



FINANCIAL STATEMENTS

December 31, 2019 and 2018  
(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, 2019 and 2018, 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, 2019 and 2018, 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 2019, Village Community Services adopted Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

As discussed in Note 19 to the financial statements, economic uncertainties have arisen 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.

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

September 30, 2020

VILLAGE COMMUNITY SERVICES  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Cash and equivalents	\$ 250,123	\$ 393,031
Accounts and contracts receivable, net	144,062	93,678
Investments	372,636	498,569
Other assets	85,474	46,044
Property and equipment, net	<u>1,701,457</u>	<u>1,677,856</u>
TOTAL ASSETS	<u><u>\$ 2,553,752</u></u>	<u><u>\$ 2,709,178</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable	\$ 21,064	\$ 19,056
Accrued expenses	344,783	425,788
Notes payable, net	<u>694,983</u>	<u>722,791</u>
TOTAL LIABILITIES	<u>1,060,830</u>	<u>1,167,635</u>

NET ASSETS:

Without donor restrictions	1,465,331	1,451,666
With donor restrictions	<u>27,591</u>	<u>89,877</u>
TOTAL NET ASSETS	<u>1,492,922</u>	<u>1,541,543</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,553,752</u></u>	<u><u>\$ 2,709,178</u></u>

VILLAGE COMMUNITY SERVICES  
STATEMENTS OF ACTIVITIES  
For the Years Ended December 31, 2019 and 2018

	2019	2018
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:</b>		
Revenues, gains, and other support:		
Program service fees	\$ 2,952,006	\$ 2,571,301
Contributions	96,459	156,932
United Way	8,126	14,898
Net investment return (loss)	70,650	(17,124)
Rental income	41,107	36,479
Miscellaneous income	200	1,925
	3,168,548	2,764,411
Net assets released from restrictions:		
Satisfaction of program restrictions	74,226	83,211
	3,242,774	2,847,622
Expenses:		
Program services	2,670,627	2,246,471
Supporting services	558,482	536,079
	3,229,109	2,782,550
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>13,665</b>	<b>65,072</b>
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:</b>		
Contributions	11,940	76,772
Net assets released from restrictions	(74,226)	(83,211)
<b>CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>(62,286)</b>	<b>(6,439)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(48,621)</b>	<b>58,633</b>
<b>BEGINNING NET ASSETS</b>	<b>1,541,543</b>	<b>1,482,910</b>
<b>ENDING NET ASSETS</b>	<b>\$ 1,492,922</b>	<b>\$ 1,541,543</b>

See accompanying notes to financial statements.

VILLAGE COMMUNITY SERVICES  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	\$ (48,621)	\$ 58,633
Adjustments to reconcile change in net assets to net cash:		
Depreciation and amortization	86,291	73,024
Amortization of deferred loan fees	722	722
Net realized and unrealized (gain) loss on investments	(53,117)	39,451
Gain on sale and disposal of equipment	(200)	(1,925)
In-kind contribution of equipment	(5,718)	(4,387)
Change in allowance for doubtful accounts	9,956	0
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts and contracts receivable	(60,340)	59,939
Other assets	(39,428)	7,480
Increase (decrease) in liabilities:		
Accounts payable	2,008	10,670
Accrued expenses	(81,005)	(8,520)
Total adjustments and changes	(140,831)	176,454
	(189,452)	235,087
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:		
Purchase of investments	(278,457)	(191,549)
Proceeds from sale of investments	457,507	303,407
Purchase of property, equipment and construction in progress	(104,676)	(184,065)
Proceeds from sale of equipment	700	3,194
	75,074	(69,013)
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:		
Repayment on notes payable	(28,530)	(27,028)
CHANGE IN CASH AND EQUIVALENTS	(142,908)	139,046
BEGINNING CASH AND EQUIVALENTS	393,031	253,985
ENDING CASH AND EQUIVALENTS	\$ 250,123	\$ 393,031
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 32,224	\$ 35,878
Non-cash investing and financing activities:		
Purchase of equipment through financing	\$ 0	\$ 32,750

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 2019	
	Residential	Employment Services	Music and Arts	Training	Total	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  
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
 Communications	 13,844	 11,812	 0	 1,084	 26,740	 3,049	 378	 30,167
Conferences and staff training	256	1,339	0	669	2,264	268	110	2,642
Contract services	6,003	16,981	23,715	5,231	51,930	35,147	10,615	97,692
Depreciation and amortization	6,235	23,643	0	6,157	36,035	35,523	1,466	73,024
Dues and subscriptions	0	757	0	96	853	1,555	2,619	5,027
Equipment rental and maintenance	310	6,552	514	2,880	10,256	13,891	2,180	26,327
Events	0	0	1,125	0	1,125	0	21,018	22,143
Insurance - professional and liability	0	0	0	0	0	11,352	0	11,352
Interest	0	8,330	0	3,554	11,884	23,658	1,059	36,601
Licenses and fees	2,827	268	36	94	3,225	7,208	2,611	13,044
Meals and food	299	93	0	27	419	869	337	1,625
Miscellaneous	2,759	123	800	1,909	5,591	681	184	6,456
Occupancy	18,560	6,764	1,240	1,475	28,039	13,769	737	42,545
Other taxes and licenses	0	0	0	0	0	5,837	0	5,837
Participant activities and support	208	68	0	486	762	208	0	970
Professional fees	0	628	0	266	894	27,546	81	28,521
Promotion and staff recruitment	(25)	0	0	0	(25)	4,644	215	4,834
Supplies	3,584	1,084	957	1,243	6,868	1,341	1,581	9,790
Vehicle expense and travel	30,978	29,735	0	769	61,482	611	(8)	62,085
	<u>\$ 1,660,733</u>	<u>\$ 468,292</u>	<u>\$ 34,883</u>	<u>\$ 82,563</u>	<u>\$ 2,246,471</u>	<u>\$ 440,280</u>	<u>\$ 95,799</u>	<u>\$ 2,782,550</u>

See accompanying notes to financial statements.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019 and 2018

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 (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 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 reported at their fair values on the statements of financial position. Net investment return (loss) is reported in the statements of activities and consists of interest and dividend income and realized and unrealized gains and losses, less external 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. 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 buildings; 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 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.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets (continued)

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 10 for more information on the composition of net assets with donor restrictions and the release of restrictions.

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.

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.

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

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.

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.

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 standards

In 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard affects organizations that receive or make contributions of cash or other assets. Transfers of resources from governments to business entities are excluded from this ASU. This standard includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. It also provides a framework for determining whether a contribution is conditional or unconditional which affects the timing of revenue recognition. The Organization has adopted this ASU on a modified prospective basis, which it has applied to agreements that are not completed as of December 31, 2018 (only applies to unrecognized portion) and to agreements that are entered into after the year ended December 31, 2018. The adoption of this ASU did not result in recording a cumulative effect adjustment.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

3. LIQUIDITY AND AVAILABILITY

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

	2019	2018
Financial assets at year-end:		
Cash and equivalents	\$ 250,123	\$ 393,031
Accounts and contracts receivable, net	144,062	93,678
Investments	372,636	498,569
Total financial assets available within one year	\$ 766,821	\$ 985,278

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.

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 enough revenue to cover general expenditures not covered by various government contracts.

4. ACCOUNTS AND CONTRACTS RECEIVABLE

Receivables consisted of the following at December 31:

Accounts and contracts receivable	\$ 152,518	\$ 93,678
Other receivables	1,500	0
	154,018	93,678
Less allowance for doubtful accounts	9,956	0
	\$ 144,062	\$ 93,678

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.

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

5. INVESTMENTS (Continued)

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

<u>Asset Description</u>	<u>Fair Value Hierarchy Level</u>	<u>2019</u>	<u>2018</u>
Money market	1	\$ 6,418	\$ 4,791
Mutual funds	1	340,353	351,991
Common stock	1	25,865	141,787
		<u>\$ 372,636</u>	<u>\$ 498,569</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

Building and improvements	\$ 1,474,590	\$ 1,433,033
Furniture and equipment	232,671	206,076
Automobiles	329,229	272,652
Land improvements	163,826	163,826
	<u>2,200,316</u>	<u>2,075,587</u>
Less accumulated depreciation	830,231	760,607
	<u>1,370,085</u>	<u>1,314,980</u>
Land	331,372	331,372
Assets in progress	0	31,504
	<u>\$ 1,701,457</u>	<u>\$ 1,677,856</u>

Depreciation and amortization expense was \$86,291 and \$73,024 for the years ended December 31, 2019 and 2018, respectively.

Approximately 52% and 58% 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, 2019 and 2018, 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 10).

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

7. ACCRUED EXPENSES

Accrued expenses consisted of the following at December 31:

	2019	2018
Accrued wages	\$ 158,273	\$ 83,359
Accrued vacation	122,639	108,303
Payroll taxes payable	40,723	28,696
DSHS settlement payable	18,798	196,005
Other accrued expenses	4,350	9,425
	\$ 344,783	\$ 425,788

8. NOTES PAYABLE

Notes payable are summarized as follows at December 31:

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.

	\$ 678,683	\$ 700,662
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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 \$28,063 at December 31, 2019. The notes mature in April 2023.

	21,833	28,383
	700,516	729,045
Less unamortized deferred loan fees	5,533	6,254
	\$ 694,983	\$ 722,791

Principal payments are due as follows:

Year Ending December 31,

2020	\$ 31,000
2021	32,000
2022	33,000
2023	30,000
2024	29,000
Thereafter	545,516
	\$ 700,516

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

8. NOTES PAYABLE (Continued)

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. The bank has waived the ratio requirement not met as of and for the year ended December 31, 2019.

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31:

	2019	2018
Training division	\$ 10,360	\$ 8,360
Vehicle fund	5,000	0
Music program	4,007	18,489
Disabilities calendar	3,924	1,563
Parent funds for program participants	1,600	1,950
Inclusive entrepreneurs	1,100	0
Room 104 remodel	943	39,000
Residential services	651	5,297
Other programs	6	106
Basic needs	0	10,112
Granite Falls collaborative	0	5,000
	\$ 27,591	\$ 89,877

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

Room 104 remodel	\$ 38,057	\$ 0
Basic needs	10,112	0
Music program	14,482	966
Granite Falls collaborative	5,000	0
Residential services	4,646	808
Disabilities calendar	1,479	3,437
Parent funds for program participants	350	1,800
Other programs	100	70
Parking lot project	0	76,130
	\$ 74,226	\$ 83,211

VILLAGE COMMUNITY SERVICES  
NOTES TO FINANCIAL STATEMENTS

10. 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>	
2020	\$ 8,500
2021	1,900
	<hr/>
	\$ 10,400
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Total rent expense under this lease and other cancelable leasing arrangements for the years ended December 31, 2019 and 2018 was \$23,784 and \$22,400, respectively.

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>	
2020	\$ 25,900
2021	22,000
2022	22,700
2023	14,400
	<hr/>
	\$ 85,000
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The Organization recognized rental revenue in the amount of \$41,107 and \$36,479 from tenants for the years ended December 31, 2019 and 2018, respectively.

11. SUPPORT FROM GOVERNMENT UNITS

The Organization received approximately 91% and 89% of its support from state or local government fee-for-service contracts during the years ended December 31, 2019 and 2018, respectively. The majority of the accounts and contracts receivable balances were due from these entities at December 31, 2019 and 2018. A significant reduction in the level of this support would have an adverse impact on operations.

12. EMPLOYEE BENEFIT PLAN

The Organization has a defined contribution salary deferral plan. This plan covers all eligible union and non-union employees. Employer contributions during 2019 and 2018 were \$0.

VILLAGE COMMUNITY SERVICES  
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13. 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 is in effect through December 31, 2021.

Approximately 80% and 86% of the Organization's workforce for the years ended December 31, 2019 and 2018, 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 in rent for each of the years ended December 31, 2019 and 2018 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:

	2019	2018
Graphic design services purchased	\$ 6,250	\$ 6,190
Graphic design services contributed	\$ 912	\$ 1,864
IT equipment and services purchased	\$ 0	\$ 43,010
IT equipment and services contributed	\$ 0	\$ 5,944

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.

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16. SELF-INSURANCE (Continued)

At December 31, 2019 and 2018, the Organization had \$56,190 and \$39,410, 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 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.

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, 2019 and 2018, is a DSHS settlement payable of \$18,798 and \$196,005, respectively.

18. 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.

19. SUBSEQUENT EVENTS

The economic uncertainties that have arisen with the spread of coronavirus (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.

The Organization has evaluated subsequent events through the date these statements were available to be issued on September 30, 2020.

VILLAGE COMMUNITY SERVICES  
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20. RECENTLY ISSUED ACCOUNTING STANDARD

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 from the entity's contracts. This standard will be effective for the calendar year ending December 31, 2020.

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 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.