,928	728,723
Revenues			
Net client and third-party revenues			
King County prepaid health plan	13,347,087		13,347,087
King County contracts	5,048,124		5,048,124
Client and third party	363,810		363,810
Local	355,542		355,542
Medicare	142,337		142,337
Medicaid	164,476		164,476
State of Washington	287,177		287,177
Other	814,425	-	814,425
	20,522,978		20,522,978
Net assets released from restriction	640,468	(640,468)	-
TOTAL PUBLIC SUPPORT AND REVENUES	21,689,241	(437,540)	21,251,701
EXPENSES			
Salaries and wages	10,318,873		10,318,873
Employee benefits	1,626,198		1,626,198
Payroll taxes	951,152		951,152
Total salaries and related expenses	12,896,223		12,896,223
Professional fees	527,717		527,717
Sub-contractor expenses	418,962		418,962
Conference and training	161,146		161,146
Travel and vehicle	245,772		245,772
Insurance	146,885		146,885
Supplies	89,168		89,168
Interest expense	222,630		222,630
Computer expense	211,723		211,723
Telephone	380,329		380,329
Postage and delivery	38,379		38,379
Rent	342,529		342,529
Furniture and equipment	113,886		113,886
Depreciation	601,754		601,754
Utilities	141,034		141,034
Occupancy	215,387		215,387
Printing/advertising	91,044		91,044
Client assistance	955,880		955,880
Clients – special needs	134,839		134,839
Miscellaneous	80,837	-	80,837
TOTAL EXPENSES	18,016,124	-	18,016,124
CHANGE IN NET ASSETS	3,673,117	(437,540)	3,235,577
NET ASSETS, beginning of year	7,200,996	722,227	7,923,223
NET ASSETS, end of year	$ 10,874,113	$ 284,687	$ 11,158,800

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
	540,619	447,125	987,744
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
	15,155,232		15,155,232
Net assets released from restriction	864,588	(864,588)	-
TOTAL PUBLIC SUPPORT AND REVENUES	16,560,439	(417,463)	16,142,976
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	11,649,182		11,649,182
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	16,396,788	-	16,396,788
CHANGE IN NET ASSETS	163,651	(417,463)	(253,812)
NET ASSETS, beginning of year	7,037,345	1,139,690	8,177,035
NET ASSETS, end of year	$ 7,200,996	$ 722,227	$ 7,923,223

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, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013)

	Behavioral Health Services					
	Clinic Locations					
	Auburn	Bellevue	Federal Way	Kent	Midway	Renton
Salaries and wages	$ 2,686,117	$ 63,199	$ 2,003,921	$ 1,766,007	$ 563,326	$ 994,324
Employee benefits	446,436	8,515	281,644	270,563	94,072	150,518
Payroll taxes	251,224	5,736	185,398	162,298	48,839	89,829
Total salaries and related expenses	3,383,777	77,450	2,470,963	2,198,868	706,237	1,234,671
Professional fees	89,955	325	176,074	80,881	42,002	75,424
Sub-contractor expenses	22,103	686	16,044	13,945	4,375	8,402
Conference and training	32,097	1,308	22,738	22,920	5,984	17,031
Travel and vehicle	82,176	530	28,363	19,540	4,311	36,049
Insurance	35,442	528	24,945	23,970	7,123	14,021
Supplies	21,831	2,932	13,326	24,252	2,476	9,391
Interest expense	97,573	-	-	59,329	-	43,674
Computer expense	49,489	32,503	19,352	27,239	3,563	16,574
Telephone	104,337	1,391	75,774	80,381	16,167	34,105
Postage and delivery	7,791	129	5,486	5,251	1,576	3,202
Rent	29,655	22,871	171,917	1,835	59,893	1,166
Furniture and equipment	31,323	1,228	21,456	29,539	3,737	10,295
Depreciation	164,563	771	39,916	131,086	11,427	75,197
Utilities	39,348	-	728	27,849	-	15,961
Occupancy	47,610	201	15,071	32,275	94	39,887
Printing/advertising	11,402	1,363	7,422	7,394	1,902	5,030
Client assistance	2,392	-	12,074	1,129	546	383
Clients - special needs	87,366	-	36,120	-	-	11,353
Miscellaneous	5,058	81	3,563	3,377	1,371	2,145
Total expenses	$ 4,345,288	$ 144,297	$ 3,161,332	$ 2,791,060	$ 872,784	$ 1,653,961

		Support Services					
Homeless/ Housing/Specialty Services	Total Program Services	Management & General	Fundraising	Program Development/ Compliance	Total Support Services	2014 Total	2013 Total
$ 931,350	$ 9,008,244	$ 1,111,141	$ 99,516	$ 99,972	$ 1,310,629	$ 10,318,873	$ 9,336,613
164,729	1,416,477	183,391	13,123	13,207	209,721	1,626,198	1,468,433
92,635	835,959	96,767	9,192	9,234	115,193	951,152	844,136
1,188,714	11,260,680	1,391,299	121,831	122,413	1,635,543	12,896,223	11,649,182
11,607	476,268	38,041	344	13,064	51,449	527,717	467,981
353,407	418,962	-	-	-	-	418,962	447,759
11,354	113,432	16,623	750	30,341	47,714	161,146	128,725
63,451	234,420	7,303	2,093	1,956	11,352	245,772	232,513
27,589	133,618	11,433	917	917	13,267	146,885	130,355
11,114	85,322	2,742	142	962	3,846	89,168	95,616
22,054	222,630	-	-	-	-	222,630	225,817
15,465	164,185	45,377	1,702	459	47,538	211,723	173,885
45,371	357,526	19,649	1,577	1,577	22,803	380,329	359,660
3,193	26,628	2,907	4,400	4,444	11,751	38,379	28,885
54,785	342,122	351	28	28	407	342,529	369,169
13,118	110,696	1,392	320	1,478	3,190	113,886	111,375
156,600	579,560	19,124	1,535	1,535	22,194	601,754	589,077
57,148	141,034	-	-	-	-	141,034	137,703
79,996	215,134	223	15	15	253	215,387	182,374
13,816	48,329	1,804	606	40,305	42,715	91,044	60,566
939,356	955,880	-	-	-	-	955,880	840,957
-	134,839	-	-	-	-	134,839	142,591
2,612	18,207	1,269	56,219	5,142	62,630	80,837	22,598
$ 3,070,750	$ 16,039,472	$ 1,559,537	$ 192,479	$ 224,636	$ 1,976,652	$ 18,016,124	$ 16,396,788

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, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,235,577	$ (253,812)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	601,754	589,077
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	(374,091)	763,368
Prepaid expenses and deposits	154,447	(153,670)
Accounts payable and accrued liabilities	389,658	100,402
Accrued wages, payroll taxes and benefits	29,302	74,689
Deferred revenue	(534)	-
Rent deposits	552	3,435
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,920,312	1,010,777
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(10,733)	(753,399)
Cash down payment for purchase of land and building	-	(330,000)
Construction in progress	(3,007,254)	(64,728)
NET CASH USED BY INVESTING ACTIVITIES	(3,017,987)	(1,148,127)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(229,015)	(336,684)
NET INCREASE (DECREASE) IN CASH	673,310	(474,034)
Cash and cash equivalents, beginning of year	4,059,649	4,533,683
Cash and cash equivalents, end of year	$ 4,732,959	$ 4,059,649
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 227,003	$ 221,745
Supplemental diclosure 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.

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

PURPOSE AND PROGRAMS

Valley Cities Counseling and Consultation (Valley Cities), a not-for-profit community behavioral health center, has been the local source for quality behavioral health counseling and chemical dependency since 1965 with clinics in Kent, Auburn, Federal Way, Renton, Bellevue and Midway. It has been a United Way agency since 1967 and has been accredited by the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO).

Valley Cities 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. The development department carries out fundraising, marketing, public relations, grant writing, and public policy advocacy. The human resources department oversees personnel, staff training, student intern, and volunteer functions, and the administration and finance departments oversees information management systems, support staff, accounting and payroll operations.

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

Valley Cities clinics offer a unique model of care, Care Coordination. All clients are assigned to a Care Coordinator who then assists them in connecting to resources in the agency and in the community. Clinicians are trained in evidenced based treatment modalities including CBT+ (Trauma Focused Cognitive Behavioral Therapy for children) and Love and Logic parenting skills. Through Care Coordination, Valley Cities still treats children, adults and older adults, but as a team approach so each individual gets the focus that they need.

Services are provided to meet the needs of children, youth and their families with mental illnesses or emotional disturbances; children, youth and families who are in crises; and children and youth who are victims of trauma or family violence. These services include individual and family counseling; in home family support and advocacy; school-based counseling; crises intervention; case management; psychiatric assessment; case coordination with other service providers; medication management; support groups and skills for training parents; outreach clinical teams for homeless families; community consultation and education; and specialized treatment for those with co-occurring mental health and substance use disorders.

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

PURPOSE AND PROGRAMS (Continued)

Services are also provided to assist adults and their families with 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 provides employment and educational services so that clients can be supported to return to work or school. The chemical dependency services include intensive outpatient and specialized relapse prevention services and are integrated with the mental health services for those clients that have co-occurring mental health and chemical dependency problems.

Valley Cities is committed to quality mental health care delivered from a recovery orientation, meaning that its treatments and interventions extend beyond symptom improvement to a more holistic approach to care that helps its clients live, work, learn, and fully participate in their communities. Various public and private funding sources and individual client fees are used to fund services. A sliding fee scale is available to help individuals gain access to services. Services are provided to more than 7,000 individuals and their families every year.

Valley Cities' programs consist of:

<u>Care Coordination at each outpatient clinic</u>
A Care Coordinator will be the main point of contact at Valley Cities. They will help walk the client through how to get services at Valley Cities, ask them about what difficulties they are having and try to find out how they can help. They will connect the client with the appropriate level of care that they need, which can include counseling, medications, peer support, or groups. They can also help connect them to services in the community, like a primary care physician or a dentist. The Care Coordinator helps manage all of the expertise needed to provide the best outcomes for our clients.

<u>Children's Wraparound Services</u>
High-needs youth in the Kent, Auburn, Federal Way, Tahoma, and Enumclaw school systems that are in at least 2 of the 6 child serving systems (Mental Health, Special Education, Juvenile Justice, Child Welfare, DDA - Development Disabilities, and Chemical dependency) need special intensive coordinated help. We bring together both professional resources as well as community members such as neighbors and family to help these clients overcome their difficulties. We plan for the entire needs of the person, not just the needs of the individual system. A wraparound facilitator works with the team to discover the individual's strengths, set goals, determine major needs, and develop strength-based options to meet those needs. We make the jobs of the teacher, probation officer, doctor, and family easier by giving them the entire picture of the individual, not just the part they would normally see.

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

PURPOSE AND PROGRAMS (Continued)

We see about 260 youth in a given year and spend more than 100 hours on each child in that year. The average child is in the program for about 18 months. This time we spend results in fewer hospital visits, fewer police contacts, and fewer gang memberships. We achieve better school attendance, increased family skills, and offer more hope.

Family Treatment Court Wraparound
Family Treatment Court is an alternative to regular dependency court and is designed to improve the safety and well being of children in the dependency system by providing parents access to drug and alcohol treatment, judicial monitoring of their sobriety and individualized services to support the entire family. We are the only wraparound program in the state to work with adults as our identified client, to amplify the parent's voice in the dependency process. A wraparound facilitator works with the team to discover the individual's strengths, set goals, determine major needs, and develop strength-based options to meet those needs.

Our facilitator works with 15 families at a time to provide this critical resource in order to keep families together in a safe and healthy environment.

Family Support
In cooperation with the Federal Way School District we run the Girls Circle program in the school system. Each year 160 high-risk girls, 20 at-a-time, meet once a week for 13 weeks to work on life skills and decision making. While this is primarily a classroom activity that earns some of the girls an elective credit, we also have a field trip to practice some of their newly acquired skills.

The girls chosen for the program are not only high risk for dropping out of school, but are high risk for involvement with gangs, teen pregnancy, and prostitution. Our goal is to help these girls finish school and become positive contributors to our community.

We have adopted the methods developed by the Center for Youth Program Quality and are committed to a constant engagement in self-assessment and continual program improvement. Our program has been favorably graded by them, and we continue to make adjustments to have the most effective program possible.

In addition to Girls Circle, we offer Youth Mental Health First Aid training, so youth can help themselves and others who are experiencing depression or other behavior health issues. This program supports early intervention for behavioral health concerns.

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

PURPOSE AND PROGRAMS (Continued)

Bridges
Our Bridges program provides site based mental health engagement, screening, and assessment services on an outreach basis to individuals who are enduring homelessness.

During 2014, Valley Cities Bridges program provided outreach services to 208 chronically homeless adults. Our two Mental Health Outreach Specialists provide services to these clients at various emergency shelters, community church dinners, transitional housing sites, motels, jails, hospitals, and at various locations throughout the community, including, libraries, coffee shops, food banks, parks, street corners, and even wooded areas. Our providers are “In-Person Assisters.” They can help enroll in healthcare benefits through the Washington Health Exchange.

Families in Shelters
Families in Shelters program provides outreach services to 142 chronically homeless families in various emergency shelters and transitional housing sites throughout Seattle and South King County. During the year, the three person team provided face-to-face client meetings where they assessed, counseled, and assisted clients in the areas of mental health, chemical dependency, application for DSHS benefits and/or Social Security Disability benefits, housing, and referrals to primary care, dental care, WIC, community mental health and/or community substance abuse treatment.

Due to the hard work and collaborative efforts of the Families in Shelters staff, 142 families moved forward in their recovery in 2014.

Families First
The Families First program is an exciting project that was designed to provide housing placement and supportive services to 24 high need families in King County. The Families First program provides individualized, intensive services to families along with a Family Unification Program (FUP) Section 8 voucher that can be used in private market housing (tenant-based vouchers). The primary goal of the program is to assist families in achieving housing stability and increase self-sufficiency using an approach that centers on providing homeless people with housing quickly and then providing services as needed. In 2014, we achieved a 96% housing stability rating. Families First is currently endorsed by the United States Interagency Council on Homelessness (USICH) as a "best practice" for governments and service-agencies to use in their fight to end chronic homelessness in America.

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

PURPOSE AND PROGRAMS (Continued)

Families First (Continued) Clients in this program have achieved new employment, enrollment in mental health and chemical dependency services, enrollment in Early Learning/Head start, regular medical care for chronic health conditions, obtained SSA/SSDI/SSI benefits, and access to local food banks

Employment Services
Valley Cities is the largest supported employment program in King County. We do much more than look for jobs for those in the program. We help Valley Cities clients with diagnosed disabilities learn the necessary job search skills to make them successful in their job search, such as how to write resumes, apply for a job, and interview.

A huge focus of our program is to make good job matches that benefit not only the new employee, but also the employer. We work closely with these individuals to plan for potential challenges on the job and outside of work that could make long-term employment difficult. We support the individual with job coaching, assistance with training and work with their integrated treatment team to ensure there are natural supports in place so that they can be successful in their employment for the long term. We work closely with employers in our community to ensure we know the details necessary to provide a good fitting candidate. Once we match a client with an employer, we work in coordination with the Department of Vocational Rehabilitation to support both the client and the employer to resolve situations before they become problems to job success.

Research shows that people who have a mental illness who go to work have increased income, improved self esteem, improved ability to manage symptoms, and increased quality of life.

84.5% of everyone that we serve at Valley Cities is unemployed. This program is available to all of these clients. About 500 clients per year ask us to help find and maintain jobs at all levels of employment, with more than 100 more on our waiting list.

Veterans Services
We provide veterans services to qualified veterans by contact with King County Public Health. We provide outreach, engagement and linkage strategies to connect veterans and their families to appropriate medical care, mental health/chemical dependency services, and/or family community resources. Our staff provides mobile consultation, screening, treatment, referral and crisis management in addition to support and consultation to community agencies on veteran cultural competence.

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

PURPOSE AND PROGRAMS (Continued)

Standard Supportive Housing

Standard Supportive Housing provides housing and outpatient care for clients who may require regular staff contact and the availability of staff 24-hours-a -day, seven-days-a-week, but who do not need the physical safety and structure of a residential facility.

The program offers the benefits included in all outpatient treatment services, in addition to support services that assist program participants to develop a daily structure and meaningful activities in their lives, make connections to community social, employment, educational, leisure and spiritual activities and support, acquire the skills and means to meet basic nutritional needs and means to move to a less intensive service level within two years.

We serve an average of 35 individuals a year who are served by the King County Regional Support Network (RSN) and meet the Access to Care Standards. Priority is given to clients from Western State Hospital or from another local psychiatric hospital. Second priority are clients who need an extended period of time to stabilize psychiatrically, a frequent or high utilizer of psychiatric hospitals or jails, are at risk of hospitalization, and who are chronically homeless.

Coming-Up Program

The Coming-Up Youth Program (CUP) is a supportive housing program subsidized in large part through King County Housing Authority (KCHA), King County, and United Way. CUP provides housing and agency support services to up to 30 homeless young adults in South King County ages 18-24. The Coming-Up Program is collaboration between Valley Cities and a partner nonprofit agency, Auburn Youth Resources, which is itself dedicated to serving the severely underserved homeless young adult population in South King County. The CUP team consists of two case managers and one housing specialist, a housing manager, program manager, and finance support staff, plus access to a mental health therapist and an outreach manager. There are many levels of service provided to clients from both agencies.

There are an estimated 1000 homeless young adults in South King County at any given time and few housing programs specifically designated for those homeless young adults. The goal of the CUP program is to provide program participants with a wraparound approach to services and support that will enable them to achieve self-sufficiency. The program enables them to gain life skills necessary to gain education and employment, maintain their health, finances, and homes, and maintain housing stability.

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

PURPOSE AND PROGRAMS (Continued)

Resource Rooms
The community resource rooms in Kent, Auburn, Federal Way, Renton and Bellevue are open to the community-at-large and provide individual support, skill-building and a variety of free resources to assist those who might not have a network of support. We promote recovery by involving consumers in their own process of finding the support and resources they need.

We provide computers, fax and phones, employment and housing information, family/youth and health services, and community and transportation services. All resource rooms are run by peers and community volunteers. Hours vary by location and are based on volunteer availability.

Domestic Violence Program
The Domestic Violence program serves court-ordered domestic violence perpetrators, private clients and others who are ordered into treatment. Program participants attend at least 35 group sessions of treatment over one year. These single gender treatment groups are provided to no more than 12 people per group.

The goal of the program is effective treatment in which the perpetrator becomes accountable for their actions and works to change their behaviors, with the goal of stopping all forms of abuse (sexual, emotional and/or verbal).

Several groups are available most days of the week, including Saturday. Separate groups are provided for men and women and specialty groups focus on improving parenting skills and managing anger. In addition to attending groups, program participants receive an initial assessment and recommendations for services. Program staff provide monthly reports and are in regular communication with probation officers. Because victim safety is our ultimate goal, the program requires the participant to sign a release of information with all victims and program staff talks with them throughout treatment as needed.

To successfully complete services, program participants must have paid all program fees, have no additional legal charges, have shown that they have stopped all forms of physical violence and decreased psychological and emotional abuse, as noted with input from collateral contacts, written and shared a responsibility plan, accept responsibility for their actions, document compliance with legal conditions, and completed other required treatments.

Services are not offered as part of Valley Cities' general mental health services. Program participants must pay for services, as part of their accountability.

In 2014, the program served 142 clients and 27 successfully graduated.

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 crises 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. Valley Cities 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.

Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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 are behavioral health services or are related to homeless, housing or other specialty services. Behavioral health services are further categorized by the clinic locations. Classifications are made on the basis of time records and estimates made by Valley Cities' management as well as by where services are performed. Management and general expenses include those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of Valley Cities. Fundraising expenses include salaries and related expenses and other expenses directly related to this support activity. Program development/compliance expenses are those associated with developing new services and programs, marketing and community education, and contracts administration of new and renewing contracts.

Grants, Accounts Receivable and Allowance for Doubtful Accounts

Grants and accounts receivable consist of grants and contracts administered by various state and local governmental agencies, as well as other nongovernmental sources, which have been 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 agency. During the years ended December 31, 2014 and 2013, such adjustments were minimal.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants, Accounts Receivable and Allowance for Doubtful Accounts (Continued)

Valley Cities uses the allowance method of valuing doubtful accounts receivable which is based on historical experience, coupled with a review of the status of receivables at year end. The allowance for doubtful accounts was $15,000 at December 31, 2014 and 2013.

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 2014 and 2013.

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 2014 and 2013 were both $116,353.

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 2014 and 2013, 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 2011 through 2014.

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.

Prior Year Summarized Information and Reclassifications

The statement of functional expenses includes prior-year summarized comparative information in total for the natural expense classification by function. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Valley Cities' financial statements for the year ended December 31, 2013, from which the summarized information was derived.

The function classifications have been revised for the 2014 statement of functional expenses. Behavioral health services are reported on the statement of functional expenses based on the location where services are provided, as well as whether they relate to homeless, housing or other specialty service. This reclassification was made to provide more meaningful information to the readers of the financial statements.

NOTE 2.-FACILITIES AND CONSTRUCTION IN PROGRESS

During 2013, Valley Cities acquired a facility in Renton, Washington, to expand its clinical 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.

As of December 31, 2014, Valley Cities has 6 new projects underway as part of the expansion plan for new service locations as well as to provide additional capacity and access to services. These projects are listed below and comprise the total balance of construction-in-progress of approximately $3.1 million as of December 31, 2014.

Phoenix Rising: Valley Cities is developing a new low-income housing complex and recovery cafe on one of its existing properties and as of December 31, 2014 and 2013, has expended and capitalized approximately $435,000 and $96,000, respectively, in architectural fees, street vacation and other costs. During 2014, Valley Cities was awarded funding by the state of Washington, King County and city of Auburn in the amount of $4.495 million for this project. Valley Cities is attempting to secure additional funding of approximately $1.6 million to complete the project. The total cost of the project is estimated to be $6.095 million. The project is targeted for completion in 2016. Additional amounts capitalized during the first quarter of 2015 totaled approximately $107,000.

Auburn office remodel: During 2014, Valley Cities began the remodel of one of its facilities in Auburn. As of December 31, 2014 Valley Cities had expended and capitalized approximately $230,000 in contract costs and architectural fees. This project was completed in January 2015 and a total of approximately $240,000 was transferred to buildings.

Woodmont Evaluation and Treatment Center: During 2014, Valley Cities was awarded a contract by King County to develop an in-patient evaluation and treatment center. In August 2014, Valley Cities entered into an agreement to purchase real property in Des Moines, Washington for a total of $4.75 million. For the year ended December 31, 2014, Valley Cities has expended and capitalized approximately $280,000 in property costs, architectural fees and permits. An additional $62,000 has been expended and capitalized on this project during the first quarter of 2015. The purchase of the real property will be concluded in May of 2015. King County has awarded $1 million towards the purchase of the land, and an additional $746,000 for start-up cost. The balance will be financed through a financial institution.

Bellevue: In July 2014, Valley Cities entered into an office sublease in Bellevue in partnership with Qliance. Approximately $145,000 of remodel costs were expended and capitalized related to this project during the year ended December 31, 2014. This project was completed in January 2015; total costs transferred to leasehold improvements was approximately $147,000.

NOTE 2.-FACILITIES AND CONSTRUCTION IN PROGRESS (Continued)

Rainier Beach: Valley Cities purchased real property at Rainier Beach to expand services to this community. The real property was purchased with cash in September 2014 for $925,000. Additionally, Valley Cities expended and capitalized approximately $32,000 in architectural fees related to this project during 2014 and an additional $17,000 during the first quarter of 2015. Approximately $600,000 will be financed through Rainer Valley Community Development Funds for project improvement. The project is targeted for completion and operations in the summer of 2015.

Enumclaw: During 2014, Valley Cities purchased real property in Enumclaw to expand services into this community. The real estate was purchased with cash in September 2014 for $1.05 million, the amount of which is included in construction in progress at December 31, 2014. During the first quarter of 2015, additional costs of approximately $4,000 were capitalized to this project. The project is scheduled to be completed and in operation during the first quarter of 2016.

NOTE 3.--NOTES PAYABLE

Notes payable as of December 31, 2014 and 2013, consist of the following:

	2014	2013
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, 2014). Due April 1, 2023, with a balloon payment of $796,681. See Note 4. Secured by the real estate financed.	$ 1,247,102	$ 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.	3,634,327	3,819,111
	4,881,429	5,110,444
Less current portion	239,245	228,564
Total long-term	$ 4,642,184	$ 4,881,880

NOTE 3.--NOTES PAYABLE (Continued)

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

2015	$ 239,245
2016	249,977
2017	262,111
2018	274,363
2019	287,524
Thereafter	3,568,209
	$ 4,881,429

The carrying value of the properties at December 31, 2014, is approximately $4,600,000.

The notes payable to Bank of America contain restrictive covenants relating to debt service coverage and minimum liquidity to debt. As of December 31, 2014 and 2013, Valley Cities was in compliance with the restrictive covenants.

NOTE 4.--INTEREST RATE SWAP AGREEMENT

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

On March 27, 2013, Valley Cities entered into a notional $1,320,000 U.S. Dollar Rate Swap Transaction with an effective date of April 1, 2013, and a termination date of April 1, 2023. 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, 2014. At December 31, 2014, the swap contract had a notional amount of $1,247,102. See Note 3.

Management has determined that the fair value of the interest rate swap agreement at December 31, 2014 and 2013, is immaterial and, hence, is not included in the financial statements.

NOTE 5.--REFUNDABLE ADVANCES

Refundable advances as of December 31 consist of:

	2014	2013
Valley Cities Landing	$ 5,268,444	$ 5,268,444
Valley Cities Neighborhood Stabilization Program Rental	549,187	549,187
Amortization of refundable advance	(494,712)	(378,359)
	$ 5,322,919	$ 5,439,272

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, 2014, are approximately $55,000 and $130,000, respectively. The balances in the operating and reserve accounts as of December 31, 2013, were approximately $52,000 and $125,000, 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.

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, 2014 and 2013, was approximately $447,000 and $467,000, respectively.

NOTE 6.--LEASES (Continued)

Required future minimum payments under noncancelable leases are as follows:

Year Ending December 31,	Facilities	Equipment	Total
2015	$ 261,093	$ 83,003	$ 344,096
2016	270,573	83,003	353,576
2017	112,053	83,003	195,056
2018	61,763	71,749	133,512
2019	26,051	47,751	73,802
Thereafter	-	327	327
	$ 731,533	$ 368,836	$ 1,100,369

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 $314,527 in 2014 and $309,411 in 2013 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, 2014 and 2013:

	2014	2013
Pathways First Service Funds (Restricted Cash)	$ 106,682	$ 138,682
Building Changes - Families First	25,944	25,943
Auction Fund Donations	22,252	33,792
Forensic Mental Health Support	23,603	323,955
Seattle Foundations - Veterans	4,499	4,936
Primary Care Integration-AGO	-	174,279
WFF Systems Innovation - Housing	20,000	10,000
Snoqualmie-Therapy Toys	998	4,140
Puyallup Tribe - MHFA Training	-	6,500
GB Auctions, Inc. - Welcome Home Kits	6,317	-
FW Rotary Services Foundation	841	-
Catholic Initiatives	7,455	-
Phoenix Rising	66,096	-
Total temporarily restricted net assets	$ 284,687	$ 722,227

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, 2014 and 2013, for the following purposes:

	2014	2013
Pathways First Program	$ 32,000	$ 32,000
Building Changes - Families First	103,776	98,570
Auction Fund Donations	11,539	14,475
Resource Room & Warmline	-	49,656
Housing Program	-	2,097
Play Therapy	-	147
Forensic Mental Health Support (SCORE)	300,352	500,892
Veterans Program - Seattle Foundation	438	979
Veterans Program - Auburn Rotary		1,000
NW Children's Fund (PHF Against DV)	-	7,500
United Way: Summer Meals Program	5,000	8,840
Primary Care Integration-AGO	174,279	118,432
Muckleshoot Casino-MHFA	-	5,000
Primary Care Integration-Seattle Foundation	-	25,000
Snoqualmie - Therapy Toys	3,142	-
Puyallup Tribe - MHFA Training	6,500	-
GB Auctions, Inc. - Welcome Home Kits	1,683	-
FW Rotary Services Foundation	1,759	-
Total temporarily restricted net assets released from restrictions	$ 640,468	$ 864,588

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.

During the years ended December 31, 2014 and 2013, King County funding (including prepaid health plan) accounted for 87% and 84%, respectively, of Valley Cities' client and third-party revenues. Also, amounts due from King County at December 31, 2014 and 2013, accounted for approximately 83% and 77%, respectively, of accounts receivable.

NOTE 11.--SUBSEQUENT EVENTS

In January 2015, the remodel of the Bellevue sublease was completed and approximately $147,000 in construction in progress was transferred to leasehold improvements. Also in January 2015, the remodel of the Auburn offices was completed and approximately $230,000 was transferred to buildings. Additional costs of approximately $190,000 were expended and capitalized to construction in progress on various projects during the first quarter of 2015. See Note 2.

Subsequent to December 31, 2014, King County awarded a total of $1.746 million to Valley Cities to be used for the purchase of land and start-up costs for the Woodmont Evaluation and Treatment Center. See Note 2.

In April 2015, Valley Cities entered into a $600,000 promissory note with Rainier Valley Community Development Fund to provide additional funding for the Rainier Beach facility. Under the terms of the note, 180 monthly principal and interest payments of $4,590 are required, with interest being accrued at 4.5% per annum. The note matures April 30, 2020. See Note 2.

Valley Cities has evaluated subsequent events through May 13, 2015, the date which the financial statements were available to be issued.

VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2014

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	2014 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	$ 102,240
Trauma-Informed Care	93.243	31,810
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 *	194,750
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	19,035
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	75,540
Health Care for the Homeless	14.235	60,268
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	2,795
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	2,019
U.S. Department of Health and Human Services		
Pass-through from Seattle-King County Department of Public Health		
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	42,647
TOTAL FEDERAL AWARDS		$ 531,104

*Major program

VALLEY CITIES COUNSELING AND CONSULTATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2014

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, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *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.

Shannon & Associates LLP
Certified Public Accountants
Management Consultants

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, 2014, 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 13, 2015.

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 Valley Cities Counseling and Consultation's internal control.

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

Our consideration of 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 13, 2015

Shannon & Associates LLP
Certified Public Accountants
Management Consultants

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, 2014. 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.

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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, 2014.

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 13, 2015

VALLEY CITIES COUNSELING AND CONSULTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014

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)?	No
Identification of major programs:	
CFDA Number 93.224	Health Care for the Homeless
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

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

Finding 2013-1

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

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

Current status: Valley Cities staff are now recording an administrative entry for each client that does not participate during the evaluation periods.

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

Finding 2013-2

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 by the clients.

Recommendation: 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. Valley Cities staff to perform internal reviews to verify consistent compliance with reporting and other requirements.

Current status: The issue with dates is primarily a limitation of TRAC which modifies the date of records based on the date the record is last modified resulting in the issue persisting. Valley Cities staff is continuing to work with King County to verify accuracy and timeliness of the data through other means that do not rely on TRAC dating conventions.