



Sound Generations and Affiliates

Consolidated Financial Statements and
Reports and Schedules in Accordance with
Government Auditing Standards and
Required by the Uniform Guidance
Years Ended December 31, 2019 and 2018

Sound Generations and Affiliates

Consolidated Financial Statements and Reports and
Schedules in Accordance with *Government Auditing Standards*
and Required by the Uniform Guidance
Years Ended December 31, 2019 and 2018

Sound Generations and Affiliates

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Tel: 206-382-7777
Fax: 206-382-7700
www.bdo.com

Two Union Square, 601 Union Street
Suite 2300
Seattle, WA 98101

Independent Auditor's 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 statement of financial position as of December 31, 2019, 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.

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 of America; 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 audit. We conducted our audit in accordance with 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. 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.



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Suite 2300
Seattle, WA 98101

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sound Generations and Affiliates as of December 31, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - Supplemental Information

Our audit was 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 31 and 32 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 of America. 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 June 25, 2020, 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.



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Other Matter - Prior-Period Financial Statements

The financial statements of Sound Generations and Affiliates as of and for the year ended December 31, 2018, were audited by Peterson Sullivan LLP (“PS”), whose partners and professional staff joined BDO USA, LLP as of November 1, 2019, and has subsequently ceased operations. PS expressed an unmodified opinion on those statements in their report dated July 1, 2019.

BDO USA, LLP

June 25, 2020

Consolidated Financial Statements

Sound Generations and Affiliates
Consolidated Statements of Financial Position

<i>December 31,</i>	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,718,291	\$ 1,374,604
Government grants and contracts receivable	1,766,135	1,496,612
Accounts and contributions receivable	237,430	232,148
Northshore note receivable	50,000	50,000
Inventory	40,306	35,126
Prepaid expenses	91,273	82,548
Total Current Assets	4,903,435	3,271,038
Restricted cash	223,133	210,919
Northshore note receivable, net of current portion	50,000	100,000
Unemployment compensation trust deposits	157,660	51,152
Investments	282,351	319,209
Endowment investments	3,545,591	2,047,711
Property and equipment, net	7,374,810	7,399,145
Total Assets	\$ 16,536,980	\$ 13,399,174
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and other accrued expenses	\$ 389,569	\$ 322,428
Accrued payroll	769,100	645,531
Long-term debt, current portion	151,900	92,450
Total Current Liabilities	1,310,569	1,060,409
Long-term debt, net	5,489,427	2,622,343
Total Liabilities	6,799,996	3,682,752
Net Assets		
Without donor restrictions	6,083,243	7,441,345
With donor restrictions	3,653,741	2,275,077
Total Net Assets	9,736,984	9,716,422
Total Liabilities and Net Assets	\$ 16,536,980	\$ 13,399,174

See accompanying notes to consolidated financial statements.

Sound Generations and Affiliates
Consolidated Statements of Activities

<i>Years Ended December 31,</i>	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support						
Government grants	\$ 10,401,621	\$ -	\$ 10,401,621	\$ 9,096,589	\$ -	\$ 9,096,589
Contributions	3,049,113	110,178	3,159,291	3,316,424	190,488	3,506,912
Bequests	22,250	-	22,250	479,651	-	479,651
In-kind contributions	737,505	-	737,505	555,762	-	555,762
Net assets released from restriction	229,394	(229,394)	-	680,549	(680,549)	-
Total Public Support	14,439,883	(119,216)	14,320,667	14,128,975	(490,061)	13,638,914
Revenue						
Program service fees and sales	1,803,481	-	1,803,481	1,481,904	-	1,481,904
Rental income and other	531,388	-	531,388	588,092	-	588,092
Investment income (loss)	22,264	407,122	429,386	4,880	(82,890)	(78,010)
Total Revenue	2,357,133	407,122	2,764,255	2,074,876	(82,890)	1,991,986
Total Public Support And Revenue	16,797,016	287,906	17,084,922	16,203,851	(572,951)	15,630,900
Expenses						
Program services	13,938,124	-	13,938,124	12,979,139	-	12,979,139
Management and general	2,216,781	-	2,216,781	1,747,767	-	1,747,767
Fundraising	909,455	-	909,455	909,899	-	909,899
Total Expenses	17,064,360	-	17,064,360	15,636,805	-	15,636,805
Change in Net Assets	(267,344)	287,906	20,562	567,046	(572,951)	(5,905)
Net Assets, beginning of year	7,441,345	2,275,077	9,716,422	7,190,128	2,848,028	10,038,156
Transfer to recover underwater endowment	(1,090,758)	1,090,758	-	-	-	-
Transfer of Southeast Seattle Senior Center Net Assets	-	-	-	(315,829)	-	(315,829)
Net Assets, end of year	\$ 6,083,243	\$ 3,653,741	\$ 9,736,984	\$ 7,441,345	\$ 2,275,077	\$ 9,716,422

See accompanying notes to consolidated financial statements.

Sound Generations and Affiliates
Consolidated Statement of Functional Expenses

<i>Year Ended December 31, 2019</i>	Senior Information and Assistance	Nutrition Projects	Health & Wellness	Senior Centers	Belltown LLC	Total Program Services	Management and General	Fundraising	Total All Services
Salaries and wages	\$ 3,539,275	\$ 1,169,663	\$ 418,605	\$ 1,446,803	\$ 35,520	\$ 6,609,866	\$ 1,275,113	\$ 337,390	\$ 8,222,369
Employee benefits	587,090	189,045	61,460	227,497	5,179	1,070,271	183,923	51,083	1,305,277
Payroll taxes	350,180	119,871	35,349	131,508	6,905	643,813	102,394	27,485	773,692
Total Payroll Expenses	4,476,545	1,478,579	515,414	1,805,808	47,604	8,323,950	1,561,430	415,958	10,301,338
Program supplies	124,481	1,716,808	16,856	239,986	3,787	2,101,918	54,114	83,997	2,240,029
Professional fees and instructors	99,719	59,539	173,212	326,857	15,874	675,201	284,044	58,727	1,017,972
In-kind rent and other	14,564	285,137	-	316,344	-	616,045	-	121,460	737,505
Occupancy	328,195	106,309	43,294	51,149	63,676	592,623	88,122	27,514	708,259
Client and other transportation	174,728	50,682	18,524	31,070	-	275,004	3,328	7,309	285,641
Insurance	122,980	15,375	2,164	45,296	16,238	202,053	13,014	2,197	217,264
Printing and publications	6,795	3,988	9,219	60,550	17	80,569	23,111	100,144	203,824
Bank fees	1,422	1,878	2	53,586	4,756	61,644	108,111	13,654	183,409
Interest	70,389	48,351	10,059	2,640	6,820	138,259	22,234	11,276	171,769
Telephone	48,089	29,745	4,104	24,458	1,502	107,898	13,159	2,316	123,373
Conferences and conventions	9,876	3,117	4,874	22,072	83	40,022	21,862	21,167	83,051
Postage and shipping	13,243	2,462	56	14,019	-	29,780	5,166	41,981	76,927
Taxes	937	3,295	5,688	46,329	465	56,714	6,817	-	63,531
Other	16,497	5,426	94	83,596	22,692	128,305	7,739	1,755	137,799
Depreciation and amortization	27,294	68,226	-	306,616	106,003	508,139	4,530	-	512,669
Total Expenses	\$ 5,535,754	\$ 3,878,917	\$ 803,560	\$ 3,430,376	\$ 289,517	\$ 13,938,124	\$ 2,216,781	\$ 909,455	\$ 17,064,360

See accompanying notes to consolidated financial statements.

Sound Generations and Affiliates

Consolidated Statement of Functional Expenses

<i>Year Ended December 31, 2018</i>	Senior Information and Assistance	Nutrition Projects	Health & Wellness	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	385,604	2,649,461
Professional fees and instructors	37,961	198,711	181,715	211,154	17,100	646,641	188,936	29,376	864,953
In-kind rent and other	-	419,010	-	136,752	-	555,762	-	-	555,762
Occupancy	315,802	115,463	49,348	103,147	59,474	643,234	79,709	17,475	740,418
Client and other transportation	138,819	44,661	14,088	9,162	-	206,730	1,697	6,293	214,720
Insurance	113,356	14,333	1,751	67,090	28,435	224,965	2,894	1,690	229,549
Printing and publications	18,398	4,190	6,946	75,305	-	104,839	16,556	37,096	158,491
Bank fees	196	-	-	24,919	-	25,115	33,457	12,038	70,610
Interest	-	-	-	104,086	37,403	141,489	17,292	-	158,781
Telephone	37,499	20,245	3,326	24,202	-	85,272	9,161	2,882	97,315
Conferences and conventions	22,406	3,572	3,657	17,027	-	46,662	20,686	2,729	70,077
Postage and shipping	15,817	1,728	43	13,679	-	31,267	5,159	13,546	49,972
Taxes	5,130	10,931	5,297	51,169	-	72,527	3,325	-	75,852
Other	6,370	5,321	156	15,872	12,284	40,003	9,204	96,895	146,102
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

See accompanying notes to consolidated financial statements.

Sound Generations and Affiliates

Consolidated Statements of Cash Flows

<i>Years Ended December 31,</i>	2019	2018
Cash Flows from Operating Activities		
Cash received from:		
Government agencies	\$ 10,132,098	\$ 8,645,868
Donors	3,176,259	4,033,872
Customers of program service fees and sales	1,803,481	1,481,904
Tenants and other	531,388	588,092
Interest and dividends	109,730	56,671
Cash paid for:		
Personnel	(8,205,308)	(7,268,877)
Services and supplies	(7,366,812)	(7,319,483)
Interest	(171,769)	(158,781)
Net Cash Flows from Operating Activities	9,067	59,266
Cash Flows for Investing Activities		
Purchase of property and equipment	(488,334)	(149,804)
Purchase of investments	(1,141,366)	(75,027)
Proceeds from sales of investments	-	81,002
Collection of notes receivable, net	50,000	-
Net Cash Flows for Investing Activities	(1,579,700)	(143,829)
Cash Flows from (for) Financing Activities		
Repayments on line of credit, net of advances	(195,264)	(304,735)
Proceeds from issuance of long-term debt	4,800,000	-
Principal payments on long-term debt	(1,678,202)	(61,712)
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 (for) Financing Activities	2,926,534	(514,653)
Net Change in Cash and Cash Equivalents	1,355,901	(599,216)
Cash and Cash Equivalents, beginning of year	1,585,523	2,184,739
Cash and Cash Equivalents, end of year	\$ 2,941,424	\$ 1,585,523
Cash and Cash Equivalents, end of year, as presented		
on the Statements of Financial Position		
Cash and cash equivalents	\$ 2,718,291	\$ 1,374,604
Restricted cash	223,133	210,919
	\$ 2,941,424	\$ 1,585,523

Sound Generations and Affiliates

Consolidated Statements of Cash Flows

<i>Years Ended December 31,</i>	2019	2018
Reconciliation of Change in Net Assets to		
Net Cash Flows from Operating Activities		
Change in net assets	\$ 20,562	\$ (5,905)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	512,669	468,675
Realized and unrealized losses (gains) on investments	(319,656)	134,681
Changes in operating assets and liabilities:		
Government grants and contracts receivable	(269,523)	(450,721)
Accounts and contributions receivable	(5,282)	47,309
Inventory	(5,180)	2,802
Prepaid expenses	(8,725)	(37,485)
Unemployment compensation trust deposits	(106,508)	(24,200)
Accounts payable and other accrued expenses	67,141	(96,694)
Accrued payroll	123,569	20,804
Net Cash Flows from Operating Activities	\$ 9,067	\$ 59,266

See accompanying notes to consolidated financial statements.

Sound Generations and Affiliates

Notes to Consolidated Financial Statements

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 2019 and 2018. 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

In addition, effective January 1, 2020 (the “Transfer Date”), the Central Area Senior Center (“Central”) ended its affiliation with Sound Generations. Central’s financial position, changes in net assets, and cash flows have been included in the accompanying consolidated financial statements through December 31, 2019, and its net assets (primarily cash and cash equivalents, receivables, and leasehold improvements) of approximately \$270,000 will be recognized as a transfer out of net assets on the Transfer Date.

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.

Sound Generations and Affiliates

Notes to Consolidated Financial Statements

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.

Health & 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.

Sound Generations and Affiliates

Notes to Consolidated Financial Statements

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, 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.

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Sound Generations and Affiliates

Notes to Consolidated Financial Statements

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:

<i>December 31,</i>	2019	2018
Net Assets with Purpose or Time Restrictions		
Central Area Center - vehicles	\$ 50,178	\$ -
Nutrition Program	50,000	-
Hyde shuttle	39,296	39,295
Health & Wellness	9,167	-
Time restrictions	9,000	17,000
Meals on Wheels	-	171,071
Total Net Assets with Purpose or Time Restrictions	157,641	227,366
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
Senior Rights - Term Endowment	442,788	415,219
Unappropriated earnings (underwater) - general endowment	298,374	(1,122,446)
Total Net Assets with Endowment Restrictions	3,496,100	2,047,711
Total	\$ 3,653,741	\$ 2,275,077

Senior Rights - Term Endowment represents donor-restricted net assets and consist of funds held within the endowment (see Note 5) 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.

Sound Generations and Affiliates

Notes to Consolidated Financial Statements

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:

<i>December 31,</i>	Belltown, LLC	
	2019	2018
Replacement reserves	\$ 147,581	\$ 136,284
Operating reserves	61,707	61,686
Tenant security deposits	13,845	12,949
Total	\$ 223,133	\$ 210,919

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, 2019 or 2018. 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.

Sound Generations and Affiliates

Notes to Consolidated Financial Statements

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 \$157,660 and \$51,152 at December 31, 2019 and 2018, respectively. Total claims incurred in 2019 and 2018 were \$34,192 and \$62,512, 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 5 for further discussion) or Sound Generations is not planning to utilize them within the next year.

Investments consist of the following:

<i>December 31,</i>	2019	2018
Money Market Funds	\$ 294,659	\$ 597,969
Certificates of Deposit	33,013	32,643
Fixed Income Mutual Funds		
Intermediate-term bond	855,372	772,456
High-yield bond	240,331	221,123
Foreign bond	66,199	-
Equity Mutual Funds		
Domestic large cap	675,572	173,108
Domestic small cap	539,986	185,182
Foreign large blend	352,480	80,210
Domestic mid cap	331,370	67,752
Domestic real estate	185,580	110,662
Emerging markets	177,880	87,973
Global real estate	75,500	37,842
Total Investments	\$ 3,827,942	\$ 2,366,920

Sound Generations and Affiliates

Notes to Consolidated Financial Statements

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

<i>December 31,</i>	2019	2018
Investments	\$ 282,351	\$ 319,209
Endowment investments	3,545,591	2,047,711
Total	\$ 3,827,942	\$ 2,366,920

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	2019	2018
Buildings	20-30 years	\$ 11,738,964	\$ 11,747,124
Furniture and equipment	5-10 years	765,516	263,819
Leasehold improvements	5-10 years	443,802	345,379
Vehicles	5 years	435,021	166,026
		13,415,650	12,522,348
Less: Accumulated depreciation and amortization		(7,285,580)	(6,367,943)
		6,130,070	6,154,405
Land		1,244,740	1,244,740
Construction in progress		32,347	
		\$ 7,374,810	\$ 7,399,145

Impairment of Long-Lived Assets

Financial Accounting Standards Board Accounting Standards Codification 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

Sound Generations and Affiliates

Notes to Consolidated Financial Statements

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 2019 and 2018.

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 years ended December 31, 2019 and 2018, 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.

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, 2019:

Transportation	\$ 2,217,515
Project Enhance	987,934
Senior center support	549,043
Healthcare advisory services	151,364
	<hr/>
	\$ 3,905,856

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.

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Notes to Consolidated Financial Statements

In accordance with generally accepted accounting principles, the consolidated 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, 2019 and 2018, 48% and 67% of government grants and contracts receivable was from two government agencies, respectively. Management is aware of the related vulnerability and believes the balances are fully collectible. For the years ended December 31, 2019 and 2018, 66% and 33%, respectively, of Sound Generations total public support and revenue were from two and one government agencies, respectively.

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.

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Sound Generations and Affiliates

Notes to Consolidated Financial Statements

Recent Accounting Pronouncements Adopted

ASU 2014-09, Revenue from Contracts with Customers

During the year ended December 31, 2019, Sound Generations adopted the provisions of Accounting Standards Update (“ASU”) No. 2014-09 (“ASU 2014-09”), Revenue from Contracts with Customers (commonly referred to as Accounting Standards Codification Topic 606 (“ASC 606”), issued by the Financial Accounting Standards Board (“FASB”) using the “modified retrospective” method; as such, Sound Generations applied the guidance only to the most recent period presented in the financial statements. The pronouncement was issued to clarify the principles for recognizing revenue and the core principle of the guidance is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the organization satisfies a performance obligation

Sound Generations recognizes program service fee and sales revenue based on published prices at the point of sale when the services or goods (the sole performance obligation) are provided to the customer. Generally, all services provided occur over a period of less than one day.

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

ASU 2016-18, Statement of Cash Flows

During the year ended December 31, 2019, Sound Generations adopted the provisions of ASU 2016-18, Statement of Cash Flows, (Topic 230). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash (including reserves and tenant security deposits), and requires that restricted cash be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts presented on the statements of cash flows. The adoption of this ASU did not have a material effect on Sound Generations’ consolidated financial statements. The ASU has been applied retrospectively to all periods presented.

ASU 2018-18, Clarification of Contributions

Sound Generations also adopted the provisions of ASU 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. The standard provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination of the nature of the transaction which will then govern the revenue recognition methodology and timing

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Notes to Consolidated Financial Statements

of the transaction. The ASU will assist in the determination of the nature of the transaction. The ASU is effective for contributions received by Sound Generations in periods beginning after December 15, 2018. The adoption of this update did not impact contribution revenues or fees from government agencies in the consolidated financial statements.

Reclassifications

Certain prior-year balances have been reclassified to conform to the current year presentation.

Subsequent Events

Sound Generations has evaluated subsequent events through the date these consolidated financial statements were available to be issued, which was June 25, 2020.

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.

Net assets with time or purpose restrictions at December 31, 2019 and 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, 2019 and 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:

<i>December 31,</i>	2019	2018
Financial Assets At Year-End		
Cash and cash equivalents (including restricted cash)	\$ 2,941,424	\$ 1,585,523
Investments	3,827,942	2,366,920
Government grants and contracts receivable	1,766,135	1,496,612
Accounts and contributions receivable	237,430	232,148
Northshore note receivable	100,000	150,000
	8,872,931	5,831,203
Less: Amounts Not Available to be Used Within One Year		
Restricted cash	(223,133)	(210,919)
Investments with endowment restrictions	(3,545,591)	(2,047,711)
Northshore note receivable not collectible within the next year	(50,000)	(100,000)
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	\$ 5,054,207	\$ 3,472,573

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3. Long-term Debt

Long-term debt consists of the following:

<i>December 31,</i>	2019	2018
<u>Sound Generations</u>		
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 a cost of \$4,922,530 and accumulated depreciation of \$2,542,203 at December 31, 2019), assignment of rents, and generally all other assets. The note maintains certain financial covenants, and Sound Generations was in compliance with these covenants at December 31, 2019.	\$ 3,129,185	\$ -
Series A and B revenue bonds issued through the Washington State Housing Finance Commission, with interest at 3.63%, and combined monthly principal and interest repayments ranging from \$8,250 to \$8,429 through maturity of March 2044. Secured by the commercial portion (the first three floors) of the Belltown building (with a cost of \$4,922,530 and accumulated depreciation of \$2,542,203 at December 31, 2019) and assignment of rents.	1,586,745	-
Note payable and line of credit with Wells Fargo, paid in full in 2019 upon refinancing (see below).	-	1,543,508
Sound Generations Subtotal	4,715,930	1,543,508
<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, and \$29,645 available at December 31, 2019 (included 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 Project (with a cost of \$3,143,195 and accumulated depreciation of \$1,641,379 at December 31, 2019) 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 (with a cost of \$3,143,195 and accumulated depreciation of \$1,641,379 at December 31, 2019).	278,143	285,228
Note payable to Umpqua Bank, paid in full in 2019 upon refinancing (see below).	-	244,772
Belltown Subtotal	925,397	1,177,254
Total Long-Term Debt	5,641,327	2,720,762
Less: Unamortized debt issuance costs	-	(5,969)
Less: Current portion	(151,900)	(92,450)
	\$ 5,489,427	\$ 2,622,343

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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. Of the cash proceeds, \$1,090,758 were used to restore the underwater general endowment (see Note 5), and the remaining amounts were used to establish cash reserves.

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

2020	\$	151,900
2021		128,103
2022		133,329
2023		138,777
2024		143,959
Thereafter		4,945,259
Total	\$	5,641,327

4. 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. Rent expense under these noncancelable operating leases was \$174,586 and \$142,039, respectively, for the years ended December 31, 2019 and 2018, and is included in occupancy expense.

Future minimum lease payments for operating leases are as follows:

2021	\$	178,534
2022		182,602
2023		186,778
2024		176,739
	\$	724,653

5. 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 of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Sound Generations and Affiliates

Notes to Consolidated Financial Statements

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:

<i>December 31, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds			
Senior Rights - Term Endowment	\$ -	\$ 442,788	\$ 442,788
Senior center endowments	-	5,000	5,000
General endowment	49,491	3,048,312	3,097,803
Total Endowment Net Assets	\$ 49,491	\$ 3,496,100	\$ 3,545,591

<i>December 31, 2018</i>	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	\$ -	\$ 2,047,711	\$ 2,047,711

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Notes to Consolidated Financial Statements

Changes in endowment net assets are as follows:

<i>Year Ended December 31, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets , beginning of year	\$ -	\$ 2,047,711	\$ 2,047,711
Investment Return			
Interest and dividends	-	87,466	87,466
Realized and unrealized gain	-	319,656	319,656
Total Investment Return	-	407,122	407,122
Transfers in	49,491	1,090,758	1,140,249
Appropriations for Expenditure - Senior Rights - Term Endowment	-	(49,491)	(49,491)
Endowment Net Assets , end of year	\$ 49,491	\$ 3,496,100	\$ 3,545,591

<i>Year Ended December 31, 2018</i>	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	\$ -	\$ 2,047,711	\$ 2,047,711

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.

Sound Generations and Affiliates

Notes to Consolidated Financial Statements

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 UPMIFA requires Sound Generations to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in net assets with donor restrictions were \$1,122,446 as of December 31, 2018 (also see Note 1). In 2019, cash proceeds from the issuance of debt (see Note 3) and endowment investment earnings were used to recover the endowment deficit.

6. Subsequent Events

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Sound Generation's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, Sound Generations is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for 2020.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property.

It also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19. In order to ensure the continued financial stability of Sound Generations, on April 23, 2020, Sound Generations issued a note payable to a bank under the Paycheck Protection Program offered by the Small Business Administration totaling \$1,891,800. The proceeds from the note will be used to bring laid off and furloughed employees

Sound Generations and Affiliates

Notes to Consolidated Financial Statements

back to work and retain current staff. The note payable incurs interest at 1.0% and is unsecured. The principal of the note is forgivable if the proceeds are spent on qualified costs during the eight-week period following the date the note is issued. Qualified costs are considered as 60% of the loan amount on payroll costs, and 40% on non-payroll costs including rent and utilities. Interest payments are deferred for up to the first 12 months of the note period and are forgivable consistent with the principal forgiveness terms. Should any portion of the principal of the note not meet the forgiveness provisions, the principal and interest will be repayable monthly over a 48-month amortization period starting April 23, 2021, through maturity of April 23, 2025.

Sound Generations continues to examine the impact that the CARES Act may have on its business.

Supplemental Information

Sound Generations and Affiliates
Consolidating Statements of Financial Position

<i>December 31,</i>	2019					2018				
	Agency	Centers	Belltown, LLC	Eliminations	Total	Agency	Centers	Belltown, LLC	Eliminations	Total
Assets										
Current Assets										
Cash and cash equivalents	\$ 1,064,795	\$ 1,653,496	\$ -	\$ -	\$ 2,718,291	\$ 7,780	\$ 1,318,070	\$ 48,754	\$ -	\$ 1,374,604
Government grants and contracts receivable	1,626,483	139,652	-	-	1,766,135	1,496,612	-	-	-	1,496,612
Accounts and contributions receivable	164,550	72,880	-	-	237,430	137,349	88,204	6,595	-	232,148
Northshore note receivable	50,000	-	-	-	50,000	50,000	-	-	-	50,000
Inventory	40,306	-	-	-	40,306	35,126	-	-	-	35,126
Due from (to) other funds	913,521	(721,773)	(191,748)	-	-	17,631	(17,631)	-	-	-
Prepaid expenses	72,199	11,738	7,336	-	91,273	82,302	246	-	-	82,548
Total Current Assets	3,931,854	1,155,993	(184,412)	-	4,903,435	1,826,800	1,388,889	55,349	-	3,271,038
Restricted cash	-	-	223,133	-	223,133	-	-	210,919	-	210,919
Northshore note receivable, net of current portion	50,000	-	-	-	50,000	100,000	-	-	-	100,000
Unemployment compensation trust deposits	157,660	-	-	-	157,660	51,152	-	-	-	51,152
Investments	-	282,351	-	-	282,351	-	319,209	-	-	319,209
Endowment investments	3,540,591	5,000	-	-	3,545,591	2,042,711	5,000	-	-	2,047,711
Investment in partnership	(1,449)	-	-	1,449	-	(1,449)	-	-	1,449	-
Property and equipment, net	2,843,648	2,951,197	1,579,965	-	7,374,810	2,704,244	3,008,933	1,685,968	-	7,399,145
Total Assets	\$ 10,522,304	\$ 4,394,541	\$ 1,618,686	\$ 1,449	\$ 16,536,980	\$ 6,723,458	\$ 4,722,031	\$ 1,952,236	\$ 1,449	\$ 13,399,174
Liabilities and Net Assets										
Current Liabilities										
Accounts payable and other accrued expenses	\$ 268,857	\$ 25,052	\$ 95,660	\$ -	\$ 389,569	\$ 216,538	\$ 9,638	\$ 96,252	\$ -	\$ 322,428
Accrued payroll	769,100	-	-	-	769,100	645,531	-	-	-	645,531
Long-term debt, current portion	115,099	-	36,801	-	151,900	73,937	-	18,513	-	92,450
Total Current Liabilities	1,153,056	25,052	132,461	-	1,310,569	936,006	9,638	114,765	-	1,060,409
Long-term debt, net	4,600,831	-	888,596	-	5,489,427	1,469,571	-	1,152,772	-	2,622,343
Total Liabilities	5,753,887	25,052	1,021,057	-	6,799,996	2,405,577	9,638	1,267,537	-	3,682,752
Net Assets										
Without donor restrictions	1,178,854	4,305,311	597,629	1,449	6,083,243	2,047,804	4,707,393	684,699	1,449	7,441,345
With donor restrictions	3,589,563	64,178	-	-	3,653,741	2,270,077	5,000	-	-	2,275,077
Total Net Assets	4,768,417	4,369,489	597,629	1,449	9,736,984	4,317,881	4,712,393	684,699	1,449	9,716,422
Total Liabilities and Net Assets	\$ 10,522,304	\$ 4,394,541	\$ 1,618,686	\$ 1,449	\$ 16,536,980	\$ 6,723,458	\$ 4,722,031	\$ 1,952,236	\$ 1,449	\$ 13,399,174

Sound Generations and Affiliates

Consolidating Statements of Activities

Years Ended December 31,	2019					2018				
	Agency	Centers	Belltown, LLC	Eliminations	Total	Agency	Centers	Belltown, LLC	Eliminations	Total
Public Support										
Government grants	\$ 9,577,936	\$ 823,685	\$ -	\$ -	\$ 10,401,621	\$ 8,060,942	\$ 1,035,647	\$ -	\$ -	\$ 9,096,589
Contributions	2,592,619	566,672	-	-	3,159,291	2,479,973	1,026,939	-	-	3,506,912
Bequests	-	22,250	-	-	22,250	244,375	235,276	-	-	479,651
In-kind contributions	421,256	316,249	-	-	737,505	419,010	136,752	-	-	555,762
Total Public Support	12,591,811	1,728,856	-	-	14,320,667	11,204,300	2,434,614	-	-	13,638,914
Revenue										
Program service fees and sales	619,310	1,184,171	-	-	1,803,481	689,172	792,732	-	-	1,481,904
Rental and other income	25,232	292,688	213,468	-	531,388	97,941	333,848	254,805	(98,502)	588,092
Investment income (loss)	413,377	16,009	-	-	429,386	(82,987)	4,923	54	-	(78,010)
Total Revenue	1,057,919	1,492,868	213,468	-	2,764,255	704,126	1,131,503	254,859	(98,502)	1,991,986
Total Public Support and Revenue	13,649,730	3,221,724	213,468	-	17,084,922	11,908,426	3,566,117	254,859	(98,502)	15,630,900
Expenses										
Program services	10,866,808	2,831,777	236,477	-	13,935,062	9,941,240	2,479,337	260,666	-	12,681,243
Management and general	1,730,414	450,928	37,609	-	2,218,951	1,443,114	359,911	-	(98,502)	1,704,523
Fundraising	709,919	184,998	15,430	-	910,347	824,965	426,074	-	-	1,251,039
Total Expenses	13,307,141	3,467,703	289,516	-	17,064,360	12,209,319	3,265,322	260,666	(98,502)	15,636,805
Change in Net Assets before Allocations										
Among Funds	342,589	(245,979)	(76,048)	-	20,562	(300,893)	300,795	(5,807)	-	(5,905)
Allocations Among Funds	107,947	(96,926)	(11,021)	-	-	104,781	(104,781)	-	-	-
Change in Net Assets	\$ 450,536	\$ (342,905)	\$ (87,069)	\$ -	\$ 20,562	\$ (196,112)	\$ 196,014	\$ (5,807)	\$ -	\$ (5,905)

Reports and Schedules in Accordance with *Government Auditing Standards* and Required by the Uniform Guidance



Tel: 206-382-7777
Fax: 206-382-7700
www.bdo.com

Two Union Square, 601 Union Street
Suite 2300
Seattle, WA 98101

Independent Auditor’s 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 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 (“Sound Generations”), which comprise the consolidated statement of financial position as of December 31, 2019, 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 June 25, 2020.

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.



Tel: 206-382-7777
Fax: 206-382-7700
www.bdo.com

Two Union Square, 601 Union Street
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Seattle, WA 98101

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP
June 25, 2020



Tel: 206-382-7777
Fax: 206-382-7700
www.bdo.com

Two Union Square, 601 Union Street
Suite 2300
Seattle, WA 98101

Independent Auditor’s Report on Compliance for Each Major Federal Program and Report 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, 2019. Sound Generations’ major federal programs are identified in the summary of auditor’s 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 of America; 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, 2019.



Tel: 206-382-7777
Fax: 206-382-7700
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Two Union Square, 601 Union Street
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Seattle, WA 98101

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

BDO USA, LLP

June 25, 2020

Sound Generations and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<i>Community Development Block Grants/Entitlement Grants Cluster</i>			
Department of Housing and Urban Development			
Passed through from City of Seattle Human Services Department:			
Community Development Block Grants/Entitlement Grants	14.218	DA19-1477	\$ 426,488
Passed through from City of Shoreline:			
Community Development Block Grants/Entitlement Grants	14.218	9198	98,915
Passed through from City of Bellevue Human Services Program:			
Community Development Block Grants/Entitlement Grants	14.218	N/A	97,992
Total Community Development Block Grants/Entitlement Grants Cluster			623,395
Passed through from King County Housing Authority:			
Moving to Work Demonstration Program	14.881	10364	55,200
Total Department of Housing and Urban Development			678,595
<i>Transit Services Program Cluster</i>			
Department of Transportation			
Passed through from State of Washington Department of Transportation:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	UCB1472	415,141
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	PTD0061	359,386
Passed through from City of Seattle Human Services Department:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	DA18-1279	143,795
Passed through from King County Department of Transportation:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	1074-19-JAS	250,000
Total Transit Services Program Cluster and Department of Transportation			1,168,322
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	93.043	DA19-5151 Amendment #1	\$ 39,731

The accompanying notes are an integral part of this schedule.

Sound Generations and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<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	93.044	DA18-1030	\$ 74,168
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	DA18-5192	52,767
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	DA18-1551	104,732
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	DA19-5151 Amendment #1	5,094
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	DA19-1818	172,880
Total Special Program for the Aging Title III, Part B Grants for Supportive Services and Senior Centers			409,641
Passed through from City of Seattle Human Services Department:			
Special Program for the Aging Title III, Part C, Nutrition Services	93.045	DA19-1176 Amednment #2	694,139
Special Program for the Aging Title III, Part C, Nutrition Services	93.045	DA19-1109	789,768
Total Special Program for the Aging Title III, Part C, Nutrition Services			1,483,907
Passed through from City of Seattle Human Services Department:			
Nutrition Services Incentive Program	93.053	DA19-1109	89,322
Nutrition Services Incentive Program	93.053	DA19-1176 Amednment #2	308,289
Total Nutrition Services Incentive Program			397,611
<i>Total Aging Cluster</i>			2,291,159
Passed through from the City of Seattle Human Services Department:			
National Family Caregiver Support, Title III, Part E	93.052	DA18-1337 Amendment #2	\$ 10,459

The accompanying notes are an integral part of this schedule.

Sound Generations and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Passed through from University of Washington: Centers for Research and Demonstration for Health and Promotion and Disease Prevention	93.135	UWSC 7919 Amendment #5	\$ 18,969
Passed through from University of Washington: Nursing Research	93.361	UWSC 9311 Amendment #5	66,355
Nursing Research	93.361	UWSC7919 Amendment 5	15,668
Total Nursing Research			82,023
Passed through from National Council on Aging: Family Violence Prevention and Services / Domestic Violence Shelter and Supportive Services	93.671	230	30,333
Passed through from National Council on Aging: Evidence-Based Falls Prevention Programs Financed Solely by Prevention and Public Health Funds (PPHF)	93.761	CBO23736	14,291
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)	93.734	230	91,000
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 PPHF	93.734	1936-66364	4,254
Total Empowering Older Adults and Adults with Disabilities Through Chronic Self-Management Education Program - Financed by PPHF			95,254
Passed through from National Association of Chronic Disease Directors Centers for Disease Control and Prevention Investigations and Technical Assistance	93.945	CB023933 Amendment #1	36,224
<i>Medicaid Cluster</i>			
Passed through from City of Seattle Human Services Department: Medical Assistance Program	93.778	DA18-1551	47,435
Total Medicaid Cluster			47,435
Total Department of Health and Human Services			2,665,878
Total Expenditures of Federal Awards			\$ 4,512,795

The accompanying notes are an integral part of this schedule.

Sound Generations and Affiliates

Notes to Schedule of Expenditures of Federal Awards

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, 2019. 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.

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. Sound Generations had no subrecipients.

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 Year Ended December 31, 2019

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes __X__ no
- Significant deficiency(ies) identified? _____ yes __X__ none reported
- Noncompliance material to financial statements noted? _____ yes __X__ no

Federal Awards:

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes __X__ no
- Significant deficiency(ies) identified? _____ yes __X__ none reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ yes __X__ no

Identification of Major Programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
Transit Services Program Cluster	20.513
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:

_____ yes __X__ no

Sound Generations and Affiliates

Schedule of Findings and Questioned Costs Year Ended December 31, 2019

Section II - Financial Statement Findings

No findings were identified that were required to be reported.

Section III - Federal Award Findings and Questioned Costs

There were no findings identified that are required to be reported in accordance with Title 2, Part 200 of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.



Senior Services is now Sound Generations

Summary Schedule of Prior-Year Audit Findings:

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

Prior Year Finding:

Required reports were not filed timely.

Current Year Status:

This finding has been corrected in the current year.

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

Prior Year Finding:

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

Current Year Status:

This finding has been corrected in the current year.

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

Prior Year Finding:

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

Current Year Status:

This finding has been corrected in the current year.