Village Community Services

FINANCIAL STATEMENTS

December 31, 2016 and 2015
(with Independent Auditor's Report Thereon)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Village Community Services

We have audited the accompanying financial statements of Village Community Services (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, cash flows, and functional expenses 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 U.S. generally accepted accounting principles; 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.

Auditor's Responsibility

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

An audit 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 Village Community Services as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Vine Dahlen PLLC

September 26, 2017

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VILLAGE COMMUNITY SERVICES
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and equivalents	$ 144,791	$ 213,110
Accounts and contracts receivable, net	91,235	75,401
Investments	616,608	856,868
Other assets	37,992	57,089
Property and equipment, net	1,574,497	1,604,721
TOTAL ASSETS	$ 2,465,123	$ 2,807,189
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 14,650	$ 6,745
Accrued expenses	345,708	526,779
Note payable	737,248	757,118
TOTAL LIABILITIES	1,097,606	1,290,642
NET ASSETS:		
Unrestricted	1,336,274	1,500,760
Temporarily restricted	31,243	15,787
TOTAL NET ASSETS	1,367,517	1,516,547
TOTAL LIABILITIES AND NET ASSETS	$ 2,465,123	$ 2,807,189

VILLAGE COMMUNITY SERVICES
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2016 and 2015

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues, gains, and other support:		
Program service fees	$ 2,683,695	$ 2,537,546
Contributions	126,851	167,031
United Way	33,875	52,350
Investment income	27,022	33,835
Net realized and unrealized gain on investments	24,708	0
Rental income	18,337	34,561
Miscellaneous income	4,363	0
Total revenues, gains, and other support	2,918,851	2,825,323
Net assets released from restrictions:		
Satisfaction of program restrictions	7,012	11,025
Total unrestricted revenues, gains, and other support	2,925,863	2,836,348
Expenses and losses:		
Program services	2,498,689	2,489,408
Supporting services	591,660	601,315
Total expenses	3,090,349	3,090,723
Net realized and unrealized loss on investments	0	45,425
Total expenses and losses	3,090,349	3,136,148
DECREASE IN UNRESTRICTED NET ASSETS	(164,486)	(299,800)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	22,468	13,905
Net assets released from restrictions	(7,012)	(11,025)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	15,456	2,880
DECREASE IN NET ASSETS	(149,030)	(296,920)
BEGINNING NET ASSETS	1,516,547	1,813,467
ENDING NET ASSETS	$ 1,367,517	$ 1,516,547

See accompanying notes to financial statements.

VILLAGE COMMUNITY SERVICES
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	$ (149,030)	$ (296,920)
Adjustments to reconcile change in net assets to net cash:		
Depreciation and amortization	75,633	78,963
Amortization of deferred loan fees	722	721
Net realized and unrealized (gain) loss on investments	(24,708)	45,425
Gain on sale and disposal of equipment	(4,363)	0
In kind contribution of equipment	(7,467)	0
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts and contracts receivable	(15,834)	250,899
Other assets	19,097	14,566
Increase (decrease) in liabilities:		
Accounts payable	7,905	(82,009)
Accrued expenses	(181,071)	43,830
Total adjustments and changes	(130,086)	352,395
	(279,116)	55,475
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:		
Purchase of investments	(170,891)	(210,632)
Proceeds from sale of investments	435,859	181,051
Proceeds from sale of equipment	5,865	0
Purchase of equipment	(39,444)	(45,117)
	231,389	(74,698)
CASH FLOWS USED BY FINANCING ACTIVITIES:		
Repayment on note payable	(20,592)	(19,626)
DECREASE IN CASH AND EQUIVALENTS	(68,319)	(38,849)
BEGINNING CASH AND EQUIVALENTS	213,110	251,959
ENDING CASH AND EQUIVALENTS	$ 144,791	$ 213,110
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 38,840	$ 37,669

See accompanying notes to financial statements.

VILLAGE COMMUNITY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

	Program Services					Supporting Services		
	Residential	Employment Services	Music and Arts	Training	Total	Management and General	Fundraising	Total Expenses 2016
Salaries	$ 1,382,390	$ 342,913	$ 4,187	$ 3,548	$ 1,733,038	$ 217,167	$ 56,043	$ 2,006,248
Employee benefits	273,837	49,457	269	25	323,588	43,433	10,836	377,857
Payroll taxes	170,390	30,051	304	309	201,054	17,976	4,452	223,482
Total salaries and related expenses	1,826,617	422,421	4,760	3,882	2,257,680	278,576	71,331	2,607,587
Meals and food	50	398	0	0	448	983	228	1,659
Professional fees	0	761	0	105	866	48,339	98	49,303
Licenses and fees	3,804	717	0	4	4,525	9,855	1,010	15,390
Dues and subscriptions	0	826	0	46	872	1,526	1,110	3,508
Supplies	7,270	3,131	516	48	10,965	6,345	2,765	20,075
Communications	14,080	12,173	0	49	26,302	3,832	539	30,673
Occupancy	17,571	6,959	1,860	299	26,689	14,533	732	41,954
Equipment rental and maintenance	3,276	8,606	985	674	13,541	20,703	1,644	35,888
Promotion and staff recruitment	54	0	1,331	0	1,385	1,768	2,428	5,581
Vehicle expense and travel	34,689	28,853	59	410	64,011	536	1,281	65,828
Conferences and staff training	280	350	0	0	630	1,989	1,527	4,146
Insurance - professional and liability	0	0	0	0	0	10,767	0	10,767
Other taxes and licenses	0	0	0	0	0	5,013	0	5,013
Events	0	0	0	0	0	0	6,534	6,534
Participant activities and support	14	0	313	0	327	204	0	531
Contract services	6,077	19,129	21,035	0	46,241	9,227	11,886	67,354
Miscellaneous	276	5	2,057	1	2,339	550	474	3,363
Interest	0	8,931	0	1,268	10,199	28,240	1,123	39,562
Depreciation and amortization	8,860	21,277	0	1,532	31,669	42,096	1,868	75,633
	$ 1,922,918	$ 534,537	$ 32,916	$ 8,318	$ 2,498,689	$ 485,082	$ 106,578	$ 3,090,349

See accompanying notes to financial statements.

VILLAGE COMMUNITY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015

	Program Services				Supporting Services		
	Residential	Employment Services	Music and Arts	Total	Management and General	Fundraising	Total Expenses 2015
Salaries	$ 1,341,499	$ 384,426	0	$ 1,725,925	$ 243,171	$ 58,600	$ 2,027,696
Employee benefits	253,366	66,881	0	320,247	36,548	9,465	366,260
Payroll taxes	165,381	35,512	0	200,893	22,363	4,836	228,092
Total salaries and related expenses	1,760,246	486,819	0	2,247,065	302,082	72,901	2,622,048
Meals and food	138	395	0	533	647	849	2,029
Professional fees	0	0	0	0	24,324	0	24,324
Licenses and fees	4,740	886	0	5,626	8,427	890	14,943
Dues and subscriptions	0	700	0	700	879	1,263	2,842
Supplies	6,129	2,793	4,299	13,221	4,255	3,000	20,476
Communications	14,756	12,488	0	27,244	3,843	404	31,491
Occupancy	18,101	6,361	1,860	26,322	14,310	748	41,380
Equipment rental and maintenance	3,829	11,334	1,003	16,166	18,316	2,882	37,364
Promotion and staff recruitment	75	44	300	419	4,922	464	5,805
Vehicle expense and travel	30,600	36,547	0	67,147	1,542	2,670	71,359
Conferences and staff training	0	1,841	0	1,841	2,608	713	5,162
Insurance - professional and liability	0	0	0	0	10,102	0	10,102
Other taxes and licenses	0	0	0	0	4,985	0	4,985
Events	0	0	0	0	0	9,586	9,586
Participant activities and support	211	0	0	211	289	0	500
Contract services	4,091	18,070	25,172	47,333	10,176	10,302	67,811
Miscellaneous	203	8	60	271	318	574	1,163
Interest	0	9,057	0	9,057	28,158	1,175	38,390
Depreciation and amortization	7,176	19,076	0	26,252	50,417	2,294	78,963
	$ 1,850,295	$ 606,419	$ 32,694	$ 2,489,408	$ 490,600	$ 110,715	$ 3,090,723

See accompanying notes to financial statements.

1. NATURE OF ACTIVITIES

Village Community Services (the Organization) is a nonprofit Washington corporation which provides residential and vocational support, training, supervision and advocacy to men and women with developmental and other disabilities primarily in Snohomish County. The mission of Village Community Services is to support people with disabilities in achieving personal potential at home, work and in community life. This is accomplished by providing the following programs:

Residential
The residential supported living program provides individualized guidance, support and mentorship for persons with disabilities. The Organization's primary focus is to nurture each individual's personal goals/dreams, while ensuring health and safety. The Organization provides daily living support in independent living settings, helping individuals to enjoy full participation in their local communities.

Employment services
The employment and career planning program provides individualized vocational support by building job readiness skills in order to secure paid employment and/or volunteer positions, for persons with disabilities and rehabilitative needs. This program includes job coaching and on-the-job support as needed. The Organization also provides consultation and assessment for local community schools and tribal associations.

Music and arts
The Village Music and Arts program offers people with disabilities the opportunity to create and perform music. The program's mission is to promote community and inclusion through interactive music and art. Village Music and Arts includes weekly musical jam sessions, the monthly "Evening with the Arts" event, and the Voices of the Village performance ensemble.

Training
The training program's mission is to support clients, families, caregivers, and employers through training. The program provides state-required initial training and continuing education for direct care professionals. The program holds regular classes in art, technology, and job and finance skills for people of all abilities. It also provides skills trainers that work one-on-one with residential program clients to meet their goals.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization's financial statements. These accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Basis of presentation
The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of donor restrictions
The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 period the contribution is received are reported as unrestricted support.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Use of estimates in the preparation of financial statements
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and equivalents
For reporting purposes, cash and equivalents included in investment accounts are considered investments. All other time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less are considered to be equivalents reported in the statements of cash flows.

Investments
Investments are carried at fair value. Gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Accounts and contracts receivable
Accounts and contracts receivable are carried at cost less an allowance for doubtful accounts. On a periodic basis, the Organization evaluates its receivables and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-offs and collections and current credit conditions.

The Organization's policy allows, at management's discretion, the application of finance charges on past due receivables. Accounts are considered past due 60 days after invoice date at which time the customer is mailed a past due notice. Accounts that remain unpaid 90 days after invoice date are referred to management for review. Accounts are written off as uncollectible only after all efforts to collect have been exhausted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from program service fee contracts is recognized when services are performed.

Rental income is received from tenants under operating leases and is recognized when earned. Tenants are required to make deposits at the inception of the lease in an amount equal to one month's rent. Deposits are included with accrued expenses on the statements of financial position. Any deposit amount not refunded to the tenant at the end of their lease is recognized as revenue upon termination of the lease agreement.

In-kind contributions

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt.

Contributions of services are recognized if the services received create or enhance a nonfinancial asset or the services require specialized skills that are provided by individuals possessing those skills.

Property and equipment

Property and equipment are recorded at cost if purchased and fair value at the date of acquisition if received as a donation. Provision for depreciation of all items of property and equipment is computed on the straight-line method over the estimated useful lives of the assets: 39 years for building; 10 - 20 years for building improvements; 3 - 20 years for furniture and equipment; and 5 - 7 years for automobiles. Assets with a cost or donated basis less than $1,000 are expensed in the period of acquisition, with the exception of computers which are expensed if the cost or donated basis is less than $500.

Deferred loan fees

The Organization capitalizes fees incurred with obtaining bank financing. These deferred loan fees are netted against the corresponding debt and are amortized on a straight-line basis, over the life of the loan.

Advertising costs

Advertising costs are charged to operations when incurred.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs that relate to more than one program have been allocated between programs based on the ratio of staff support hours provided in each program. This is consistent with the cost allocation reporting requirements of the Organization's residential services contract with the Department of Social and Health Services (DSHS).

Income taxes

Village Community Services has been granted exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and has been designated as an organization which is not a private foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes (continued)
The Organization files its information return annually which is subject to examination by taxing authorities, generally for three years after the return is filed.

The Organization would recognize accrued interest and penalties associated with uncertain tax provisions, if any, as part of supporting services.

3. ALLOWANCE FOR DOUBTFUL ACCOUNTS

No allowance for uncollectible amounts has been provided since management considers the balance in accounts and contracts receivable to be fully collectible.

4. INVESTMENTS

The fair values of financial assets are classified based on the following hierarchy reflecting the significance of inputs used in determining fair value measurements:

Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets in active markets.
Level 2 – Other inputs that are directly or indirectly observable in the marketplace.
Level 3 – Unobservable inputs which are supported by little or no market activity.

The following table presents assets that are measured at fair value on a recurring basis at December 31, 2016 and 2015:

Asset Description	Fair Value Hierarchy Level	2016	2015
Money market	1	$ 7,591	$ 13,411
Corporate bonds	1	0	37,229
Equities and mutual funds	1	609,017	806,228
		$ 616,608	$ 856,868

Investment income (loss) consists of:

	2016	2015
Interest and dividend income	$ 27,022	$ 33,835
Net realized gain on sale of investments	6,269	8,772
Net unrealized gain (loss) on investments	18,439	(54,197)
	$ 51,730	$ (11,590)

Investment fees were $4,252 and $4,253 during the years ended December 31, 2016 and 2015, respectively. These fees are included with management and general expenses.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2016	2015
Building and improvements	$ 1,433,100	$ 1,433,033
Furniture and equipment	196,205	190,330
Automobiles	251,968	247,202
	1,881,273	1,870,565
Less accumulated depreciation	638,148	597,216
	1,243,125	1,273,349
Land	331,372	331,372
	$ 1,574,497	$ 1,604,721

Depreciation expense was $75,633 and $78,963 in the years ended December 31, 2016 and 2015, respectively.

Approximately 61% and 48% of the square footage of the building and improvements was used for the Organization's program and supporting services during the year ended December 31, 2016 and 2015. The remaining amount consists of common area as well as space available for lease which is used by the Organization to generate rental income (see Note 9).

6. LINE OF CREDIT

The Organization had a $50,000 revolving line of credit with a bank, bearing interest at the higher of 5% or the bank's prime rate plus 1% and secured by all of the Organization's assets. The line of credit matured on May 27, 2016, and was not renewed. The line of credit balance was $0 at December 31, 2016 and 2015.

7. ACCRUED EXPENSES

Accrued expenses at December 31, 2016 and 2015 consisted of the following:

	2016	2015
DSHS settlement payable	$ 94,775	$ 285,000
Accrued vacation	121,259	111,766
Accrued wages	90,455	95,492
Payroll taxes payable	29,312	27,669
Other accrued expenses	9,907	6,852
	$ 345,708	$ 526,779

8. NOTE PAYABLE

Note payable at December 31 is summarized as follows:

	2016	2015
Note payable to a bank, due in initial monthly payments of $4,186, including interest at the Wall Street Journal Prime Rate plus .25% for 24 months (through August 1, 2014); after which, interest converted to a fixed rate of 4.79%. The rate will be adjusted every five years to 4.25% or the Five-Year Swap Rate Index plus 3.00%, whichever is greater. The note is secured by the Organization's land, building and improvements. The note matures on August 1, 2027, at which time a balloon payment estimated at $465,000 will be due.	$ 744,945	$ 765,537
Less unamortized deferred loan fees	(7,697)	(8,419)
	$ 737,248	$ 757,118

Principal payments are due as follows:

Year Ending December 31,	
2017	$ 21,000
2018	22,000
2019	23,000
2020	25,000
2021	26,000
Thereafter	627,945
	$ 744,945

The provisions of the note contain various covenants and require maintenance of a debt service coverage ratio of 1.20 to 1.00. The bank has waived the ratio requirement not met as of and for the years ended December 31, 2016, and 2015.

9. LEASE COMMITMENTS

Lessee
The Organization leases copier equipment under a non-cancelable operating lease which expires in April 2021. Minimum future rental payments under this lease are as follows:

Year Ending December 31,	
2017	$ 8,500
2018	8,500
2019	8,500
2020	8,500
2021	2,000
	$ 36,000

Total rent expense under this lease and other cancelable leasing arrangements for the years ended December 31, 2016 and 2015 was $24,060 and $23,587, respectively.

9. LEASE COMMITMENTS (Continued)

Lessor

As described in Note 5, the Organization leases office space to tenants under both cancelable and non-cancelable arrangements as of December 31, 2016. Future rental income under non-cancelable leases is as follows:

Year Ending December 31,	
2017	$ 23,500
2018	25,400
2019	21,200
2020	10,900
2021	11,200
Thereafter	938
	$ 93,138

The Organization recognized rental revenue in the amount of $18,337 and $34,561 from tenants for the years ended December 31, 2016 and 2015, respectively.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2016	2015
Parent funds for program participants	$ 2,191	$ 1,340
Parking lot project	12,525	7,525
Employment success project	0	428
Inclusive entrepreneurs	2,094	5,040
Disabilities calendar	420	1,454
Music program	4,828	0
Training division	9,185	0
	$ 31,243	$ 15,787

Net assets were released from donor temporary restrictions during the year by incurring expenses satisfying the restricted purposes specified by donors as follows:

Purpose restrictions accomplished:

Parent funds for program participants	$ 1,340	$ 4,421
Employment success project	428	4,725
Residential services	0	78
Disabilities calendar	1,034	1,801
Inclusive entrepreneurs	4,210	0
	$ 7,012	$ 11,025

11. SUPPORT FROM GOVERNMENT UNITS

During the years ended December 31, 2016 and 2015, Village Community Services received approximately 89% of its support from state or local government fee-for-service contracts. Nearly all of the balance in accounts and contracts receivable was due from these entities at December 31, 2016 and 2015. A significant reduction in the level of this support would have an adverse impact on operations.

12. EMPLOYEE BENEFIT PLAN

Village Community Services has a defined contribution salary deferral plan. The Organization matched employee contributions to the plan dollar-for-dollar up to 2% of an employee's wages during the years ended December 31, 2016 and 2015. Employer contributions during 2016 and 2015 were $15,488 and $18,715, respectively. This plan covers all eligible union and non-union employees.

13. COLLECTIVE BARGAINING AGREEMENT

The Organization entered into an agreement with an employees' union effective September 1, 2014 through August 31, 2018. Approximately 82% and 84% of the Organization's workforce for the years ended December 31, 2016 and 2015, respectively, were covered by this collective bargaining agreement.

Among the various requirements of the contract is a provision to maintain a retirement plan as described in Note 12.

14. CONCENTRATIONS OF CREDIT RISK

The Organization maintains an account with an investment firm. The account contains cash and securities. Within the limits of protection offered by the Securities Investor Protection Corporation (SIPC), claims against a broker-dealer are satisfied on cash up to a maximum of $250,000 and securities up to a maximum of $500,000. At times the Organization has balances in excess of the limits. Coverage provided by the SIPC and the investment firms' insurance companies does not protect against the loss of market value of securities.

15. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2016 and 2015, the Organization had the following transactions with related parties:

	2016	2015
Payment to a company owned by a board member for IT services and computer installation.	$ 19,708	$ 18,024
Contributed services for IT and installation by a company owned by a board member.	$ 4,065	$ 4,868
Repair reimbursements and rent payments for use of office space within a residential services site owned by a board member.	$ 6,000	$ 6,800

16. SELF-INSURANCE

The Organization is a member of 501(c) Agencies Trust (the Trust) which enables the Organization to be self-insured for unemployment claims. As such, the Organization does not pay in quarterly taxes to the state of Washington and does not have unemployment insurance. The Trust acts as the administrator of any claims made against the Organization and requires the Organization to maintain a reserve account with the Trust.

At December 31, 2016 and 2015, the Organization had $25,910 and $49,062, respectively, on deposit with the Trust to fund future claims which is included in other assets on the statements of financial position. The Organization has not recorded a liability for any potential outstanding claims as they cannot be reasonably estimated.

17. CONTINGENCIES

During 2011, improvements were made to the Organization's property using a Community Development Block Grant (CDBG) from Snohomish County in the amount of $74,248. As part of the requirements of this grant, the Organization agrees to use the property for ADA access to severely disabled persons through January 31, 2021.

In addition, elevator improvements were made to the Organization's property in 2015 and 2014 using a CDBG from Snohomish County in the amount of $121,923. As part of the requirements of this grant, the Organization agrees to use the property for its nonprofit mission through December 31, 2029.

Upon noncompliance with each of these restrictions, the Organization would pay Snohomish County an amount equal to the current fair market value of the property less any portion of the value attributable to expenditures of non-CDBG funds. The Organization has not recorded a liability for these contingencies as it intends to use each property as instructed.

A substantial portion of the public support of the Organization is derived from grants and contracts administered by state or local government agencies. Revenue from these contracts is subject to audit which could result in adjustments to revenue. The adjustments are recorded at the time that such amounts can first be reasonably determined, normally on notification by the government agency. Included in accrued expenses on the statement of financial position at December 31, 2016, is a final settlement adjustment of $94,775. An adjustment of $285,000 was accrued for the year ended December 31, 2015, but the Organization settled with DSHS during 2016 for $224,736.

18. RECENTLY ADOPTED ACCOUNTING STANDARDS

In 2016, the Company retrospectively adopted the requirements of ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Long-term debt as of December 31, 2015, was previously reported on the balance sheet as $765,537 with the associated $8,419 debt issuance costs included in assets. Amortization of the debt issuance costs as of December 31, 2015, was $722 and is reported with interest expense while the prior year presentation included it with depreciation and amortization expense.

19. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2016, two of the 26 participants the Organization is contracted to service in their residential program through DSHS passed away from on-going health complications. The loss will likely have an adverse financial impact on the Organization.

The Organization has evaluated subsequent events through the date these statements were available to be issued on September 26, 2017.

20. RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2016, the Federal Accounting Standards Board (FASB) issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard makes targeted improvements to the not-for-profit financial reporting model, including changes in how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The amendments will be effective for the Organization for the calendar year ending December 31, 2018.

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts. This standard will be effective for the calendar year ending December 31, 2019.

The FASB also issued ASU 2016-02, *Leases*. This standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the calendar year ending December 31, 2020.

The Organization is currently in the process of evaluating the impact of adoption of these accounting standards on the financial statements.