



FINANCIAL STATEMENTS

December 31, 2017 and 2016
(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, 2017 and 2016, 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, 2017 and 2016, 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 PC

August 7, 2018

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VILLAGE COMMUNITY SERVICES
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and equivalents	\$ 253,985	\$ 144,791
Accounts and contracts receivable, net	153,617	91,235
Investments	649,878	616,608
Other assets	53,524	37,992
Construction in progress	15,431	0
Property and equipment, net	1,515,516	1,574,497
TOTAL ASSETS	\$ 2,641,951	\$ 2,465,123
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 8,386	\$ 14,650
Accrued expenses	434,308	345,708
Note payable	716,347	737,248
TOTAL LIABILITIES	1,159,041	1,097,606
NET ASSETS:		
Unrestricted	1,386,594	1,336,274
Temporarily restricted	96,316	31,243
TOTAL NET ASSETS	1,482,910	1,367,517
TOTAL LIABILITIES AND NET ASSETS	\$ 2,641,951	\$ 2,465,123

See accompanying notes to financial statements.

VILLAGE COMMUNITY SERVICES
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2017 and 2016

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues, gains, and other support:		
Program service fees	\$ 2,619,979	\$ 2,683,695
Contributions	137,729	126,851
United Way	20,533	33,875
Investment income	22,545	27,022
Net realized and unrealized gain on investments	59,956	24,708
Rental income	30,254	18,337
Miscellaneous income	2,041	4,363
Total revenues, gains, and other support	2,893,037	2,918,851
Net assets released from restrictions:		
Satisfaction of program restrictions	23,542	7,012
Total unrestricted revenues, gains, and other support	2,916,579	2,925,863
Expenses:		
Program services	2,346,729	2,498,689
Supporting services	519,530	591,660
Total expenses	2,866,259	3,090,349
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	50,320	(164,486)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	88,615	22,468
Net assets released from restrictions	(23,542)	(7,012)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	65,073	15,456
INCREASE (DECREASE) IN NET ASSETS	115,393	(149,030)
BEGINNING NET ASSETS	1,367,517	1,516,547
ENDING NET ASSETS	\$ 1,482,910	\$ 1,367,517

See accompanying notes to financial statements.

VILLAGE COMMUNITY SERVICES
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	\$ 115,393	\$ (149,030)
Adjustments to reconcile change in net assets to net cash:		
Depreciation and amortization	67,718	75,633
Amortization of deferred loan fees	722	722
Net realized and unrealized gain on investments	(59,956)	(24,708)
Gain on sale and disposal of equipment	(2,041)	(4,363)
In kind contribution of equipment	(2,450)	(7,467)
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts and contracts receivable	(62,382)	(15,834)
Other assets	(15,532)	19,097
Increase (decrease) in liabilities:		
Accounts payable	(6,264)	7,905
Accrued expenses	88,600	(181,071)
Total adjustments and changes	8,415	(130,086)
	123,808	(279,116)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:		
Purchase of investments	(60,720)	(170,891)
Proceeds from sale of investments	87,408	435,859
Proceeds from sale of equipment	6,425	5,865
Purchase of equipment and construction in progress	(26,104)	(39,444)
	7,009	231,389
CASH FLOWS USED BY FINANCING ACTIVITIES:		
Repayment on note payable	(21,623)	(20,592)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	109,194	(68,319)
BEGINNING CASH AND EQUIVALENTS	144,791	213,110
ENDING CASH AND EQUIVALENTS	\$ 253,985	\$ 144,791
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	\$ 36,629	\$ 38,840

See accompanying notes to financial statements.

VILLAGE COMMUNITY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	Program Services				Supporting Services		Total Expenses 2017	
	Residential	Employment Services	Music and Arts	Training	Total	Management and General		Fundraising
Salaries	\$ 1,297,429	\$ 339,410	\$ 2,689	\$ 29,989	\$ 1,669,517	\$ 209,633	\$ 55,584	\$ 1,934,734
Employee benefits	177,280	40,576	236	1,385	219,477	24,901	7,879	252,257
Payroll taxes	165,520	30,140	285	2,688	198,633	16,924	4,402	219,959
Total salaries and related expenses	1,640,229	410,126	3,210	34,062	2,087,627	251,458	67,865	2,406,950
Meals and food	142	459	0	149	750	728	28	1,506
Professional fees	0	3,154	0	1,893	5,047	39,120	20	44,187
Licenses and fees	4,086	8,119	0	46	12,251	10,341	2,220	24,812
Dues and subscriptions	0	183	0	0	183	904	1,629	2,716
Supplies	3,298	1,194	975	102	5,569	2,458	824	8,851
Communications	14,597	12,294	0	630	27,521	2,699	421	30,641
Occupancy	18,647	7,348	1,580	1,499	29,074	13,673	890	43,637
Equipment rental and maintenance	810	7,675	133	2,442	11,060	14,659	1,885	27,604
Promotion and staff recruitment	0	0	0	0	0	66	29	95
Vehicle expense and travel	33,134	31,096	0	370	64,600	381	1,085	66,066
Conferences and staff training	0	97	0	30	127	72	12	211
Insurance - professional and liability	0	0	0	0	0	11,216	0	11,216
Other taxes and licenses	0	0	0	0	0	4,987	1	4,988
Events	0	76	0	0	76	0	11,257	11,333
Participant activities and support	63	0	0	0	63	296	0	359
Contract services	5,937	18,622	23,495	4,020	52,074	8,582	10,645	71,301
Miscellaneous	2,566	40	800	0	3,406	236	1,075	4,717
Interest	0	8,586	0	5,206	13,792	22,467	1,092	37,351
Depreciation and amortization	5,933	20,269	0	7,307	33,509	32,830	1,379	67,718
	\$ 1,729,442	\$ 529,338	\$ 30,193	\$ 57,756	\$ 2,346,729	\$ 417,173	\$ 102,357	\$ 2,866,259

See accompanying notes to financial statements.

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

	Program Services				Total	Supporting Services		Total Expenses 2016
	Residential	Employment Services	Music and Arts	Training		Management and General	Fundraising	
Salaries	\$ 1,382,390	\$ 342,913	4,161	\$ 3,548	\$ 1,733,012	\$ 217,167	\$ 56,043	\$ 2,006,222
Employee benefits	273,837	49,457	295	25	323,614	43,433	10,836	377,883
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
	<u>\$ 1,922,918</u>	<u>\$ 534,537</u>	<u>\$ 32,916</u>	<u>\$ 8,318</u>	<u>\$ 2,498,689</u>	<u>\$ 485,082</u>	<u>\$ 106,578</u>	<u>\$ 3,090,349</u>

VILLAGE COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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.

VILLAGE COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

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.

VILLAGE COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

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.

VILLAGE COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

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 on the statements of activities.

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, 2017 and 2016:

Asset Description	Fair Value Hierarchy Level	2017	2016
Money market	1	\$ 20,546	\$ 7,591
Equities and mutual funds	1	629,332	609,017
		<u>\$ 649,878</u>	<u>\$ 616,608</u>

Investment income (loss) consists of:

Interest and dividend income	\$ 22,545	\$ 27,022
Net realized gain on sale of investments	5,274	6,269
Net unrealized gain on investments	54,682	18,439
	<u>\$ 82,501</u>	<u>\$ 51,730</u>

Investment fees were \$4,231 and \$4,252 during the years ended December 31, 2017 and 2016, respectively. These fees are included with management and general expenses.

VILLAGE COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

5. CONSTRUCTION IN PROGRESS

Construction in progress consisted of parking lot renovations (see Note 18) in the amounts of \$15,431 and \$0 at December 31, 2017 and 2016, respectively.

6. PROPERTY AND EQUIPMENT

	2017	2016
Property and equipment consisted of the following:		
Building and improvements	\$ 1,433,033	\$ 1,433,100
Furniture and equipment	203,522	196,205
Automobiles	253,311	251,968
	1,889,866	1,881,273
Less accumulated depreciation	705,722	638,148
	1,184,144	1,243,125
Land	331,372	331,372
	\$ 1,515,516	\$ 1,574,497

Depreciation expense was \$67,718 and \$75,633 for the years ended December 31, 2017 and 2016, respectively.

Approximately 62% and 61% 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, 2017 and 2016. 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).

7. ACCRUED EXPENSES

Accrued expenses at December 31, 2017 and 2016 consisted of the following:

DSHS settlement payable	\$ 208,600	\$ 94,775
Accrued vacation	112,554	121,259
Accrued wages	78,084	90,455
Payroll taxes payable	27,358	29,312
Other accrued expenses	7,712	9,907
	\$ 434,308	\$ 345,708

VILLAGE COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

8. NOTE PAYABLE

Note payable at December 31 is summarized as follows:

	2017	2016
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.	\$ 723,323	\$ 744,945
Less unamortized deferred loan fees	(6,976)	(7,697)
	\$ 716,347	\$ 737,248

Principal payments are due as follows:

<u>Year Ending December 31,</u>		
2018	\$	22,000
2019		23,000
2020		24,000
2021		26,000
2022		27,000
Thereafter		601,323
	\$	723,323

The provisions of the note contain various covenants and require maintenance of a debt service coverage ratio of 1.20 to 1.00.

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:

<u>Year Ending December 31,</u>		
2018	\$	8,500
2019		8,500
2020		8,500
2021		2,000
	\$	27,500

Total rent expense under this lease and other cancelable leasing arrangements for the years ended December 31, 2017 and 2016 was \$24,279 and \$24,060, respectively.

VILLAGE COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

9. LEASE COMMITMENTS (Continued)

Lessor

As described in Note 6, the Organization leases office space to tenants under both cancelable and non-cancelable arrangements as of December 31, 2017. Future rental income under non-cancelable leases is as follows:

<u>Year Ending December 31,</u>	
2018	\$ 25,400
2019	21,200
2020	10,900
2021	11,200
2022	900
	<hr/>
	\$ 69,600

The Organization recognized rental revenue in the amount of \$30,254 and \$18,337 from tenants for the years ended December 31, 2017 and 2016, respectively.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Parent funds for program participants	\$ 3,750	\$ 2,191
Parking lot project	71,130	12,525
Employment success project	75	0
Residential services	6,105	0
Inclusive entrepreneurs	0	2,094
Disabilities calendar	5,000	420
Music program	2,113	4,828
Training division	8,143	9,185
	<hr/>	<hr/>
	\$ 96,316	\$ 31,243

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

Parent funds for program participants	\$ 2,191	\$ 1,340
Parking lot project	6,395	0
Music program	3,400	0
Training division	9,042	0
Employment success project	0	428
Inclusive entrepreneurs	2,094	4,210
Disabilities calendar	420	1,034
	<hr/>	<hr/>
	\$ 23,542	\$ 7,012

VILLAGE COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

11. SUPPORT FROM GOVERNMENT UNITS

Village Community Services received approximately 86% and 89% of its support from state or local government fee-for-service contracts during the years ended December 31, 2017 and 2016, respectively. Nearly all of the balance in accounts and contracts receivable was due from these entities at December 31, 2017 and 2016. 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 0% and 2% of an employee's wages during the years ended December 31, 2017 and 2016, respectively. Employer contributions during 2017 and 2016 were \$0 and \$15,488, 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. The outcome of negotiations on the upcoming union contract are uncertain.

Approximately 80% and 82% of the Organization's workforce for the years ended December 31, 2017 and 2016, 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 its cash balances at financial institutions which are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year, the Organization had balances in excess of the insured amount.

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

The Organization paid \$6,000 for rent in each of the years ended December 31, 2017 and 2016 for use of office space within a residential services site owned by a board member.

VILLAGE COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

15. RELATED PARTY TRANSACTIONS (Continued)

In addition, the Organization had the following transactions with companies owned by board members during the years ended December 31, 2017 and 2016:

	2017	2016
IT services purchased	\$ 18,864	\$ 19,708
IT services contributed	\$ 5,284	\$ 4,065
Graphic design services purchased	\$ 8,027	\$ 0
Graphic design services contributed	\$ 1,864	\$ 0

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, 2017 and 2016, the Organization had \$39,333 and \$25,910, 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.

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 statements of financial position at December 31, 2017 and 2016, is a DSHS settlement amount of \$208,600 and \$94,775, respectively.

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18. SUBSEQUENT EVENTS

On February 14, 2018, the Organization entered into a contract to regrade/replace the parking lot for their building. The anticipated costs for construction of the parking lot is \$69,000. The construction costs will be partially funded through various grants, including a CDBG grant for \$21,491.

The Organization has evaluated subsequent events through the date these statements were available to be issued on August 7, 2018.

19. RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2016, the Financial 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.