



FINANCIAL STATEMENTS

December 31, 2018 and 2017  
(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, 2018 and 2017, 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, 2018 and 2017, 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.

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**Emphasis of Matter**

As discussed in Note 2 to the financial statements, in 2018, Village Community Services adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Vine Dahlen PUC". The signature is written in a cursive, flowing style.

July 27, 2019

VILLAGE COMMUNITY SERVICES  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and equivalents	\$ 393,031	\$ 253,985
Accounts and contracts receivable, net	93,678	153,617
Investments	498,569	649,878
Other assets	46,044	53,524
Construction in progress	31,504	15,431
Property and equipment, net	<u>1,646,352</u>	<u>1,515,516</u>
TOTAL ASSETS	<u>\$ 2,709,178</u>	<u>\$ 2,641,951</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable	\$ 19,056	\$ 8,386
Accrued expenses	425,788	434,308
Notes payable	<u>722,791</u>	<u>716,347</u>
TOTAL LIABILITIES	<u>1,167,635</u>	<u>1,159,041</u>

NET ASSETS:

Without donor restrictions	1,451,666	1,386,594
With donor restrictions	<u>89,877</u>	<u>96,316</u>
TOTAL NET ASSETS	<u>1,541,543</u>	<u>1,482,910</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,709,178</u>	<u>\$ 2,641,951</u>

VILLAGE COMMUNITY SERVICES  
STATEMENTS OF ACTIVITIES  
For the Years Ended December 31, 2018 and 2017

	2018	2017
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Revenues, gains, and other support:		
Program service fees	\$ 2,571,301	\$ 2,619,979
Contributions	156,932	137,729
United Way	14,898	20,533
Net investment return (loss)	(17,124)	78,270
Rental income	36,479	30,254
Miscellaneous income	1,925	2,041
Total revenues, gains, and other support	2,764,411	2,888,806
Net assets released from restrictions:		
Satisfaction of program restrictions	83,211	23,542
Total revenues, gains, and other support	2,847,622	2,912,348
Expenses:		
Program services	2,245,310	2,346,729
Supporting services	537,240	515,299
Total expenses	2,782,550	2,862,028
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	65,072	50,320
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	76,772	88,615
Net assets released from restrictions	(83,211)	(23,542)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	(6,439)	65,073
INCREASE IN NET ASSETS	58,633	115,393
BEGINNING NET ASSETS	1,482,910	1,367,517
ENDING NET ASSETS	\$ 1,541,543	\$ 1,482,910

See accompanying notes to financial statements.

VILLAGE COMMUNITY SERVICES  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	\$ 58,633	\$ 115,393
Adjustments to reconcile change in net assets to net cash:		
Depreciation and amortization	73,024	67,718
Amortization of deferred loan fees	722	722
Net realized and unrealized (gain) loss on investments	39,451	(59,956)
Gain on sale and disposal of equipment	(1,925)	(2,041)
In kind contribution of equipment	(4,387)	(2,450)
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts and contracts receivable	59,939	(62,382)
Other assets	7,480	(15,532)
Increase (decrease) in liabilities:		
Accounts payable	10,670	(6,264)
Accrued expenses	(8,520)	88,600
Total adjustments and changes	176,454	8,415
	235,087	123,808
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:		
Purchase of investments	(191,549)	(60,720)
Proceeds from sale of investments	303,407	87,408
Proceeds from sale of equipment	3,194	6,425
Purchase of property, equipment and construction in progress	(184,065)	(26,104)
	(69,013)	7,009
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:		
Repayment on notes payable	(27,028)	(21,623)
INCREASE IN CASH AND EQUIVALENTS	139,046	109,194
BEGINNING CASH AND EQUIVALENTS	253,985	144,791
ENDING CASH AND EQUIVALENTS	\$ 393,031	\$ 253,985
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 35,878	\$ 36,629
Non-cash investing and financing activities:		
Purchase of equipment through financing	\$ 32,750	\$ 0

See accompanying notes to financial statements.

VILLAGE COMMUNITY SERVICES  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended December 31, 2018

	Program Services					Supporting Services		Total Expenses 2018
	Residential	Employment Services	Music and Arts	Training	Total	Management and General	Fundraising	
Salaries	\$ 1,243,164	\$ 301,559	\$ 4,826	\$ 45,021	\$ 1,594,570	\$ 215,283	\$ 46,484	\$ 1,856,337
Employee benefits	170,709	29,863	1,183	7,436	209,191	19,341	169	228,701
Payroll taxes	161,022	28,693	487	4,166	194,368	18,499	3,963	216,830
 Total salaries and related expenses	 1,574,895	 360,115	 6,496	 56,623	 1,998,129	 253,123	 50,616	 2,301,868
 Meals and food	 299	 93	 0	 27	 419	 869	 337	 1,625
Professional fees	0	628	0	266	894	27,546	81	28,521
Licenses and fees	2,827	268	0	94	3,189	7,244	2,611	13,044
Dues and subscriptions	0	757	0	96	853	1,555	2,619	5,027
Supplies	3,584	1,084	957	1,243	6,868	1,341	1,581	9,790
Communications	13,844	11,812	0	1,084	26,740	3,049	378	30,167
Occupancy	18,560	6,764	1,240	1,475	28,039	13,769	737	42,545
Equipment rental and maintenance	310	6,552	514	2,880	10,256	13,891	2,180	26,327
Promotion and staff recruitment	(25)	0	0	0	(25)	4,644	215	4,834
Vehicle expense and travel	30,978	29,735	0	769	61,482	611	(8)	62,085
Conferences and staff training	256	1,339	0	669	2,264	268	110	2,642
Insurance - professional and liability	0	0	0	0	0	11,352	0	11,352
Other taxes and licenses	0	0	0	0	0	5,837	0	5,837
Events	0	0	0	0	0	0	22,143	22,143
Participant activities and support	208	68	0	486	762	208	0	970
Contract services	6,003	16,981	23,715	5,231	51,930	35,147	10,615	97,692
Miscellaneous	2,759	123	800	1,909	5,591	681	184	6,456
Interest	0	8,330	0	3,554	11,884	23,658	1,059	36,601
Depreciation and amortization	6,235	23,643	0	6,157	36,035	35,523	1,466	73,024
	<u>\$ 1,660,733</u>	<u>\$ 468,292</u>	<u>\$ 33,722</u>	<u>\$ 82,563</u>	<u>\$ 2,245,310</u>	<u>\$ 440,316</u>	<u>\$ 96,924</u>	<u>\$ 2,782,550</u>

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	6,110	2,220	20,581
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
	<u>\$ 1,729,442</u>	<u>\$ 529,338</u>	<u>\$ 30,193</u>	<u>\$ 57,756</u>	<u>\$ 2,346,729</u>	<u>\$ 412,942</u>	<u>\$ 102,357</u>	<u>\$ 2,862,028</u>

See accompanying notes to financial statements.



VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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.

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.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 net assets without donor restrictions unless their use is restricted by explicit donor stipulations or 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.

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.

Net assets

The Organization is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions

Net assets without donor restrictions are available for use in general operations and Board of Directors' designations and are not subject to donor restrictions.

Net assets with donor restrictions

Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that funds be maintained in perpetuity.

See Note 11 for more information on the composition of net assets with donor restrictions and the release of restrictions.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

The Organization reports gifts of cash and other assets as contributions with or without donor restrictions depending on the existence and/or nature of any donor stipulations that limit the use of the donated assets. Contributions with donor restrictions whose restrictions are met in the same period the contribution is received are reported as support without donor restrictions. When a donor restriction expires net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets with explicit donor stipulations that specify how the assets are to be used are reported as contributions with donor restrictions. 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.

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.

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.

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.

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.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional allocation of expenses

The costs of providing various program and supporting activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas. Direct identification of specific expenses with a program or supporting service is the primary method used to assign costs to various functions. 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).

Advertising costs

Advertising costs are charged to operations when incurred.

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.

Newly adopted accounting standard

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The main provision of this update includes the presentation of two classes of net assets rather than the previously required three classes. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adopted this ASU retrospectively and has adjusted the presentation of the financial statements for all periods presented, except for the liquidity and availability information (see Note 3), which only has a current year presentation as permitted under the ASU in the year of adoption.

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures within one year from the date of the statement of financial position comprise the following at December 31, 2018:

Financial assets at year-end:

Cash and equivalents	\$	393,031
Accounts and contracts receivables, net		93,678
Investments		498,569
		<hr/>

Total financial assets available within one year	\$	<u>985,278</u>
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Assets with donor restrictions are included in total financial assets as they are intended for program and general related expenses and are expected to be used within the one year.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

3. LIQUIDITY AND AVAILABILITY (Continued)

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by various government contracts.

4. 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.

5. 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, 2018 and 2017:

Asset Description	Fair Value Hierarchy Level	2018	2017
Money market	1	\$ 4,791	\$ 20,546
Equities and mutual funds	1	493,778	629,332
		<u>\$ 498,569</u>	<u>\$ 649,878</u>

6. CONSTRUCTION IN PROGRESS

Construction in progress consisted of a new server and parking lot renovations in the amounts of \$31,504 and \$15,431 at December 31, 2018 and 2017, respectively.

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Building and improvements	\$ 1,433,033	\$ 1,433,033
Furniture and equipment	206,076	203,522
Automobiles	272,652	253,311
Land improvements	163,826	0
	<u>2,075,587</u>	<u>1,889,866</u>
Less accumulated depreciation	760,607	705,722
	<u>1,314,980</u>	<u>1,184,144</u>
Land	331,372	331,372
	<u>\$ 1,646,352</u>	<u>\$ 1,515,516</u>

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

7. PROPERTY AND EQUIPMENT (Continued)

Depreciation and amortization expense was \$73,024 and \$67,718 for the years ended December 31, 2018 and 2017, respectively.

Approximately 58% and 62% 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, 2018 and 2017, respectively. 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 8).

8. 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>		
2019	\$	8,500
2020		8,500
2021		2,000
		19,000
	\$	19,000

Total rent expense under this lease and other cancelable leasing arrangements for the years ended December 31, 2018 and 2017 was \$22,400 and \$24,279, respectively.

Lessor

As described in Note 7, the Organization leases office space to tenants under both cancelable and non-cancelable arrangements as of December 31, 2018. Future rental income under non-cancelable leases is as follows:

<u>Year Ending December 31,</u>		
2019	\$	29,600
2020		21,000
2021		21,100
2022		11,100
2023		6,900
		89,700
	\$	89,700

The Organization recognized rental revenue in the amount of \$36,479 and \$30,254 from tenants for the years ended December 31, 2018 and 2017, respectively.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

9. NOTES PAYABLE

Notes payable at December 31 are summarized as follows:

	2018	2017
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.	\$ 700,662	\$ 723,323
Notes payable to an auto dealer finance department, due in monthly installments of \$544, with 0.0% interest, secured by automobiles with a net book value of \$33,598 at December 31, 2018. The notes mature in April 2023.	28,383	0
	729,045	723,323
Less unamortized deferred loan fees	6,254	6,976
	\$ 722,791	\$ 716,347

Principal payments are due as follows:

<u>Year Ending December 31,</u>	
2019	\$ 30,000
2020	31,000
2021	32,000
2022	33,000
2023	30,000
Thereafter	573,045
	\$ 729,045

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

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

10. ACCRUED EXPENSES

Accrued expenses at December 31, 2018 and 2017 consisted of the following:

	2018	2017
DSHS settlement payable	\$ 196,005	\$ 208,600
Accrued vacation	108,303	112,554
Accrued wages	83,359	78,084
Payroll taxes payable	28,696	27,358
Other accrued expenses	9,425	7,712
	\$ 425,788	\$ 434,308

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

Room 104 remodel	\$ 39,000	\$ 0
Music program	18,489	2,113
Basic needs	10,112	0
Training division	8,360	3,143
Residential services	5,297	6,105
Granite Falls collaborative	5,000	0
Parent funds for program participants	1,950	3,750
Disabilities calendar	1,563	5,000
Other programs	106	75
Parking lot project	0	76,130
	\$ 89,877	\$ 96,316

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

Parking lot project	\$ 76,130	\$ 6,395
Disabilities calendar	3,437	420
Parent funds for program participants	1,800	2,191
Music program	966	3,400
Residential services	808	0
Other programs	70	0
Training division	0	9,042
Inclusive entrepreneurs	0	2,094
	\$ 83,211	\$ 23,542



VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

12. SUPPORT FROM GOVERNMENT UNITS

Village Community Services received approximately 89% and 86% of its support from state or local government fee-for-service contracts during the years ended December 31, 2018 and 2017, respectively. Nearly all of the balance in accounts and contracts receivable was due from these entities at December 31, 2018 and 2017. A significant reduction in the level of this support would have an adverse impact on operations.

13. EMPLOYEE BENEFIT PLAN

Village Community Services has a defined contribution salary deferral plan. Employer contributions during 2018 and 2017 were \$0. This plan covers all eligible union and non-union employees.

14. COLLECTIVE BARGAINING AGREEMENT

The Organization entered into an agreement with an employees' union effective September 1, 2014 through August 31, 2018. As of January 1, 2019, a new agreement was in effect through December 31, 2021.

Approximately 86% and 80% of the Organization's workforce for the years ended December 31, 2018 and 2017, 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 13.

15. 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.

16. RELATED PARTY TRANSACTIONS

The Organization paid \$6,000 for rent in each of the years ended December 31, 2018 and 2017 for use of office space within a residential services site owned by a board member.

In addition, the Organization had the following transactions with companies owned by board members during the years ended December 31, 2018 and 2017:

	2018	2017
IT equipment and services purchased	\$ 43,010	\$ 18,864
IT equipment and services contributed	\$ 5,944	\$ 5,284
Graphic design services purchased	\$ 6,190	\$ 8,027
Graphic design services contributed	\$ 1,864	\$ 1,864

VILLAGE COMMUNITY SERVICES  
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17. 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, 2018 and 2017, the Organization had \$39,410 and \$39,333, 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.

18. 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.

Parking lot improvements were made to the Organization's property in 2017 and 2018 using a CDBG from Snohomish County in the amount of \$27,334. As part of the requirements of this grant, the Organization agrees to use the property for its nonprofit mission through February 1, 2023.

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 the 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, 2018 and 2017, is a DSHS settlement amount of \$196,005 and \$208,600, respectively.

19. RECLASSIFICATION

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements. The reclassifications had no impact on previously reported total net assets.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

20. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through the date these statements were available to be issued on July 27, 2019.

21. RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (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.