

SOUND GENERATIONS AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sound Generations and Affiliates
Seattle, Washington

We have audited the accompanying consolidated financial statements of Sound Generations and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sound Generations and Affiliates as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Matter – Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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. The accompanying consolidating schedules on pages 23 and 24 are also presented for the purpose of additional analysis and are 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 auditing standards generally accepted in the United States. 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 July 1, 2019, on our consideration of Sound Generations and Affiliates' 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 the Sound Generations and Affiliates' 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 and Affiliates' internal control over financial reporting and compliance.

Emphasis of a Matter

As discussed in Note 3 to the consolidated financial statements, Sound Generations (acting as the managing member of Belltown Senior Apartments, LLC) and Homestead Equity Fund II-Limited Partnership, Homestead Equity Fund A-Washington Limited Partnership, and Homestead Equity Fund III-Proprietary Fund Limited Partnership (collectively, "the Investor Members") executed a purchase agreement whereby Sound Generations purchased the Investor Members' interest in Belltown, LLC for \$1 with an effective date of December 31, 2017.

Our opinion is not modified with respect to this matter.

Emphasis of a Matter – Recent Accounting Pronouncement Adopted

As discussed in Note 1 to the financial statements, in 2018, Sound Generations adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.



July 1, 2019

SOUND GENERATIONS AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 1,374,604	\$ 1,979,321
Government grants and contracts receivable	1,496,612	1,045,891
Accounts and contributions receivable	232,148	279,457
Northshore note receivable	50,000	
Inventory	35,126	37,928
Prepaid expenses	<u>82,548</u>	<u>45,063</u>
Total current assets	3,271,038	3,387,660
Restricted Cash	210,919	205,418
Northshore Note Receivable, net of current portion	100,000	150,000
Unemployment Compensation Trust Deposits	51,152	26,952
Investments	319,209	381,976
Endowment Investments	2,047,711	2,125,600
Property and Equipment, net	<u>7,399,145</u>	<u>7,885,639</u>
Total assets	<u>\$ 13,399,174</u>	<u>\$ 14,163,245</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and other accrued expenses	\$ 322,428	\$ 419,122
Accrued payroll	645,531	624,727
Long-term debt, current portion	<u>92,450</u>	<u>1,911,511</u>
Total current liabilities	1,060,409	2,955,360
Long-Term Debt, net	<u>2,622,343</u>	<u>1,169,729</u>
Total liabilities	3,682,752	4,125,089
Net Assets		
Without donor restrictions	7,441,345	7,190,128
With donor restrictions	<u>2,275,077</u>	<u>2,848,028</u>
Total net assets	<u>9,716,422</u>	<u>10,038,156</u>
Total liabilities and net assets	<u>\$ 13,399,174</u>	<u>\$ 14,163,245</u>

See Notes to Consolidated Financial Statements

SOUND GENERATIONS AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support						
Government grants and contracts	\$ 9,096,589	\$ -	\$ 9,096,589	\$ 7,464,907	\$ -	\$ 7,464,907
Individual contributions	1,814,747		1,814,747	2,544,439		2,544,439
Corporation contributions	353,019	190,488	543,507	503,210	169,600	672,810
Foundation contributions	203,224		203,224	68,129	147,685	215,814
United Way contributions				5,933		5,933
Special events revenue	945,434		945,434	827,168		827,168
Special events - direct benefit to donors	(362,450)		(362,450)	(289,920)		(289,920)
Bequests	479,651		479,651	696,236		696,236
In-kind contributions	555,762		555,762	556,150		556,150
Forgiveness of note payable				165,000		165,000
Net assets released from restriction	680,549	(680,549)		874,706	(874,706)	
Total public support	13,766,525	(490,061)	13,276,464	13,415,958	(557,421)	12,858,537
Revenue						
Program service fees	491,749		491,749	522,440		522,440
Program sales	990,155		990,155	909,391		909,391
Rental income	562,478		562,478	559,023		559,023
Incidental revenue	25,614		25,614	32,570		32,570
Investment income (loss)	4,880	(82,890)	(78,010)	3,378	229,112	232,490
Total revenue	2,074,876	(82,890)	1,991,986	2,026,802	229,112	2,255,914
Total public support and revenue	15,841,401	(572,951)	15,268,450	15,442,760	(328,309)	15,114,451
Expenses						
Program services	12,979,139		12,979,139	11,503,393		11,503,393
Management and general	1,747,767		1,747,767	2,197,079		2,197,079
Fundraising	547,449		547,449	694,410		694,410
Total expenses	15,274,355		15,274,355	14,394,882		14,394,882
Change in net assets before recovery on Northshore settlement	567,046	(572,951)	(5,905)	1,047,878	(328,309)	719,569
Recovery on Northshore Settlement				159,520		159,520
Change in net assets	567,046	(572,951)	(5,905)	1,207,398	(328,309)	879,089
Net Assets, beginning of year	7,190,128	2,848,028	10,038,156	5,982,730	3,176,337	9,159,067
Transfer of Southeast Seattle Senior Center Net Assets	(315,829)		(315,829)			
Net Assets, end of year	<u>\$ 7,441,345</u>	<u>\$ 2,275,077</u>	<u>\$ 9,716,422</u>	<u>\$ 7,190,128</u>	<u>\$ 2,848,028</u>	<u>\$ 10,038,156</u>

See Notes to Consolidated Financial Statements

SOUND GENERATIONS AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	Senior Information and Assistance	Nutrition Projects	Project Enhance	Senior Centers	Belltown LLC	Total Program Services	Management and General	Fundraising	Total All Services
Salaries and wages	\$ 3,204,785	\$ 1,058,245	\$ 454,741	\$ 1,242,919	\$ -	\$ 5,960,690	\$ 1,046,046	\$ 258,745	\$ 7,265,481
Employee benefits	558,528	185,866	50,488	170,912		965,794	128,480	23,020	1,117,294
Payroll taxes	327,789	107,290	38,999	118,986		593,064	88,330	21,898	703,292
Total payroll expenses	4,091,102	1,351,401	544,228	1,532,817		7,519,548	1,262,856	303,663	9,086,067
Program supplies	200,772	1,573,587	6,654	399,315		2,180,328	83,529	151,614	2,415,471
Occupancy	315,802	115,463	49,348	103,147	59,474	643,234	79,709	17,475	740,418
In-kind rent and other		419,010		136,720		555,730			555,730
Cost of program sales		181,107	154,333	135,088		470,528			470,528
Professional fees	37,961	17,604	27,382	76,066	17,100	176,113	188,936	6,377	371,426
Other direct costs of special events								362,450	362,450
Insurance	113,356	14,333	1,751	67,090	28,435	224,965	2,894	1,690	229,549
Client and other transportation	138,819	44,661	14,088	9,162		206,730	1,697	6,293	214,720
Interest				104,086	37,403	141,489	17,292		158,781
Printing and publications	18,398	4,190	6,946	75,305		104,839	16,556	18,460	139,855
Telephone	37,499	20,245	3,326	24,202		85,272	9,161	2,882	97,315
Taxes	5,130	10,931	5,297	51,169		72,527	3,325		75,852
Bank fees	196			24,919		25,115	33,457	12,038	70,610
Conferences and conventions	22,406	3,572	3,657	17,027		46,662	20,686	2,729	70,077
Other	6,370	5,321	156	15,904	12,284	40,035	9,204	10,070	59,309
Postage and shipping	15,817	1,728	43	13,679		31,267	5,159	13,546	49,972
Depreciation and amortization	3,598	20,511		324,678	105,970	454,757	13,306	612	468,675
Total expenses	5,007,226	3,783,664	817,209	3,110,374	260,666	12,979,139	1,747,767	909,899	15,636,805
Special events - direct benefit to donors								(362,450)	(362,450)
	<u>\$ 5,007,226</u>	<u>\$ 3,783,664</u>	<u>\$ 817,209</u>	<u>\$ 3,110,374</u>	<u>\$ 260,666</u>	<u>\$ 12,979,139</u>	<u>\$ 1,747,767</u>	<u>\$ 547,449</u>	<u>\$ 15,274,355</u>

See Notes to Consolidated Financial Statements

SOUND GENERATIONS AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	Senior Information and Assistance	Nutrition Projects	Project Enhance	Senior Centers	Belltown LLC	Total Program Services	Management and General	Fundraising	Total All Services
Salaries and wages	\$ 2,592,463	\$ 933,845	\$ 501,803	\$ 1,425,530	\$ -	\$ 5,453,641	\$ 1,130,427	\$ 348,335	\$ 6,932,403
Employee benefits	477,655	156,272	58,989	194,577		887,493	120,032	36,157	1,043,682
Payroll taxes	297,693	102,954	45,949	139,462		586,058	107,862	32,015	725,935
Total payroll expenses	3,367,811	1,193,071	606,741	1,759,569		6,927,192	1,358,321	416,507	8,702,020
Program supplies	145,983	1,250,480	29,689	383,190		1,809,342	58,181	150,099	2,017,622
Occupancy	215,695	100,353	30,485	276,329	45,145	668,007	70,707	22,300	761,014
In-kind rent and other		419,010		136,720		555,730			555,730
Cost of program sales		160,163	134,171	98,862		393,196			393,196
Professional fees	656	7,707	2,054	9,152	16,927	36,496	245,191	5,930	287,617
Other direct costs of special events								289,920	289,920
Insurance	119,395	3,576	1,678	43,529	25,041	193,219	30,265	1,743	225,227
Client and other transportation	106,556	41,192	21,548	26,803		196,099	8,663	6,618	211,380
Interest				68	28,147	28,215	145,692		173,907
Printing and publications	15,600	12,615	4,263	82,916		115,394	12,911	51,697	180,002
Telephone	29,714	18,006	4,791	26,858		79,369	14,198	2,857	96,424
Taxes	6,745	11,687	3,567	49,694		71,693	23,313		95,006
Bank fees				24,130		24,130	29,960	6,950	61,040
Conferences and conventions	4,533	2,386	3,138	12,662		22,719	15,773	6,301	44,793
Other	11,556	5,054	85	21,685	26,730	65,110	8,318	1,639	75,067
Postage and shipping	10,245	2,314	92	14,696		27,347	4,856	21,769	53,972
Depreciation and amortization		12,705		171,460	105,970	290,135	170,730		460,865
Total expenses	4,034,489	3,240,319	842,302	3,138,323	247,960	11,503,393	2,197,079	984,330	14,684,802
Special events - direct benefit to donors								(289,920)	(289,920)
	\$ 4,034,489	\$ 3,240,319	\$ 842,302	\$ 3,138,323	\$ 247,960	\$ 11,503,393	\$ 2,197,079	\$ 694,410	\$ 14,394,882

See Notes to Consolidated Financial Statements

SOUND GENERATIONS AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from:		
Government agencies	\$ 8,645,868	\$ 7,968,932
Donors	4,033,872	4,817,007
United Way		69,323
Program participants	491,749	522,440
Sales to the public	990,155	909,391
Tenants	588,092	591,593
Interest and dividends	56,671	16,170
Cash paid for:		
Personnel	(7,268,877)	(7,184,855)
Services and supplies	(7,319,483)	(6,857,533)
Interest	(158,781)	(173,907)
Net cash flows from operating activities	59,266	678,561
Cash Flows from Investing Activities		
Purchase of property and equipment	(149,804)	(271,199)
Purchase of investments	(75,027)	(274,525)
Proceeds from sales of investments	81,002	750,000
Collection of notes receivable, net		459,520
Change in restricted cash	(5,501)	(8,607)
Net cash flows from investing activities	(149,330)	655,189
Cash Flows from Financing Activities		
Repayments on line of credit, net of advances	(304,735)	(330,000)
Principal payments on notes payable	(61,712)	(52,848)
Proceeds from settlement of inter-entity receivables with Southeast Seattle Senior Center	35,000	
Transfer of Southeast Senior Center cash	(183,206)	
Net cash flows from financing activities	(514,653)	(382,848)
Net change in cash and cash equivalents	(604,717)	950,902
Cash and Cash Equivalents, beginning of year	1,979,321	1,028,419
Cash and Cash Equivalents, end of year	\$ 1,374,604	\$ 1,979,321

See Notes to Consolidated Financial Statements

SOUND GENERATIONS AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Change in Net Assets to		
Net Cash Flows from Operating Activities		
Change in net assets	\$ (5,905)	\$ 879,089
Adjustments to reconcile change in net assets to		
net cash flows from operating activities		
Forgiveness of note payable		(165,000)
Depreciation and amortization	468,675	460,865
Realized and unrealized losses (gains) on investments	134,681	(216,320)
Recovery on Northshore settlement		(159,520)
Changes in operating assets and liabilities		
Government grants and contracts receivable	(450,721)	504,025
Accounts and contributions receivable	47,309	(139,460)
United Way promise to give		63,390
Inventory	2,802	8,488
Prepaid expenses	(37,485)	33,482
Unemployment compensation trust deposits	(24,200)	53,173
Accounts payable and other accrued expenses	(96,694)	(338,026)
Accrued payroll	20,804	(305,625)
Net cash flows from operating activities	\$ 59,266	\$ 678,561

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and 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 both 2018 and 2017. 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.

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

Effective March 1, 2018, the Southeast Seattle Senior Center ("Southeast") ended its affiliation with Sound Generations. Southeast's financial position, changes in net assets, and cash flows have been included in the accompanying consolidated financial statements through February 28, 2018. On March 1, 2018, the following assets and liabilities were recognized as being transferred out of Sound Generations. This transfer is presented separately on the consolidated statement of activities as a reduction in net assets for the year ended December 31, 2018:

Cash and cash equivalents	\$	183,206
Property and equipment, net		167,623
Cash payment to Sound Generations in settlement of inter-entity payables		(35,000)
Transfer of Southeast Seattle Senior Center net assets	\$	315,829

Programs Provided by Sound Generations

Senior Information and Assistance

Information and Assistance – Information and Assistance 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.

Transportation – This program organizes volunteer drivers and operates a fleet of county-provided vans to transport seniors to community locations and events. The primary objective of the program is to assist elderly individuals who are unable to utilize other available forms of transportation.

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.

Project Enhance

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.

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.

Principles of Consolidation

The financial statements consolidate the assets, liabilities, and activities of Sound Generations, its affiliated senior centers, and its wholly owned subsidiary (as of December 31, 2017), the Belltown Senior Apartments, LLC ("Belltown, LLC"). Changes in ownership of Belltown, LLC in 2017 are discussed in Note 3.

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

Financial Statement Presentation

In accordance with generally accepted accounting principles, 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.

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 are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Net assets with purpose or time restrictions		
Meals on Wheels	\$ 171,071	\$ 630,311
Hyde shuttle	39,295	42,117
Time restrictions	17,000	
Volunteer transportation		50,000
	<u>227,366</u>	<u>722,428</u>
Net assets with endowment restrictions		
General endowment with perpetual restrictions	2,749,938	2,749,938
Senior center endowment with perpetual restrictions	5,000	5,000
Unappropriated senior center endowment earnings		816
Senior Rights - Term Endowment	415,219	460,604
Underwater endowment - general endowment	(1,122,446)	(1,090,758)
	<u>2,047,711</u>	<u>2,125,600</u>
	<u>\$ 2,275,077</u>	<u>\$ 2,848,028</u>

Senior Rights – Term Endowment represents donor-restricted net assets and consist of funds held within the endowment (see Note 7) to be used based on the donor's original intent.

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.

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 with Belltown, LLC.

Cash reserves are considered restricted cash and consist of the following at December 31:

	Belltown, LLC	
	2018	2017
Replacement reserves	\$ 136,284	\$ 125,823
Operating reserves	61,686	61,686
Tenant security deposits	12,949	17,909
	<u>\$ 210,919</u>	<u>\$ 205,418</u>

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 accounts and contributions receivable was necessary at December 31, 2018 or 2017. The majority of the outstanding receivables are due from various federal, state, and local governmental entities and the balance is considered fully collectible.

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 \$51,152 and \$26,952 at December 31, 2018 and 2017, respectively. Total claims incurred in 2018 and 2017 were \$62,512 and \$49,797, respectively.

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 and equity securities at their fair values in the consolidated statements 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 7 for further discussion) or Sound Generations is not planning to utilize them within the next year.

Investments consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 597,969	\$ 381,982
Certificates of deposit	32,643	65,747
Fixed income mutual funds		
Intermediate-term bond	772,456	795,471
High-yield bond	221,123	241,728
Equity mutual funds		
Domestic small cap	185,182	392,113
Domestic large cap	173,108	184,969
Domestic real estate	110,662	123,143
Emerging markets	87,973	106,006
Foreign large blend	80,210	96,987
Domestic mid cap	67,752	77,430
Global real estate	37,842	42,000
	<u>\$ 2,366,920</u>	<u>\$ 2,507,576</u>

Investments are presented in the consolidated statements of financial position as follows at December 31:

	<u>2018</u>	<u>2017</u>
Investments	\$ 319,209	\$ 381,976
Endowment investments	2,047,711	2,125,600
	<u>\$ 2,366,920</u>	<u>\$ 2,507,576</u>

Net investment income (or loss) is reported on the consolidated statement of activities 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.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. 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. Property and equipment consist of the following at December 31:

	Estimated Useful Lives	2018	2017
Buildings	20-30 years	\$ 11,747,124	\$ 12,400,770
Equipment	5-10 years	179,094	2,877,326
Leasehold improvements	5-10 years	345,379	503,260
Vehicles	5 years	166,026	588,267
Furniture	5 years	84,725	409,165
		<u>12,522,348</u>	<u>16,778,788</u>
Less: accumulated depreciation and amortization		<u>(6,367,943)</u>	<u>(10,274,501)</u>
		6,154,405	6,504,287
Land		<u>1,244,740</u>	<u>1,381,352</u>
		<u>\$ 7,399,145</u>	<u>\$ 7,885,639</u>

Revenue Recognition

Revenue from government grants and contracts is recorded when the 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 years ended December 31, 2018 and 2017, no such adjustments were made.

Contributions (including those received through special events) are recorded when unconditionally pledged as without donor restrictions and with donor restrictions, depending on the existence and/or nature of any donor restrictions. 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.

Program service fees are recognized as revenue when the service has been provided to the customer. Program sales (primarily meals and sales at senior center thrift shops) are recognized at the point of sale when the goods have transferred to the customer.

Sound Generations receives regular monthly income from tenants with operating leases at Belltown, LLC. Revenue is recognized 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. Sound Generations also receives rental income from tenants renting temporary space associated with the senior center buildings. Rental income is recognized as revenue when the tenant occupies the space.

In-Kind Contributions

Sound Generations occupies certain premises at either reduced rates or no charge. The fair value of the space occupied at below market rates is reflected as an in-kind contribution and expense in the consolidated statements of activities and functional expenses.

In accordance with generally accepted accounting principles, the financial statements reflect only donated services requiring specific expertise that Sound Generations would otherwise need to purchase. However, Sound Generations receives a significant amount of volunteer services from individuals and businesses, which are not reflected in the accompanying consolidated financial statements.

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.

Concentrations

At December 31, 2018 and 2017, 67% and 70% of government grants and contracts receivable were from two and three government agencies, respectively. Management is aware of the related vulnerability and believes the balances are fully collectible. For the years ended December 31, 2018 and 2017, 33% and 28%, respectively, of Sound Generations total public support and revenue was from one government agency.

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. Members are taxed individually on their share of LLC earnings.

Recent Accounting Pronouncement Adopted

During the year ended December 31, 2018, Sound Generations adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and availability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Sound Generations has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the availability and liquidity and availability of resources note (see Note 2).

Subsequent Events

Sound Generations has evaluated subsequent events through the date these consolidated financial statements were available to be issued, which was July 1, 2019.

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 equivalents, certificates of deposit, and short-term marketable securities. Endowment investments are comprised of highly liquid securities, none of which carry liquidity restrictions beyond one year. Sound Generations also maintained a line of credit through February 2019 with an available borrowing limit of \$800,000 to ensure general cash expenditures would be covered. However, in March 2019, Sound Generations refinanced the line of credit and other debt and also borrowed additional funds in order to establish an operating reserve fund in place of the line of credit (see Note 4).

Net assets with time or purpose restrictions at December 31, 2018, include restrictions for regular and ongoing programs of Sound Generations and, therefore, are considered available for general cash expenditures.

The following table reflects Sound Generations' financial assets as of December 31, 2018, 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	\$ 1,585,523
Investments	2,366,920
Government grants and contracts receivable	1,496,612
Accounts and contributions receivable	232,148
Northshore note receivable	<u>150,000</u>
	5,831,203
Less amounts not available to be used within one year:	
Restricted cash	(210,919)
Investments with endowment restrictions	(2,047,711)
Northshore note receivable not collectible within the next year	<u>(100,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 3,472,573</u></u>

Note 3. Belltown Senior Apartments, LLC

Belltown, LLC was formed in 2001 in order to facilitate the use of low-income housing tax credits in the development of Belltown Senior Apartments. Effective December 31, 2017, Sound Generations, the 0.01% owner, and Homestead Equity Fund II-Limited Partnership, Homestead Equity Fund A-Washington Limited Partnership, and Homestead Equity Fund III-Proprietary Fund Limited Partnership (collectively, "the Investor Members") executed an existing purchase agreement whereby Sound Generations acquired the Investor Members' 99.99% interest in Belltown, LLC for \$1 with an effective date of December 31, 2017.

The building is divided into two separate condominium units: a residential unit ("the Belltown Project") 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.

Changes in the equity accounts for the managing (controlling) member and investor (noncontrolling) members are as follows:

	Managing Member	Investor Members	Syndication Costs	Total
Members' equity, December 31, 2016	\$ (1,365)	\$ 783,290	\$ (7,500)	\$ 774,425
Net loss of Belltown, LLC	(84)	(83,835)		(83,919)
Equity purchase and sale	691,955	(699,455)	7,500	
Members' equity, December 31, 2017	690,506			690,506
Net loss of Belltown, LLC	(5,807)			(5,807)
Members' equity, December 31, 2018	<u>\$ 684,699</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 684,699</u>

Note 4. Long-term Debt

Long-term debt consist of the following at December 31:

	2018	2017
<u>Agency</u>		
Note payable to Wells Fargo, bearing interest at 7.5% per annum, collateralized by the commercial unit of the Belltown Project. In March 2019, the note was refinanced (see below).	\$ 1,348,244	\$ 1,388,297
Line of credit with Wells Fargo, a maximum borrowing amount of \$800,000, and bearing interest at the greater of the bank's prime rate plus 0.25% or the floor rate of 4.0% (effectively 5.75% at December 31, 2018). In March 2019, the line of credit was refinanced (see below).	195,264	500,000
Agency subtotal	1,543,508	1,888,297
<u>Belltown, LLC</u>		
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 no available net cash flows at December 31, 2018 or 2017. Deferred interest totaled \$69,095 and \$62,622 as of December 31, 2018 and 2017, respectively, and is included in accounts payable and other liabilities on the consolidated statements of financial position. 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 and assignment of rents.	647,254	647,254
State of Washington Department of Commerce note, with interest at 1% and annual principal and interest repayments of \$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.	285,228	299,188
Note payable to Umpqua Bank, with interest at 7% and monthly principal and interest repayments of \$2,229. In March 2019, the note was refinanced (see below).	244,772	254,025
Belltown subtotal	1,177,254	1,200,467
Total long-term debt	2,720,762	3,088,764
Less: unamortized debt issuance costs	(5,969)	(7,524)
Less: current portion (2018 amount under terms of subsequent refinancing)	(92,450)	(1,911,511)
	<u>\$ 2,622,343</u>	<u>\$ 1,169,729</u>

The net book value of property and equipment (securing certain notes payable above) is \$1,685,968 and \$1,791,938 at December 31, 2018 and 2017, respectively.

In March 2019, Sound Generations refinanced its note payable to Wells Fargo, line of credit payable to Wells Fargo, and note payable to Umpqua Bank (collectively, "the refinanced debt"). The refinance was performed through the issuance of a loan payable to Homestreet Bank of approximately \$3.2 million, and also by proceeds from the issuance of Series A and B revenue bonds ("the Bonds"), totaling approximately \$1.6 million, by the Washington State Housing Finance Commission. The total proceeds received from the 2019 debt issuances was \$4.8 million and, after repayment of existing debt and other debt issuance costs, Sound Generations received cash proceeds of approximately \$2.9 million. The cash proceeds were used to recover the underwater general endowment of \$1,122,446 (see Note 7) and also establish cash reserves.

The loan payable to Homestreet Bank requires monthly principal and interest payments of \$17,712 through maturity of March 1, 2029, with an anticipated balloon payment of approximately \$2.3 million due at maturity. The loan payable has a fixed interest rate of 4.45%, and is secured by the commercial portion of the Belltown building, assignment of rents, and generally all other assets.

The Bonds require combined monthly principal and interest payments ranging from \$8,250 to \$8,606 through maturity of March 1, 2044. The bonds have a fixed interest rate of 3.63% and are secured by the commercial portion of the Belltown building and an assignment of rents.

The principal maturities of the refinanced debt have been adjusted below, and on the consolidated statement of financial position at December 31, 2018, based on the principal maturities of the loan payable to Homestreet Bank and the Bonds.

Principal maturities (adjusted as described above) on all long-term debt are as follows for the years ending December 31:

2019	\$	92,450
2020		122,255
2021		128,103
2022		133,329
2023		138,777
Thereafter		<u>2,105,848</u>
	\$	<u><u>2,720,762</u></u>

Note 5. Retirement and Cafeteria Plan

Sound Generations sponsors a 401(k) defined contribution plan and cafeteria plan for qualified employees. Eligible employees receive an amount equal to 6% of their annual salary and may elect to take this amount as taxable compensation, or to contribute it to the 401(k) plan. Total expense for the years ended December 31, 2018 and 2017, under these plans was \$325,672 and \$288,816, respectively.

Note 6. Lease Commitments

Sound Generations leases its Shoreline/Lake Forest Park Senior Center and warehouse space under noncancelable operating leases expiring on August 31, 2023, and December 31, 2023, respectively. The Shoreline/Lake Forest Park Senior Center operated under a short-term lease prior to September 1, 2018, when it entered into this long-term lease. Rent expense under these noncancelable operating leases was \$142,039 and \$123,960, respectively, for the years ended December 31, 2018 and 2017, and is included in occupancy expense.

Future minimum lease payments for operating leases are as follows:

2019	\$	174,586
2020		178,534
2021		182,602
2022		186,778
2023		176,739
		<hr/>
	\$	899,239
		<hr/> <hr/>

Note 7. Endowment

Sound Generations' endowment consists of three individual funds established to support a variety of program areas. As required by accounting principles generally accepted in the United States, 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 Uniform Prudent Management of Institutional Funds Act ("UPMIFA") 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 UPMIFA. In accordance with UPMIFA, 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 at December 31:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Senior Rights - Term Endowment	\$ -	\$ 415,219	\$ 415,219
Senior center endowments		5,000	5,000
General endowment		1,627,492	1,627,492
Total endowment net assets	<u>\$ -</u>	<u>\$ 2,047,711</u>	<u>\$ 2,047,711</u>
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Senior Rights - Term Endowment	\$ -	\$ 460,604	\$ 460,604
Senior center endowments		5,000	5,000
Unappropriated senior center endowment earnings		816	816
General endowment		1,659,180	1,659,180
Total endowment net assets	<u>\$ -</u>	<u>\$ 2,125,600</u>	<u>\$ 2,125,600</u>

Changes in endowment net assets are as follows for the years ended December 31:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 2,125,600	\$ 2,125,600
Investment return			
Interest and dividends		51,791	51,791
Realized and unrealized loss		(134,681)	(134,681)
Total investment return		(82,890)	(82,890)
Transfers in		51,202	51,202
Appropriations for expenditure - Senior Rights - Term Endowment		(45,385)	(45,385)
Appropriations for expenditure - Senior Center endowment earnings		(816)	(816)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,047,711</u>	<u>\$ 2,047,711</u>
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 2,646,488	\$ 2,646,488
Investment return			
Interest and dividends		24,964	24,964
Realized and unrealized gains		204,148	204,148
Total investment return		229,112	229,112
Transfers in		63,430	63,430
Distributions/borrowing		(750,000)	(750,000)
Appropriations for expenditure - Senior Rights - Term Endowment		(63,430)	(63,430)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,125,600</u>	<u>\$ 2,125,600</u>

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 organization 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.

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. During the year ended December 31, 2017, Sound Generations distributed endowment funds in excess of its spending policy in order to meet its short-term obligations, and suspended spending from the general endowment fund in 2018. As discussed below, Sound Generations has established a plan to recover the endowment deficiency.

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 UPMIFA requires Sound Generations to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States, deficiencies of this nature that are reported in net assets with donor restrictions were \$1,122,446 and \$1,090,758 as of December 31, 2018 and 2017 (also see Note 1). As described in Note 4, subsequent to year-end, cash proceeds from the issuance of debt were used to recover the endowment deficit.

S U P P L E M E N T A R Y I N F O R M A T I O N

SOUND GENERATIONS AND AFFILIATES

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

ASSETS	2018					2017				
	Agency	Centers	Belltown, LLC	Eliminations	Total	Agency	Centers	Belltown, LLC	Eliminations	Total
Current Assets										
Cash and cash equivalents	\$ 7,780	\$ 1,318,070	\$ 48,754	\$ -	\$ 1,374,604	\$ 726,819	\$ 1,185,137	\$ 67,365	\$ -	\$ 1,979,321
Government grants and contracts receivable	1,496,612				1,496,612	1,045,891				1,045,891
Accounts and contributions receivable	137,349	88,204	6,595		232,148	340,262	7,604	2,803	(71,212)	279,457
Northshore note receivable	50,000				50,000					
Inventory	35,126				35,126	37,928				37,928
Due from (to) other funds	17,631	(17,631)				50,812	(50,812)			
Prepaid expenses	82,302	246			82,548	45,063				45,063
Total current assets	1,826,800	1,388,889	55,349		3,271,038	2,246,775	1,141,929	70,168	(71,212)	3,387,660
Restricted Cash			210,919		210,919			205,418		205,418
Northshore Note Receivable, net of current portion	100,000				100,000	150,000				150,000
Unemployment Compensation Trust Deposits	51,152				51,152	26,952				26,952
Investments		319,209			319,209		381,976			381,976
Endowment Investments	2,042,711	5,000			2,047,711	2,119,905	5,695			2,125,600
Investment in Partnership	(1,449)			1,449		(1,449)			1,449	
Property and Equipment, net	2,704,244	3,008,933	1,685,968		7,399,145	2,794,217	3,299,484	1,791,938		7,885,639
Total assets	\$ 6,723,458	\$ 4,722,031	\$ 1,952,236	\$ 1,449	\$ 13,399,174	\$ 7,336,400	\$ 4,829,084	\$ 2,067,524	\$ (69,763)	\$ 14,163,245
LIABILITIES AND NET ASSETS										
Current Liabilities										
Accounts payable and other accrued expenses	\$ 216,538	\$ 9,638	\$ 96,252	\$ -	\$ 322,428	\$ 304,453	\$ 1,806	\$ 184,075	\$ (71,212)	\$ 419,122
Accrued payroll	645,531				645,531	624,727				624,727
Long-term debt, current portion	73,937		18,513		92,450	1,888,297		23,214		1,911,511
Total current liabilities	936,006	9,638	114,765		1,060,409	2,817,477	1,806	207,289	(71,212)	2,955,360
Long-Term Debt, net	1,469,571		1,152,772		2,622,343			1,169,729		1,169,729
Total liabilities	2,405,577	9,638	1,267,537		3,682,752	2,817,477	1,806	1,377,018	(71,212)	4,125,089
Net Assets										
Without donor restrictions	2,042,804	4,707,393		686,148	7,436,345	1,676,711	4,821,462		691,955	7,190,128
With donor restrictions	2,275,077	5,000			2,280,077	2,842,212	5,816			2,848,028
Belltown equity			684,699	(684,699)				690,506	(690,506)	
Total net assets	4,317,881	4,712,393	684,699	1,449	9,716,422	4,518,923	4,827,278	690,506	1,449	10,038,156
Total liabilities and net assets	\$ 6,723,458	\$ 4,722,031	\$ 1,952,236	\$ 1,449	\$ 13,399,174	\$ 7,336,400	\$ 4,829,084	\$ 2,067,524	\$ (69,763)	\$ 14,163,245

SOUND GENERATIONS AND AFFILIATES

CONSOLIDATING STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2018 and 2017

	2018					2017				
	Agency	Centers	Belltown, LLC	Eliminations	Total	Agency	Centers	Belltown, LLC	Eliminations	Total
Public Support										
Government grants and contracts	\$ 8,060,942	\$ 1,035,647	\$ -	\$ -	\$ 9,096,589	\$ 6,695,515	\$ 769,392	\$ -	\$ -	\$ 7,464,907
Individual contributions	1,583,709	231,038			1,814,747	2,137,384	407,055			2,544,439
Corporation contributions	496,735	46,772			543,507	627,534	45,276			672,810
Foundation contributions	82,932	120,292			203,224	79,597	136,217			215,814
United Way contributions						4,230	1,703			5,933
Special events revenue	316,597	628,837			945,434	225,790	601,378			827,168
Special events - direct benefit to donors	(113,752)	(248,698)			(362,450)	(99,871)	(190,049)			(289,920)
Bequests	244,375	235,276			479,651	137,636	558,600			696,236
In-kind contributions	419,010	136,752			555,762	419,430	136,720			556,150
Forgiveness of note payable						165,000				165,000
Total public support	11,090,548	2,185,916			13,276,464	10,392,245	2,466,292			12,858,537
Revenue										
Program service fees	3,413	488,336			491,749	29,629	492,811			522,440
Program sales	685,759	304,396			990,155	589,474	319,917			909,391
Rental and other income	97,941	308,234	254,805	(98,502)	562,478	153,957	332,416	178,291	(105,641)	559,023
Incidental revenue		25,614			25,614		32,570			32,570
Investment income (loss)	(82,987)	4,923	54		(78,010)	228,518	3,809	79	84	232,490
Total revenue	704,126	1,131,503	254,859	(98,502)	1,991,986	1,001,578	1,181,523	178,370	(105,557)	2,255,914
Total public support and revenue	11,794,674	3,317,419	254,859	(98,502)	15,268,450	11,393,823	3,647,815	178,370	(105,557)	15,114,451
Expenses										
Program services	9,941,240	2,479,337	260,666		12,681,243	8,660,934	2,369,891	262,289	(105,641)	11,187,473
Management and general	1,443,114	359,911		(98,502)	1,704,523	1,760,889	481,832			2,242,721
Fundraising	711,213	177,376			888,589	757,432	207,256			964,688
Total expenses	12,095,567	3,016,624	260,666	(98,502)	15,274,355	11,179,255	3,058,979	262,289	(105,641)	14,394,882
Change in net assets before recovery on Northshore settlement and allocations among funds	(300,893)	300,795	(5,807)		(5,905)	214,568	588,836	(83,919)	84	719,569
Recovery on Northshore Settlement						159,520				159,520
Allocations Among Funds	104,781	(104,781)				(153,106)	153,106			
Change in net assets	\$ (196,112)	\$ 196,014	\$ (5,807)	\$ -	\$ (5,905)	\$ 220,982	\$ 741,942	\$ (83,919)	\$ 84	\$ 879,089

SUPPLEMENTARY REPORTS AND
SCHEDULES IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
AND THE UNIFORM GUIDANCE

**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**

To the Board of Directors
Sound Generations and Affiliates
Seattle, Washington

We have audited in accordance with the auditing standards generally accepted in the United States 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 ("Sound Generations"), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 1, 2019.

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") to determine the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 determination of financial statement amounts. 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 that are required to be reported under *Government Auditing Standards*.

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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Sulli LLP.

July 1, 2019

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

To the Board of Directors
Sound Generations and Affiliates
Seattle, Washington

Report on Compliance for Each Major Federal Program

We have audited Sound Generations and Affiliates' ("Sound Generations") compliance with the types of compliance requirements described 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, 2018. Sound Generations' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Sound Generations' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sound Generations' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Sound Generations' compliance.

Opinion on Each Major Federal Program

In our opinion, Sound Generations complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

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 items 2018-001, 2018-002, and 2018-003. Our opinion on each major federal program is not modified with respect to these matters.

Sound Generations' response to the noncompliance identified in our audit is described in the accompanying schedule of findings and questioned costs. Sound Generations' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Sound Generations is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Sound Generations' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sound Generations' internal control over compliance.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-003, that we consider to be a material weakness, and items 2018-001 and 2018-002, that we consider to be significant deficiencies.

Sound Generations' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Sound Generations' response was not subjected to the 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.

Petersen Sullivan LLP.

July 1, 2019

SOUND GENERATIONS AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2018

Federal Grantor/Program Title	Award Number	CFDA Number	Federal Expenditures	Passed Through to Subrecipients
Department of Housing and Urban Development				
<i>Community Development Block Grants/Entitlement Grants Cluster</i>				
Passed through from City of Seattle Human Services Department Community Development Block Grants/Entitlement Grants	DA18-1477	14.218	\$ 379,902	\$ -
Passed through from City of Shoreline Community Development Block Grants/Entitlement Grants	8948 Amd #1 9198	14.218 14.218	65,297 15,555	
Passed through from City of Bellevue Human Services Program Community Development Block Grants/Entitlement Grants	CDBG-307	14.218	38,941	
Community Development Block Grants/Entitlement Grants	CDBG-316	14.218	33,504	
Total Community Development Block Grants/Entitlement Grants Cluster			533,199	
Passed through from King County Housing Authority Moving to Work Demonstration Program	10364	14.881	28,653	
Total Department of Housing and Urban Development			561,852	
Department of Transportation				
<i>Transit Services Program Cluster</i>				
Passed through from State of Washington Department of Transportation Enhanced Mobility of Seniors and Individuals with Disabilities*	UCB1472	20.513	682,018	
Passed through from City of Seattle Human Services Department Enhanced Mobility of Seniors and Individuals with Disabilities*	DA18-1279	20.513	163,696	
Enhanced Mobility of Seniors and Individuals with Disabilities*	DA17-1279 Amd #1	20.513	119,514	
Total Transit Services Program Cluster and Department of Transportation			965,228	
Department of Education				
Passed through from University of Washington National Institute on Disability and Rehabilitation Research	UWCS 9311 Amd #4	84.133	7,415	
Total Department of Education			7,415	

* Denotes a major program

SOUND GENERATIONS AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(Continued)

For the Year Ended December 31, 2018

Federal Grantor/Program Title	Award Number	CFDA Number	Federal Expenditures	Passed Through to Subrecipients
Department of Health and Human Services				
Passed through from City of Seattle Human Services Department				
Special Programs for the Aging Title III, Part D, Disease Prevention and Health Promotion Services	DA16-5151 Amd #3	93.043	\$ 38,290	\$ -
<i>Aging Cluster</i>				
Passed through from City of Seattle Human Services Department				
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers*	DA18-1030	93.044	135,831	
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers*	DA18-5192	93.044	102,837	
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers*	DA17-1551 Amd #1	93.044	49,481	
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers*	DA18-1176 Amd #1	93.044	47,931	
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers*	DA18-1551	93.044	35,513	
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers*	DA16-5151 Amd #3	93.044	8,761	
Total Special Program for the Aging Title III, Part B Grants for Supportive Services and Senior Centers			380,354	
Passed through from City of Seattle Human Services Department				
Special Program for the Aging Title III, Part C, Nutrition Services*	DA18-1176 Amd #1	93.045	624,440	
Special Program for the Aging Title III, Part C, Nutrition Services*	DA18-1109 Amd #2	93.045	611,674	177,245
Total Special Program for the Aging Title III, Part C, Nutrition Services			1,236,114	177,245
Passed through from City of Seattle Human Services Department				
Nutrition Services Incentive Program*	DA18-1176 Amd #1	93.053	246,336	
Nutrition Services Incentive Program*	DA18-1109 Amd #2	93.053	114,088	
Total Nutrition Services Incentive Program			360,424	
Total Aging Cluster			1,976,892	177,245
Passed through from the City of Seattle Human Services Department				
National Family Caregiver Support, Title III, Part E	DA18-1337	93.052	27,720	
Passed through from State of Washington				
Medicare Enrollment Assistance Program	C201921	93.071	38,000	
Medicare Enrollment Assistance Program	C201936	93.071	18,000	
Total Medicare Enrollment Assistance Program			56,000	

* Denotes a major program

SOUND GENERATIONS AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(Continued)

For the Year Ended December 31, 2018

Federal Grantor/Program Title	Award Number	CFDA Number	Federal Expenditures	Passed Through to Subrecipients
Passed through from University of Washington				
Centers for Research and Demonstration for Health and Promotion and Disease Prevention	UWSC 7919 Amd #4	93.135	\$ 12,172	\$ -
Centers for Research and Demonstration for Health and Promotion and Disease Prevention	UWSC 7919 Amd #5	93.135	4,743	
Total Centers for Research and Demonstration for Health and Promotion and Disease Prevention			16,915	
Passed through from State of Washington Office of the Insurance Commissioner				
State Health Insurance Assistance Program	C201944	93.324	30,000	
State Health Insurance Assistance Program	C201914	93.324	20,195	
Total State Health Insurance Assistance Program			50,195	
Passed through from University of Washington				
Nursing Research	UWSC 9311 Amd #5	93.361	16,980	
Passed through from Evidence Based Leadership Council				
Non-ACA/PPHF - Building Capacity of the Public Health System to Improve Population Health Through National Nonprofit Organizations	2132018	93.424	19,996	
Non-ACA/PPHF - Building Capacity of the Public Health System to Improve Population Health Through National Nonprofit Organizations	N/A	93.424	2,000	
Total Non-ACA/PPHF - Building Capacity of the Public Health System to Improve Population Health Through National Nonprofit Organizations			21,996	
Passed through from National Council on Aging				
Family Violence Prevention and Services / Domestic Violence Shelter and Supportive Services	230	93.671	86,500	
Passed through from National Council on Aging				
Evidence-Based Falls Prevention Programs Financed Solely by Prevention and Public Health Funds (PPHF)	CBO23736	93.761	10,665	

* Denotes a major program

SOUND GENERATIONS AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(Continued)

For the Year Ended December 31, 2018

Federal Grantor/Program Title	Award Number	CFDA Number	Federal Expenditures	Passed Through to Subrecipients
Passed through from National Council on Aging Empowering Older Adults and Adults with Disabilities Through Chronic Self-Management Education Program - Financed by Prevention and Public Health Funds (PPHF)	230	93.734	\$ 45,500	\$ -
Passed through from City of Seattle Human Services Department Empowering Older Adults and Adults with Disabilities Through Chronic Self-Management Education Program - Financed by Prevention and Public Health Funds (PPHF)	DA16-5151 Amd #3	93.734	19,466	
Empowering Older Adults and Adults with Disabilities Through Chronic Self-Management Education Program - Financed by Prevention and Public Health Funds (PPHF)	DA17-1551 Amd #1	93.734	16,851	
Passed through from State of Washington Department of Social and Health Services Empowering Older Adults and Adults with Disabilities Through Chronic Self-Management Education Program - Financed by Prevention and Public Health Funds (PPHF)	1832-27102	93.734	8,193	
Total Empowering Older Adults and Adults with Disabilities Through Chronic Self-Management Education Program - Financed by Prevention and Public Health Funds (PPHF)			90,010	
<i>Medicaid Cluster</i>				
Passed through from City of Seattle Human Services Department Medical Assistance Program	DA18-1551	93.778	13,835	
Medical Assistance Program	DA17-1551 Amd #1	93.778	6,312	
Medical Assistance Program	DA17-1337	93.778	1,060	
Total Medicaid Cluster			21,207	
Total Department of Health and Human Services			2,413,370	177,245
Total federal awards			\$ 3,947,865	\$ 177,245

* Denotes a major program

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Sound Generations and Affiliates ("Sound Generations") under programs of the federal government for the year ended December 31, 2018. 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, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

Note 3. Indirect Cost Rate

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

SOUND GENERATIONS AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2018

A. Summary of Audit Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal Control over Financial Reporting:

Material weaknesses identified: None reported

Significant deficiencies identified not considered to be material weaknesses: None reported

Noncompliance material to the financial statements noted: None reported

Federal Awards:

Material weaknesses identified: Yes

Significant deficiencies identified not considered to be material weaknesses: Yes

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

Any audit findings disclosed that are required to be reported: Yes

Identification of Major Programs:

<u>Program Title</u>	<u>CFDA Number</u>
Transit Services Program Cluster	20.513, 20.521
Aging Cluster	93.044, 93.045, 93.053

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

Auditee qualified as low-risk auditee: No

B. Findings – Financial Statement Audit

None reported.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

2018-001 – Reporting

Federal Agencies: Department of Transportation, Department of Health and Human Services

CFDA Numbers: 20.513, 20.521, 93.044, 93.045, and 93.053

Program: Transit Services Program Cluster, Aging Cluster

Condition: Required reports were not filed timely.

Criteria: Internal controls should be in place to ensure all required grant reports are filed timely and accurately. This should include review and approval by responsible officials.

Cause: Sound Generations did not have adequate policies and procedures in place to ensure that reports were filed timely or accurately.

Effect: Of the 54 reports tested, 13 of the reports were not filed timely, and 2 reports had no evidence of the date filed.

Context: Review at the supervisory level, which may have detected and corrected the late filing issue for future periods, was not performed adequately. This is a repeat finding from the prior-year audit.

Questioned Costs: N/A

Recommendation: We recommend that Sound Generations implement new policies and procedures to ensure that all required reports are prepared, reviewed, and submitted by their due dates and that responsible staff have adequate training on these policies and procedures.

Views of Responsible Officials: Sound Generations agrees with the finding. See the attached unaudited corrective action plan.

2018-002 – Cash Management

Federal Agencies: Department of Transportation, Department of Health and Human Services
CFDA Numbers: 20.513, 20.521, 93.044, 93.045, and 93.053
Program: Transit Services Program Cluster, Aging Cluster

Condition: Required invoices were not filed timely or did not have evidence of review or approval.

Criteria: Internal controls should be in place to ensure all required grant invoices are filing timely and accurately. This should include review and approval by responsible officials.

Cause: Sound Generations did not have adequate policies and procedures in place to ensure that reports and invoices were filed timely or accurately.

Effect: Of the 20 invoices tested, 7 were not filed timely.

Context: Review at the supervisory level, which may have detected and corrected the late invoicing issue, was not performed adequately.

Questioned Costs: N/A

Recommendation: We recommend that Sound Generations implement new policies and procedures to ensure that all required reports and invoices are prepared, reviewed, and submitted by their due dates and that responsible staff have adequate training on these policies and procedures.

Views of Responsible Officials: Sound Generations agrees with the finding. See the attached unaudited corrective action plan.

2018-003 – Schedule of Expenditures of Federal Awards

Federal Agency: Department of Transportation, Department of Health and Human Services
CFDA Numbers: 20.513, 20.521, 93.044, 93.045, and 93.053
Program: Transit Services Program Cluster, Aging Cluster

Condition: Federal expenditures were overstated on the Schedule of Federal Awards ("SEFA").

Criteria: The SEFA should report only federal expenditures.

Cause: Most of Sound Generations' grants are passed through from other entities and include funding from multiple sources. Sound Generations did not have adequate policies and procedures in place to track and report federal expenditures.

Effect: The federal expenditures on the SEFA were overstated. This was corrected during the audit.

Context: Most of Sound Generations' grants include funding from multiple sources. The grant documents describe the funding sources so that Sound Generations can calculate and track its expenditures by source.

Recommendation: We recommend that Sound Generations implement new policies and procedures to ensure that federal expenditures are properly reported. This may include confirming federal expenditures with the pass-through entity.

Views of Responsible Officials: Sound Generations agrees with the finding. See the attached unaudited corrective action plan.

SOUND GENERATIONS AND AFFILIATES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (UNAUDITED)

For the Year Ended December 31, 2018

2017-001 – Reporting

Federal Agencies: Department of Transportation, Department of Health and Human Services
CFDA Numbers: 20.513, 20.521, 93.044, 93.045, and 93.053
Program: Transit Services Program Cluster, Aging Cluster

The discussion for Finding 2018-001 also applies to this finding.

2017-002 – Procurement

Federal Agency: Department of Transportation
CFDA Numbers: 20,513 and 20.521
Program: Transit Services Program Cluster

This finding is corrected for the year ended December 31, 2018.

2017-003 – Allowable Costs/Cost Principles

Federal Agencies: Department of Transportation, and Department of Health and Human Services
CFDA Numbers: 20.513, 20.521, 93.044, 93.045, and 93.053
Program: Transit Services Program Cluster and Aging Cluster

This finding is corrected for the year ended December 31, 2018.

2017-004 – Cash Management

Federal Agencies: Department of Transportation, and Department of Health and Human Services
CFDA Numbers: 20.513, 20.521, 93.044, 93.045, and 93.053
Program: Transit Services Program Cluster, Aging Cluster

The discussion for Finding 2018-002 also applies to this finding.

2017-005 – Schedule of Expenditures of Federal Awards

Federal Agencies: Department of Transportation, Department of Health and Human Services
CFDA Numbers: 20.513, 20.521, 93.044, 93.045, and 93.053
Program: Transit Services Program Cluster, Aging Cluster

The discussion for Finding 2018-003 also applies to this finding.



Senior Services is now Sound Generations

Sound Generations Corrective Action Plan Fiscal Year Ended December 31, 2018

Finding: 2018-001 – Reporting

Condition: Required reports were not filed timely.

Recommendation: We recommend that Sound Generations implement new policies and procedures to ensure that all required reports are prepared, reviewed, and submitted by their due dates and that responsible staff have adequate training on these policies and procedures.

Name of Contact Persons responsible for corrective action: Carlos Rojas, Chief Financial Officer, Christina Hannan, Controller (Incoming), Mary Fisher, Controller (Outgoing)

Corrective Action Taken:

Sound Generations agrees with the finding. The finding indicates of the 54 reports tested, 13 were not filed timely. Of the 13 late reports, we would like to point out that 4 were 3 days or less late and another 4 were up to 4-7 days late.

In order to improve the timeliness of submitting the reports, several steps are being taken during 2019, including:

- Reporting processes using Power Pivot data tools have been implemented allowing for faster report preparation.
- During 2018, due to some staffing workload issues, some of the report deadlines were missed. In 2019, the staffing has been rearranged and the reports are now being prepared timely.
- Some of the reports were late because they were turned in with the invoices, which were prepared and submitted late. As noted in the response to Finding 2018-002, in 2019, the accounting department has implemented a new accounting system. When the new system is fully implemented, it will allow the department to be able to complete the month-end close earlier, allowing on-time preparation of the cost reimbursement invoices.

We believe these new procedures and improvements will result in timely filing of reports.

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Finding: 2018-002 – Cash Management

Condition: Required billings were not filed timely or did not have evidence of review or approval.

Recommendation: We recommend that Sound Generations implement new policies and procedures to ensure that all required reports and invoices are prepared, reviewed, and submitted by their due dates and that responsible staff have adequate training on these policies and procedures.

Name of Contact Persons responsible for corrective action: Carlos Rojas, Chief Financial Officer, Christina Hannan, Controller (Incoming), Mary Fisher, Controller (Outgoing)

Correction Action Taken:

Sound Generations agrees with the finding. Significant improvements to processes and procedures were made in 2017 and 2018 to improve the timeliness of the submission of the invoices. While the audit finding indicates of the 20 invoices tested, 7 were not filed timely, further analysis of the late invoices indicates 3 were submitted 1-3 days late, another 2 were 4-7 days late and 2 invoices were 10 or more days late.

In 2019, the accounting department has implemented a new accounting system, MIP, one of the best systems for non-profit operations. When the new system is fully implemented, it will allow the department to be able to complete the month-end close earlier, also allowing on-time preparation of the cost reimbursement invoices. Additionally, the new accounting system will allow for better downloadable automatic reporting to make the preparation of the invoices faster and easier. We have requested, and been granted, a common invoice template from funders with multiple contracts. This will facilitate consistent GL mapping to cost reimbursement line items and faster invoice preparation and turn-around.

We believe these new tools and procedures will result in timely billing and better cash management.

Finding: 2018-003 – Schedule of Expenditures of Federal Awards

Condition: Federal expenditures were overstated on the Schedule of Federal Awards (“SEFA”).

Recommendation: We recommend that Sound Generations implement new policies and procedures to ensure that federal expenditures are properly reported. This may include confirming federal expenditures with the pass-through entity.

Name of Contact Persons responsible for corrective action: Carlos Rojas, Chief Financial Officer, Christina Hannan, Controller (Incoming), Mary Fisher, Controller (Outgoing)

Corrective Action taken in 2019:

Sound Generations agrees with the finding. The recommendation includes sending confirmations to the funders, particularly the pass-through agencies. We agree this is a necessary step to obtain the correct information directly from the funding agencies. For future audits, we will plan to send confirmations to the funders. In addition, during the year as new contracts are received or the contracts are renewed, we will continue to work with the funders and the program managers to understand and track CFDA numbers and the Federal expenditure budgets.