



FINANCIAL STATEMENTS

December 31, 2020 and 2019  
(with Independent Auditor's Report Thereon)



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
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, 2020 and 2019, 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, 2020 and 2019, 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.

## Emphasis of Matters

As discussed in Note 2 to the financial statements, in 2020, Village Community Services adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

As discussed in Note 14 to the financial statements, economic uncertainties have continued with the spread of COVID-19. Given the uncertainty of the situation, management has determined that the duration of any disruption to Village Community Services' activities and operations and related financial effect cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Vine Dahlon PwC

July 20, 2021

VILLAGE COMMUNITY SERVICES  
 STATEMENTS OF FINANCIAL POSITION  
 December 31, 2020 and 2019

ASSETS

	2020	2019
Cash and equivalents	\$ 617,077	\$ 250,123
Investments	420,001	372,636
Accounts and contracts receivable, net	83,129	144,062
Other assets	81,887	85,474
Property and equipment, net	1,664,262	1,701,457
TOTAL ASSETS	\$ 2,866,356	\$ 2,553,752

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable	\$ 48,728	\$ 21,064
Accrued expenses	448,655	344,783
Notes payable, net	664,175	694,983
TOTAL LIABILITIES	1,161,558	1,060,830
NET ASSETS:		
Without donor restrictions	1,673,796	1,465,331
With donor restrictions	31,002	27,591
TOTAL NET ASSETS	1,704,798	1,492,922
TOTAL LIABILITIES AND NET ASSETS	\$ 2,866,356	\$ 2,553,752

VILLAGE COMMUNITY SERVICES  
STATEMENTS OF ACTIVITIES  
For the Years Ended December 31, 2020 and 2019

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Revenues, gains, and other support:		
State and local government contracts	\$ 3,726,885	\$ 2,906,285
Contributions	52,125	104,585
Net investment return	50,008	70,650
Program service fees	43,030	45,721
Rental income	33,594	41,107
Miscellaneous income	13,074	200
Total revenues, gains, and other support	3,918,716	3,168,548
Net assets released from restrictions:		
Satisfaction of program restrictions	7,649	74,226
Total revenues, gains, and other support	3,926,365	3,242,774
Expenses:		
Program services	2,959,762	2,670,627
Supporting services	758,138	558,482
Total expenses	3,717,900	3,229,109
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	208,465	13,665
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	11,060	11,940
Net assets released from restrictions	(7,649)	(74,226)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	3,411	(62,286)
CHANGE IN NET ASSETS	211,876	(48,621)
BEGINNING NET ASSETS	1,492,922	1,541,543
ENDING NET ASSETS	\$ 1,704,798	\$ 1,492,922

VILLAGE COMMUNITY SERVICES  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	\$ 211,876	\$ (48,621)
Adjustments to reconcile change in net assets to net cash:		
Depreciation and amortization	102,843	86,291
Amortization of deferred loan fees	722	722
Net realized and unrealized gain on investments	(21,457)	(53,117)
Gain on sale and disposal of equipment	(2,345)	(200)
In-kind contribution of equipment	0	(5,718)
Change in allowance for doubtful accounts	(9,956)	9,956
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts and contracts receivable	70,889	(60,340)
Other assets	3,587	(39,428)
Increase (decrease) in liabilities:		
Accounts payable	27,664	2,008
Accrued expenses	103,872	(81,005)
Total adjustments and changes	275,819	(140,831)
	487,695	(189,452)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:		
Purchase of investments	(67,520)	(278,457)
Proceeds from sale of investments	41,612	457,507
Purchase of property and equipment	(66,148)	(104,676)
Proceeds from sale of equipment	2,845	700
	(89,211)	75,074
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:		
Repayment on notes payable	(31,530)	(28,530)
CHANGE IN CASH AND EQUIVALENTS	366,954	(142,908)
BEGINNING CASH AND EQUIVALENTS	250,123	393,031
ENDING CASH AND EQUIVALENTS	\$ 617,077	\$ 250,123
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 34,364	\$ 32,224

VILLAGE COMMUNITY SERVICES  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended December 31, 2020

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL EXPENSES
	Residential	Employment Services	Music and Arts	Training	Total Program Expenses	Management and General	Fundraising	
Salaries	\$ 1,923,212	\$ 243,017	\$ 7,139	\$ 19,108	\$ 2,192,476	\$ 336,427	\$ 42,968	\$ 2,571,871
Employee benefits	164,048	15,626	819	2,865	183,358	46,976	2,594	232,928
Payroll taxes	231,256	21,786	604	1,731	255,377	27,532	3,531	286,440
<b>Total salaries and related expenses</b>	<b>2,318,516</b>	<b>280,429</b>	<b>8,562</b>	<b>23,704</b>	<b>2,631,211</b>	<b>410,935</b>	<b>49,093</b>	<b>3,091,239</b>
Communications	21,039	13,451	0	1,600	36,090	5,881	990	42,961
Conferences and staff training	1,134	289	0	30	1,453	3,201	147	4,801
Contract services	8,566	13,461	18,173	324	40,524	53,252	8,536	102,312
Depreciation and amortization	12,872	32,164	0	9,458	54,494	46,608	1,741	102,843
Dues and subscriptions	164	625	0	115	904	2,574	2,418	5,896
Equipment rental and maintenance	4,807	9,369	0	3,479	17,655	20,925	1,140	39,720
Events	0	0	270	0	270	0	584	854
Insurance - professional and liability	0	0	0	0	0	12,311	0	12,311
Interest	0	7,909	0	4,775	12,684	21,354	1,050	35,088
Licenses and fees	38,222	2,203	0	378	40,803	9,200	4,533	54,536
Meals and food	763	0	159	0	922	346	230	1,498
Miscellaneous	11,852	502	747	90	13,191	10,168	12,662	36,021
Occupancy	19,754	7,518	551	1,656	29,479	14,564	811	44,854
Other taxes and licenses	0	0	0	0	0	5,003	0	5,003
Participant activities and support	119	0	0	42	161	0	0	161
Professional fees	0	129	0	0	129	21,658	94	21,881
Promotion and staff recruitment	0	1,430	(16)	0	1,414	18,198	149	19,761
Supplies	15,543	836	102	30	16,511	11,698	3,039	31,248
Vehicle expense and travel	38,794	22,175	898	0	61,867	2,637	408	64,912
	<b>\$ 2,492,145</b>	<b>\$ 392,490</b>	<b>\$ 29,446</b>	<b>\$ 45,681</b>	<b>\$ 2,959,762</b>	<b>\$ 670,513</b>	<b>\$ 87,625</b>	<b>\$ 3,717,900</b>

See accompanying notes to financial statements.

VILLAGE COMMUNITY SERVICES  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended December 31, 2019

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL EXPENSES
	Residential	Employment Services	Music and Arts	Training	Total Program Expenses	Management and General	Fundraising	
Salaries	\$ 1,614,176	\$ 322,180	\$ 7,704	\$ 44,287	\$ 1,988,347	\$ 245,567	\$ 20,681	\$ 2,254,595
Employee benefits	138,486	27,094	623	6,518	172,721	28,426	1,592	202,739
Payroll taxes	187,741	27,603	675	3,688	219,707	19,792	1,621	241,120
<b>Total salaries and related expenses</b>	<b>1,940,403</b>	<b>376,877</b>	<b>9,002</b>	<b>54,493</b>	<b>2,380,775</b>	<b>293,785</b>	<b>23,894</b>	<b>2,698,454</b>
Communications	17,460	12,472	0	1,260	31,192	2,888	350	34,430
Conferences and staff training	2,933	693	0	784	4,410	4,343	150	8,903
Contract services	8,258	16,789	24,125	1,213	50,385	19,178	9,090	78,653
Depreciation and amortization	9,028	29,552	0	3,998	42,578	42,047	1,666	86,291
Dues and subscriptions	0	280	0	16	296	1,301	1,828	3,425
Equipment rental and maintenance	3,678	8,309	45	1,747	13,779	18,674	1,401	33,854
Events	0	0	1,000	0	1,000	0	24,041	25,041
Insurance - professional and liability	0	0	0	0	0	10,819	0	10,819
Interest	0	7,404	0	1,205	8,609	23,375	962	32,946
Licenses and fees	6,407	289	0	45	6,741	(257)	4,175	10,659
Meals and food	67	34	0	51	152	1,351	238	1,741
Miscellaneous	703	193	664	14,553	16,113	11,844	2,512	30,469
Occupancy	18,076	7,872	1,200	592	27,740	15,942	762	44,444
Other taxes and licenses	0	0	0	0	0	3,689	0	3,689
Participant activities and support	472	127	0	0	599	0	0	599
Professional fees	0	0	0	0	0	24,729	0	24,729
Promotion and staff recruitment	0	0	16	0	16	7,867	469	8,352
Supplies	7,771	928	718	585	10,002	4,506	316	14,824
Vehicle expense and travel	42,540	29,550	2,495	1,655	76,240	399	148	76,787
	<b>\$ 2,057,796</b>	<b>\$ 491,369</b>	<b>\$ 39,265</b>	<b>\$ 82,197</b>	<b>\$ 2,670,627</b>	<b>\$ 486,480</b>	<b>\$ 72,002</b>	<b>\$ 3,229,109</b>

See accompanying notes to financial statements.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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 individuals 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 (U.S. GAAP) 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. GAAP 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 instruments with original maturities of three months or less are considered equivalents reported in the statements of cash flows.

Investments

The Organization's investment objective is to maximize total return and preserve capital, while minimizing credit risk and avoiding excessive market risk. In order to achieve this objective, the Organization's assets are invested in accordance with an investment policy that is approved by the Organization's Board of Directors with a level of risk that is appropriate to the Organization's spending objectives. Investments are reported at their fair values in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income, and realized and unrealized gains and losses, less external and direct internal investment expenses. The Organization adheres to all donor-imposed restrictions in the allocation and expenditure of investment earnings.

Investments acquired by gift are recorded at their fair values at the date of the gift. The Organization's policy is to liquidate all gifts of investments as timely as possible, taking into consideration the impact on the market price.

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. Assets with a cost or donated basis of 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. Provision for depreciation and amortization of all items of property and equipment is computed on the straight-line method over the estimated useful lives of the assets:

Building	39 years
Building improvements	10-20 years
Furniture and equipment	3-20 years
Transportation equipment	5-7 years

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets

The Organization classifies net assets, revenues, gains, and losses based on the existence or absence of donor-imposed restrictions. Net assets are classified and reported as follows:

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. The Organization has no net assets that need to be maintained in perpetuity.

See Note 9 for more information on the composition of net assets with donor restrictions and the release of restrictions.

Revenue

A substantial portion of the revenue is derived from primarily cost-reimbursable state and local government and private contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the performance requirements and/or expenditures have been incurred in compliance with the contract provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position. No amounts have been received in advance under the Organization's state and local government and private contracts.

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.

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.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated materials and services

Donated materials and services are recorded at fair value at the date of donation and have been included in revenues and expenses. Donated services are recognized if the services create or enhance a nonfinancial asset or the services require specialized skills that are provided by individuals possessing those skills.

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.

Income taxes

The Organization 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's tax filings are 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 positions, if any, as part of supporting services expenses in the statements of activities.

Newly adopted accounting standard

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. It also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization has adopted this ASC with a date of the initial application of January 1, 2019, using the full retrospective method. The adoption of this ASC did not result in a change to the accounting for any of the Organization's revenue streams. As such, no cumulative effect adjustment was recorded.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

3. LIQUIDITY AND AVAILABILITY

The Organization maintains a policy to structure its financial assets to be available as its general expenditures and liabilities come due and operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted revenue. In addition, as part of its liquidity management, the Organization regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investments of its available funds.

Financial assets available for general expenditures within one year include:

	2020	2019
Financial assets at year-end:		
Cash and equivalents	\$ 617,077	\$ 250,123
Investments	420,001	372,636
Accounts and contracts receivable, net	83,129	144,062
Total financial assets available within one year	\$ 1,120,207	\$ 766,821

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 one year.

4. ACCOUNTS AND CONTRACTS RECEIVABLE

Receivables consisted of the following:

Accounts and contracts receivable	\$ 83,129	\$ 152,518
Other receivables	0	1,500
	83,129	154,018
Less allowance for doubtful accounts	0	9,956
	\$ 83,129	\$ 144,062

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 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These included quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 - Unobservable inputs, which are supported by little or no market activity.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

5. INVESTMENTS (Continued)

The aggregate carrying amounts of investments are as follows:

	Fair Value Hierarchy Level	2020	2019
Money market	1	\$ 4,224	\$ 6,418
Mutual funds	1	389,132	340,353
Common stock	1	26,645	25,865
		<u>\$ 420,001</u>	<u>\$ 372,636</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Building and improvements	\$ 1,474,590	\$ 1,474,590
Furniture and equipment	247,992	232,671
Automobiles	363,225	329,229
Land improvements	163,826	163,826
	<u>2,249,633</u>	<u>2,200,316</u>
Less accumulated depreciation	916,743	830,231
	<u>1,332,890</u>	<u>1,370,085</u>
Land	331,372	331,372
	<u>\$ 1,664,262</u>	<u>\$ 1,701,457</u>

Depreciation and amortization expense was \$102,843 and \$86,291 for the years ended December 31, 2020 and 2019, respectively.

Approximately 62% and 52% of the square footage of the building and improvements was used for the Organization's program and supporting services during the years ended December 31, 2020 and 2019, 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 (Note 10).

7. ACCRUED EXPENSES

Accrued expenses consisted of the following:

Accrued wages	\$ 242,693	\$ 158,273
Accrued vacation	135,102	122,639
Payroll taxes payable	47,798	40,723
DSHS settlement payable	18,637	18,798
Other accrued expenses	4,425	4,350
	<u>\$ 448,655</u>	<u>\$ 344,783</u>

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

8. NOTES PAYABLE

Notes payable are summarized as follows:

	2020	2019
<p>Note payable to a bank, due in monthly payments of \$4,814, with a fixed interest 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, effective August 1, 2014. 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.</p>	\$ 653,703	\$ 678,683
<p>Notes payable to an auto dealer finance department, due in monthly installments of \$544, with 0% interest, secured by automobiles with a net book value of \$23,527 at December 31, 2020. The notes mature in April 2023.</p>	15,283	21,833
	668,986	700,516
Less unamortized deferred loan fees	4,811	5,533
	\$ 664,175	\$ 694,983

Principal payments are due as follows:

<u>Year Ending December 31,</u>	
2021	\$ 33,000
2022	33,000
2023	30,000
2024	29,000
2025	31,000
Thereafter	512,986
	\$ 668,986

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

9. NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Training division	\$ 17,420	\$ 10,360
Music program	4,007	4,007
Disabilities calendar	3,924	3,924
Vehicle fund	2,500	5,000
Inclusive entrepreneurs	1,614	1,100
Parent funds for program participants	900	1,600
Residential services	631	651
Other programs	6	6
Room 104 remodel	0	943
	\$ 31,002	\$ 27,591

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

Vehicle fund	\$ 5,000	\$ 0
Inclusive entrepreneurs	986	0
Room 104 remodel	943	38,057
Parent funds for program participants	700	350
Residential services	20	4,646
Music program	0	14,482
Basic needs	0	10,112
Granite Falls collaborative	0	5,000
Disabilities calendar	0	1,479
Other programs	0	100
	\$ 7,649	\$ 74,226

10. LEASE COMMITMENTS

Lessee

The Organization leases copier equipment under a non-cancelable operating lease, which expires in February 2026. Minimum future rental payments under this lease are approximately as follows:

<u>Year Ending December 31,</u>	
2021	\$ 6,600
2022	7,900
2023	7,900
2024	7,900
2025	7,900
Thereafter	1,100
	\$ 39,300

Rental expense under this lease was \$23,257 and \$23,784 for the years ended December 31, 2020 and 2019, respectively.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

10. LEASE COMMITMENTS (Continued)

Lessor

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

<u>Year Ending December 31,</u>	
2021	\$ 22,000
2022	22,700
2023	<u>14,400</u>
	<u>\$ 59,100</u>

The Organization recognized rental revenue in the amount of \$33,594 and \$41,107 from tenants for the years ended December 31, 2020 and 2019, respectively.

11. REVENUES FROM GOVERNMENT UNITS

The Organization received approximately 95% and 91% of its support from state or local government fee-for-service contracts during the years ended December 31, 2020 and 2019, respectively. The majority of the accounts and contracts receivable balances were due from these entities at December 31, 2020 and 2019. A significant reduction in the level of this support would have an adverse impact on operations.

Revenues from state and local government contracts are satisfied at a point in time and consist of residential and vocational services provided to individuals with developmental disabilities. Fees are specified in our agreements with the supporting government, which are short-term, with regular monthly charges. Revenue for residential and vocational services is recognized in accordance with ASC 606 and measured based on the consideration specified in the related contract and is recorded when the services are provided. Revenues from these contracts are subject to audit, which could result in adjustments to revenue. The adjustments are recorded at the time such amounts can be first reasonably determined, normally upon notification by the government agency.

12. EMPLOYEE BENEFIT PLAN

The Organization sponsors a 403(b) tax-sheltered annuity plan. Participating employees may elect to have tax-deferred contributions made to the plan from their compensation. Employees may elect to defer their compensation up to the maximum set by the Internal Revenue Service. This plan covers all eligible union and non-union employees. The Organization will decide to contribute to the plan on an annual basis. The Organization did not contribute to the plan during the years ended December 31, 2020 and 2019.

13. COLLECTIVE BARGAINING AGREEMENT

The Organization entered into an agreement with an employees' union effective January 1, 2019 through December 31, 2021.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

13. COLLECTIVE BARGAINING AGREEMENT (Continued)

Approximately 78% and 80% of the Organization's workforce for the years ended December 31, 2020 and 2019, 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. RISKS AND UNCERTAINTIES

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.

The economic uncertainties that have continued with the spread of COVID-19 have created disruption for the Organization. The extent of the effect of COVID-19 on our donors, grantors, employees, and vendors cannot be predicted. The duration of the disruption and the related operational and financial effect to the Organization cannot be reasonably estimated at this time.

15. RELATED PARTY TRANSACTIONS

The Organization paid \$6,000 in rent for the year ended December 31, 2019, for use of office space within a residential services site owned by a former board member. In addition, the Organization purchased graphic design services of \$6,250 from companies owned by former board members during 2019.

The Organization did not report any related-party transactions in 2020.

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, 2020 and 2019, the Organization had \$51,065 and \$56,190, respectively, on deposit with the Trust to fund future claims, which is included in other assets in the statements of financial position. The Organization has not recorded a liability for any potential outstanding claims as they cannot be reasonably estimated.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

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 2014 and 2015 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.

18. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through the date these statements were available to be issued on July 20, 2021.

19. RECENTLY ISSUED ACCOUNTING STANDARD

The FASB issued Accounting Standards Updates 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 in the statements 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 statements of activities. This standard will be effective for the calendar year ending December 31, 2022.

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