SOUND GENERATIONS AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2022

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

SOUND GENERATIONS AND AFFILIATES
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2022

INDEPENDENT AUDITORS' REPORT

Board of Directors
Sound Generations and Affiliates
Seattle, Washington

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Sound Generations and Affiliates (collectively, the Sound Generations), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sound Generations as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Sound Generations and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in 2022 Sound Generations adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our conclusion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sound Generations' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Sound Generations' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sound Generations' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
Sound Generations and Affiliates

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities and change in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2024 on our consideration of Sound Generations' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sound Generations' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sound Generations' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
February 1, 2024

SOUND GENERATIONS AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$ 3,262,109
Government Grants and Contracts Receivable	2,301,081
Accounts and Contributions Receivable	217,992
Inventory	72,871
Prepaid Expenses	419,244
Total Current Assets	6,273,297
RESTRICTED CASH	1,715,962
UNEMPLOYMENT COMPENSATION TRUST DEPOSITS	196,253
INVESTMENTS	5,375,585
ENDOWMENTS INVESTMENTS	2,149,367
PROPERTY AND EQUIPMENT, NET	6,222,262
OPERATING ROU ASSETS, NET	1,315,058
Total Assets	$ 23,247,784

LIABILITES AND NET ASSETS

CURRENT LIABILITIES	
Accounts Payable and Other Accrued Expenses	$ 539,512
Accrued Payroll	2,053,111
Current Lease Liabilities - Operating	195,209
Long-Term Debt, Current Portion	153,699
Total Current Liabilities	2,941,531
LONG-TERM LEASE LIABILITIES, NET	1,152,200
LONG-TERM DEBT, NET	5,137,302
Total Liabilities	9,231,033
NET ASSETS	
Without Donor Restrictions	10,042,980
With Donor Restrictions	3,973,771
Total Net Assets	14,016,751
Total Liabilities and Net Assets	$ 23,247,784

See accompanying Notes to Consolidated Financial Statements.

SOUND GENERATIONS AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT			
Government Grants	$ 14,404,022	$ 105,000	$ 14,509,022
Contributions of Cash and Other Financial Assets	3,755,026	179,591	3,934,617
Contributions of Nonfinancial Assets	456,797	-	456,797
Net Assets Released from Restriction	952,795	(952,795)	-
Total Public Support	19,568,640	(668,204)	18,900,436
REVENUE AND LOSS			
Program Service Fees and Sales	1,737,748	-	1,737,748
Rental Income and Other	438,437	-	438,437
Net Investment Loss	(909,075)	(474,240)	(1,383,315)
Total Revenue	1,267,110	(474,240)	792,870
Total Public Support, Revenue, and Loss	20,835,750	(1,142,444)	19,693,306
EXPENSES			
Program Services	17,711,295	-	17,711,295
Management and General	2,849,075	-	2,849,075
Fundraising	1,136,062	-	1,136,062
Total Expenses	21,696,432	-	21,696,432
CHANGE IN NET ASSETS	(860,682)	(1,142,444)	(2,003,126)
Net Assets - Beginning of Year	10,903,662	5,116,215	16,019,877
NET ASSETS - END OF YEAR	$ 10,042,980	$ 3,973,771	$ 14,016,751

See accompanying Notes to Consolidated Financial Statements.

SOUND GENERATIONS AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Program Services										
					Senior Centers						
	Senior Information and Assistance	Transportation Services	Nutrition Projects	Health and Wellness	Affiliated	Agency Programs	Belltown, LLC	Total Program Services	Management and General	Fundraising	Total All Services
PAYROLL EXPENSES											
Salaries and Wages	$ 1,748,635	$ 2,428,065	$ 1,664,755	$ 505,243	$ 1,499,575	$ 411,171	$ 32,785	$ 8,290,229	$ 1,724,667	$ 539,787	$ 10,554,683
Employee Benefits	271,941	387,882	263,783	77,752	229,797	61,950	5,154	1,298,259	260,088	82,420	1,640,767
Payroll Taxes	178,009	314,957	172,173	46,984	145,682	38,131	4,938	900,874	170,040	50,279	1,121,193
Total Payroll Expenses	2,198,585	3,130,904	2,100,711	629,979	1,875,054	511,252	42,877	10,489,362	2,154,795	672,486	13,316,643
EXPENSES											
Program Supplies	120,308	85,796	2,818,208	23,541	372,419	13,252	787	3,434,311	26,114	65,263	3,525,688
Occupancy	151,283	124,398	212,650	27,342	416,462	14,744	178,882	1,125,761	92,774	30,313	1,248,848
Professional Fees and Instructions	98,039	39,878	122,279	325,623	337,308	167,237	1,088	1,091,452	278,462	134,763	1,504,677
In-Kind Rent and Other	5,051	678	287,376	-	143,742	3,556	2,136	442,539	-	14,665	457,204
Client and Other Transportation	207,333	115,626	33,871	2,171	21,302	1,582	577	382,462	11,647	13,959	408,068
Printing and Publications	1,915	5,856	3,364	15,211	60,325	824	-	87,495	128,286	78,245	294,026
Insurance	19,653	135,644	27,108	3,340	41,764	1,861	42,980	272,350	31,047	2,581	305,978
Interest	58,128	32,360	53,422	11,608	-	195	7,341	163,054	34,792	12,869	210,715
Telephone	23,126	64,984	21,428	4,058	24,075	4,034	1,142	142,847	9,420	3,216	155,483
Other	2,697	5,287	28,208	17,244	11,973	2,409	28	67,846	16,884	1,907	86,637
Bank Fees	1,478	568	14,737	1,614	28,525	1,535	358	48,815	18,841	19,560	87,216
Postage and Shipping	5,449	4,155	3,701	1,621	12,214	1	17	27,158	2,754	64,140	94,052
Taxes	1,732	116	3,823	440	39,385	195	749	46,440	11,646	46	58,132
Conference and Conventions	5,814	9,156	2,584	381	13,106	565	-	31,606	31,613	22,049	85,268
Total Expenses	702,006	624,502	3,632,759	434,194	1,522,600	211,990	236,085	7,364,136	694,280	463,576	8,521,992
Total Payroll Expenses and Expenses	2,900,591	3,755,406	5,733,470	1,064,173	3,397,654	723,242	278,962	17,853,498	2,849,075	1,136,062	21,838,635
Less: Expenses Eliminated Upon Consolidation	31,020	-	107,372	3,811		-	-	142,203	-	-	142,203
Total Functional Expenses	$ 2,869,571	$ 3,755,406	$ 5,626,098	$ 1,060,362	$ 3,397,654	$ 723,242	$ 278,962	$ 17,711,295	$ 2,849,075	$ 1,136,062	$ 21,696,432

See accompanying Notes to Consolidated Financial Statements.

SOUND GENERATIONS AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ (2,003,126)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	566,417
Noncash Lease Expenses	32,351
Realized and Unrealized Loss on Investments	1,554,602
(Increase) Decrease in Assets:	
Government Grants and Contracts Receivable	254,722
Accounts and Contributions Receivable	(162,797)
Inventory	1,176
Prepaid Expenses	(165,183)
Increase (Decrease) in Liabilities:	
Accounts Payable and Other Accrued Expenses	185,782
Accrued Payroll	651,476
Net Cash Provided by Operating Activities	915,420
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property and Equipment	(333,262)
Purchases of Investments	(200,583)
Proceeds from Sales of Investments	44,947
Net Cash Used by Investing Activities	(488,898)
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal Payments on Long-Term Debt	(107,745)
Net Cash Used by Financing Activities	(107,745)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	318,777
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	4,855,547
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	$ 5,174,324

See accompanying Notes to Consolidated Financial Statements.

SOUND GENERATIONS AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022

RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR PER THE CONSOLIDATED STATEMENT OF CASH FLOWS TO CASH, CASH EQUIVALENTS, AND RESTRICTED CASH PER THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
Cash and Cash Equivalents	$	3,262,109
Restricted Cash		1,715,962
Unemployment Compensation Trust Deposits		196,253
Total Cash, Cash Equivalents, and Restricted Cash per Consolidated Statement of Cash Flows	$	5,174,324

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sound Generations and Affiliates (Sound Generations) is a multi-service, not-for-profit agency that was established in 1967 to provide a spectrum of services to support seniors in their efforts to live healthy, independent lives. This mission is carried out through numerous programs, senior centers, and adult day health programs providing services throughout King County.

The following affiliated senior centers were in operation during 2022. Their financial position, changes in their net assets, and cash flows have been included in the accompanying consolidated financial statements. All inter-entity transactions and accounts have been eliminated in consolidation.

- Northwest (Ballard)
- Shoreline/Lake Forest Park
- Sno Valley
- West Seattle

Subsequent to December 31, 2023, West Seattle will be deconsolidated from Sound Generations.

Programs Provided by Sound Generations

Assistance Services

Assistance Services - Assistance Services is the single access point for the wide range of community services for older adults. Staff provide information to callers, initiate services for those unable to act on their own behalf and follow up to ensure that services are in place and are appropriate.

Caregiver Outreach and Support - This program provides outreach, education, and services coordination throughout King County through community and workplace presentations. Caregiver Advocates offer information about community resources, encourage caregivers to utilize the full range of services available to them and the older persons for whom they care, and assist them in securing needed resources.

Community Information and Assistance - This program is designed to identify individuals 60 years of age and older who face cultural and racial barriers. The goal of the program is to inform these persons about available services and to encourage participation.

Senior Rights Assistance - This program provides peer counseling by trained volunteers. Information and advocacy is provided on insurance, Social Security, Medicare, wills, powers of attorney, end of life choices, landlord/tenant issues, and other health, consumer, and legal issues.

Minor Home Repair - This program performs critically needed plumbing, electrical, or carpentry repairs or modifications for low-income Seattle homeowners and disabled renters. The need for repair is related to preventing harm to the security, safety, or health of the resident.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs Provided by Sound Generations **(Continued)**

Assistance Services (Continued)

Geriatric Regional Assessment Team (GRAT) - The GRAT team provides reliable guidance for older adults. GRAT offers outreach, comprehensive assessment and early intervention for aging adults who are escalating toward crisis. The heart of GRAT is engaging with an elder, learning about their health and support, their strengths, difficulties, day to day functioning, and what they care about most. GRAT then helps connect older adults and loved ones with community resources for stabilization.

Transportation

Hyde Shuttle - Hyde Shuttles transport older adults (55+) and adults with disabilities of all ages to hot lunches at community partner sites, senior centers, grocery shopping, and other errands within King County, Washington. Neighborhood vans are provided for errands such as grocery shopping, banking, or visiting friends.

Volunteer Transportation - Volunteer Transportation helps older adults (60+) get to medical, dental, and other essential healthcare appointments.

Nutrition Projects

Community Dining - This program provides a variety of nutritional services to senior citizens in Seattle/King County. The objective of the program is to assist older persons to improve their health through good nutrition and connecting with caring social support networks. The program is designed to supplement the individual s dietary needs by serving nutritious meals and to provide knowledge about nutrition by giving nutrition education presentations.

Meals on Wheels - This program delivers nutritious meals to homebound older or disabled persons who reside in Seattle/King County. The goal is to enable homebound elderly persons to remain in their homes as long as possible by providing nutritious meals, which they would otherwise be unable to obtain.

Health and Wellness

This project includes several evidence-based components: EnhanceFitness, an exercise program; EnhanceWellness, a health behavior change program; A Matter of Balance, for falls prevention; and Pearls, for reducing depressive symptoms. Programs are offered to older adults in community settings in King County and various locations around the county. The programs are marketed to senior programs across the United States of America.

Senior Centers

These centers, located throughout King County, are community focal points where older adults have comprehensive access to programs and services that maximize their health and independence.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The financial statements consolidate the assets, liabilities, and activities of Sound Generations, its affiliated senior centers, and its wholly owned subsidiary, Belltown Senior Apartments, LLC (Belltown, LLC).

The Belltown building is divided into two separate condominium units: a residential unit and a commercial unit. The commercial unit consists of three floors occupied by Sound Generations for county-wide operations, a senior health and wellness center, and a community room. The residential unit consists of 25 affordable senior housing units on five floors managed by Sound Generations.

Sound Generations, its affiliated senior centers, and Belltown, LLC are collectively referred to as Sound Generations in these consolidated financial statements. All significant inter-entity transactions have been eliminated in the consolidation.

Basis of Presentation

The consolidated financial statements of Sound Generations have been prepared on the accrual basis. In the statement of financial position, assets and liabilities are presented on a classified basis, in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

Financial Statement Presentation

In accordance with generally accepted accounting principles in the United States of America (GAAP), Sound Generations is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions are available without restriction for support of Sound Generations' operations. Sound Generations' Board of Directors has designated certain amounts as investment funds which Sound Generations can use 4% of the fund each year for operations. The board-designated investment funds are $3,916,199 at December 31, 2022.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Some net assets with donor restrictions are temporary in nature and consist of unexpended contributions restricted for particular programs or time periods. Other net assets have perpetual donor restrictions, where the principal of the contributions is restricted in perpetuity and the income from which is utilized for the purposes specified by the donors. Net assets with temporary donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted programs or as the time restrictions are met. Contributions and investment gains are reported as without donor restrictions if donor restrictions are met in the year the contribution, or the investment gain is earned. Net assets with donor restrictions as of December 31, 2022 are as follows:

Subject to Expenditure for Specified Purpose:	
Nutrition Program	$ 1,162,608
Health and Wellness	1,981
Transportation	96,562
Assistance Services	77,274
Senior Centers	120,602
Senior Rights Assistance Program	342,424
Sno-Valley Affordable Senior Apartments	22,954
Total	1,824,405
Endowments:	
Perpetrual in Nature, Earnings from Which Are Subject to Endowment Spending Policy And Appropriation:	
Senior Center	5,000
General Use	2,144,366
Total	2,149,366
Total Endowments	2,149,366
Total	$ 3,973,771

Gifts of property and equipment are reported as without donor restrictions support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired assets are placed in service.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Net assets with perpetual restrictions represent endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for specific purposes or current operations.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2022:

Satisfaction of Purpose Restrictions	
Nutrition Program	$ 372,829
Health and Wellness	267,475
Transportation	46,788
Assistance Services	62,843
Senior Centers	117,860
Senior Rights Assistance Program	85,000
Total	$ 952,795

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of general checking and savings accounts and money market accounts (unless those funds are held for long-term purposes and classified as investments). Sound Generations maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. Sound Generations has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk. Replacement and operating cash reserves have been established according to terms of the contracts related to Belltown, LLC.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)
Cash reserves are considered restricted cash and consist of the following:

	2022
Belltown, LLC	
Replacement Reserves	$ 177,911
Operating Reserves	65,051
Tenant Security Deposits	13,973
Total	256,935
Agency	
Nutrition Program	1,162,608
Health and Wellness	1,981
Transportation	96,562
Assistance Services	77,274
Senior Centers	120,602
Total	1,459,027
	$ 1,715,962

Receivables
Receivables represent the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the receivable account. Management determined that no allowance against receivables was necessary at December 31, 2022. The majority of the outstanding receivables are due from various federal, state, and local governmental entities and the balance is considered fully collectible.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables (Continued)

Receivables are shown on the consolidated statement of financial position as follows at December 31:

	2022
Government Grants and Contracts Receivable:	
Government Grants and Contracts Receivable (Non-Exchange Transactions)	$ 2,251,644
Receivables (Exchange Transactions)	49,437
Total	2,301,081
Accounts and Contributions Receivable:	
Contributions Receivable - General, Current (Non-Exchange Transactions)	60,000
Government Grants and Contracts Receivable (Non-Exchange Transactions)	147,015
Receivables (Exchange Transactions)	10,977
Total	217,992
Total	$ 2,519,073

Inventory

Inventory, which consist of food, supplies, and items donated for fundraising purposes, is stated at the lower of cost (determined on the first-in, first-out method) or net realizable value.

Unemployment Compensation Trust Deposits

Sound Generations is self-insured for unemployment benefits payable to terminated employees. Sound Generations maintains reserves in a trust (the Trust), which facilitates claims. The balance in the Trust was $196,253 at December 31, 2022. Total claims incurred in 2022 were $26,312.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

Level 1 - Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 - Unobservable market inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Investments

Sound Generations records its investments in fixed income securities, equity securities and certificates of deposits at their fair values in the consolidated statement of financial position. The fair value of investments was determined using Level 1 observable market inputs, within the fair value hierarchy, consisting of quoted prices in active markets (such as national exchanges) for identical assets. Certain money market funds and certificates of deposit are classified as investments based on their inclusion in investment portfolios. Investments are classified as long-term assets, as they are either restricted for the endowment (see Note 5 for further discussion) or Sound Generations is not planning to utilize them within the next year.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

The following is a summary of the estimated fair value of Sound Generations' investments as of December 31, 2022:

Description	Measured at Fair Value	Level 1	Level 2	Level 3
Money Market Funds	$ 237,573	$ 237,573	$ -	$ -
Certificates of Deposit	200,656	-	200,656	-
Equity Exchange-Traded Funds:				
Large Cap	1,210,353	1,210,353	-	-
Mid Cap	1,020,776	1,020,776	-	-
Small Cap	917,700	917,700	-	-
Emerging Markets	346,922	346,922	-	-
Developed Markets	755,460	755,460	-	-
Fixed Income Exchange-Traded Funds:				
High Yield Bonds	387,000	387,000	-	-
Core Bonds	1,752,896	1,752,896	-	-
International Bonds	142,290	142,290	-	-
Real Estate Exchange-Traded Funds:				
REIT	420,648	420,648	-	-
International Developed	132,678	132,678	-	-
Total Investments	$ 7,524,952	$ 7,324,296	$ 200,656	$ -

Investments are presented in the consolidated statement of financial position as follows as of December 31, 2022:

Investments	$ 5,375,585
Endowment Investments	2,149,367
Total	$ 7,524,952

Net investment income (or loss) is reported on the consolidated statement of activities and change in net assets and consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses.

Property and Equipment

Property and equipment are stated at cost, if purchased, or at fair value at the time of the donation, if donated. Sound Generations capitalizes all items over $5,000 with a useful life of more than one year.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Depreciation expense was $566,417 for the year ended December 31, 2022 and is included with occupancy on the consolidated statement of functional expenses. Leasehold improvements are amortized over the shorter of the useful lives of the assets or the original lease term. Maintenance costs are expensed as incurred. Substantially all of the Belltown building serves as underlying assets for operating leases.

Property and equipment consist of the following at December 31, 2022:

	Estimated Useful Lives	Amount
Buildings	20 - 30 Years	$ 11,771,052
Furniture and Equipment	5 - 10 Years	913,295
Leasehold Improvements	5 - 10 Years	245,268
Vehicles	5 Years	437,920
Total		13,367,535
Less: Accumulated Depreciation and Amortization		(8,690,973)
Total		4,676,562
Land		1,244,740
Construction in Progress		300,960
Total		$ 6,222,262

Impairment of Long-Lived Assets

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360, *Property, Plant and Equipment*, requires Sound Generations to review long-lived assets, such as fixed assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairments recognized in 2022.

Revenue Recognition

Revenue from government grants is recorded when the conditions are met and the grant becomes unconditional (generally when service is provided or the related qualified expenditure is incurred).

Revenue from government agencies 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 upon notification by the government agency. During the year ended December 31, 2022, no such adjustments were made.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Contributions (including those received through special events) are recorded when cash, securities or other assets, or an unconditional promise to give. Bequests are recognized as revenue when Sound Generations is notified by the executor as to the amount to be received and the estate has cleared probate.

Conditional promises to give, that is, those with a measurable performance or barrier and a right of return, are not recognized until the conditions on which they depend have been met. Sound Generations has conditional awards outstanding from government agencies and other donors for the following purposes at December 31, 2022:

Transportation	$ 4,914,815
Assistance Services	822,003
Senior Centers	635,450
Health and Wellness	522,483
Total	$ 6,894,751

Program service fees consist of member fees and fees for classes and activities. Program sales consist of meals provided at senior center café and sales at senior center thrift shops. Sound Generations recognizes program service fee and sales revenue based on published prices. Sound Generations does not have any significant financing components as payment is received at registration or shortly after the service is provided which occur over a period of less than one day.

Program service fees and sales are disaggregated by timing of satisfaction of performance obligations for the year ended December 31, 2022 as follows:

Performance obligations satisfied at a point in time	$ 1,665,490
Performance obligations satisfied over time	102,258
Total	$ 1,767,748

There are no significant judgments affecting the determination of amount and timing of program service fees and sales.

Sound Generations receives regular monthly income from tenants, including subsidy payments, with operating leases at Belltown, LLC. Revenue from lease payments is recognized under the accrual method in accordance with lease contracts. Generally, lease contracts are for a one-year term and are cancelable with a 30-day notice by either party. Rent received in advance is recognized as prepaid rent until the rental service period.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Sound Generations also receives lease payments from tenants renting temporary space associated with the senior center buildings. Revenue from lease payments for renting spaces is recognized under the accrual method. Lease payments are included in rental income as rents become due. At the commencement of an operating lease, no revenue is recognized; subsequently, lease payments received are recognized in revenue on the straight-line basis.

Contributions of Nonfinancial Assets

Sound Generations occupies certain premises at either reduced rates or no charge. Sound Generations recognizes in-kind contribution revenue and a corresponding expense in the consolidated statement of activities and change in net assets and functional expenses in an amount approximating the annual estimated fair value per square foot for similar space.

Sound Generations also receives donated supplies which are valued at estimated fair value using U.S. prices (principal market) for identical products using pricing data under a "like-kind" methodology.

Volunteers contribute significant amounts of time to Sound Generations' program services; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

For the year ended December 31, 2022, contributed nonfinancial assets recognized within the consolidated statement of activities and change in net assets included the following:

Occupancy	$ 424,092
Program Supplies	32,705
	$ 456,797

Sound Generations does not sell donated in-kind gifts. All contributed nonfinancial assets are utilized by Sound Generations' program services. There are no donor-imposed restrictions associated with the contributed nonfinancial assets.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. Occupancy and depreciation and amortization are allocated based on estimates of space supporting each function. Payroll, program supplies, professional fees, client and other transportation, insurance, printing and publications, interest, and other expenses are allocated based on estimates of time and effort.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Sound Generations leases facility, warehouse and equipment. Sound Generations determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities on the consolidated statement of financial position.

ROU assets represent Sound Generations' right to use an underlying asset for the lease term and lease liabilities represent Sound Generations' obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most leases do not provide an implicit rate, Sound Generations uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that Sound Generations will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Sound Generations has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the consolidated statement of financial position. Sound Generations does not have short-term leases as of December 31, 2022

Sound Generations has elected to separate nonlease components from lease components.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, Sound Generations has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

Concentrations

At December 31, 2022, 81% of government grants and contracts receivable was from two government agencies. Management is aware of the related vulnerability and believes the balances are fully collectible. For the year ended December 31, 2022, 62% of Sound Generations total public support, revenue, and loss were from two government agencies.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Taxes

The Internal Revenue Service has recognized Sound Generations and its affiliated senior centers as exempt from federal income tax under the provisions of Section 501(a) of the Internal Revenue Code as nonprofit organizations as described in Section 501(c)(3), and not as private foundations. Sound Generations obtained a group exemption in 1981, which allows Sound Generations to fulfill the Internal Revenue Service's filing requirements for its affiliated senior centers. Federal income tax is not payable by or provided for Belltown, LLC, which is considered a disregarded entity for federal income tax purposes. Sound Generations is still open to examination by U.S. tax authorities from 2018 forward. For the year ended December 31, 2022, there was no interest or penalties recorded in the consolidated statement of activities and change in net assets related to uncertain tax positions.

Adoption of New Accounting Standards

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard requires that contributed nonfinancial assets are reported on a separate line item in the consolidated statement of activities and change in net assets, apart from contributions of cash and other financial assets. It also requires disclosure of disaggregated amounts of contributed nonfinancial assets by category that depicts the type of contributed nonfinancial assets along with additional qualitative information about the monetization of such assets, donor restrictions and valuation techniques. The adoption of this standard did not have any significant impact on the accompanying consolidated financial statements or disclosures.

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASC 842). The new standard increases transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the consolidated statement of financial position. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of consolidated financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Sound Generations adopted the requirements of the guidance effective January 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards (Continued)

Sound Generations has elected to adopt the package of practical expedients available in the year of adoption to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement. Sound Generations has not elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Company's ROU assets.

At a result of the adoption of the new lease accounting guidance, Sound Generations recognized on January 1, 2022, a total lease liabilities of $1,484,614, which represents the present value of the remaining operating lease payments of $1,567,880, discounted using a risk-free rate in a range of 0.44% and 1.55%, and a total of ROU assets of $1,484,614. The difference between the additional lease assets and lease liabilities was not material to the consolidated financial statements.

The standard had a material impact on the consolidated statement of financial position but did not have an impact on the consolidated statement of activities and change in net assets, nor consolidated statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

Accounting Pronouncement Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, contract assets recognized as a result of applying ASC 606, loans and certain other instruments, entities will be required to use a new forward looking "expected loss" model that generally will result in earlier recognition of credit losses than under today's incurred loss model. The revised effective date is for annual periods beginning after December 31, 2022, and should be adopted using a modified retrospective approach, which applies a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective. A prospective approach is required for debt securities for which another-than-temporary impairment had been recognized before the effective date and loans and debt securities acquired with deteriorated credit quality. Early adoption is permitted. Management has evaluated this standard and does not believe it will have a material impact on Sound Generations.

Subsequent Events

Sound Generations has evaluated subsequent events through the date these consolidated financial statements were available to be issued, which was February 1, 2024.

NOTE 2 LIQUIDITY AND AVAILABILITY OF RESOURCES

Generally, Sound Generations maintains liquid financial assets sufficient to cover 90 days of general expenditures. General expenditures beyond 90 days and within one year are held in cash and cash equivalent and short-term marketable securities. Endowment investments are comprised of highly liquid securities, none of which carry liquidity restrictions beyond one year.

The following table reflects Sound Generations' financial assets as of December 31, 2022 reduced by amounts that are not available to meet general expenditures within one year of the consolidated statement of financial position date because of contractual restrictions:

Financial Assets at Year End:	
Cash and Cash Equivalents (Including Restricted Cash)	$ 4,978,071
Investments	7,524,952
Government Grants and Contracts Receivable	2,301,081
Accounts and Contributions Receivable	217,992
Total	15,022,096
Less: Amounts Not Available to be Used Within One Year:	
Restricted Cash	(1,715,962)
Senior Center Investments	(295,964)
Investments With Endowment Restrictions and Designations	(2,149,367)
Net Assets With Donor Restrictions for Particular Purposes	(1,824,405)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 9,036,398

NOTE 3 LONG-TERM DEBT

Long-term debt consists of the following as of December 31, 2022:

Description	Amount
Sound Generations	
Note payable to Homestreet Bank, with interest at 4.45%, and monthly principal and interest repayments of $17,712 through maturity of March 1, 2029. An anticipated balloon payment of approximately $2.3 million is due at maturity. Secured by the commercial portion (the first three floors) of the Belltown building (with carrying value of $1,952,074 at December 31, 2022), assignment of rents, and generally all other assets. The note maintains certain financial covenants, and Sound Generations received waiver for its non-financial covenants for the year ended December 31, 2022.	$ 2,900,814
Series A and B revenue bonds issued through Washington State Housing Finance Commission, with interest at 3.63%, and combined monthly principal and interest repayments of $8,253 through maturity of March 2044. Secured by the commercial portion (the first three floors) of the Belltown building (with a carrying value of $1,952,074 at December 31, 2022), and assignment of rents.	1,458,210
Chrysler Capital - Payable at $459 per month including interest accred at 2.90%. Collateralized by a vehicle.	9,190
Chrysler Capital - Payable at $489 per month including interest accred at 2.90%. Collateralized by a vehicle.	9,536
Chrysler Capital - Payable at $489 per month including interest accred at 2.90%. Collateralized by a vehicle.	9,536
Sound Generations Subtotal	4,387,286

NOTE 3 LONG-TERM DEBT (CONTINUED)

Description (Continued)	Amount
Belltown, LLC	
City of Seattle note, bearing interest at 1% per annum; principal and interest repayments calculated at 50% of available net cash flows of the current year, due by June 30 of the following year. There were $0 available net cash flows at December 31, 2022 (including within the current portion of long-term debt). All principal and interest is due in full in October 2051, with the option to extend for one 25 year period. The note is secured by the deed of trust for the residential units of the Belltown Projects (with a carrying value of $1,269,175 at December 31, 2022) and assignment of rents.	$ 647,254
State of Washington Department of Commerce note, with interest at 1% and annual principal and interest repayments pf $9,937. All principal and interest is due in full in December 2052. Secured by the deed of trust for the residential units of the Belltown Project (with a carrying value of $1,269,175 at December 31, 2022).	256,461
Belltown, LLC Subtotal	903,715
Total Long-Term Debt	5,291,001
Less: Current Portion	(153,699)
Total Long-Term Debt, Net	$ 5,137,302

Principal maturities on all long-term debt are as follows:

Years Ending December 31,	Amount
2023	$ 153,699
2024	153,772
2025	148,542
2026	154,678
2027	161,079
Thereafter	4,519,231
Total	$ 5,291,001

NOTE 4 LEASES – ASC 842

Lessee

Sound Generations leases equipment as well as warehouse and a facility for various terms under long-term, noncancelable lease agreements. The leases expire at various dates through 2028. The agreements generally require the Company to pay real estate taxes, insurance, and repairs.

The following table provides quantitative information concerning Sound Generations' leases for the year ended December 31, 2022.

Lease Costs:	
Operating Lease Costs	$ 265,225
Short-Term Lease Costs	9,000
Total Lease Costs	$ 274,225
Other Information:	
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:	
Operating Cash Flows from Operating Leases	$ 232,875
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	$ 1,558,591
Weighted-Average Remaining Lease Term - Operating Leases	3.8 years
Weighted-Average Discount Rate - Operating Leases	1.43%

Sound Generations classifies the total undiscounted lease payments that are due in the next 12 months as current. A maturity analysis of annual undiscounted cash flows for lease liabilities as of December 31, 2022, is as follows:

Year	Amount
2023	$ 215,622
2024	225,371
2025	236,788
2026	250,429
2027	259,339
Thereafter	227,133
Total Lease Payments	1,414,682
Less: Interest	(67,273)
Present Value of Lease Liabilities	$ 1,347,409
Current Lease Liabilities - Operating	$ 195,209
Long-Term Lease Liabilities	1,152,200
	$ 1,347,409

NOTE 4 LEASES – ASC 842 (CONTINUED)

Lessee (Continued)
At December 31, 2022, Sound Generations has additional leases, primarily copiers, that have not yet commenced which the monthly payments will be $2,288. The leases will commence in 2023 with lease terms of 5 years.

Lessor
Leasing operations consist principally of operating leases of commercial real estate expiring in various years through 2026 in which Sound Generations is the lessor. Certain leases provide for renewal options and increases in lease payments based on fixed percentages.

Revenue from lease payments recognized as rental income and other in the consolidated statement of activities and change in net assets is $181,032 for the year ended December 31, 2022.

Following is a maturity analysis of annual undiscounted cash flows to be received from operating leases as of the end of 2022:

Year	Amount
2023	$ 110,626
2024	78,427
2025	74,867
2026	47,735
Total Minimum Future Rentals	$ 311,655

Following is a summary of property on or held for lease at December 31, 2022:

	Amount
Building	$ 3,009,254
Less Accumulated Depreciation	(1,647,322)
Total Leased Property	$ 1,361,932

NOTE 5 ENDOWMENT

Sound Generations endowment consists of four individual funds established to support a variety of program areas. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Sound Generations has interpreted the State of Washington Prudent Management of Institutional Funds Act (PMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted perpetual endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Sound Generations retains in perpetuity (a) the original value of gifts donated to the perpetual endowment, plus (b) the original value of subsequent gifts to the perpetual endowment and accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not retained in perpetuity are subject to appropriate for expenditure by Sound Generations in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, Sound Generations considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the endowment fund
- The purposes of Sound Generations and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of Sound Generations
- The investment policies of Sound Generations

Endowment net assets consisted of the following as of December 31:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds			
Senior Center Endowments	$ -	$ 5,000	$ 5,000
General Endowments	-	2,144,366	2,144,366
Total	$ -	$ 2,149,366	$ 2,149,366

NOTE 5 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

Changes in endowment net assets are as follows as of December 31:

	2022				
		With Donor Restrictions			
	Without Donor Restrictions	Accumulated Earnings	Term Endowment	Perpetual Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	$ 5,678,947	$ 291,444	$ 510,269	$ 2,144,366	$ 8,625,026
Investment Loss, Net	(921,799)	(391,395)	(82,845)	-	(1,396,039)
Contributions	-	99,951	1,280	5,000	106,231
Appropriations for Expenditure					-
Other Changes					
Board Designated Transfers Out	(4,757,148)	-	(85,000)	-	(4,842,148)
Reclassification from Term Endowment to Donor-Restricted for Future Periods	-	-	(343,704)	-	(343,704)
	(4,757,148)	-	(428,704)	-	(5,185,852)
Total Endowment Net Assets - End of Year	$ -	$ -	$ -	$ 2,149,366	$ 2,149,366

A total of $4,757,148 was transferred out of the board-designated general endowment and classified as a board-designated reserved investment fund for the year ended December 31, 2022 as the board of directors initially designated these funds for general operations which Sound Generations can use 4% of the fund for general operations each year.

Return Objectives and Risk Parameters

Sound Generations has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the entity must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a well-diversified, balanced portfolio intended to capture the broad market return. This means the portfolio assumes moderate investment risk consistent with the broad market.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Sound Generations relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Sound Generations targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 5 ENDOWMENT (CONTINUED)

Spending Policy and How the Investment Objectives Relate to the Spending Policy

Sound Generations has a policy of appropriating for distribution each year 5% of its endowment fund's fair value at October 31 of the year preceding the fiscal year in which the distribution is planned. In establishing this policy, Sound Generations considered the long-term expected return on its endowment. Accordingly, over the long term, Sound Generations expected the current spending policy to allow its endowment to grow at a rate consistent with the broad market return. This is consistent with Sound Generations' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or PMIFA requires Sound Generations to retain as a fund of perpetual duration. As of December 31, 2022, there were no endowed funds in which the fair value of the endowed assets was less than the related donor-related amounts.

NOTE 6 RETIREMENT PLAN

Sound Generations provides a 401(k) plan (the Plan) for all eligible employees and contributes 3% of total employee earnings regardless of employee contribution levels. Total contributions made by Sound Generations was $310,464 for the year ended December 31, 2022.

NOTE 7 CYBERSECURITY

Sound Generations' systems experienced two ransomware attacks on July 18, 2021 and September 18, 2021. For both ransomware attacks, Sound Generations was able to resume business activities through wiping systems and restoring with previously existing backups. Sound Generations provided notice to its entire population of clients, donors, employes, and volunteers; on December 15, 2021, it notified over 600,000 potentially affected individuals in addition to notifying States and Federal regulators.

On December 29, 2021, two of the affected individuals filed a Class Action lawsuit against Sound Generations in Washington State Court. The complaint asserts negligence and alleged damages are based upon theories of increased risk of future identity theft. The lawsuit was settled on December 22, 2022. Sound Generations paid up to $750,000 to settlement class members to cover up to two hours of lost time, credit monitoring services for up to two years, and documented economic losses up to $130 per settlement class member, $5,000 to the two named plaintiffs, $345,000 in attorney's fees, and approximately $300,000 in costs related to the settlement administrator. The loss was covered by Cybersecurity Insurance.

Supplementary Information

SOUND GENERATIONS AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022

			Senior Centers						
				Shoreline/Lake			Total		
	Agency	Belltown, LLC	Ballard	Forest Park	Sno Valley	West Seattle	Senior Centers	Eliminations	Total
ASSETS									
CURRENT ASSETS									
Cash and Cash Equivalents	$ 2,303,709	$ -	$ 394,083	$ 182,438	$ 66	$ 381,813	$ 958,400	$ -	$ 3,262,109
Government Grants and Contracts Receivable	2,118,628	-	35,280	67,664	43,242	36,267	182,453	-	2,301,081
Accounts and Contribution Receivable	217,496	496							217,992
Inventory	72,871	-	-	-	-	-	-	-	72,871
Due from (to) Other Funds	440,067	(257,296)	(44,813)	(19,553)	56,254	(174,659)	(182,771)	-	-
Prepaid Expenses	419,244	-	-	-	-	-	-	-	419,244
Total Current Assets	5,572,015	(256,800)	384,550	230,549	99,562	243,421	958,082	-	6,273,297
RESTRICTED CASH	1,459,027	256,935	-	-	-	-	-	-	1,715,962
UNEMPLOYMENT COMPENSATION TRUST DEPOSITS	196,253	-	-	-	-	-	-	-	196,253
INVESTMENTS	5,079,621	-	-	-	295,964	-	295,964	-	5,375,585
ENDOWMENTS INVESTMENTS	2,144,367	-	-	-	5,000	-	5,000	-	2,149,367
PROPERTY AND EQUIPMENT, NET	2,256,286	1,269,164	-	-	1,123,743	1,573,069	2,696,812	-	6,222,262
OPERATING ROU ASSETS, NET	900,071	-	-	362,213	49,581	3,193	414,987	-	1,315,058
Total Assets	$ 17,607,640	$ 1,269,299	$ 384,550	$ 592,762	$ 1,573,850	$ 1,819,683	$ 4,370,845	$ -	$ 23,247,784

SOUND GENERATIONS AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2022

	Agency	Belltown, LLC	Senior Centers: Ballard	Senior Centers: Shoreline/Lake Forest Park	Senior Centers: Sno Valley	Senior Centers: West Seattle	Total Senior Centers	Eliminations	Total
LIABILITES AND NET ASSETS									
CURRENT LIABILITIES									
Accounts Payable and Other Accured Expenses	$ 324,715	$ 116,698	$ 18,618	$ 5,493	$ 67,034	$ 6,954	$ 98,099	$ -	$ 539,512
Accrued Payroll	2,053,111	-	-	-	-	-	-	-	2,053,111
Current Lease Liabilities - Operating	135,006	-	-	47,573	9,437	3,193	60,203	-	195,209
Long-Term Debt, Current Portion	146,326	7,373	-	-	-	-	-	-	153,699
Total Current Liabilities	2,659,158	124,071	18,618	53,066	76,471	10,147	158,302	-	2,941,531
LONG-TERM LEASE LIABILITIES - OPERATING, NET	778,674	-		333,382	40,144		373,526		1,152,200
LONG-TERM DEBT, NET	4,240,959	896,343	-	-	-	-	-	-	5,137,302
Total Liabilities	7,678,791	1,020,414	18,618	386,448	116,615	10,147	531,828	-	9,231,033
NET ASSETS									
Without Donor Restrictions	5,955,078	248,885	365,932	206,314	1,457,235	1,809,536	3,839,017	-	10,042,980
With Donor Restrictions	3,973,771	-	-	-	-	-	-	-	3,973,771
Total Net Assets	9,928,849	248,885	365,932	206,314	1,457,235	1,809,536	3,839,017	-	14,016,751
Total Liabilities and Net Assets	$ 17,607,640	$ 1,269,299	$ 384,550	$ 592,762	$ 1,573,850	$ 1,819,683	$ 4,370,845	$ -	$ 23,247,784

SOUND GENERATIONS AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
YEAR ENDED DECEMBER 31, 2022

			Senior Centers						
	Agency	Belltown, LLC	Ballard	Shoreline/Lake Forest Park	Sno Valley	West Seattle	Total Senior Centers	Eliminations	Total
PUBLIC SUPPORT									
Government Grants	$ 13,276,337	$ -	$ 317,532	$ 378,160	$ 262,399	$ 274,594	$ 1,232,685	$ -	$ 14,509,022
Contributions of Cash and Other Financial Assets	2,988,370	-	167,656	112,666	469,158	196,767	946,247	-	3,934,617
Contributions of Nonfinancial Assets	311,326	2,136	138,630	1,450	1,655	1,600	143,335	-	456,797
Total Public Support	16,576,033	2,136	623,818	492,276	733,212	472,961	2,322,267	-	18,900,436
REVENUE AND GAIN (LOSS)									
Program Service Fees and Sales	888,560	40	146,773	242,197	256,905	345,476	991,351	(142,203)	1,737,748
Rental Income and Other	99,269	196,275	2,600	21,585	12,430	106,278	142,893	-	438,437
Net Investment Income (Loss)	(1,388,649)		398	421	3,864	651	5,334	-	(1,383,315)
Total Revenue and Gain (Loss)	(400,820)	196,315	149,771	264,203	273,199	452,405	1,139,578	(142,203)	792,870
Total Public Support, Revenue, and Gain (Loss)	16,175,213	198,451	773,589	756,479	1,006,411	925,366	3,461,845	(142,203)	19,693,306
EXPENSES									
Program Services	14,176,882	278,962	737,322	661,898	745,849	1,252,585	3,397,654	(142,203)	17,711,295
Management and General	2,849,075	-	-	-	-	-	-	-	2,849,075
Fundraising	1,136,062	-	-	-	-	-	-	-	1,136,062
Total Expenses	18,162,019	278,962	737,322	661,898	745,849	1,252,585	3,397,654	(142,203)	21,696,432
CHANGE IN NET ASSETS BFORE ALLOCATION AMONG FUNDS	(1,986,806)	(80,511)	36,267	94,581	260,562	(327,219)	64,191	-	(2,003,126)
Allocations Among Funds	211,046	(39,479)	(44,138)	(52,759)	(36,500)	(38,170)	(171,567)	-	-
CHANGE IN NET ASSETS	$ (1,775,760)	$ (119,990)	$ (7,871)	$ 41,822	$ 224,062	$ (365,389)	$ (107,376)	$ -	$ (2,003,126)

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Sound Generations and Affiliates
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Sound Generations and Affiliates (collectively, Sound Generations), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued report thereon dated February 1, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Sound Generations' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sound Generations' internal control. Accordingly, we do not express an opinion on the effectiveness of Sound Generations' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Sound Generations' consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 that we consider to be material weaknesses.

Board of Directors
Sound Generations and Affiliates

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sound Generations' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Sound Generations' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Sound Generations' response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Sound Generations' response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sound Generations' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sound Generations' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
February 1, 2024

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Sound Generations and Affiliates
Seattle, Washington

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Sound Generations' and Affiliates (collectively, Sound Generations) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Sound Generations' major federal programs for the year ended December 31, 2022. Sound Generations' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Sound Generations complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200*, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Sound Generations and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Sound Generations' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Sound Generations' federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Sound Generations' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Sound Generations' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Sound Generations' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Sound Generations internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Sound Generations' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-003. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Sound Generations' response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Sound Generations' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Board of Directors
Sound Generations and Affiliates

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-003 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Sound Generations' response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Sound Generations' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
February 1, 2024

SOUND GENERATIONS AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal AL Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grants/ Entitlement Grants Cluster			
Passed Through from City of Seattle Human Services Department			
Community Development Block Grants/ Entitlement Grants	14.218	DA22-1477	$ 511,356
Passed Through from City of Shoreline			
Community Development Block Grants/ Entitlement Grants	14.218	10319	108,000
Community Development Block Grants/ Entitlement Grants	14.218	10215	52,316
Passed Through from City of Bellevue Human Services Program			
Community Development Block Grants/ Entitlement Grants	14.218	Not Available	52,088
Total Community Development Block Grants/Entitlement Grants Cluster			723,760
Passed Through from King County Housing Authority			
Moving to Work Demonstration Program	14.881	10364	12,724
Total Department of Housing and Urban Development			736,484
DEPARTMENT OF TRANSPORTATION			
Transit Services Program Cluster			
Passed Through from State of Washington Department of Transportation			
Enhanced Mobility of Seniors and Individuals With Disabilities	20.513	PTD0287	948,399
Passed Through from King County Department of Transportation			
Enhanced Mobility of Seniors and Individuals With Disabilities	20.513	1074-19-JAS	742,981
Total Services Program Cluster			1,691,380

See accompanying Notes to Schedule of Expenditures of Federal Awards

SOUND GENERATIONS AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal AL Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
DEPARTMENT OF TRANSPORTATION (Continued)			
Transit Services Program Cluster (Continued)			
Passed Through from Community Transportation Association of America			
Technical Assistance and Workforce Development	20.531	377910-01	$ 12,011
Technical Assistance and Workforce Development	20.531	377910-02	18,126
Total Department of Transportation			1,721,517
DEPARTMENT OF THE TREASURY			
Passed Through from King County Department of Community and Human Services			
Coronavirus State and Local Fiscal Recovery Funds	21.027	6207031	177,671
Passed Through from King County			
Coronavirus State and Local Fiscal Recovery Funds	21.027	6277465	30,059
Coronavirus State and Local Fiscal Recovery Funds	21.027	6277464	16,978
Passed Through from Public Health - Seattle and King County			
Coronavirus State and Local Fiscal Recovery Funds	21.027	8721 ODIR	36,405
Passed Through from United Way of King County			
Coronavirus State and Local Fiscal Recovery Funds	21.027	10598	200,000
Total Department of the Treasury			461,113
DEPARTMENT OF VETERAN AFFAIRS			
VA Grants for Adaptive Sports Programs for Disabled Veterans and Disabled Members of the Armed Forces	64.034	1095	17,298
Total Department of Veteran Affairs			17,298

See accompanying Notes to Schedule of Expenditures of Federal Awards

SOUND GENERATIONS AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal AL Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through from City of Seattle Human Services Department			
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	DA21-1874	$ 10,996
National Family Caregiver Support, Title III, Part E	93.052	DA21-1874	172,396
National Family Caregiver Support, Title III, Part E	93.052	DA21-1109	52,003
Aging Cluster			
Passed Through from City of Seattle Human Services Department			
Nutrition Services Incentive Program	93.053	DA21-1109	181,024
Nutrition Services Incentive Program	93.053	DA22-1176	304,982
COVID-19 Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	DA21-1109	48,989
Special Program for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	DA21-1818	340,961
Special Program for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	DA21-1874	117,835
Special Program for the Aging, Title III, Part C, Nutrition Services	93.045	DA21-1109	1,153,031
Special Program for the Aging, Title III, Part C, Nutrition Services	93.045	DA22-1176	1,301,445
Total Aging Cluster			3,448,267
Medicaid Cluster			
Passed Through from City of Seattle Human Services Department			
Medical Assistance Program	93.778	DA21-1874	70,206
Total Medicaid Cluster			70,206

See accompanying Notes to Schedule of Expenditures of Federal Awards

SOUND GENERATIONS AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal AL Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
Passed Through from University of Washington			
Nursing Research	93.361	BPO33784	$ 27,802
Aging Research	93.866	BPO42362	23,619
Passed Through from National Council on Aging			
Evidence-Based Falls Prevention Programs Financed Solely by Prevention and Public Health Funds (PPHF)	93.761	230	95,000
Passed Through from National Association of Chronic Disease Directors			
Disabilities Through Chronic Disease Self-Management Education Programs - Financed by Prevention and Public Health Funds (PPHF)	93.734	1936-66364	3,403
Passed Through from Washington State Department of Health			
Assistance Programs for Chronic Disease Prevention and Control	93.945	CBO023933	47,877
Total Department of Health and Human Services			3,951,569
Total Expenditures of Federal Awards			$ 6,887,981

See accompanying Notes to Schedule of Expenditures of Federal Awards

SOUND GENERATIONS AND AFFILIATES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Sound Generations and Affiliates (Sound Generations) under programs of the federal government for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Sound Generations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Sound Generations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards with the exception of Assistance Listing 21.027, which follows criteria determined by the Department of Treasury for allowability of costs. Under these principles, certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available. Sound Generations had no subrecipients.

NOTE 3 INDIRECT COST RATE

Sound Generations has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

SOUND GENERATIONS AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2022

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified

2. Internal control over financial reporting:

   - Material weakness(es) identified? __x__ yes ____ no
   - Significant deficiency(ies) identified? ____ yes __x__ none reported

3. Noncompliance material to financial statements noted? ____ yes __x__ no

Federal Awards

1. Internal control over major federal programs:

   - Material weakness(es) identified? ____ yes __x__ no
   - Significant deficiency(ies) identified? __x__ yes ____ none reported

2. Type of auditors' report issued on compliance for major federal programs: Unmodified

3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? __x__ yes ____ no

Identification of Major Federal Programs

Assistance Listing Number(s)	Name of Federal Program or Cluster
93.044, 93.045, 93.053	Aging Cluster
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low-risk auditee? ____ yes __x__ no

Section II – Financial Statement Findings

2022 – 001

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: It was noted that Sound Generations; Schedule of Expenditures of Federal Awards (SEFA) presented for audit was not complete and accurate, resulting in multiple changes to the SEFA and delays in obtaining sufficient audit evidence to support the contracts and the amounts on the SEFA. As a result, the SEFA was overstated by $2,444,503. Sound Generation has since made revisions and the total federal expenditures and Assistance Listing Numbers (AL #) are properly presented on the SEFA at December 31, 2022.

Criteria or specific requirement: CFR Part 200.508 Auditee Responsibilities state that the auditee must prepare the SEFA, which must list individual Federal awards by Federal Agency, including the total Federal awards expended, name of the pass-through entity, ALN, and total amount provided to subrecipients. The information contained in the SEFA should be derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements.

Effect: Inaccurate financial reporting may affect decisions made by organizations utilizing the SEFA. Sound Generations had expenditures that should have not been included in the SEFA, federal expenditures missing from the SEFA, and federal expenditures with incorrect amounts. An inaccurate and incomplete SEFA could lead to the incorrect major program being tested which puts Sound Generations at risk with potential noncompliance.

Cause: Sound Generations does not have controls in place to maintain adequate records to support all federal contracts and to allow for the timely completion of an accurate SEFA. Although upon completion of the audit, sufficient audit evidence was obtained, Sound Generations did not have a system in place to maintain adequate records for all federal contracts, resulting in material changes to the SEFA.

Repeat Finding: No.

Recommendation: We recommend Sound Generations create a centralized process to keep records of contract agreements and expenditures and update the SEFA at least semi-annually.

Views of responsible officials and planned corrective actions: Please see the attached Management's Corrective Action Plan.

Section II – Financial Statement Findings (Continued)

2022 – 002

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: During the current year audit, it was also noted that several errors in the consolidated financial statements related to investments, accounts payable, net assets, revenue, and expenses. The effect of auditors proposed adjustments to correct the errors was to decrease total assets by $55,591, increase total liabilities by $71,463, decrease total net assets by $55,591, decrease total revenue by $490,464, and decrease total expenses by $419,001.

Criteria or specific requirement: Locking the period in the accounting system after the annual audit is completed can prevent users from entering transaction data and journal entries by mistakes.

U.S. GAAP states that expenses should be booked in the period the expense occurred, and contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals processing those skills, and would typically need to be purchased if not provided by donation.

Effect: Consolidated financial statements could be potentially overstated or understated.

Cause: Sound Generations does not lock down the prior reporting period in its accounting system which continue allowing entries to be recorded in prior reporting periods.

Sound Generations does not follow the U.S. GAAP guidance related to accrued expenses and recognition of contributed services.

Repeat Finding: No.

Recommendation: We recommend Sound Generations to lock down the accounting period after audit is completed which prevents staff from making changes of prior years' data and follow the US GAAP guidance related to accrued expenses and recognition of contributed services.

Views of responsible officials and planned corrective actions: Please see the attached Management's Corrective Action Plan.

Section III – Findings and Questioned Costs – Major Federal Programs

2022 – 003

Type of Finding:

- *Significant Deficiency in Internal Control over Compliance – Allowable Costs/Cost Principles*
- *Other Matter – Non-Compliance with Allowable Costs/Cost Principles Compliance Requirements*

Federal Agency: Department of Transportation
Federal Program Name: Enhanced Mobility of Seniors and Individuals with Disabilities
Assistance Listing Number: 20.513
Federal Award Identification Number and Year: PTD0287-2022
Pass-Through Agency: WADOT
Pass-Through Number(s): PTD0287
Award Period: July 1, 2021 through June 30, 2023

Criteria or specific requirement: 2 CFR 200.423 specifically identifies alcoholic beverages as unallowable costs.

Condition: CLA noted one sample in which federal funds were expended on unallowable costs.

Questioned costs: $85 known, $910 likely

Context: A sample of 25 was made from a population of 942 nonpayroll-related general disbursement costs charged to the major program. Of the 25 sampled costs, one was found to be out of compliance with the requirements of Allowable Costs / Cost Principles, totaling $85. Sampled nonpayroll-related general disbursement costs totaled $24,560. General disbursements totaled $263,090 of the $1,706,762 tracked to the major program. Extrapolating the error to the actual costs reported on the SEFA results in a likely questioned cost amount of $910.

Cause: The individual in charge of entering the purchase into Microix did not code the alcoholic beverages to a separate general ledger account that was established to track unallowable costs so that they are not charged to the federal programs.

Effect: Without adequate controls in place to ensure costs are allowable, Sound Generations runs the risk of being out of compliance with not only the major program but all federal programs.

Repeat Finding: No.

Recommendation: CLA recommends that emphasis be placed (via an employee training or organization-wide email) on specifically disallowed costs and the importance of tracking these costs separately so that they are not charged to federal programs.

Views of responsible officials: Please see the attached Management's Corrective Action Plan.

SOUND generations

Senior Services is now Sound Generations

Sound Generations and Affiliates
Management's Corrective Action Plan
Year Ended December 31, 2022

Department of Health and Human Services
Department of The Treasury

Sound Generations respectfully submits the following corrective action plan for the year ended December 31, 2022.

Audit period: January 1, 2022 through December 31, 2022

2022 – 001

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: It was noted that Sound Generations; Schedule of Expenditures of Federal Awards (SEFA) presented for audit was not complete and accurate, resulting in multiple changes to the SEFA and delays in obtaining sufficient audit evidence to support the contracts and the amounts on the SEFA. As a result, the SEFA was overstated by $2,444,503. Sound Generation has since made revisions and the total federal expenditures and Assistance Listing Numbers (AL #) are properly presented on the SEFA at December 31, 2022.

Criteria or specific requirement: CFR Part 200.508 Auditee Responsibilities state that the auditee must prepare the SEFA, which must list individual Federal awards by Federal Agency, including the total Federal awards expended, name of the pass-through entity, ALN, and total amount provided to subrecipients. The information contained in the SEFA should be derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements.

Effect: Inaccurate financial reporting may affect decisions made by organizations utilizing the SEFA. Sound Generations had expenditures that should have not been included in the SEFA, federal expenditures missing from the SEFA, and federal expenditures with incorrect amounts. An inaccurate and incomplete SEFA could lead to the incorrect major program being tested which puts Sound Generations at risk with potential noncompliance.

Cause: Sound Generations does not have controls in place to maintain adequate records to support all federal contracts and to allow for the timely completion of an accurate SEFA. Although upon completion of the audit, sufficient audit evidence was obtained, Sound Generations did not have a system in place to maintain adequate records for all federal contracts, resulting in material changes to the SEFA.

Repeat Finding: No.

Recommendation: We recommend Sound Generations create a centralized process to keep records of contract agreements and expenditures and update the SEFA at least semi-annually.

Views of responsible officials and planned corrective actions: Sound Generations Agrees with the finding.

We have created a centralized location for all contracts and agreements and updated the SEFA. Additionally, we will obtain Confirmations of expenditures from the funders prior to submitting the SEFA to the auditors.

Responsible Official: Carlos Rojas, Chief Financial Officer; Christina Hannan, Controller

Anticipated Completion Date: December 31, 2023

2022 – 002

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: During the current year audit, it was also noted that several errors in the consolidated financial statements related to investments, accounts payable, net assets, revenue, and expenses. The effect of auditors proposed adjustments to correct the errors was to decrease total assets by $55,591, increase total liabilities by $71,463, decrease total net assets by $55,591, decrease total revenue by $490,464, and decrease total expenses by $419,001.

Criteria or specific requirement: Locking the period in the accounting system after the annual audit is completed can prevent users from entering transaction data and journal entries by mistakes.

U.S. GAAP states that expenses should be booked in the period the expense occurred, and contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals processing those skills, and would typically need to be purchased if not provided by donation.

Effect: Consolidated financial statements could be potentially overstated or understated.

Cause: Sound Generations does not lock down the prior reporting period in its accounting system which continue allowing entries to be recorded in prior reporting periods. Sound Generations did not follow the U.S. GAAP guidance related to accrued expenses and recognition of contributed services.

Repeat Finding: No.

Recommendation: We recommend Sound Generations to lock down the accounting period after audit is completed which prevents staff from making changes of prior years' data and follow the US GAAP guidance related to accrued expenses and recognition of contributed services.

Views of responsible officials and planned corrective actions: Sound Generations agrees with the finding. It is Sound Generations' practice to close the financials on the previously audited periods as soon as the audit is final. The issuance of draft schedules for the 2023 audit prior to the issuance of the 2022 final audit and then the beginning of the 2023 audit fieldwork meant that there were discrepancies between the various schedules.

Sound generations will close the previous period in the financial system prior to issuing draft schedules for the audit in the following year to maintain the integrity of the financial data.

Responsible Official: Carlos Rojas, Chief Financial Officer; Christina Hannan, Controller

Anticipated Completion Date: February 15, 2024

2022 – 003

Type of Finding:

- *Significant Deficiency in Internal Control over Compliance – Allowable Costs/Cost Principles*
- *Other Matter – Non-Compliance with Allowable Costs/Cost Principles Compliance Requirements*

Federal Agency: Department of Transportation

Federal Program Name: Enhanced Mobility of Seniors and Individuals with Disabilities

Assistance Listing Number: 20.513

Federal Award Identification Number and Year: PTD0287-2022

Pass-Through Agency: WADOT

Pass-Through Number(s): PTD0287

Award Period: July 1, 2021 through June 30, 2023

Criteria or specific requirement: 2 CFR 200.423 specifically identifies alcoholic beverages as unallowable costs.

Condition: CLA noted one sample in which federal funds were expended on unallowable costs.

Questioned costs: $85 known, $910 likely

Context: A sample of 25 was made from a population of 942 nonpayroll-related general disbursement costs charged to the major program. Of the 25 sampled costs, one was found to be out of compliance with the requirements of Allowable Costs / Cost Principles, totaling $85. Sampled nonpayroll-related general disbursement costs totaled $24,560. General disbursements totaled $263,090 of the $1,706,762 tracked to the major program. Extrapolating the error to the actual costs reported on the SEFA results in a likely questioned cost amount of $910.

Cause: The individual in charge of entering the purchase into Microix did not code the alcoholic beverages to a separate general ledger account that was established to track unallowable costs so that they are not charged to the federal programs.

Effect: Without adequate controls in place to ensure costs are allowable, Sound Generations runs the risk of being out of compliance with not only the major program but all federal programs.

Repeat Finding: No.

Recommendation: CLA recommends that emphasis be placed (via an employee training or organization-wide email) on specifically disallowed costs and the importance of tracking these costs separately so that they are not charged to federal programs.

Views of responsible officials and planned corrective actions: Sound Generations agrees with the finding. Sound Generations has implemented the following additional practices and policies:

1) Allowable costs and expenditures in Federal Grants and Contracts training to all Authorized Purchasers. – to be completed in the first quarter of 2024 and annually thereafter.
2) Additional General Ledger Codes to record unallowable costs: implemented in July 2023
3) Automating unallowable expenses to be excluded in grant and contract reporting and expense reimbursements. – implemented in July 2023

Responsible Official: Chief Financial Officer; Christina Hannan, Controller

Anticipated Completion Date: March 31, 2024

Senior Services is now Sound Generations

Er Sound Generations and Affiliates
Summary of Schedule of Prior Audit Findings
Fiscal Year Ended December 31, 2022

Department of Health and Human Services
Department of The Treasury

Sound Generations respectfully submits the following summary schedule of prior audit findings for the year ended December 31, 2022.

Audit period: January 1, 2022 through December 31, 2022

The findings from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINDINGS—FINANCIAL STATEMENT AUDIT

Finding 2021-001 – Oversight of Senior Centers

Condition: Management is responsible for oversight of affiliated senior centers, and therefore is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements in accordance with the accrual basis of accounting that are free from material misstatement, whether due to fraud or error.

Status: Sound Generations has created the Community Engagement Officer Position (CEOP), this position has been held since 12/1/2022. The CEOP attends at least 2 board meetings for each Senior Center per year, and documented in the Meeting Minutes. The CEOP reviews the Senior Center Financials at least monthly and provides feedback and support to the Senior Centers and Accounting. The CEOP meets with the Center Directors monthly one on one, as well as collectively; financials are often reviewed and issues are discussed with their boards and the Sound Generations' Board and Finance Committee; and, Meeting Minutes are documented. The CEOP attends one Senior Center Staff meeting per center per quarter, attendance is documented. The CEOP is also responsible for review and approval of Senior Center credit card purchases in the Accounts Payable Workflow.

Finding 2021-002 – Consolidation of Senior Center Activity

Condition: Sound Generations had four affiliated senior centers in 2021: Senior Center of West Seattle, Northwest Senior Center, Shoreline Lake Forest Park Senior Center, and SnoValley Senior Center (the Centers). The Centers record activity on the cash basis of accounting. Sound Generations does not have a process in place to reconcile cash accounting at the centers to accrual accounting at the consolidated level. Additionally, Sound Generations was not aware of the need to make required consolidating entries, such as eliminating intercompany transactions.

Status: Sound Generations creates intercompany eliminations as part of the annual consolidation. Sound Generations has discussed with the Senior Centers and is in the process of working with their bookkeepers to accrue pre-paid revenue in the last 2 months of the fiscal year.

Finding 2021-003 – Salesforce Allocations

Condition: Sound Generations use Salesforce to track functional allocation of payroll costs. We noted that payroll allocation percentages between different departments, funders, and programs, pulled from Salesforce, were different during our testing than they were as of the month-end payroll entries. The allocation percentages used for recording payroll to the appropriate program and provided to us for our audit could not be rerun, as when we watched Sound Generations run them in real time for two respective months, they were not the same.

Status: As of January 2022, all the SQL queries to the Salesforce data were updated to process only the current month. Additionally, data prior to a specific month is frozen for any given program by the third business day of the following month. Processed SQL tables from previous months are no longer changed so that data should no longer change in Power BI. Data for Accounting allocations are entered into the system at the SQL level, not Salesforce. Rerunning an allocation report for a previous month returns consistent results for all programs now from the perspective of Power BI.

Finding 2021-004 – Donor Restricted Net Assets

Condition: Sound Generations corrected an error related to prior year net assets after discovering that, from 1995 to 2010, there were additions to their endowed balance that were board designated rather than donor restricted.

Status: Sound Generations has established a clear criteria and protocol for significant transactions and is maintaining such documents in accordance with the accounting guidance.

Finding 2021-005 – Ransomware Attacks

Condition: Two ransomware attacks occurred in 2021. The attacker had access to electronic health information and personally identifiable information during the breach.

Status: Sound Generations has adopted the cybersecurity best practices identified in The Cybersecurity Act of 2015 to include:

1) Moved the primary computing network from an on-premises Active Directory to the cloud-based Microsoft 365 platform and enforced multi-factor authentication for access on all accounts.
2) Azure-joined all workstations and enforced BitLocker encryption as part of this process.
3) Enforced multi-factor authentication for all access to the downtown network.
4) Implemented Windows Defender for Endpoint on all workstations to provide integrated endpoint protection.
5) Implemented Windows Defender for Office to provide additional email/attachment protection.
6) Implemented a cloud-based backup for Microsoft 365 with multi-factor authentication for all administrators.
7) Implemented a staff security training and phishing test system to enforce quarterly staff security trainings.
8) Completed a comprehensive HIPAA Security Assessment to identify deficiencies in our HIPPA policies and procedures.
9) Completed a comprehensive Technical Security Assessment to perform penetration testing on our firewall and verify that Microsoft 365 settings are optimal.
10) Updated its privacy and security policies and procedures.
11) Updated a new security rule risk mitigation plan; and
12) Performed a new security rule risk analysis.

FINDINGS— FEDERAL AWARD PROGRAMS AUDITS

Finding 2021-006 – Unallowed Costs

Condition: During our testing of Sound Generations' compliance with the Activities Allowed or Unallowed, & Allowable Costs/Cost Principles compliance requirements, we noted that in-kind expenditures (rent and supplies), intercompany expenditures, and late fees were charged to the Aging Cluster.

Status: In February of 2022, Sound Generations implemented a new Procurement and Expense reporting software. This allows us to enforce our Procurement policy, specifically for there to be multiple reviews of every expenditure and verify that costs are always allocated according to grant allowance, federal guidance and general accounting guidance. Additionally, all accounting staff are required to attend federal grants compliance training within the first 90 days of employment and follow up trainings are encouraged no less frequently than biannually.

Finding 2021-007 – Payroll Costs

Condition: For employees who work in multiple programs, their time is allocated based on estimated allocation rates (obtained from semi-annual time studies where the employees report actual time spent on the Aging Cluster Program). When payroll and related costs were changed in the accounting system, they were charged based on these allocated rates. Three hundred and sixty-seven timesheets were tested during the audit, and all were charged based on allocated rates.

Status: The agency has been allocating employees time based on actual time spent on the grants. We disagree with this finding and our 2023 audit did not identify non-compliance.

Finding 2021-008 – Fringe Benefits

Condition: We noted that Sound Generations allocated payroll expenditures, including wages and fringe benefits, to the Aging Cluster during 2021 based on allocation workbooks pulling departmental and program allocations from pivot tables. On a monthly basis, people and related program wages are copied and pasted into these workbooks based on payroll system breakouts. In April 2021, prior moth wages were not wiped from the workbook before April wages were pasted in, thus the fringe benefit allocations charged exceeded the correct amount for that month.

Status: The agency has changed its process to include reviews of the workbooks and final results that tie to the actual expenditures. Automations now include flags and warnings when calculations are out of balance.

Finding 2021-009 Ransomware Attacks

Condition: Two ransomware attacks occurred in 2021. The attacker had access to electronic health information and personally identifiable information during the breach.

Status: Sound Generations has adopted the cybersecurity best practices identified in The Cybersecurity Act of 2015 to include:

(1) Moved the primary computing network from an on-premises Active Directory to the cloud-based Microsoft 365 platform and enforced multi-factor authentication for access on all accounts.
(2) Azure-joined all workstations and enforced BitLocker encryption as part of this process.
(3) Enforced multi-factor authentication for all access to the downtown network.
(4) Implemented Windows Defender for Endpoint on all workstations to provide integrated endpoint protection.
(5) Implemented Windows Defender for Office to provide additional email/attachment protection.
(6) Implemented a cloud-based backup for Microsoft 365 with multi-factor authentication for all administrators.
(7) Implemented a staff security training and phishing test system to enforce quarterly staff security trainings.

(8) Completed a comprehensive HIPAA Security Assessment to identify deficiencies in our HIPPA policies and procedures.
(9) Completed a comprehensive Technical Security Assessment to perform penetration testing on our firewall and verify that Microsoft 365 settings are optimal.
(10) Updated its privacy and security policies and procedures.
(11) Updated a new security rule risk mitigation plan; and
(12) Performed a new security rule risk analysis.

Finding 2021-010 – Late Submittance of Data Collection Form

Condition: Sound Generations did not submit their data collection form as of September 30, 2022.

Status: Because the 2021 audit was so grossly delayed, the 2022 audit has been similarly delayed, we are late submitting our data collection form as of September 30, 2023. We will ensure preparation of required information is accurately and completely reported by the imposed deadlines for the 2023 audit.