



## Sound Generations and Affiliates

Consolidated Financial Statements and  
Supplemental Information  
Years Ended December 31, 2021 and 2020  
Schedule of Expenditures of Federal Awards  
and Reports in Accordance with  
*Government Auditing Standards* and  
Required by the Uniform Guidance  
Year Ended December 31, 2021

The report accompanying these financial statements was issued by

BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO  
International Limited, a UK company limited by guarantee.



## **Sound Generations and Affiliates**

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Consolidated Financial Statements and Supplemental Information  
Years Ended December 31, 2021 and 2020  
Schedule of Expenditures of Federal Awards and Reports in Accordance  
with *Government Auditing Standards* and Required by the Uniform  
Guidance  
Year Ended December 31, 2021

# Sound Generations and Affiliates

## Contents

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<b>Independent Auditor’s Report</b>	3-5
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position as of December 31, 2021 and 2020	7
Consolidated Statements of Activities for the Years Ended December 31, 2021 and 2020	8
Consolidated Statement of Functional Expenses for the Year Ended December 31, 2021	9
Consolidated Statement of Functional Expenses for the Year Ended December 31, 2020	10
Consolidated Statements of Cash Flows for the Years Ended December 31, 2021 and 2020	11-12
Notes to Consolidated Financial Statements	13-31
<b>Supplemental Information</b>	
Consolidating Statements of Financial Position for the Years Ended December 31, 2021 and 2020	33-34
Consolidating Statements of Activities for the Years Ended December 31, 2021 and 2020	35-36
<b>Reports and Schedules in Accordance with <i>Government Auditing Standards</i> and Required by the Uniform Guidance</b>	
<b>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 <i>Government Auditing Standards</i></b>	38-39
<b>Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance</b>	40-43
Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2021	44-46
Notes to Schedule of Expenditures of Federal Awards	47
Schedule of Findings and Questioned Costs for the Year Ended December 31, 2021	48-58
<b>Corrective Action Plan</b>	



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## **Independent Auditor's Report**

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

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of Sound Generations and its subsidiaries (collectively, Sound Generations), which comprise the consolidated statement of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sound Generations as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***Responsibilities of Management for the Consolidated Financial Statements***

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

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



### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sound Generations' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sound Generations' ability to continue as a going concern for a reasonable period of time.

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

### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and consolidating statements of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the



consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2023 on our consideration of Sound Generations' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sound Generations' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sound Generations' internal control over financial reporting and compliance.

BDO USA, LLP

April 29, 2023  
Seattle, Washington

## **Consolidated Financial Statements**

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**Sound Generations and Affiliates**  
**Consolidated Statements of Financial Position**

<i>December 31,</i>	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,386,686	\$ 6,696,529
Government grants and contracts receivable	2,555,803	2,406,846
Accounts and contributions receivable	55,195	141,473
Northshore note receivable	-	50,000
Inventory	74,047	36,918
Prepaid expenses	254,061	133,645
<b>Total Current Assets</b>	<b>7,325,792</b>	<b>9,465,411</b>
Restricted cash	243,465	231,928
Unemployment compensation trust deposits	225,396	151,777
Investments	298,892	336,706
Endowment investments	8,625,026	3,930,132
Insurance receivable	1,400,000	-
Property and equipment, net	6,455,417	6,914,000
<b>Total Assets</b>	<b>\$ 24,573,988</b>	<b>\$ 21,029,954</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and other accrued expenses	\$ 353,730	\$ 385,439
Accrued payroll	1,401,635	1,179,902
Long-term debt, current portion	147,172	129,720
<b>Total Current Liabilities</b>	<b>1,902,537</b>	<b>1,695,061</b>
Accrued settlement	1,400,000	-
Long-term debt, net	5,251,574	7,282,776
<b>Total Liabilities</b>	<b>8,554,111</b>	<b>8,977,837</b>
<b>Net Assets</b>		
Without donor restrictions	10,903,662	8,179,098
With donor restrictions	5,116,215	3,873,019
<b>Total Net Assets</b>	<b>16,019,877</b>	<b>12,052,117</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 24,573,988</b>	<b>\$ 21,029,954</b>

*See accompanying notes to consolidated financial statements.*



## Sound Generations and Affiliates

### Consolidated Statements of Activities

<i>Year Ended December 31,</i>	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Public Support</b>						
Government grants	\$ 13,370,215	\$ 150,000	\$ 13,520,215	\$ 13,217,950	\$ 734,139	\$ 13,952,089
Contributions	3,893,682	1,693,767	5,587,449	4,259,796	287,887	4,547,683
Bequests	-	-	-	138,725	-	138,725
In-kind contributions	420,776	-	420,776	551,799	-	551,799
Net assets released from restriction	1,044,787	(1,044,787)	-	510,383	(510,383)	-
<b>Total Public Support</b>	<b>18,729,460</b>	<b>798,980</b>	<b>19,528,440</b>	<b>18,678,653</b>	<b>511,643</b>	<b>19,190,296</b>
<b>Revenue</b>						
Program service fees and sales	834,172	-	834,172	828,133	-	828,133
Rental income and other	2,183,456	-	2,183,456	359,785	-	359,785
Investment income	268,973	444,216	713,189	31,849	368,379	400,228
<b>Total Revenue</b>	<b>3,286,601</b>	<b>444,216</b>	<b>3,730,817</b>	<b>1,219,767</b>	<b>368,379</b>	<b>1,588,146</b>
<b>Total Public Support and Revenue</b>	<b>22,016,061</b>	<b>1,243,196</b>	<b>23,259,257</b>	<b>19,898,420</b>	<b>880,022</b>	<b>20,778,442</b>
<b>Expenses</b>						
Program services	15,888,526	-	15,888,526	15,331,481	-	15,331,481
Management and general	2,371,836	-	2,371,836	2,042,611	-	2,042,611
Fundraising	1,031,135	-	1,031,135	821,535	-	821,535
<b>Total Expenses</b>	<b>19,291,497</b>	<b>-</b>	<b>19,291,497</b>	<b>18,195,627</b>	<b>-</b>	<b>18,195,627</b>
<b>Change in Net Assets</b>	<b>2,724,564</b>	<b>1,243,196</b>	<b>3,967,760</b>	<b>1,702,793</b>	<b>880,022</b>	<b>2,582,815</b>
<b>Net Assets, beginning of year, as previously reported</b>	<b>8,179,098</b>	<b>3,873,019</b>	<b>12,052,117</b>	<b>6,083,243</b>	<b>3,653,741</b>	<b>9,736,984</b>
Effect of correction of error in tracking of donor restricted net assets	-	-	-	610,566	(610,566)	-
<b>Net Assets, beginning of year, as corrected</b>	<b>8,179,098</b>	<b>3,873,019</b>	<b>12,052,117</b>	<b>6,693,809</b>	<b>3,043,175</b>	<b>9,736,984</b>
Transfer of Central Area Senior Center Net Assets	-	-	-	(217,504)	(50,178)	(267,682)
<b>Net Assets, end of year</b>	<b>\$ 10,903,662</b>	<b>\$ 5,116,215</b>	<b>\$ 16,019,877</b>	<b>\$ 8,179,098</b>	<b>\$ 3,873,019</b>	<b>\$ 12,052,117</b>

*See accompanying notes to consolidated financial statements.*

# Sound Generations and Affiliates

## Consolidated Statement of Functional Expenses

Year Ended December 31, 2021	Senior	Transportation Services	Nutrition Projects	Health & Wellness	Senior Centers		Belltown LLC	Total	Management and General	Fundraising	Total All Services
	Information and Assistance				Affiliated	Agency Programs		Program Services			
Salaries and wages	\$ 1,509,055	\$ 2,375,368	\$ 1,406,804	\$ 459,308	\$ 1,333,870	\$ 235,256	\$ 20,571	\$ 7,340,232	\$ 1,389,181	\$ 471,976	\$ 9,201,389
Employee benefits	238,927	380,416	222,366	70,023	205,274	36,101	3,379	1,156,486	207,297	73,412	1,437,195
Payroll taxes	183,202	310,100	169,121	49,548	148,130	25,768	4,699	890,568	136,488	50,811	1,077,867
<b>Total Payroll Expenses</b>	<b>1,931,184</b>	<b>3,065,884</b>	<b>1,798,291</b>	<b>578,879</b>	<b>1,687,274</b>	<b>297,125</b>	<b>28,649</b>	<b>9,387,286</b>	<b>1,732,966</b>	<b>596,199</b>	<b>11,716,451</b>
Program supplies	108,204	110,245	2,351,366	17,741	313,557	35,873	331	2,937,317	47,657	46,808	3,031,782
Occupancy	137,097	144,549	197,132	22,271	517,909	6,397	196,523	1,221,878	79,668	29,539	1,331,085
Professional fees and instructors	96,635	53,724	80,181	199,027	215,257	30,374	131	675,329	294,072	126,289	1,095,690
In-kind rent and other	1,047	120	240,540	9,405	138,528	1,310	115	391,065	-	29,711	420,776
Client and other transportation	274,637	154,258	27,331	382	7,597	312	-	464,517	7,451	6,052	478,020
Printing and publications	2,809	2,999	5,328	27,780	59,929	728	-	99,573	71,513	94,189	265,275
Insurance	21,371	121,549	24,051	3,514	35,166	1,594	39,361	246,606	26,445	3,374	276,425
Interest	66,857	17,919	37,004	18,680	1,669	333	32,939	175,401	44,474	21,873	241,748
Telephone	24,536	60,687	20,597	3,396	22,141	(139)	1,912	133,130	7,619	3,055	143,804
Other	1,324	293	17,411	18,106	9,156	1,046	2,482	49,818	39,665	1,667	91,150
Bank fees	1,163	220	8,601	1,944	15,322	5	-	27,255	1,767	3,986	33,008
Postage and shipping	6,035	4,532	2,443	1,586	10,475	281	18	25,370	3,359	65,144	93,873
Taxes	(9,565)	76	2,809	10	35,923	192	539	29,984	6,066	(4)	36,046
Conferences and conventions	4,617	2,960	1,935	2,102	10,224	2,159	-	23,997	9,114	3,253	36,364
<b>Total Expenses</b>	<b>2,667,951</b>	<b>3,740,015</b>	<b>4,815,020</b>	<b>904,823</b>	<b>3,080,127</b>	<b>377,590</b>	<b>303,000</b>	<b>15,888,526</b>	<b>2,371,836</b>	<b>1,031,135</b>	<b>19,291,497</b>
Less: Expenses eliminated upon consolidation	-	-	171,482	-	-	-	-	171,482	-	-	171,482
	\$ 2,667,951	\$ 3,740,015	\$ 4,643,538	\$ 904,823	\$ 3,080,127	\$ 377,590	\$ 303,000	\$ 15,717,044	\$ 2,371,836	\$ 1,031,135	\$ 19,120,015

*See accompanying notes to consolidated financial statements.*

## Sound Generations and Affiliates

### Consolidated Statement of Functional Expenses

Year Ended December 31, 2020	Senior	Transportation	Nutrition	Health &	Senior Centers			Total	Management	Fundraising	Total All
	Information and Assistance				Services	Projects	Wellness	Affiliated			
Salaries and wages	\$ 1,484,576	\$ 2,584,835	\$ 1,424,260	\$ 478,451	\$ 1,183,522	\$ 154,146	\$ 31,337	\$ 7,341,127	\$ 1,235,718	\$ 347,084	\$ 8,923,929
Employee benefits	210,083	391,349	209,677	65,514	171,465	21,793	4,643	1,074,524	168,906	46,468	1,289,898
Payroll taxes	191,679	305,451	176,801	52,562	132,038	15,615	6,769	880,915	128,132	38,104	1,047,151
<b>Total Payroll Expenses</b>	<b>1,886,338</b>	<b>3,281,635</b>	<b>1,810,738</b>	<b>596,527</b>	<b>1,487,025</b>	<b>191,554</b>	<b>42,749</b>	<b>9,296,566</b>	<b>1,532,756</b>	<b>431,656</b>	<b>11,260,978</b>
Program supplies	115,176	29,080	2,243,830	17,359	259,220	11,944	159	2,676,768	26,440	61,303	2,764,511
Occupancy	130,954	164,261	68,501	24,114	439,476	318,409	179,544	1,325,259	84,473	15,925	1,425,657
Professional fees and instructors	96,013	39,259	70,916	49,257	195,617	29,573	39	480,674	252,805	54,277	787,756
In-kind rent and other	5,858	36,631	271,266	-	167,816	3,975	-	485,546	-	86,561	572,107
Client and other transportation	236,506	83,400	26,967	4,069	8,443	2,123	-	361,508	3,408	4,884	369,800
Printing and publications	1,261	20,960	5,948	2,696	31,886	797	-	63,548	65,407	104,136	233,091
Insurance	11,791	105,161	22,093	1,117	28,664	(3,297)	15,688	181,217	7,596	1,127	189,940
Interest	63,403	20,875	62,165	18,221	1,222	(21,970)	2,781	146,697	23,349	12,033	182,079
Telephone	24,659	56,494	34,276	4,688	17,761	(4,588)	1,645	134,935	7,162	2,532	144,629
Other	6,992	14,526	13,908	19,847	27,771	3,111	650	86,805	9,085	1,792	97,682
Bank fees	2,026	455	7,733	1,381	15,011	(8,298)	-	18,308	12,839	9,912	41,059
Postage and shipping	8,033	3,923	2,334	177	10,203	1,086	-	25,756	2,364	28,914	57,034
Taxes	822	76	3,793	298	29,970	488	503	35,950	5,303	34	41,287
Conferences and conventions	2,143	1,971	284	267	5,016	2,263	-	11,944	9,624	6,449	28,017
<b>Total Expenses</b>	<b>\$ 2,591,975</b>	<b>\$ 3,858,707</b>	<b>\$ 4,644,752</b>	<b>\$ 740,018</b>	<b>\$ 2,725,101</b>	<b>\$ 527,170</b>	<b>\$ 243,758</b>	<b>\$ 15,331,481</b>	<b>\$ 2,042,611</b>	<b>\$ 821,535</b>	<b>\$ 18,195,627</b>

*See accompanying notes to consolidated financial statements.*

## Sound Generations and Affiliates

### Consolidated Statements of Cash Flows

Year Ended December 31,	2021	2020
<b>Cash Flows from Operating Activities</b>		
Cash received from		
Government agencies	\$ 13,371,258	\$ 13,311,378
Donors	5,673,727	4,782,361
Customers of program service fees and sales	834,172	828,133
Tenants and other	2,183,456	359,785
Interest and dividends	152,564	86,071
Cash paid for		
Personnel	(9,053,275)	(8,518,661)
Services and supplies	(11,002,829)	(7,904,826)
Interest	(143,804)	(145,200)
<b>Net Cash Flows from Operating Activities</b>	<b>2,015,269</b>	<b>2,799,041</b>
<b>Cash Flows for Investing Activities</b>		
Purchase of property and equipment	(145,170)	(411,806)
Purchase of investments	(4,096,455)	(124,739)
Transfer of Central Area Center cash	-	(96,632)
Collection of notes receivable, net	50,000	50,000
<b>Net Cash Flows for Investing Activities</b>	<b>(4,191,625)</b>	<b>(583,177)</b>
<b>Cash Flows for (from) Financing Activities</b>		
Proceeds from issuance of long-term debt	7,825	1,891,800
Principal payments on long-term debt	(129,775)	(120,631)
<b>Net Cash Flows for (from) Financing Activities</b>	<b>(121,950)</b>	<b>1,771,169</b>
<b>Net Change in Cash and Cash Equivalents and Restricted Cash</b>	<b>(2,298,306)</b>	<b>3,987,033</b>
<b>Cash and Cash Equivalents and Restricted Cash,</b>		
beginning of year	<b>6,928,457</b>	<b>2,941,424</b>
<b>Cash and Cash Equivalents and Restricted Cash, end of year</b>	<b>\$ 4,630,151</b>	<b>\$ 6,928,457</b>
<b>Cash and Cash Equivalents and Restricted Cash, end of year, as presented</b>		
on the Statements of Financial Position		
Cash and cash equivalents	\$ 4,386,686	\$ 6,696,529
Restricted cash	243,465	231,928
<b>Cash and Cash Equivalents and Restricted Cash, end of year, as presented</b>	<b>\$ 4,630,151</b>	<b>\$ 6,928,457</b>

*See accompanying notes to consolidated financial statements.*

## Sound Generations and Affiliates

### Consolidated Statements of Cash Flows

Year Ended December 31,	2021	2020
<b>Reconciliation of Change in Net Assets to Net Cash Flows</b>		
<b>from Operating Activities</b>		
Change in net assets	\$ 3,967,760	\$ 2,582,815
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	592,818	530,516
Loss on disposal of fixed assets	10,935	171,050
Realized and unrealized gains on investments	(560,625)	(314,157)
Forgiveness of PPP loan	(1,891,800)	-
Changes in operating assets and liabilities		
Government grants and contracts receivable	(148,957)	(640,711)
Accounts and contributions receivable	86,278	95,953
Inventory	(37,129)	3,392
Prepaid expenses	(120,416)	(42,372)
Unemployment compensation trust deposits	(73,619)	5,883
Accounts payable and other accrued expenses	(31,709)	(4,130)
Accrued payroll	221,733	410,802
<b>Net Cash Flows from Operating Activities</b>	<b>\$ 2,015,269</b>	<b>\$ 2,799,041</b>

*See accompanying notes to consolidated financial statements.*

# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

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### 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 2021 and 2020. Their financial position, changes in their net assets, and cash flows have been included in the accompanying consolidated financial statements. All inter-entity transactions and accounts have been eliminated in consolidation.

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

#### *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**

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

# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

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

### **Nutrition Projects**

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

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

### **Health & 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.

### **Crisis Prevention**

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

### ***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 and Affiliates

## Notes to Consolidated Financial Statements

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

### *Basis of Presentation*

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

### *Financial Statement Presentation*

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

Net assets without donor restrictions are available without restriction for support of Sound Generations' operations. Sound Generations' Board of Directors has designated certain net assets without donor restrictions for the following purposes at December 31:

	2021	2020
Quasi-endowment assets	\$ 5,624,110	\$ 982,813
Premera refund	54,837	54,837
	<b>\$ 5,678,947</b>	<b>\$ 1,037,650</b>

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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>	<b>2021</b>	<b>2020</b>
<b>Net Assets with Purpose or Time Restrictions</b>		
Nutrition program	\$ 1,755,146	\$ 387,634
Health & wellness	230,456	68,765
Transportation	134,329	190,138
Information and assistance	40,205	314,000
Senior centers	10,000	20,000
<b>Total Net Assets with Purpose or Time Restrictions</b>	<b>2,170,136</b>	<b>980,537</b>
<b>Net Assets with Endowment Restrictions</b>		
General endowment with perpetual restrictions	2,139,366	2,139,366
Senior center endowment with perpetual restrictions	5,000	5,000
Senior Rights - Term Endowment	510,269	514,043
Unappropriated earnings - general endowment	291,444	234,073
<b>Total Net Assets with Endowment Restrictions</b>	<b>2,946,079</b>	<b>2,892,482</b>
<b>Total</b>	<b>\$ 5,116,215</b>	<b>\$ 3,873,019</b>

*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

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### *Use of Estimates*

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

### *Cash and Cash Equivalents*

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

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

<i>December 31,</i>	Belltown, LLC	
	2021	2020
Replacement reserves	\$ 167,504	\$ 157,098
Operating reserves	63,379	61,707
Tenant security deposits	12,582	13,123
<b>Total</b>	<b>\$ 243,465</b>	<b>\$ 231,928</b>

### *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, 2021 or 2020. 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

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### *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 \$225,396 and \$151,777 at December 31, 2021 and 2020, respectively. Total claims incurred in 2021 and 2020 were \$36,044 and \$48,818, 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.

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## Sound Generations and Affiliates

### Notes to Consolidated Financial Statements

Investments consist of the following:

<i>December 31,</i>	<b>2021</b>	<b>2020</b>
<b>Money Market Funds</b>	<b>\$ 383,306</b>	<b>\$ 370,790</b>
<b>Fixed Income Mutual Funds</b>		
Intermediate-term bond	2,050,950	943,633
High-yield bond	440,794	239,014
Foreign bond	165,480	68,504
<b>Equity Mutual Funds</b>		
Domestic large cap	1,502,518	784,565
Domestic small cap	1,130,050	634,657
Foreign large blend	919,080	377,680
Domestic mid cap	1,194,598	370,026
Domestic real estate	568,449	198,736
Emerging markets	410,518	200,440
Global real estate	158,175	78,793
<b>Total Investments</b>	<b>\$ 8,923,918</b>	<b>\$ 4,266,838</b>

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

<i>December 31,</i>	<b>2021</b>	<b>2020</b>
Investments	\$ 298,892	\$ 336,706
Endowment investments	8,625,026	3,930,132
<b>Total</b>	<b>\$ 8,923,918</b>	<b>\$ 4,266,838</b>

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 \$10,000 with a useful life of more than one year.

# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Depreciation expense was \$592,818 and \$530,516 for the years ended December 31, 2021 and 2020, respectively, and is included with occupancy on the statement of functional expenses. Leasehold improvements are amortized over the shorter of the useful lives of the assets or the original lease term. Maintenance costs are expensed as incurred. Property and equipment consist of the following at December 31:

	Estimated Useful Lives	2021	2020
Buildings	20-30 years	\$ 11,771,052	\$ 11,738,964
Furniture and equipment	5-10 years	913,295	913,296
Leasehold improvements	5-10 years	245,268	245,265
Vehicles	5 years	405,617	421,718
		13,335,232	13,319,243
Less: Accumulated depreciation and amortization		(8,124,555)	(7,649,983)
		5,210,677	5,669,260
Land		1,244,740	1,244,740
		\$ 6,455,417	\$ 6,914,000

### *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 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 2021 and 2020.

### *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, 2021 and 2020, no such adjustments were made.

# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

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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, 2021:

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Transportation	\$ 8,364,606
Health & wellness	491,890
Information and assistance	110,571
Senior centers	102,570

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	\$ 9,069,637
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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 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.

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 GAAP, 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.

# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

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### ***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, 2021 and 2020, 84% and 69% 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, 2021 and 2020, 48% and 55%, respectively, of Sound Generations total public support and revenue were from two 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. Sound Generations is still open to examination by U.S. tax authorities from 2017 forward. For the years ended December 31, 2021 and 2020, there was no interest or penalties recorded in the consolidated statements of activities and changes in net assets related to uncertain tax positions.

### ***Reclassifications***

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

### ***Accounting Pronouncements Not Yet Adopted***

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), which supersedes the current lease guidance under Leases (Topic 840) and makes several changes, such as requiring an entity establishes a right-of use (ROU) model that requires a lessee to record a ROU asset and liability on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The update was originally effective for private companies for annual and interim reporting periods beginning after December 15, 2019. In July 2018, the FASB issued ASU 2018-10 Codification Improvements to Topic 842, *Leases*, to add clarity to certain areas within ASU 2016-02, to add an additional and optional transition method to adopt the new leases standard by allowing recognition of a cumulative-effect

# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

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adjustment to the opening balance of retained earnings in the period of adoption. The revised effective date is for annual periods beginning after December 15, 2021. Management has evaluated the impact of this standard upon adoption and does not expect it to materially impact the financial position of Sound Generations.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The pronouncement was issued to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosures. ASU 2020-07 does not change the existing recognition and measurement requirements for contributed nonfinancial assets. The new standard requires that contributed nonfinancial are presented separately in the statement of activities. New disclosures are also required to disaggregate contributed nonfinancial assets by category type and other qualitative information about utilization, policies, and valuation techniques. The effective date is for annual periods beginning after June 15, 2021. Management has evaluated this standard and does not believe it will have a material impact on Sound Generations.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses* (Topic 326), *Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, contract assets recognized as a result of applying ASC 606, loans and certain other instruments, entities will be required to use a new forward looking “expected loss” model that generally will result in earlier recognition of credit losses than under today’s incurred loss model. The revised effective date is for annual periods beginning after December 15, 2022, and should be adopted using a modified retrospective approach, which applies a cumulative-effect adjustment to members equity as of the beginning of the first reporting period in which the guidance is effective. A prospective approach is required for debt securities for which another-than-temporary impairment had been recognized before the effective date and loans and debt securities acquired with deteriorated credit quality. Early adoption is permitted. Management has evaluated this standard and does not believe it will have a material impact on Sound Generations.

Sound Generations has assessed other accounting pronouncements issued or effective during the year ended December 31, 2021, and deemed they were not applicable to Sound Generations or are not anticipated to have a material effect on the financial statements.

### ***Subsequent Events***

Sound Generations has evaluated subsequent events through the date these consolidated financial statements were available to be issued, which was April 29, 2023.

## **2. Liquidity and Availability of Resources**

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



# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

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The following table reflects Sound Generations' financial assets as of December 31, 2021 and 2020, 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>	<b>2021</b>	<b>2020</b>
<b>Financial Assets at Year-End</b>		
Cash and cash equivalents (including restricted cash)	\$ 4,630,151	\$ 6,928,457
Investments	8,923,918	4,266,838
Government grants and contracts receivable	2,555,803	2,406,846
Accounts and contributions receivable	55,195	141,477
Northshore note receivable	-	50,000
	<b>16,165,067</b>	<b>13,793,618</b>
<b>Less: Amounts Not Available to Be Used within One Year</b>		
Restricted cash	(243,465)	(231,928)
Senior center investments	(298,892)	(336,706)
Investments with endowment restrictions and designations	(8,625,026)	(3,930,132)
Net assets with donor restrictions for particular purposes	(2,170,136)	(980,537)
<b>Financial Assets Available to Meet Cash Needs</b>		
<b>for General Expenditures within One Year</b>	<b>\$ 4,827,548</b>	<b>\$ 8,314,315</b>

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# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

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### 3. Long-Term Debt

Long-term debt consists of the following:

December 31,	2021	2020
<b>Sound Generations</b>		
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 carrying value of \$2,100,824 at December 31, 2021), 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, 2021.	\$ 2,980,523	\$ 3,056,722
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 carrying value of \$2,100,824 at December 31, 2021) and assignment of rents.	1,502,691	1,545,732
Paycheck Protection Loan bears interest at 1%. This loan was fully forgiven by the SBA on January 19, 2021.	-	1,891,800
<b>Sound Generations Subtotal</b>	<b>4,483,214</b>	<b>6,494,254</b>
<b>Belltown, LLC</b>		
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 \$27,686 and \$3,234 available net cash flows at December 31, 2021 and 2020 (included within the current portion of long-term debt), respectively. 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 carrying value of \$1,307,132 at December 31, 2021) 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 carrying value of \$1,307,132 at December 31, 2021).	268,278	270,988
<b>Belltown Subtotal</b>	<b>915,532</b>	<b>918,242</b>
<b>Total Long-Term Debt</b>	<b>5,398,746</b>	<b>7,412,496</b>
Less: Current portion	(147,172)	(129,720)
<b>Total</b>	<b>\$ 5,251,574</b>	<b>\$ 7,282,776</b>

# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

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Principal maturities on all long-term debt are as follows for the years ending December 31:

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2022	\$	147,172
2023		138,778
2024		143,959
2025		150,460
2026		156,533
Thereafter		4,661,844
<hr/>		
<b>Total</b>	<b>\$</b>	<b>5,398,746</b>

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On April 23, 2020, Sound Generations received a loan under the Small Business Association (SBA) Paycheck Protection Program (PPP) in the amount of \$1,891,800 which was forgivable if the proceeds were spent on qualifying costs. The loan accrued interest at 1% and was unsecured. Sound Generations received full forgiveness of the principal and accrued interest from the SBA on January 19, 2021. This is recognized as government grant income on the 2021 statement of activities.

The application of these funds requires Sound Generations to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of Sound Generations. This certification further requires Sound Generations to take into account Sound Generations' current business activity and the ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant of these funds, is dependent on Sound Generations having initially qualified for the loan and qualifying for the forgiveness of such loan based on future adherence of the forgiveness criteria.

The SBA has stated that all PPP loans in excess of \$2 million, and other PPP loans as appropriate, will be subject to review by the SBA for compliance with program requirements. If the SBA determines in the course of its review that a borrower lacked an adequate basis for the required certification concerning the necessity of the loan request or the subject use of loan proceeds, the SBA will seek repayment of the PPP loan, including interest and potential penalties. While Sound Generations believes the loan was properly obtained and forgiven, there can be no assurance regarding the outcome of an SBA review. Sound Generations has not accrued any liability associated with the risk of an adverse SBA review.

#### 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 \$181,764 and \$172,823, respectively, for the years ended December 31, 2021 and 2020, and is included in occupancy expense.

# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

Future minimum lease payments for operating leases are as follows:

2022	\$	186,778
2023		176,739
	\$	363,517

### 5. Endowment

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

#### *Interpretation of Relevant Law*

The Board of Directors of Sound Generations has interpreted the State of Washington 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, 2021</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Donor-Restricted Endowment Funds</b>			
Senior Rights - Term Endowment	\$ -	\$ 510,269	\$ 510,269
Senior center endowments	-	5,000	5,000
General endowment	5,678,947	2,430,810	8,109,757
<b>Total Endowment Net Assets</b>	<b>\$ 5,678,947</b>	<b>\$ 2,946,079</b>	<b>\$ 8,625,026</b>

# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

<i>December 31, 2020</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Donor-Restricted Endowment Funds</b>			
Senior Rights - Term Endowment	\$ -	\$ 514,043	\$ 514,043
Senior center endowments	-	5,000	5,000
General endowment	1,037,650	2,373,439	3,411,089
<b>Total Endowment Net Assets</b>	<b>\$ 1,037,650</b>	<b>\$ 2,892,482</b>	<b>\$ 3,930,132</b>

Changes in endowment net assets are as follows:

<i>Year Ended December 31, 2021</i>	Without Donor Restrictions	With Donor Restrictions			Total
		Accumulated Earnings	Term Endowment	Perpetual Donor Restrictions	
<b>Endowment Net Assets, beginning of year</b>	<b>\$ 1,037,650</b>	<b>\$ 234,073</b>	<b>\$ 514,043</b>	<b>\$ 2,144,366</b>	<b>\$ 3,930,132</b>
Investment return					
Interest and dividends	65,816	59,228	9,225	-	134,269
Realized and unrealized gain	184,862	322,482	53,281	-	560,625
Total investment return	250,678	381,710	62,506	-	694,894
Board-designated transfers in	4,000,000	-	-	-	4,000,000
Appropriations for expenditure - Senior					
Rights - Term Endowment	390,619	(324,339)	(66,280)	-	-
<b>Endowment Net Assets, end of year</b>	<b>\$ 5,678,947</b>	<b>\$ 291,444</b>	<b>\$ 510,269</b>	<b>\$ 2,144,366</b>	<b>\$ 8,625,026</b>

# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

Year Ended December 31, 2020	Without Donor Restrictions	With Donor Restrictions			Total
		Accumulated Earnings	Term Endowment	Perpetual Donor Restrictions	
<b>Endowment Net Assets</b> , beginning of year, as corrected	\$ 660,057	\$ 298,380	\$ 442,788	\$ 2,144,366	\$ 3,545,591
Investment return					
Interest and dividends	2,892	28,187	39,305	-	70,384
Realized and unrealized gain	13,270	154,446	146,441	-	314,157
<b>Total Investment return</b>	<b>16,162</b>	<b>182,633</b>	<b>185,746</b>	<b>-</b>	<b>384,541</b>
Appropriations for expenditure - Senior					
Rights - Term Endowment	361,431	(246,940)	(114,491)	-	-
<b>Endowment Net Assets</b> , end of year	<b>\$ 1,037,650</b>	<b>\$ 234,073</b>	<b>\$ 514,043</b>	<b>\$ 2,144,366</b>	<b>\$ 3,930,132</b>

### ***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.

### ***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.

# Sound Generations and Affiliates

## Notes to Consolidated Financial Statements

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### *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. For the year ended December 31, 2021 there were no endowment funds with deficiencies of this nature.

### **6. Cybersecurity**

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

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

**Sound Generations and Affiliates**  
**Notes to Consolidated Financial Statements**

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**7. Prior-Period Adjustment**

Sound Generations is correcting prior year net assets after discovering that, from 1995 to 2010, there were additions to its endowed balance that were board designated rather than donor designated. As such, 2020 beginning net assets have been adjusted to correct this error. This correction was made by transferring \$610,566 of donor restricted net assets to unrestricted net assets. The impact to the 2020 issued financial statements is as follows:

	As Previously Stated	Correction Adjustment	Total as Corrected
<b>Consolidated Statement of Financial Position</b>			
Net Assets without Donor Restrictions	\$ 7,568,536	\$ 610,566	\$ 8,179,102
Net Assets with Donor Restrictions	4,483,585	(610,566)	3,873,019
	12,052,121	-	12,052,121
<b>Consolidated Statement of Activities</b>			
Net Assets, beginning of year, without donor restrictions	6,083,243	610,566	6,693,809
Net Assts, beginning of year, with donor restrictions	3,653,741	(610,566)	3,043,175
	9,736,984	-	9,736,984
Net Assets, end of year, without donor restrictions	7,568,536	610,566	8,179,102
Net Assets, end of year, with donor restrictions	4,483,585	(610,566)	3,873,019
	\$ 12,052,121	\$ -	\$ 12,052,121



## Supplemental Information

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**Sound Generations and Affiliates**  
**Consolidating Statements of Financial Position**

<i>December 31, 2021</i>	Agency	Belltown, LLC	Senior Centers				Total	Eliminations	Total
			Ballard	Shoreline	Sno Valley	West Seattle	Senior Centers		
<b>Assets</b>									
<b>Current Assets</b>									
Cash and cash equivalents	\$ 3,161,977	\$ -	\$ 413,683	\$ 121,379	\$ (3,778)	\$ 693,425	\$ 1,224,709	\$ -	\$ 4,386,686
Government grants and contracts receivable	2,389,269	-	38,548	43,098	35,661	49,227	166,534	-	2,555,803
Accounts and contributions receivable	51,695	-	3,500	-	-	-	3,500	-	55,195
Inventory	74,047	-	-	-	-	-	-	-	74,047
Due from (to) other funds	524,097	(226,804)	(82,353)	5,481	27,303	(247,724)	(297,293)	-	-
Prepaid expenses	254,061	-	-	-	-	-	-	-	254,061
<b>Total Current Assets</b>	<b>6,455,146</b>	<b>(226,804)</b>	<b>373,378</b>	<b>169,958</b>	<b>59,186</b>	<b>494,928</b>	<b>1,097,450</b>	<b>-</b>	<b>7,325,792</b>
Restricted cash	-	243,465	-	-	-	-	-	-	243,465
Unemployment compensation trust deposits	225,396	-	-	-	-	-	-	-	225,396
Investments	-	-	-	-	298,892	-	298,892	-	298,892
Endowment investments	8,620,026	-	-	-	5,000	-	5,000	-	8,625,026
Insurance receivable	1,400,000	-	-	-	-	-	-	-	1,400,000
Property and equipment, net	2,514,994	1,375,172	1,294	-	876,564	1,687,393	2,565,251	-	6,455,417
<b>Total Assets</b>	<b>\$ 19,215,562</b>	<b>\$ 1,391,833</b>	<b>\$ 374,672</b>	<b>\$ 169,958</b>	<b>\$ 1,239,642</b>	<b>\$ 2,182,321</b>	<b>\$ 3,966,593</b>	<b>\$ -</b>	<b>\$ 24,573,988</b>
<b>Liabilities and Net Assets</b>									
<b>Current Liabilities</b>									
Accounts payable and other accrued expenses	\$ 226,104	\$ 107,426	\$ 869	\$ 5,466	\$ 6,469	\$ 7,396	\$ 20,200	\$ -	\$ 353,730
Accrued payroll	1,401,635	-	-	-	-	-	-	-	1,401,635
Long-term debt, current portion	126,030	21,142	-	-	-	-	-	-	147,172
<b>Total Current Liabilities</b>	<b>1,753,769</b>	<b>128,568</b>	<b>869</b>	<b>5,466</b>	<b>6,469</b>	<b>7,396</b>	<b>20,200</b>	<b>-</b>	<b>1,902,537</b>
Accrued settlement	1,400,000	-	-	-	-	-	-	-	1,400,000
Long-term debt, net	4,357,184	894,390	-	-	-	-	-	-	5,251,574
<b>Total Liabilities</b>	<b>7,510,953</b>	<b>1,022,958</b>	<b>869</b>	<b>5,466</b>	<b>6,469</b>	<b>7,396</b>	<b>20,200</b>	<b>-</b>	<b>8,554,111</b>
<b>Net Assets</b>									
Without donor restrictions	6,593,394	368,875	373,803	164,492	1,228,173	2,174,925	3,941,393	-	10,903,662
With donor restrictions	5,111,215	-	-	-	5,000	-	5,000	-	5,116,215
<b>Total Net Assets</b>	<b>11,704,609</b>	<b>368,875</b>	<b>373,803</b>	<b>164,492</b>	<b>1,233,173</b>	<b>2,174,925</b>	<b>3,946,393</b>	<b>-</b>	<b>16,019,877</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 19,215,562</b>	<b>\$ 1,391,833</b>	<b>\$ 374,672</b>	<b>\$ 169,958</b>	<b>\$ 1,239,642</b>	<b>\$ 2,182,321</b>	<b>\$ 3,966,593</b>	<b>\$ -</b>	<b>\$ 24,573,988</b>

**Sound Generations and Affiliates**  
**Consolidating Statements of Financial Position**

<i>December 31, 2020</i>	Agency	Belltown, LLC	Senior Centers				Total	Eliminations	Total
			Ballard	Shoreline	Sno Valley	West Seattle	Senior Centers		
<b>Assets</b>									
<b>Current Assets</b>									
Cash and cash equivalents	\$ 5,304,243	\$ -	\$ 377,846	\$ 127,115	\$ (5,508)	\$ 892,833	\$ 1,392,286	\$ -	\$ 6,696,529
Government grants and contracts receivable	2,171,641	-	59,144	95,425	52,332	28,304	235,205	-	2,406,846
Accounts and contributions receivable	131,613	1,433	3,164	2,618	-	2,645	8,427	-	141,473
Northshore note receivable	50,000	-	-	-	-	-	-	-	50,000
Inventory	36,918	-	-	-	-	-	-	-	36,918
Due from (to) other funds	453,117	(186,454)	(41,403)	(47,847)	42,371	(219,784)	(266,663)	-	-
Prepaid expenses	133,645	-	-	-	-	-	-	-	133,645
<b>Total Current Assets</b>	<b>8,281,177</b>	<b>(185,021)</b>	<b>398,751</b>	<b>177,311</b>	<b>89,195</b>	<b>703,998</b>	<b>1,369,255</b>	<b>-</b>	<b>9,465,411</b>
Restricted cash	-	231,928	-	-	-	-	-	-	231,928
Unemployment compensation trust deposits	151,777	-	-	-	-	-	-	-	151,777
Investments	-	-	-	-	336,706	-	336,706	-	336,706
Endowment investments	3,925,132	-	-	-	5,000	-	5,000	-	3,930,132
Property and equipment, net	2,788,454	1,481,180	2,590	-	966,572	1,675,204	2,644,366	-	6,914,000
<b>Total Assets</b>	<b>\$ 15,146,540</b>	<b>\$ 1,528,087</b>	<b>\$ 401,341</b>	<b>\$ 177,311</b>	<b>\$ 1,397,473</b>	<b>\$ 2,379,202</b>	<b>\$ 4,355,327</b>	<b>\$ -</b>	<b>\$ 21,029,954</b>
<b>Liabilities and Net Assets</b>									
<b>Current Liabilities</b>									
Accounts payable and other accrued expenses	\$ 274,059	\$ 86,804	\$ 11,839	\$ 592	\$ 649	\$ 11,496	\$ 24,576	\$ -	\$ 385,439
Accrued payroll	1,179,902	-	-	-	-	-	-	-	1,179,902
Long-term debt, current portion	120,876	8,844	-	-	-	-	-	-	129,720
<b>Total Current Liabilities</b>	<b>1,574,837</b>	<b>95,648</b>	<b>11,839</b>	<b>592</b>	<b>649</b>	<b>11,496</b>	<b>24,576</b>	<b>-</b>	<b>1,695,061</b>
Long-term debt, net	6,373,378	909,398	-	-	-	-	-	-	7,282,776
<b>Total Liabilities</b>	<b>7,948,215</b>	<b>1,005,046</b>	<b>11,839</b>	<b>592</b>	<b>649</b>	<b>11,496</b>	<b>24,576</b>	<b>-</b>	<b>8,977,837</b>
<b>Net Assets</b>									
Without donor restrictions	3,330,306	523,041	389,502	176,719	1,391,824	2,367,706	4,325,751	-	8,179,098
With donor restrictions	3,868,019	-	-	-	5,000	-	5,000	-	3,873,019
<b>Total Net Assets</b>	<b>7,198,325</b>	<b>523,041</b>	<b>389,502</b>	<b>176,719</b>	<b>1,396,824</b>	<b>2,367,706</b>	<b>4,330,751</b>	<b>-</b>	<b>12,052,117</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 15,146,540</b>	<b>\$ 1,528,087</b>	<b>\$ 401,341</b>	<b>\$ 177,311</b>	<b>\$ 1,397,473</b>	<b>\$ 2,379,202</b>	<b>\$ 4,355,327</b>	<b>\$ -</b>	<b>\$ 21,029,954</b>

## Sound Generations and Affiliates

### Consolidating Statements of Activities

<i>Year Ended December 31, 2021</i>	Senior Centers						Total Senior Centers	Eliminations	Total
	Agency	Belltown, LLC	Ballard	Shoreline/Lake Forest Park	Sno Valley	West Seattle			
<b>Public Support</b>									
Government grants	\$ 12,738,280	\$ -	\$ 186,239	\$ 178,892	\$ 211,363	\$ 205,441	\$ 781,935	\$ -	\$ 13,520,215
Contributions	4,828,113	-	171,845	89,434	242,638	255,419	759,336	-	5,587,449
In-kind contributions	282,133	115	137,843	-	685	-	138,528	-	420,776
<b>Total Public Support</b>	<b>17,848,526</b>	<b>115</b>	<b>495,927</b>	<b>268,326</b>	<b>454,686</b>	<b>460,860</b>	<b>1,679,799</b>	<b>-</b>	<b>19,528,440</b>
<b>Revenue</b>									
Program service fees and sales	252,693	-	90,368	150,611	218,564	293,418	752,961	(171,482)	834,172
Rental and other income	1,663,774	189,442	44,862	55,332	52,192	177,854	330,240	-	2,183,456
Investment income	711,856	-	372	116	37	808	1,333	-	713,189
<b>Total Revenue</b>	<b>2,628,323</b>	<b>189,442</b>	<b>135,602</b>	<b>206,059</b>	<b>270,793</b>	<b>472,080</b>	<b>1,084,534</b>	<b>(171,482)</b>	<b>3,730,817</b>
<b>Total Public Support and Revenue</b>	<b>20,476,849</b>	<b>189,557</b>	<b>631,529</b>	<b>474,385</b>	<b>725,479</b>	<b>932,940</b>	<b>2,764,333</b>	<b>(171,482)</b>	<b>23,259,257</b>
<b>Expenses</b>									
Program services	12,676,885	303,000	638,034	462,641	860,807	1,118,641	3,080,123	(171,482)	15,888,526
Management and general	2,371,836	-	-	-	-	-	-	-	2,371,836
Fundraising	1,031,135	-	-	-	-	-	-	-	1,031,135
<b>Total Expenses</b>	<b>16,079,856</b>	<b>303,000</b>	<b>638,034</b>	<b>462,641</b>	<b>860,807</b>	<b>1,118,641</b>	<b>3,080,123</b>	<b>(171,482)</b>	<b>19,291,497</b>
<b>Change in Net Assets before Allocations Among Funds</b>	<b>4,396,993</b>	<b>(113,443)</b>	<b>(6,505)</b>	<b>11,744</b>	<b>(135,328)</b>	<b>(185,701)</b>	<b>(315,790)</b>	<b>-</b>	<b>3,967,760</b>
<b>Allocations Among Funds</b>	<b>109,291</b>	<b>(40,723)</b>	<b>(9,194)</b>	<b>(23,971)</b>	<b>(28,323)</b>	<b>(7,080)</b>	<b>(68,568)</b>	<b>-</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>\$ 4,506,284</b>	<b>\$ (154,166)</b>	<b>\$ (15,699)</b>	<b>\$ (12,227)</b>	<b>\$ (163,651)</b>	<b>\$ (192,781)</b>	<b>\$ (384,358)</b>	<b>\$ -</b>	<b>\$ 3,967,760</b>

## Sound Generations and Affiliates

### Consolidating Statements of Activities

<i>Year Ended December 31, 2020</i>	Agency	Belltown, LLC	Senior Centers				Total	Eliminations	Total
			Ballard	Shoreline	Sno Valley	West Seattle	Senior Centers		
<b>Public Support</b>									
Government grants	\$ 12,894,908	\$ -	\$ 244,258	\$ 332,054	\$ 270,588	\$ 210,281	\$ 1,057,181	\$ -	\$ 13,952,089
Contributions	3,723,609	-	238,606	92,858	243,892	248,718	824,074	-	4,547,683
Bequests	-	-	-	-	82,686	56,039	138,725	-	138,725
In-kind contributions	383,983	-	139,491	22,775	2,775	2,775	167,816	-	551,799
<b>Total Public Support</b>	<b>17,002,500</b>	<b>-</b>	<b>622,355</b>	<b>447,687</b>	<b>599,941</b>	<b>517,813</b>	<b>2,187,796</b>	<b>-</b>	<b>19,190,296</b>
<b>Revenue</b>									
Program service fees and sales	302,939	-	66,687	115,673	141,034	201,800	525,194	-	828,133
Rental and other income	58,046	198,250	2,158	11,300	6,104	83,927	103,489	-	359,785
Investment income	393,548	-	764	859	1,452	3,605	6,680	-	400,228
<b>Total Revenue</b>	<b>754,533</b>	<b>198,250</b>	<b>69,609</b>	<b>127,832</b>	<b>148,590</b>	<b>289,332</b>	<b>635,363</b>	<b>-</b>	<b>1,588,146</b>
<b>Total Public Support and Revenue</b>	<b>17,757,033</b>	<b>198,250</b>	<b>691,964</b>	<b>575,519</b>	<b>748,531</b>	<b>807,145</b>	<b>2,823,159</b>	<b>-</b>	<b>20,778,442</b>
<b>Expenses</b>									
Program services	12,362,622	243,758	562,421	539,553	668,673	954,454	2,725,101	-	15,331,481
Management and general	2,042,611	-	-	-	-	-	-	-	2,042,611
Fundraising	821,535	-	-	-	-	-	-	-	821,535
<b>Total Expenses</b>	<b>15,226,768</b>	<b>243,758</b>	<b>562,421</b>	<b>539,553</b>	<b>668,673</b>	<b>954,454</b>	<b>2,725,101</b>	<b>-</b>	<b>18,195,627</b>
<b>Change in Net Assets before Allocations Among Funds</b>	<b>2,530,265</b>	<b>(45,508)</b>	<b>129,543</b>	<b>35,966</b>	<b>79,858</b>	<b>(147,309)</b>	<b>98,058</b>	<b>-</b>	<b>2,582,815</b>
<b>Allocations Among Funds</b>	<b>145,868</b>	<b>(27,238)</b>	<b>(27,359)</b>	<b>(37,190)</b>	<b>(30,530)</b>	<b>(23,551)</b>	<b>(118,630)</b>	<b>-</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>\$ 2,676,133</b>	<b>\$ (72,746)</b>	<b>\$ 102,184</b>	<b>\$ (1,224)</b>	<b>\$ 49,328</b>	<b>\$ (170,860)</b>	<b>\$ (20,572)</b>	<b>\$ -</b>	<b>\$ 2,582,815</b>

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

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## **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 its subsidiaries (collectively, Sound Generations), which comprise Sound Generations' consolidated statement of financial position as of December 31, 2021, 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 April 29, 2023.

### **Report on Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material* weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Sound Generations' consolidated financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-005 to be material weaknesses.



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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-002, 2021-003, and 2021-004 to be significant deficiencies.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sound Generations' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2021-005.

### **Sound Generations' Response to Findings**

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

### **Purpose of This Report**

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

BDO USA, LLP

April 29, 2023  
Seattle, Washington





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## **Independent Auditor's Report on Compliance For Each Major Federal Program; 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**

#### ***Qualified Opinion***

We have audited Sound Generations' and its subsidiaries (collectively, Sound Generations) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on Sound Generations' major federal program for the year ended December 31, 2021. Sound Generations' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Qualified Opinion on Aging Cluster Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, Sound Generations complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Aging Cluster Program for the year ended December 31, 2021.

#### ***Basis for Qualified Opinion***

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

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



*Matters Giving Rise to Qualified Opinion on the Aging Cluster Program*

As described in Findings 2021-006 and 2021-007 in the accompanying schedule of findings and questioned costs, Sound Generations did not comply with requirements regarding the following:

<b>Finding #</b>	<b>Assistance Listing #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2021-006	93.044, 93.045, 93.053	Aging Cluster	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
2021-007	93.044, 93.045, 93.053	Aging Cluster	Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Compliance with such requirements is necessary, in our opinion, for Sound Generations to comply with the compliance requirements applicable to that program.

***Responsibilities of Management for Compliance***

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

***Auditor’s Responsibilities for the Audit of Compliance***

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



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

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

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

#### ***Other Matters***

The results of our auditing procedures disclosed other 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 2021-006, 2021-007, 2021-008, 2021-009, and 2021-010. Our opinion on each major federal program is not modified with respect to these matters.

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

Sound Generations is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. Sound Generations' corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

#### **Report on Internal Control Over Compliance**

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



*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-006, 2021-007, and 2021-009 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-008 and 2021-010 to be significant deficiencies.

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

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

Sound Generations is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. Sound Generations' corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

April 29, 2023  
Seattle, Washington

**Sound Generations and Affiliates**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2021**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<b>Department of Housing and Urban Development</b>			
<i>Community Development Block Grants/Entitlement Grants Cluster</i>			
Passed through from City of Seattle Human Services Department			
Community Development Block Grants/Entitlement Grants	14.218	DA21-1477	\$ 449,917
Passed through from City of Shoreline			
Community Development Block Grants/Entitlement Grants	14.218	10153	70,172
Community Development Block Grants/Entitlement Grants	14.218	10215	3,759
Passed through from City of Bellevue Human Services Program			
Community Development Block Grants/Entitlement Grants	14.218	Not Available	20,137
Community Development Block Grants/Entitlement Grants	14.218	Not Available	12,842
<i>Total Community Development Block Grants/Entitlement Grants Cluster</i>			556,827
Passed through from King County Housing Authority			
Moving to Work Demonstration Program	14.881	10364	32,166
<b>Total Department of Housing and Urban Development</b>			<b>588,993</b>
<b>Department of Transportation</b>			
<i>Transit Services Program Cluster</i>			
Passed through from State of Washington Department of Transportation			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	PTD0061	340,084
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	PTD0287	450,636
Passed through from King County Department of Transportation			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	1074-19-JAS	284,714
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	1074-19-JAS	382,894
<b>Total Transit Services Program Cluster and Department of Transportation</b>			<b>1,458,328</b>
<b>Department of Health and Human Services</b>			
Passed through from City of Seattle Human Services Department			
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	DA21-1874	44,746
National Family Caregiver Support, Title III, Part E	93.052	DA21-1874	42,965

*The accompanying notes are an integral part of this schedule.*

**Sound Generations and Affiliates**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2021**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<i>Aging Cluster</i>			
Passed through from City of Seattle Human Services Department			
Nutrition Services Incentive Program	93.053	DA21-1109	\$ 152,706
Nutrition Services Incentive Program	93.053	DA21-1176	302,276
Passed through from City of Seattle Human Services Department			
COVID-19 Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	DA21-1109	195,389
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	DA21-1818	151,186
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	DA21-1818	151,186
Special Program for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	DA21-1874	109,788
Passed through from City of Seattle Human Services Department			
Special Program for the Aging Title III, Part C, Nutrition Services	93.045	DA20-1109	88,966
Special Program for the Aging Title III, Part C, Nutrition Services	93.045	DA21-1176	1,526,821
Special Program for the Aging Title III, Part C, Nutrition Services	93.045	DA21-1109	1,113,459
<i>Total Aging Cluster</i>			3,791,777
<i>Medicaid Cluster</i>			
Passed through from the City of Seattle Human Services Department			
Medical Assistance Program	93.778	DA21-1874	53,500
Medical Assistance Program	93.778	DA21-1874	11,925
<i>Total Medical Assistance Program and Medicaid Cluster</i>			65,425

*The accompanying notes are an integral part of this schedule.*

**Sound Generations and Affiliates**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2021**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Passed through from the University of Alabama at Birmingham			
Disabilities Prevention	93.184	Not Available	\$ 8,632
Passed through from University of Washington			
Nursing Research	93.361	BPO33784	32,842
Passed through from National Council on Aging			
Evidence-Based Falls Prevention Programs Financed Solely by Prevention and Public Health Funds (PPHF)	93.761	230	54,542
Evidence-Based Falls Prevention Programs Financed Solely by Prevention and Public Health Funds (PPHF)	93.761	230	37,500
Evidence-Based Falls Prevention Programs Financed Solely by Prevention and Public Health Funds (PPHF)	93.761	CBO23736	24,052
Total Evidence-Based Falls Prevention Programs Financed Solely by Prevention and Public Health Funds (PPHF)			116,094
Passed through from National Council on Aging			
Empowering Older Adults and Adults with Disabilities Through Chronic Disease Self-Management			
Education Programs - Financed by Prevention and Public Health Funds (PPHF)	93.734	1936-66364	10,209
Passed through University of Washington			
Aging Research	93.866	BPO42362	24,550
Passed through from Washington State Department of Health			
Assistance Programs for Chronic Disease Prevention and Control	93.945	CB023933	32,627
<b>Total Department of Health and Human Services</b>			<b>4,169,867</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 6,217,188</b>

*The accompanying notes are an integral part of this schedule.*

# Sound Generations and Affiliates

## Notes to Schedule of Expenditures of Federal Awards

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### 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, 2021. 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, 2021

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### 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                     no
- Significant deficiency(ies) identified?                 yes                     none reported
- Noncompliance material to financial statements noted?     yes                     no

#### *Federal Awards:*

Internal control over major federal programs:

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

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

Qualified

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

yes                     no

Identification of Major Programs:

Name of Federal Program or Cluster  
Aging Cluster

CFDA Number(s)  
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                     no

# Sound Generations and Affiliates

## Schedule of Findings and Questioned Costs Year Ended December 31, 2021

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### Section II - Financial Statement Findings

#### Finding 2021-001 - Oversight of Senior Centers - Material Weakness in Internal Control over Financial Reporting

**Criteria:**

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

**Condition:**

Sound Generations' current policy requires the CFO to meet with each Center board at least annually. However, there was no documentation available during the audit to show this occurred.

**Cause:**

The Centers currently operate with a high degree of autonomy. Current policies and procedures do not require adequate oversight of the Centers by management.

**Effect:**

The Centers could fail to record pledges, notify Sound Generations of debt or other contractual obligations, or otherwise misstate their financial position given the lack of oversight of their activity.

**Recommendation:**

Sound Generations should implement internal controls that ensure Center activity is appropriately reported and recorded and on the accrual basis of accounting.

**Views of Responsible Officials and Planned Corrective Actions:**

Sound Generations agrees with the finding. Documentation of CFO, Controller, or other accounting staff attending Center Board meetings was not present. See attached unaudited corrective action plan.

#### Finding 2021-002 - Consolidation of Senior Center Activity - Significant Deficiency in Internal Control over Financial Reporting

**Criteria:**

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

**Condition:**

Sound Generations had four affiliated senior centers in 2021: Senior Center of West Seattle, Northwest Senior Center, Shoreline Lake Forest Park Senior Center, and SnoValley Senior Center. The Centers record activity on the cash basis of accounting. Sound Generations does not have a

# Sound Generations and Affiliates

## Schedule of Findings and Questioned Costs Year Ended December 31, 2021

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process in place to reconcile cash accounting at the centers to accrual accounting at the consolidated level. Additionally, Sound Generations was not aware of the need to make required consolidating entries, such as eliminating intercompany transactions.

**Cause:**

Sound Generations' current policies and practices do not include adequate oversight of the Centers or reconciliation of Center activity with Sound Generations.

**Effect:**

Without an analysis of the effect of cash versus accrual accounting, there could be significant differences in the timing of revenue recognition at the Center level that are not appropriately addressed at the consolidated level. Additionally, without the removal of intercompany activities, both revenues and expenses can be overstated.

**Recommendation:**

Sound Generations should analyze activity between the Centers and Sound Generations to ensure any intercompany activity is eliminated upon consolidation.

**Views of Responsible Officials and Planned Corrective Actions:**

Sound Generations agrees with the finding. Sound Generations will create intercompany eliminations upon annual consolidation. See the attached unaudited corrective action plan.

**Finding 2021-003 - Salesforce Allocations - Significant Deficiency in Internal Control over Financial Reporting**

**Criteria:**

Accounting Standards Codification (ASC) 958-720 requires nonprofit entities to report all expenses according to their functional classification.

**Condition:**

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

**Cause:**

The finance team does not have access to Salesforce and cannot prevent adjustments made after the month-end, thus differences can arise when employees make changes in Salesforce after the accounting department has closed a month.

**Effect:**

This could result in errors on allocations in the statement of functional expenses and incorrect expenses being charged to federal programs.

# Sound Generations and Affiliates

## Schedule of Findings and Questioned Costs Year Ended December 31, 2021

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### **Recommendation:**

We recommend ensuring that employees with Salesforce access are aware that all activity must be entered into Salesforce prior to financial close of after each month. Salesforce should be closed each month to ensure adjustments are not made to prior periods, without notification to the finance team.

### **Views of Responsible Officials and Planned Corrective Actions:**

Sound Generations agrees with the finding. However, we would like to note that the payroll allocations were correct during month end at the time the program data was pulled from Salesforce. We understand some information was updated, but at the time, they were correct based on the data available at the time. See the attached unaudited corrective action plan.

### **Finding 2021-004 - Donor Restricted Net Assets - Significant Deficiency in Internal Control over Financial Reporting**

#### **Criteria:**

Sound Generations was required to apply ASC 958-605, *Not-for-Profit Entities-Revenue Recognition* and ASC 958-210, *Balance Sheet*, which required nonprofit entities to classify net assets as either with or without donor restrictions.

#### **Condition:**

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

#### **Cause:**

Clarification of accounting guidance and analysis of net assets performed by Sound Generations going back to 1995.

#### **Effect:**

The 2020 beginning net assets have been revised to correct this error. This correction was made by transferring \$610,566 of donor restricted net assets to net assets without donor restrictions.

### **Recommendation:**

We recommend that management clearly document accounting treatment for significant transactions and how they are recorded in accordance with accounting guidance. Documentation related to endowment gifts should be maintained in perpetuity.

### **Views of Responsible Officials and Planned Corrective Actions:**

Sound Generations agrees with the finding. Sound Generations has established a clear criteria and protocol for significant transactions and is maintaining such documents in accordance with the accounting guidance. See the attached unaudited corrective action plan.

# Sound Generations and Affiliates

## Schedule of Findings and Questioned Costs Year Ended December 31, 2021

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### Finding 2021-005 - Ransomware Attacks - Material Weakness in Internal Control over Financial Reporting and Instance of Noncompliance

**Criteria:**

Sound Generations is required to comply with all applicable laws and regulations, including but not limited to those concerning protection of individual health information such as the Standards for Privacy of Individually Identifiable Health Information at *45 CFR Part 160 and 164, Subparts A and E*, and Revised Code of Washington (RCW) Chapter 70.02. *45 CFR Part 164.306, Security standards*, states that covered entities must:

- 1) Ensure the confidentiality, integrity, and availability of all electronic protected health information the covered entity or business associate creates, receives, maintains, or transmits.
- 2) Protect against any reasonably anticipated threats or hazards to the security or integrity of such information.
- 3) Protect against any reasonably anticipated uses or disclosures of such information that are not permitted or required under subpart E of this part.
- 4) Ensure compliance with this subpart by its workforce.

**Condition:**

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

**Cause:**

Sound Generations did not have adequate controls in place to prevent or timely detect a breach of their systems.

**Effect:**

Sound Generations maintains personally identifiable information and certain personal health information for their clients and employees. Sound Generations was unable to determine to what extent (if any) personal information was compromised through the ransomware attack. All potentially impacted individuals were notified of the breach and information about the breach was posted on Sound Generations' website.

**Questioned Costs:**

None.

**Context:**

Sound Generations was subject to two ransomware attacks during the year.

**Repeat Finding:**

No.

**Recommendation:**

Sound Generations should improve cyber security in accordance with recommendations provided by industry experts.

# Sound Generations and Affiliates

## Schedule of Findings and Questioned Costs Year Ended December 31, 2021

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### Views of Responsible Officials and Planned Corrective Actions:

Sound Generations agrees with the finding. Sound Generations has taken steps to improve cyber security. See the attached unaudited corrective action plan.

### Section III - Federal Award Findings and Questioned Costs

#### Finding 2021-006 Unallowed Costs - Material Weakness in Internal Control and Instance of Non-Compliance

**Program:** Aging Cluster

**CFDA No.:** 93.044, 93.045, 93.053

**Federal Grantor:** Department of Health and Human Services

**Award No:** DA20-1109, DA21-1109, DA21-1176, DA21-1818, DA21-1874

**Compliance Requirements:** Activities Allowed or Unallowed, Allowable Costs/Cost Principles

#### Criteria:

*2 CFR Part 200.404, Reasonable costs*, states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally funded. In determining reasonableness of a given cost, consideration must be given to:

- a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- c) Market prices for comparable goods or services for the geographic area.
- d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

*2 CFR Part 200.434, Contributions and donations*, states the value of services and property donated to the non-Federal entity may not be charged to the Federal award either as a direct or indirect cost.

*2 CFR Part 200.441, Fines, penalties, damages and other settlements*, states that costs resulting from non-Federal entity violations of, alleged violations of, or failure to comply with, Federal, state, tribal, local or foreign laws and regulations are unallowable.

#### Condition:

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

# Sound Generations and Affiliates

## Schedule of Findings and Questioned Costs Year Ended December 31, 2021

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**Cause:**

These expenditures were allocated out amongst other cost pools; thus, management did not realize unallowed costs were getting charged to the Aging Cluster. In some cases, management did not realize these items were unallowable costs.

**Effect:**

Without adequate training and controls in place to ensure costs are allowable, Sound Generations could incorrectly charge expenditures to the federal program, or not request appropriate reimbursement Sound Generations is entitled to under the terms of the grant.

**Questioned Costs:**

Known questioned costs were \$18,362. Likely questioned costs were \$1,064,524.

**Context:**

During our testing we sampled 40 items within the expenditure population, noting that of the total items tested, 4 items amounting to \$18,362 were unallowable costs. This condition was identified per review of Sound Generations' compliance with specified requirements using a statistically valid sample.

**Repeat Finding:**

No.

**Recommendation:**

Sound Generations should improve internal controls by training employees on activities and costs unallowable under federal grants.

**Views of Responsible Officials and Planned Corrective Actions:**

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

**Finding 2021-007 Payroll Costs - Material Weakness in Internal Control and Instance of Non-Compliance**

**Program:** Aging Cluster

**CFDA No.:** 93.044, 93.045, 93.053

**Federal Grantor:** Department of Health and Human Services

**Award No:** DA20-1109, DA21-1109, DA21-1176, DA21-1818, DA21-1874

**Compliance Requirements:** Activities Allowed/Unallowed and Allowable Costs/Cost Principles

# Sound Generations and Affiliates

## Schedule of Findings and Questioned Costs Year Ended December 31, 2021

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**Criteria:**

The Uniform Guidance in 2 *CFR Section 200.303* requires that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Per 2 *CFR Section 200.430 Compensation - Personal Services*: “Standards for Documentation of Personnel Expenses (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed.

**Condition:**

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

**Cause:**

Sound Generations did not have policies and procedures in place to review and reconcile the estimated amounts of payroll expenditures charged to the Aging Cluster to the actual expenditures incurred.

**Effect:**

Without adequate controls in place to ensure costs based on allocations are reasonable and reconcile to the actual time spent on the program, Sound Generations could incorrectly charge expenditures to the federal program, or not request appropriate reimbursement Sound Generations is entitled to under the terms of the grant.

**Questioned Costs:**

Questioned costs are not able to be determined.

**Context:**

This is a condition identified per review of Sound Generations’ compliance with specified requirements using a statistically valid sample. Payroll costs including fringe benefits for the Aging Cluster in 2021 were \$2,519,848.

**Repeat Finding:**

No.

**Recommendation:**

We recommend that Sound Generations implement policies and procedures to review for any necessary budget to actual adjustments, and we recommend that sufficient documentation be maintained to support any adjustments made as required by 2 *CFR 200.430*.

**Views of Responsible Officials and Planned Corrective Actions:**

Sound Generations agrees with the finding. Management has implemented a final review process where all allocated payroll costs are reviewed two times per year to verify that all employees participate in time studies and that allocations of payroll costs are allocated according to those time studies. See the attached unaudited corrective action plan.



# Sound Generations and Affiliates

## Schedule of Findings and Questioned Costs Year Ended December 31, 2021

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### Finding 2021-008 Fringe Benefits - Significant Deficiency in Internal Control and Instance of Non-Compliance

**Program:** Aging Cluster

**CFDA No.:** 93.044, 93.045, 93.053

**Federal Grantor:** Department of Health and Human Services

**Award No:** DA20-1109, DA21-1109, DA21-1176, DA21-1818, DA21-1874

**Compliance Requirements:** Activities Allowed/Unallowed and Allowable Costs/Cost Principles

**Criteria:**

2 CFR 200.430, *Compensation - personal services*, states that compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits which are addressed in § 200.431. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity, consistently applied to both Federal and non-Federal activities, and includes reasonable amounts for activities contributing and directly related to work under an agreement.

**Condition:**

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

**Cause:**

The monthly benefit allocation workbooks and pivot tables were not reviewed in April 2021.

**Effect:**

Without adequate controls in place to ensure benefit allocation workbooks are accurate, Sound Generations could incorrectly charge expenditures to the federal program, or not request appropriate reimbursement Sound Generations is entitled to under the terms of the grant.

**Questioned Costs:**

Known and likely questioned costs are below the reporting threshold.

**Context:**

This is a condition identified per review of Sound Generations' compliance with specified requirements using a statistically valid sample. Payroll costs including fringe benefits for the Aging Cluster in 2021 were \$2,519,848.

**Repeat Finding:**

No.

# Sound Generations and Affiliates

## Schedule of Findings and Questioned Costs Year Ended December 31, 2021

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**Recommendation:**

Sound Generations should add a level of review to allocation workbooks to ensure preparation was done correctly.

**Views of Responsible Officials and Planned Corrective Actions:**

Sound Generations agrees with the finding. The agency has changed its process to include reviews of the workbooks and final results that tie to the actual expenditures. Automations now include flags and warnings when calculations are out of balance. See the attached unaudited corrective action plan.

**Finding 2021-009 Ransomware Attacks - Material Weakness in Internal Control and Instance of Non-Compliance**

**Program:** All federal programs

**CFDA No.:** All federal programs

**Federal Grantor:** Department of Housing and Urban Development, Department of Transportation, Department of Health and Human Services

**Award No:** DA21-1477, 10153, 10215, PTD0061, PTD0287, 1074-19-JAS, DA21-1874, DA21-1109, DA21-1176, DA21-1818

**Compliance Requirements:** Special tests and provisions

**Finding and Recommendation:** Two ransomware attacks occurred in 2021. The attacker had access to electronic health information and personally identifiable information during the breach. Sound Generations should improve cyber security in accordance with recommendations provided by industry experts.

**Views of Responsible Officials and Planned Corrective Actions:** Sound Generations agrees with the finding. Sound Generations has taken steps to improve cyber security. See the attached unaudited corrective action plan.

See Section II, finding 2021-005 for further description of the criteria, condition, cause, effect, recommendations and views of responsible officials and planned corrective actions for this finding.

**Finding 2021-010 - Late Submission of Data Collection Form - Significant Deficiency in Internal Control and Instance of Non-Compliance**

**Program:** All federal programs

**CFDA No.:** All federal programs

**Federal Grantor:** Department of Housing and Urban Development, Department of Transportation, Department of Health and Human Services

# Sound Generations and Affiliates

## Schedule of Findings and Questioned Costs Year Ended December 31, 2021

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**Award No. and Year:** DA21-1477, 10153, 10215, PTD0061, PTD0287, 1074-19-JAS, DA21-1874, DA21-1109, DA21-1176, DA21-1818

**Compliance Requirements:** Reporting

**Criteria:**

According to Uniform Guidance 2 CFR 200.512(a), non-federal entities that expend \$750,000 or more of federal awards in one year are required to have a single audit and complete the related data collection form within the Federal Audit Clearinghouse within 30 days of receipt of the auditor's report or 9 months after the end of the fiscal year - whichever comes first.

**Condition:**

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

**Cause:**

Financial statements were not completed by September 30, 2022.

**Effect:**

The federal government was unaware of the 2021 audit results for all of 2022 and part of 2023.

**Questioned Costs:**

None.

**Context:**

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

**Recommendations:**

Sound Generations should ensure preparation of required information is accurately completed and reported by the imposed deadlines.

**Views of Responsible Officials and Planned Corrective Actions:**

Sound Generations agrees with the finding. Due to the cyber-attack that occurred in 2021 and subsequent class action lawsuit, the audit report was delayed awaiting the results of the settlement which was final in January of 2023. Sound Generations will ensure preparation of required information is accurately completed and reported by the imposed deadlines. See the attached unaudited corrective action plan.



Senior Services is now Sound Generations

**Sound Generations  
Corrective Action Plan  
Fiscal Year Ended December 31, 2021**

**Finding 2021-001 – Oversight of Senior Centers**

**Criteria:**

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

**Condition:**

Sound Generations current policy requires the CFO to meet with each Center board at least annually. However, there was no documentation available during the audit to show this occurred.

**Recommendations:**

The Organization should implement internal controls that ensure Center activity is appropriately reported and recorded and on the accrual basis of accounting.

**Name of Contact Persons responsible for corrective action:** Carlos Rojas, Chief Financial Officer; Vedrana Durakovic, Community Engagement Officer; Christina Hannan, Controller,

**Corrective Action Taken:**

Sound Generations agrees with the finding. Documentation of CFO, Controller, or other Accounting staff attending Center Board meetings was not present.

Moving forward, CFO, the Controller or, another member of the Accounting Team will meet with the Center's Boards and will document such attendance; Center Board meeting minutes will be reviewed by the CEO, CFO and the Community Engagement Officer.

Finally, a Community Engagement Officer position was created in January 2023 to supervise the Centers. This new position has oversight of the Centers as follows:

- Attend at least 2 Board meetings at each Senior Centers per year, attendance documented;
- Review Senior Center's financials at least monthly (forecasts, P&Ls, monitor budgets and intercompany accounts in PowerBi);
- Support with budget planning for upcoming year; review draft and final budgets;
- Meet with the SC Directors monthly one on one, as well as all together where we often review financials and discuss issues with their Boards, meeting minutes will be documented;
- Attend one staff meeting per center per quarter, attendance documented
- Organize and hold the Senior Center Committee meetings (SG Board and SC Board reps)
- Approve and review credit card purchases in Accounts Payable workflow coming from the Senior Centers.

### **Finding 2021-002 – Consolidation of Senior Center Activity**

#### **Condition:**

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

#### **Recommendations:**

The Organization should analyze activity between the Centers and Sound Generations to ensure any intercompany activity is eliminated upon consolidation.

**Name of Contact Persons responsible for corrective action:** Carlos Rojas, Chief Financial Officer; Christina Hannan, Controller

#### **Corrective Action Taken:**

Sound Generations agrees with the finding. At the auditor's request for the last 5 years, intercompany transactions were not eliminated because auditors like to see those transactions in the trial balance, then make the adjustment themselves, Sound Generations accounting team is aware and capable of eliminating such transactions.

Sound Generations will create intercompany eliminations upon annual consolidation.

Sound Generations will train bookkeepers at the Centers to accrue pre-paid revenues received in the last 2 months of the year for the next year.

### **Finding 2021-003 – Salesforce Allocations**

#### **Condition:**

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

#### **Recommendations:**

We recommend ensuring that employees with Salesforce access are aware that all activity must be entered into Salesforce prior to financial close or after each month. Salesforce should be closed each month to ensure adjustments are not made to prior periods.

**Name of Contact Persons responsible for corrective action:** Carlos Rojas, Chief Financial Officer; Christina Hannan, Controller; John Gleichman, IT Director

#### **Corrective Action taken in 2022:**

Sound Generations agrees with the finding. The corrective action involves multiple systems.

Salesforce - These highly-customized and complex systems are used by staff to manage client/service data for all programs.

SQL server – All Salesforce data is downloaded to SQL throughout the day. Complex queries (too large for Salesforce) break the raw data down into tables for enhanced reporting.

Power BI – All the condensed Salesforce data is uploaded to Power BI for financial reporting.

Our Salesforce systems were never designed to freeze data at any given point in time. We had always been more concerned with data completeness regarding any specific client or service so that was the design philosophy

when they were built. Service data is rarely entered or updated into previous months, but it can and does happen. The complexity of these systems is such that it would be very challenging to update them to keep users from changing old data.

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

We hope to significantly reduce the complexity of this reporting process in the near future by removing Salesforce and replacing it with ServTracker, a comprehensive database system that has modules for most of the programs we implement. By removing the complex Salesforce systems built in-house and replacing them with off-the-shelf systems that handle data-freezing and reporting in an industry-standard way, reporting should be much more transparent and protected from previous period changes.

### **Finding 2021-004 – Net Asset Adjustment**

#### **Condition:**

Sound Generations is correcting prior year net assets after discovering that, from 1995 to 2010, there were additions to their endowed balance that were board restricted rather than donor restricted.

#### **Recommendations:**

We recommend that Management clearly document accounting treatment for significant transactions and how they are recorded in accordance with accounting guidance. Documentation related to endowment gifts should be maintained in perpetuity.

**Name of Contact Persons responsible for corrective action:** Carlos Rojas, Chief Financial Officer; Christina Hannan, Controller; Sound Generations Finance Committee.

#### **Corrective Action taken in 2022:**

Sound Generations agrees with the finding.

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

### **Finding 2021-005 Weakness in IT Control Environment**

#### **Condition:**

Two ransomware attacks occurred in 2021. The attacker could have accessed electronic health information and personally identifiable information during the breach.

#### **Recommendations:**

Sound Generations should improve cyber security in accordance with recommendations provided by industry experts.

**Name of Contact Persons responsible for corrective action:** Carlos Rojas, Chief Financial Officer; Christina Hannan, Controller; John Gleichman, IT Director

#### **Corrective Action taken in 2021:**

Sound Generations agrees with the finding. Sound Generations has adopted the cybersecurity best practices identified in The Cybersecurity Act of 2015 to include:

- 1) Moved the primary computing network from an on-premises Active Directory to the cloud-based Microsoft 365 platform and enforced multi-factor authentication for access on all accounts.
- 2) Azure-joined all workstations and enforced BitLocker encryption as part of this process.
- 3) Enforced multi-factor authentication for all access to the downtown network.

- 4) Implemented Windows Defender for Endpoint on all workstations to provide integrated endpoint protection.
- 5) Implemented Windows Defender for Office to provide additional email/attachment protection.
- 6) Implemented a cloud-based backup for Microsoft 365 with multi-factor authentication for all administrators.
- 7) Implemented a staff security training and phishing test system to enforce quarterly staff security trainings.
- 8) Arranged for a comprehensive HIPAA Security Assessment to identify deficiencies in our HIPPA policies and procedures.
- 9) Arranged for a comprehensive Technical Security Assessment to perform penetration testing on our firewall and verify that Microsoft 365 settings are optimal.
- 10) Updated its privacy and security policies and procedures.
- 11) Updated a new security rule risk mitigation plan; and
- 12) Performed a new security rule risk analysis.

### **Finding 2021-006 – Unallowable Costs**

#### **Condition:**

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

#### **Recommendations:**

The Organization should improve internal controls by training employees on activities and costs unallowable under federal grants.

**Name of Contact Persons responsible for corrective action:** Carlos Rojas, Chief Financial Officer; Christina Hannan, Controller

#### **Corrective Action taken in 2022:**

Sound Generations agrees with the finding.

We would like to note that the intercompany expenditures are in accordance with the grant as written and we maintain clear records for reconciliation with the funder for reimbursement rates to intercompany entities. We only include the costs according to the reimbursement rates when reporting to the funder per the grant guidelines. There is no duplication or incorrect or excess billing of costs to any Funder.

The agency included \$14,961 in in-kind rent and 292.50 in in-kind supplies in 1 month in the Funder expenses and similarly applied combined program expenses against the in-kind funding match. As such, the agency has already implemented processes by which in-kind and other directly funded expenditures are clearly excluded from erroneously being either charged to another funder, or reported as program expenditures to other funders, except in total funding match reports.

**Worth noting is that this particular contract is not cost reimbursement, thus no in-kind expenses were charged or billed to the grant for the 1 month the error occurred.**

The agency included \$3.96 in vendor late fees in the total reimbursement request to a grant. Sound Generations has implemented a new Procurement and Expense reporting software. This allows us to enforce our Procurement policy, specifically for there to be multiple reviews of every expenditure and verify that costs are always allocated according to grant allowance, federal guidance and general accounting guidance. Additionally, all accounting staff are required to attend federal grants compliance training within the first 90 days of employment and follow up trainings are encouraged no less frequently than biannually.

### **Finding 2021-007 Time Studies**

#### **Condition:**

For employees who work in multiple programs, their time is allocated based on estimated allocation rates (obtained from semi-annual time studies). These employees did not track and report their time based on actual time spent on Aging Cluster programs, and instead tracked total hours worked. When payroll and related costs

were charged in the accounting system, they were charged based on the allocated rates. There was no procedure in place to determine if a true-up was necessary from allocated costs. Three hundred and sixty-seven timesheets were tested during the audit, and all were charged based on allocated rates.

**Recommendation:**

We recommend that Sound Generations implement policies and procedures to review for any necessary budget to actual adjustments, and we recommend that sufficient documentation be maintained to support any adjustments made as required by 2 CFR 200.430.

**Name of Contact Persons responsible for corrective action:** Carlos Rojas, Chief Financial Officer; Christina Hannan, Controller

**Corrective Action taken in 2022:**

Sound Generations agrees with the finding. Of the 367 timesheets reviewed, and the thousands of timesheets that were not reviewed, we had one employee who had time allocated to multiple departments and was not participating in the semi-annual time study process. This employee's allocations were established prior to the allocation review process, where the Controller reviews all allocations and job assignments for new employees and then adds them to the semi-annual time study schedule. Additionally, this employee worked in the two departments that are funded based upon deliverables and not expense reimbursement, so the payroll allocations weren't part of our secondary review. As such, we have implemented a final review process where all allocated employees are reviewed in September and March to verify that they are scheduled for semi-annual time studies.

Additionally, we will ask all employees who work in multiple departments to sign an attestation that the time study remains an accurate record of their time no less often than quarterly.

**Worth noting: there was no incorrect billing because of this error.**

**Finding 2021-008 Deficiency in Internal Control for Payroll Benefits**

**Condition:**

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

**Recommendations:**

The Organization should add a level of review to allocation workbooks to ensure preparation was done correctly.

**Name of Contact Persons responsible for corrective action:**

Carlos Rojas, Chief Financial Officer; Christina Hannan, Controller

**Corrective Action taken in 2022:**

Sound Generations agrees with the finding.

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

**Finding 2021-009 Weakness in IT Control Environment**

**Condition:**

Two ransomware attacks occurred in 2021. The attacker could have accessed electronic health information and personally identifiable information during the breach.



**Recommendations:**

Sound Generations should improve cyber security in accordance with recommendations provided by industry experts.

**Name of Contact Persons responsible for corrective action:** Carlos Rojas, Chief Financial Officer; Christina Hannan, Controller; John Gleichman, IT Director

**Corrective Action taken in 2021:**

Sound Generations agrees with the finding. Sound Generations has adopted the cybersecurity best practices identified in The Cybersecurity Act of 2015 to include:

- 13) Moved the primary computing network from an on-premises Active Directory to the cloud-based Microsoft 365 platform and enforced multi-factor authentication for access on all accounts.
- 14) Azure-joined all workstations and enforced BitLocker encryption as part of this process.
- 15) Enforced multi-factor authentication for all access to the downtown network.
- 16) Implemented Windows Defender for Endpoint on all workstations to provide integrated endpoint protection.
- 17) Implemented Windows Defender for Office to provide additional email/attachment protection.
- 18) Implemented a cloud-based backup for Microsoft 365 with multi-factor authentication for all administrators.
- 19) Implemented a staff security training and phishing test system to enforce quarterly staff security trainings.
- 20) Arranged for a comprehensive HIPAA Security Assessment to identify deficiencies in our HIPPA policies and procedures.
- 21) Arranged for a comprehensive Technical Security Assessment to perform penetration testing on our firewall and verify that Microsoft 365 settings are optimal.
- 22) Updated its privacy and security policies and procedures.
- 23) Updated a new security rule risk mitigation plan; and
- 24) Performed a new security rule risk analysis.

**Finding 2021-010 – Late Submittance of Data Collection Form****Condition:**

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

**Recommendations:**

Sound Generations should ensure preparation of required information is accurately completed and reported by the imposed deadlines.

**Views of Responsible Officials:**

Sound Generations agrees with the finding. Due to the cyber-attack that occurred in 2021 and subsequent class action lawsuit, the audit report was delayed to await the results of the settlement which was final in January of 2023.

Sound Generations will ensure preparation of required information is accurately completed and reported by the imposed deadlines.