

SCA Finance Committee

April 8, 2019, 1:00 PM

Via conference call – Dial-in Number: (712) 775-7031, Meeting ID: 363409 #

1. Call to Order Hank Margeson, Treasurer
2. Public Comment
3. Approval of Minutes of March 11, 2019 Meeting [Attachment 1](#)
Recommended Action: Approval of minutes
4. Review and Approval of March 2019 Financial Report [Attachment 2](#)
 - a. March Profit and Loss Statement [Attachment 3](#)
 - b. March Balance Sheet [Attachment 4](#)
 - c. 2019 Approved Budget (for comparison)***Recommended Action: Approval of financial report***
5. 2017 SCA Audit [Attachment 5](#)
6. Update on 2018 End of Year Financial Report
7. Update on SCA Staffing
8. Update on Sponsors/RAMS/Partners [Attachment 6](#)
9. Update on City Dues [Attachment 7](#)
10. SCA Employee Benefits Discussion
11. For the Good of the Order
12. Adjourn

DRAFT Minutes
SCA Finance Committee

March 11, 2019, 1:00 PM

SCA Offices, 6300 Southcenter Blvd #206, Tukwila WA 98188

Via conference call – Dial-in Number: (712) 775-7031, Meeting ID: 363-409 #

1. Hank Margeson, Treasurer, called the meeting to order at 1:02 PM. Present in person were Hank Margeson and Bob Larson and staff SCA Executive Director Deanna Dawson and SCA Administrative Services Manager Dana Almberg. Present telephonically was Dana Ralph. Bruce Bassett and Nancy Backus were absent.
2. Treasurer Margeson inquired as to whether any member of the public wished to provide comment. Hearing none, he closed the public comment portion of the meeting.
3. **Ralph moved, seconded by Larson to approve the minutes of the of February 11, 2019 Meeting [Attachment 1](#).** The motion passed unanimously.
4. The Committee reviewed the REVISED January, and February 2019 Financial Reports. [Attachments 2-5](#) ED Dawson provided an overview of the documents including the January Profit and Loss Statement (revised) [Attachment 2](#), the January Balance Sheet (revised) [Attachment 3](#), the February Profit and Loss Statement [Attachment 4](#), the February Balance Sheet [Attachment 5](#), and the 2019 Approved Budget (for comparison) [Attachment 6](#).

Larson moved, seconded by Ralph to approve the January (revised) and February financial reports, and to recommend their approval to the SCA Board. The motion passed unanimously.

5. Dawson gave the Board an update on discussions with the SCA accountants and auditors regarding the balance sheet, and reserves. She noted that accrued vacation leave is included on the balance sheet. By also showing in reserves, the liability is being shown twice. She noted that she had discussed whether to also show the contractual obligation for Executive Director severance pay on the balance sheet; they had recommended against doing so. Based on discussions with accountants and auditors, the recommendation is to amend the reserves/reserve policies to not include the accrued vacation liabilities, for the reasons stated above. The future severance pay could be included as a separate line item, or included in the contractual liabilities reserve, if the committee

wished to do so. The committee/board may also wish to have a policy of keeping sufficient funds to pay all accrued vacation liabilities.

Larson moved, seconded by Ralph, to recommend to the board:

- **Updating the 2019 reserve levels to:**
 - **Amend the 2019 Contractual Reserves by adding \$82,250 for the ED contractual severance liability**
 - **Delete the Employment Reserve line (because the accrued vacation liabilities are included on the organization's balance sheet)**
 - **Updating the SCA Board Policies to clarify that the organization should maintain sufficient funds to cover all liabilities, including employment liabilities**
6. ED Dawson reviewed the 2017 SCA Audit with the committee, including recommended Audit Adjustments [Attachment 8](#), Sound Cities Association 2017 Draft Audit [Attachment 9](#), and Sound Cities Association Management Representation Letter [Attachment 10](#).
- Larson moved, seconded by Ralph, to recommend acceptance of the 2017 SCA audit to the board, and to direct Treasurer Margeson to sign the Management Representation Letter.**
7. Dawson updated the Committee on correspondence from the IRS regarding SCA's tax deposits. SCA's new accounting team had mistakenly filed on a monthly rather than semi-weekly basis, resulting in a penalty being imposed for 3rd quarter 2018. Dawson contacted the IRS, who had agreed to waive the penalty due to a good history of payment. Because the error had also occurred in the 4th quarter of 2018, an additional penalty may be imposed. The error has been corrected for 2019.
8. Dawson updated the Committee on SCA staffing, noting that former Administrative Service Manager Caitlin Magee had agreed to stay on through March to train new Administrative Services Manager Dana Almberg. This would result in an increased staffing cost for 2019.
9. Dawson updated the Committee on progress with SCA's accountants.
10. Dawson updated the Committee on Sponsors/Regional Associate Members/Partners for 2019, and reviewed [Attachment 11](#) with the Committee. She noted that SCA was on track to bring in \$17,000 more than budgeted in sponsor revenue for 2019.
11. Dawson updated the Committee on 2019 City Dues and reviewed [Attachment 12](#) with the Committee. She noted that only one city had yet to pay dues for 2019 (Milton). President Guier and Dawson met with Milton's Mayor the prior week to discuss.

12. Update on Processes:

- a. Pay Days: Dawson reported that SCA may move to having all staff on the pay schedule, on the 20th and 5th of each month. She informed staff of the proposed change to give them time to adjust.
- b. Event Expenses/Revenue: Dawson informed the Committee that in addition to the Profit and Loss statements which track annual event revenue, she was putting in place a new method to keep track of individual event expenses and revenue.
- c. PayPal: Dawson informed the Committee that in the future PayPal will appear on the Balance Sheet as a separate account.
- d. Financial Reports: Dawson noted for the Committee that the Financial Reports had a new format, and asked for feedback.

13. Dawson updated the Committee on additional employee benefits under discussion including Community Center membership and Orca passes. She asked the Committee for additional suggestions on benefits. Larson noted that the City of Snoqualmie had negotiated with some bargaining units to provide DCP matches. Dawson will continue the discussion with the Committee and the Board.

14. There were no items for the good of the order.

15. The meeting was adjourned at 2:03 PM.

SOUND CITIES ASSOCIATION

PROFIT AND LOSS

January - March, 2019

| | JAN 2019 | FEB 2019 | MAR 2019 | TOTAL |
|--|---------------------|-------------------|--------------------|---------------------|
| Income | | | | |
| Dues | | | | \$0.00 |
| Member Dues | 689,597.25 | | | \$689,597.25 |
| Regional Associate Membership Dues and Event Sponsorship | 54,500.00 | 5,000.00 | 11,500.00 | \$71,000.00 |
| Total Dues | 744,097.25 | 5,000.00 | 11,500.00 | \$760,597.25 |
| Interest Income | 879.80 | 1,246.23 | 1,398.38 | \$3,524.41 |
| Program Revenue | | | | \$0.00 |
| Registration/Dinners Revenue | 5,495.00 | 0.00 | 3,790.00 | \$9,285.00 |
| Total Program Revenue | 5,495.00 | 0.00 | 3,790.00 | \$9,285.00 |
| Total Income | \$750,472.05 | \$6,246.23 | \$16,688.38 | \$773,406.66 |
| GROSS PROFIT | \$750,472.05 | \$6,246.23 | \$16,688.38 | \$773,406.66 |
| Expenses | | | | |
| Accounting Fees | | | | \$0.00 |
| Accountants | 2,972.00 | 9,113.20 | 2,174.50 | \$14,259.70 |
| Total Accounting Fees | 2,972.00 | 9,113.20 | 2,174.50 | \$14,259.70 |
| Board / Org Development | | | | \$0.00 |
| Consultants | 1,500.00 | 3,989.00 | 2,000.00 | \$7,489.00 |
| Retreats/Mtgs/Conf/Dues/Events | 1,159.52 | 1,041.41 | 388.75 | \$2,589.68 |
| Total Board / Org Development | 2,659.52 | 5,030.41 | 2,388.75 | \$10,078.68 |
| CC, Banking & Other Fees | 0.00 | -40.48 | -9.52 | \$ -50.00 |
| Contingency Fund | 221.94 | | | \$221.94 |
| Depreciation | 159.25 | 159.25 | 159.25 | \$477.75 |
| Event Expenses | | | | \$0.00 |
| Event Pmts Processing Fee | 182.49 | 3.69 | 136.06 | \$322.24 |
| Food/Beverage | 4,490.86 | | | \$4,490.86 |
| Other Meeting Expenses | 192.50 | | | \$192.50 |
| Total Event Expenses | 4,865.85 | 3.69 | 136.06 | \$5,005.60 |
| IT | | | | \$0.00 |
| Internet | 100.00 | 100.00 | 100.00 | \$300.00 |
| Website Design/Hosting | 20.00 | 20.00 | 20.00 | \$60.00 |
| Total IT | 120.00 | 120.00 | 120.00 | \$360.00 |
| Office / Overhead | | | | \$0.00 |
| Printing and Publication | | | | \$0.00 |
| Copier/Printer Lease & Maint | 368.00 | 369.21 | 369.21 | \$1,106.42 |
| Outside Printing & Publication | | 573.56 | | \$573.56 |
| Total Printing and Publication | 368.00 | 942.77 | 369.21 | \$1,679.98 |
| Rent | 2,333.90 | 2,333.90 | 2,333.90 | \$7,001.70 |
| Total Office / Overhead | 2,701.90 | 3,276.67 | 2,703.11 | \$8,681.68 |
| Office Supplies / Misc. | 197.47 | 185.59 | 174.98 | \$558.04 |
| Payroll Expenses | | | | \$0.00 |
| Payroll Taxes | | | | \$0.00 |

| | JAN 2019 | FEB 2019 | MAR 2019 | TOTAL |
|--------------------------------|--------------------|--------------------|--------------------|---------------------|
| Taxes - FICA, Medicare - 941 | 3,208.52 | 3,269.03 | 3,494.18 | \$9,971.73 |
| Taxes - L & I | 73.34 | 88.32 | 98.34 | \$260.00 |
| Taxes-FUTA | 447.59 | 27.24 | 24.13 | \$498.96 |
| Taxes-SUTA | 54.56 | 55.76 | 59.93 | \$170.25 |
| Total Payroll Taxes | 3,784.01 | 3,440.35 | 3,676.58 | \$10,900.94 |
| Payroll Wages | | | | \$0.00 |
| Staff Wages | 45,397.87 | 42,649.00 | 45,592.37 | \$133,639.24 |
| Total Payroll Wages | 45,397.87 | 42,649.00 | 45,592.37 | \$133,639.24 |
| Staff Benefits | | | | \$0.00 |
| Medical/Dental/Vision/Life Ins | 3,951.16 | 3,951.16 | 5,427.41 | \$13,329.73 |
| Pension Plan Contributions | 5,502.92 | 5,581.17 | 5,966.27 | \$17,050.36 |
| Professional Development | 65.00 | | | \$65.00 |
| Travel Reimburse | 221.00 | 82.57 | 212.12 | \$515.69 |
| Car Allowance | 500.00 | 500.00 | 500.00 | \$1,500.00 |
| Total Travel Reimburse | 721.00 | 582.57 | 712.12 | \$2,015.69 |
| Total Staff Benefits | 10,240.08 | 10,114.90 | 12,105.80 | \$32,460.78 |
| Total Payroll Expenses | 59,421.96 | 56,204.25 | 61,374.75 | \$177,000.96 |
| Phones | 261.86 | 274.14 | 275.02 | \$811.02 |
| Total Expenses | \$73,581.75 | \$74,326.72 | \$69,496.90 | \$217,405.37 |
| NET OPERATING INCOME | \$676,890.30 | \$ -68,080.49 | \$ -52,808.52 | \$556,001.29 |
| Other Expenses | | | | |
| Reconciliation Discrepancies-1 | 480.57 | | | \$480.57 |
| Total Other Expenses | \$480.57 | \$0.00 | \$0.00 | \$480.57 |
| NET OTHER INCOME | \$ -480.57 | \$0.00 | \$0.00 | \$ -480.57 |
| NET INCOME | \$676,409.73 | \$ -68,080.49 | \$ -52,808.52 | \$555,520.72 |

SOUND CITIES ASSOCIATION

BALANCE SHEET

As of March 31, 2019

| | TOTAL |
|----------------------------------|-----------------------|
| ASSETS | |
| Current Assets | |
| Bank Accounts | |
| HomeStreet Bank | 201,332.93 |
| HomeStreet Bank - Money Market | 947,615.17 |
| PayPal Bank | 3,748.94 |
| Total Bank Accounts | \$1,152,697.04 |
| Accounts Receivable | |
| Accounts Receivable | 43,282.98 |
| Total Accounts Receivable | \$43,282.98 |
| Total Current Assets | \$1,195,980.02 |
| Fixed Assets | |
| Fixed Assets | |
| Accumulated Depreciation | -25,009.76 |
| Computers | 4,891.71 |
| Furniture and Fixtures | 31,060.23 |
| Total Fixed Assets | 10,942.18 |
| Leasehold Improvement Accum Dep | -13,755.66 |
| Leasehold Improvements | 13,755.66 |
| Total Fixed Assets | \$10,942.18 |
| TOTAL ASSETS | \$1,206,922.20 |
| LIABILITIES AND EQUITY | |
| Liabilities | |
| Current Liabilities | |
| Accounts Payable | |
| Accounts Payable | -2,161.56 |
| Total Accounts Payable | \$ -2,161.56 |
| Credit Cards | |
| HomeStreet Credit Card | 569.13 |
| Total Credit Cards | \$569.13 |
| Other Current Liabilities | |
| Payroll Liabilities | 0.00 |
| Accrued Vacation Pay | 53,625.94 |
| DCAP / FSA Payable | 2,291.63 |
| DRS DCP Payable | 3,725.32 |
| Federal Withholding | -219.39 |
| FIT, SS, Medicare - 941 | 6,561.47 |
| FUTA | 501.76 |
| L&I | 73.98 |
| Medical/Dental/Vision/Life Ins | -1,954.46 |
| PERS 2 Company Contribution | 556.06 |
| PERS Payable | 84.47 |

| | TOTAL |
|--|-----------------------|
| SDI | 776.69 |
| SUI | 145.26 |
| w/held VLTD Buy Up | 314.94 |
| WA Paid Family & Medical Leave | 333.31 |
| Total Payroll Liabilities | 66,816.98 |
| Total Other Current Liabilities | \$66,816.98 |
| Total Current Liabilities | \$65,224.55 |
| Total Liabilities | \$65,224.55 |
| Equity | |
| Board Designated Contra | -557,927.00 |
| Board Designated Reserves | |
| Contractual Obligations Reserve | 124,913.00 |
| Equipment Purchase Reserve | 15,000.00 |
| Legal Reserves Fund | 25,000.00 |
| Operations Reserves | 393,014.00 |
| Total Board Designated Reserves | 557,927.00 |
| Fund Balance (Prior Years) | 586,176.93 |
| Net Income | 555,520.72 |
| Total Equity | \$1,141,697.65 |
| TOTAL LIABILITIES AND EQUITY | \$1,206,922.20 |



2019 BUDGET

Income:

| | | |
|--|-----------|----------------|
| City Membership Dues: | \$ | 689,597 |
| Regional Associate Membership Dues & Event Sponsorships: | \$ | 64,000 |
| Event Registration Fees: | \$ | 28,530 |
| Interest Income: | \$ | 3,900 |
| Total Income: | \$ | 786,027 |

Expenses:

| | | |
|--|-----------|----------------|
| Staff: | \$ | 678,943 |
| Salaries: | \$ | 508,950 |
| Taxes: | \$ | 40,929 |
| SUTA+FUTA | \$ | 517 |
| FICA/Medicare | \$ | 39,394 |
| L&I | \$ | 1,018 |
| Staff Benefits: | \$ | 129,064 |
| PERS Contributions: | \$ | 64,637 |
| Medical/Dental/Vision/Life Insurance: | \$ | 50,927 |
| Professional Development: | \$ | 2,500 |
| Travel Reimbursement/Car Allowance: | \$ | 11,000 |
| Office/Overhead: | \$ | 48,989 |
| Rent: | \$ | 28,005 |
| Office Insurance: | \$ | 604 |
| Printing/Publications: | \$ | 5,500 |
| Copier/Printer Lease & Maintenance: | \$ | 5,000 |
| Outside Printing/Publications: | \$ | 500 |
| IT: | \$ | 2,900 |
| Internet: | \$ | 1,200 |
| Website Design/Hosting: | \$ | 1,200 |
| IT Staff Support: | \$ | - |
| IT Equipment: | \$ | 500 |
| Phones: | \$ | 3,330 |
| Credit Card, Banking, and Other Fees: | \$ | 150 |
| Accounting & Payroll Processing Fees: | \$ | 4,500 |
| Legal: | \$ | 1,500 |
| Office Supplies/Miscellaneous: | \$ | 2,500 |
| Event Expenses: | \$ | 25,300 |
| Food/Beverages: | \$ | 23,200 |
| Event Payment Processing Fees: | \$ | 900 |
| Other Meeting Expenses: | \$ | 1,200 |
| Board/Organizational Development: | \$ | 22,774 |
| Directors & Officers Insurance: | \$ | 1,774 |
| Awards/Recognition: | \$ | 2,000 |
| Retreats/Meetings/Conferences/Dues/Events: | \$ | 10,000 |
| Consultants & Temporary Staff: | \$ | 9,000 |
| Contingency Fund: | \$ | 10,000 |
| Total Expenses: | \$ | 786,006 |

| | | |
|-----------------------|-----------|----------------|
| Total Income: | \$ | 786,027 |
| Total Expense: | \$ | 786,006 |
| | \$ | 21 |

March 11, 2019

Board of Directors and Management
Sound Cities Association
6300 Southcenter Blvd. # 206
Tukwila, Washington 98188

Discussion Points
Re: Audit and Accounting – 2017

Board of Directors and Management:

We have audited the financial statements of Sound Cities Association (SCA) for the year ended December 31, 2017, and have issued our report thereon dated March 11, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 15, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative aspects of accounting practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SCA are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by SCA during the year for which there was a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting SCA's financial statements were:

1. The remaining useful life of depreciable property.
2. The collectability of accounts receivable.

Management's estimates are based on the best information that was available at the time. We evaluated the key factors and assumptions used to develop the above accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and uncorrected misstatements

Professional standards required us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: adjustments were made to correct payroll and related expenses as well as payroll liabilities.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated March 11, 2019.

Management consultation with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other audit findings or issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other findings

Facts:

During our audit procedures for testing cash, we noted that there were several old checks and a deposit still showing as uncleared transactions at year-end and in 2018 until the bank account was closed. In addition, the bank balance per book did not agree with the bank reconciliation due to a check that was accidentally voided after the check cleared the bank account.

Potential Effect:

Old, uncleared transactions on bank reconciliations generally are a flag the bank balance is not correctly stated. Uncleared deposits should be investigated for possible duplication or not being deposited to the bank. The bank may not accept checks over six months after issued. In addition, outstanding checks could indicate a duplicate check. Finally, deleting a check after clearing the bank would cause the bank balance to be incorrect.

Recommendation:

We recommend that the organization periodically review the bank reconciliations for outstanding items that have not cleared the bank. In addition, checks written and reconciled should not be removed from the bank balance.

Facts:

During our audit procedures of accounts payable and receivable we noted some small, old balances reported on the accounts receivable and payable summary reports.

Potential Effect:

The accounts receivable summary report should be reviewed periodically to ensure that past due receivables are followed up on. If an account is no longer collectible, the balance should be written off with approval. Incorrect accounts payable balances could lead to expenses being over/understated on the financial statements.

Recommendation:

We recommend management periodically review the accounts receivable and payable balances to ensure the amounts reported are correct.

This information is intended solely for the use of the Board of Directors and management of SCA and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,


PAULSEN, MEGAARD & CO, PS



Paulsen, Megaard & Co., PS
Certified Public Accountants

22232 17th Ave SE, Suite 310
Bothell, Washington 98021-7425
Phone: (425) 489-3416
Fax: (425) 485-3451
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March 11, 2019

Board of Directors and Management
Sound Cities Association
6300 Southcenter Blvd. # 206
Tukwila, Washington 98188

Board of Directors and Management:

In planning and performing our audit of the financial statements of Sound Cities Association (SCA) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered SCA's 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of SCA's internal control. Accordingly, we do not express an opinion on the effectiveness of SCA's 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 discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of SCA's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in SCA's internal control to be a material weakness:

Facts

During our testing of payroll, we noted the May 15, 2017 payroll was entered twice in the accounting system due to the change of payroll services and the outstanding liabilities were not being reconciled and corrected.

Potential effect

Due to the payroll being entered twice, payroll liabilities and payroll and related expenses were overstated.

Recommendation

We recommend that management review their liability balances on a regular basis to ensure the outstanding balances are accurate. It is important the payroll liability accounts be accurately stated. Management should monitor for any unpaid payroll related balances to avoid any late payment penalties. In addition, if the liabilities are incorrectly stated, the financial statements will be misleading.

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 following deficiency in SCA's internal control to be a significant deficiency:

Facts

It was noted during our audit procedures that the employees' portion of contributions to the retirement plan were not submitted to the State in a timely manner. Furthermore retirement contributions liability accounts were not being reconciled.

Potential effect

According to IRS regulations, employers must submit employee contributions to retirement plans as soon as the organization can reasonably segregate the amounts from the employer's general assets. Failure to remit employee contributions to the plan in a timely manner may result in loss of earnings and possible penalties to the organization.

Recommendation

We recommend the organization submit retirement contributions as soon as a payroll is finalized. In addition, the retirement contributions liabilities need to be reconciled on a regular basis to ensure that outstanding contributions are submitted to the retirement plan. We recommend the organization review these liability accounts to ensure the amounts recorded on the financial statements agree with amounts submitted to the retirement plan.

This communication is intended solely for the information and use of the Board of Directors and management of SCA, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,


PAULSEN, MEGAARD & CO, PS



Paulsen, Megaard & Co., PS
Certified Public Accountants

22232 17th Ave SE, Suite 310
Bothell, Washington 98021-7425
Phone: (425) 489-3416
Fax: (425) 485-3451
www.paulsenmegaard.com

March 28, 2019

Deanna Dawson
Executive Director
Sound Cities Association
6300 Southcenter Blvd Suite 206
Tukwila, Washington 98188

Dear Deanna:


Enclosed are one bound and one unbound set of the audited financial statements for 2017 of Sound Cities Association. We also emailed you a PDF version of the audit per your request.

Also enclosed are the letter of our communication with those charged with governance and the letter on communication of internal control.

Thanks to you and Caitlin for your input and observations during the audit procedures.

Please call if you have any questions.

Sincerely,



Susan L. Paulsen, CPA, NHA
PAULSEN, MEGAARD & CO, PS

Enclosures

Sound Cities Association

Financial Statements

December 31, 2017



Paulsen, Megaard & Co., PS
Certified Public Accountants

22232 17th Ave SE, Suite 310
Bothell, Washington 98021-7425

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To the Board of Directors of Sound Cities Association

We have audited the accompanying financial statements of Sound Cities Association (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sound Cities Association as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Paulsen, Megaard & Co., PS
Certified Public Accountants
Bothell, Washington
March 11, 2019

**SOUND CITIES ASSOCIATION
STATEMENT OF FINANCIAL POSITION**

DECEMBER 31, 2017

ASSETS

| | |
|-----------------------------|------------|
| Current assets | |
| Cash and cash equivalents | \$ 642,158 |
| Accounts receivable | 12,905 |
| Total current assets | 655,063 |
| Property and equipment, net | 10,766 |
| Total assets | \$ 665,829 |

LIABILITIES AND NET ASSETS

| | |
|----------------------------------|------------|
| Current liabilities | |
| Accounts payable | \$ 1,713 |
| Credit card payable | 1,047 |
| Accrued wages and related | 18,459 |
| Accrued vacation payable | 39,832 |
| Total current liabilities | 61,051 |
| Net assets | |
| Unrestricted net assets | 604,778 |
| Total net assets | 604,778 |
| Total liabilities and net assets | \$ 665,829 |

See accompanying notes

2

**SOUND CITIES ASSOCIATION
STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED DECEMBER 31, 2017

Changes in unrestricted net assets

| | |
|---|------------|
| Revenue | |
| Member dues | \$ 693,531 |
| Registration and dinners | 30,151 |
| Other income | 1,000 |
| Interest income | 2,661 |
| Total revenue | 727,343 |
| Expense | |
| Salaries and wages | 514,642 |
| Employee benefits | 109,673 |
| Payroll taxes | 36,082 |
| Legal fees | 2,966 |
| Accounting fees | 1,335 |
| Office expense | 15,443 |
| Information technology | 8,473 |
| Rent | 23,359 |
| Office insurance | 604 |
| Conferences, conventions, and meetings | 36,889 |
| Depreciation | 6,394 |
| Insurance | 1,774 |
| Professional and consulting services | 4,181 |
| Loss on disposal of assets | 447 |
| Total expense | 762,262 |
| Decrease in unrestricted net assets | (34,919) |
| Unrestricted net assets beginning balance | 639,697 |
| Decrease in unrestricted net assets | (34,919) |
| Unrestricted net assets ending balance | \$ 604,778 |

See accompanying notes

SOUND CITIES ASSOCIATION
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

| | |
|---|-------------|
| Cash flows from operating activities | |
| Cash received from programs and dues | \$ 691,529 |
| Interest received | 2,661 |
| Cash paid to suppliers and employees | (711,902) |
| Net cash used by operating activities | (17,712) |
| Cash flows from investing activities | |
| Purchases of property and equipment | (9,555) |
| Net cash used by investing activities | (9,555) |
| Net decrease in cash and cash equivalents | (27,267) |
| Cash and cash equivalents at beginning of year | 669,425 |
| Cash and cash equivalents at end of year | \$ 642,158 |
| Reconciliation of change in net assets to net cash used by operating activities | |
| Decrease in unrestricted net assets | \$ (34,919) |
| Adjustments to reconcile change in net assets to net cash used by operating activities | |
| Depreciation | 6,394 |
| Loss on disposal of asset | 447 |
| Decrease (increase) | |
| Accounts receivable | (11,790) |
| Increase (decrease) | |
| Deferred revenue | (21,363) |
| Accrued wages and related | 18,075 |
| Accrued vacation payable | 33,931 |
| Accounts payable | (44) |
| Credit card payable | (8,443) |
| Total adjustments | 17,207 |
| Net cash used by operating activities | \$ (17,712) |

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

**SOUND CITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS**

Note 1. Description of the organization

Sound Cities Association (SCA) is a nonprofit organization representing 38 cities in King County, Washington and provides a voice for nearly one million people. Founded in the 1970's, the purpose of SCA is to help cities act locally and partner regionally to create vital, livable communities through advocacy, education, leadership, mutual support, and networking.

Revenue of SCA is comprised of membership dues and revenue received from other sources.

Federal income taxes and tax status

SCA is exempt from federal income tax on income related to its exempt purposes under section 501(c)(4) of the Internal Revenue Code. Any unrelated business income will be subjected to income tax. There was no unrelated business income for 2017; therefore, no provisions for income taxes are included in the financial statements.

Note 2. Summary of significant accounting policies

Basis of presentation

Assets, liabilities, revenue, and expense are recognized on the accrual basis of accounting in accordance with Accounting Principles Generally Accepted in the United States of America (U.S. GAAP). Current assets and current liabilities include items that may be realized or liquidated during the next calendar year.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Accounts receivable

Accounts receivable represents amounts due from members' dues and assessments, and are stated at the amount management expects to collect from outstanding balances. Members' dues and assessments receivable are written off when they are determined to be uncollectible. SCA considers all accounts receivable at year-end to be fully collectible.

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments with remaining maturity at the date of purchase of three months or less. There are no non-cash transactions included in the statement of cash flows.

Revenue recognition

Revenue is reported as increases in unrestricted net assets. Expense is reported as decreases in unrestricted net assets.

Member and dues assessments

SCA dues are assessed annually as determined by the membership's adoption of SCA's budget. Assessments for special activities or expenses may be determined by action of the Board of Directors with approval of a majority of the membership. All dues and assessments will be based on the most recent official population figure for each city and town as provided by the State Office of Financial Management.

**SOUND CITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS**

Note 2. Summary of significant accounting policies continued

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of assets, which for equipment is five years, furniture and fixtures is five years and leasehold improvements is three years. Improvements, additions, and major renewals, which extend the life of an asset, are capitalized as property and equipment. Repairs and maintenance are expensed in the current period.

Note 3. Operating lease

SCA entered into an operating lease with the City of Tukwila in February 2016 for office space. The lease started on February 1, 2016 and ends on December 31, 2018. Office rental expense for 2017 was \$ 23,359.

Future minimum lease payments under the operating lease are as follows:

| <u>December 31, 2017</u> | |
|--------------------------|-----------|
| 2018 | \$ 24,089 |

Note 4. Operating lease - copier

SCA leases a copier under an operating lease. The lease expires March 31, 2022. Lease payments for the copier were \$ 4,768 for the year ended December 31, 2017, which included sales tax, copies, maintenance service, and supplies.

Future minimum lease payments under the lease are as follows:

| <u>DECEMBER 31, 2017</u> | |
|--------------------------|-----------|
| 2018 | \$ 4,330 |
| 2019 | 4,330 |
| 2020 | 4,330 |
| 2021 | 4,330 |
| 2022 | 1,083 |
| Total | \$ 18,403 |

Note 5. Property and equipment

Fixed assets are classified as follows:

| <u>December 31, 2017</u> | |
|-------------------------------|-----------|
| Furniture and fixtures | \$ 30,583 |
| Leasehold improvements | 13,756 |
| Total property and equipment | 44,339 |
| Less accumulated depreciation | (33,573) |
| Property and equipment, net | \$ 10,766 |

SOUND CITIES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

Note 6. Retirement plan

Eligible SCA employees participate in the Washington State Public Employees' Retirement System (PERS). Participants can choose to enroll in one of the two available PERS plans, within certain deadlines and limitations. Both SCA and its PERS participants contribute to the plans. Employer contributions, as a defined benefit component, are based on percentages of compensation as determined by PERS, and are not matching. Employer contributions go toward future retirement benefits, and are not credited to participants' accounts, and cannot be withdrawn. Depending on the participant's choice of plans, his or her contributions will be considered as either a defined benefit or a defined contribution component. The contribution expense recognized for 2017 was \$ 55,067.

Note 7. Subsequent events

The Board of Directors and management have evaluated subsequent events through March 11, 2019, the date the financial statements were available to be issued.

Note 8. Statement of functional expense

The statement of functional expense is allocated into two functions; program services and management and general. Program services expense includes the direct and indirect costs related to providing the organization's programs and mission. Program services include costs of the activities that form the basis of the organization's current tax exemption. Management and general expense relate to the overall direction of the organization and include expenses for activities of the governing board, business management, and general recordkeeping.

| | <i>Program Services</i> | <i>Management and General</i> | <i>Total</i> |
|--|-----------------------------|-----------------------------------|--------------|
| Salaries and wages | \$ 473,471 | \$ 41,171 | \$ 514,642 |
| Employee benefits | 100,899 | 8,774 | 109,673 |
| Payroll taxes | 33,195 | 2,887 | 36,082 |
| Legal fees | 0 | 2,966 | 2,966 |
| Accounting fees | 0 | 1,335 | 1,335 |
| Office expense | 14,208 | 1,235 | 15,443 |
| Information technology | 7,795 | 678 | 8,473 |
| Rent | 21,490 | 1,869 | 23,359 |
| Office insurance | 556 | 48 | 604 |
| Conferences, conventions, and meetings | 36,889 | 0 | 36,889 |
| Depreciation | 0 | 6,394 | 6,394 |
| Insurance | 1,632 | 142 | 1,774 |
| Professional and consulting services | 3,847 | 334 | 4,181 |
| Loss on disposal of assets | 0 | 447 | 447 |
| Total functional expense | \$ 693,982 | \$ 68,280 | \$ 762,262 |

Note 9. Concentration of credit risk

SCA had cash in banks in excess of Federal Deposit Insurance Commission limits during 2017. SCA endeavors to place its cash and investments in high credit quality financial instruments in order to limit exposure to credit risk.

**Regional Associate Member/Partner/Sponsor
Payment Tracking 2019**

| Entity | Level | Invoiced | Last Payment Received | Paid |
|--|---------------------------|------------------|------------------------------|------------------|
| Association of Washington Cities | Regional Associate Member | \$ 500 | Paid 2/25/2019 | \$ 500 |
| Boeing | Partner | \$ 6,000 | Invoiced March 2019 | |
| Boeing | Sponsor - July 2019 | \$ 2,500 | Invoiced March 2019 | |
| Cedar Grove | Regional Associate Member | \$ 500 | Paid 1/23/2019 | \$ 500 |
| Centurylink | Partner | \$ 6,000 | Paid 1/11/2019 | \$ 6,000 |
| Comcast | Partner | \$ 6,000 | Invoiced January 2019 | |
| Comcast | Sponsor 2019 | \$ 2,500 | Invoiced January 2019 | |
| Gordon Thomas Honeywell | Regional Associate Member | In Kind | n/a | n/a |
| Gordon Thomas Honeywell | Sponsor - May 2019 | \$ 2,500 | Paid 4/5/2019 | \$ 2,500 |
| Inslee Best Doezie & Ryder PS | Sponsor - April 2019 | \$ 2,500 | Paid 2/25/2019 | \$ 2,500 |
| Inslee Best Doezie & Ryder PS | Regional Associate Member | \$ 500 | Paid 2/25/2019 | \$ 500 |
| Jurassic Parliament | Regional Associate Member | In Kind | n/a | n/a |
| Marketing Solutions | Partner | In Kind | n/a | n/a |
| Master Builders Association of King & Snohomish Counties | Regional Associate Member | \$ 2,000 | Invoiced February 2019 | |
| Microsoft | Partner | \$ 6,000 | Invoiced April 2019 | |
| NorCom | Regional Associate Member | \$ 500 | Paid 2/1/2019 | \$ 500 |
| Port of Seattle | Partner | \$ 6,000 | Paid 2/7/2019 | \$ 6,000 |
| PRR | Regional Associate Member | \$ 500 | Invoiced March 2019 | |
| Puget Sound Energy | Partner | \$ 6,000 | Invoiced January 2019 | |
| Recology CleanScapes | Partner | \$ 6,000 | Paid 2/13/2019 | \$ 6,000 |
| Republic Services | Partner | \$ 6,000 | Paid 1/25/2019 | \$ 6,000 |
| Saunderson Marketing | Regional Associate Member | In Kind | n/a | n/a |
| Seattle Building and Construction Trades Council | Partner | \$ 6,000 | Invoiced January 2019 | |
| Seattle Building and Construction Trades Council | Sponsor - January 2019 | \$ 2,500 | Invoiced January 2019 | |
| Waste Management | Partner | \$ 6,000 | Invoiced January 2019 | |
| | Total | \$ 77,000 | | \$ 31,000 |
| | | | | |
| Entity | Level | | Last Payment Received | |
| AFT Washington | Regional Associate Member | \$ 500 | Paid 12/6/2018 | |
| AT&T | Regional Associate Member | \$ 500 | Paid 8/7/2018 | |
| Foster Pepper | Regional Associate Member | \$ 500 | Paid 6/11/2018 | |
| Foster Pepper | Sponsor -January 2018 | \$ 2,500 | Paid 6/11/2018 | |
| Green River College | Regional Associate Member | \$ 500 | Paid 9/19/2018 | |
| King Conservation District | Regional Associate Member | \$ 500 | Paid 6/11/2018 | |
| King County Library Systems | Regional Associate Member | \$ 500 | Paid 5/21/2018 | |
| SoundTransit | Regional Associate Member | \$ 500 | Paid 6/11/2018 | |
| SoundTransit | Sponsor - April 2018 | \$ 2,500 | Paid 6/11/2018 | |
| The Johnston Group | Regional Associate Member | \$ 500 | Paid 5/2/2018 | |
| Valley Communications | Regional Associate Member | \$ 500 | Paid 5/17/2018 | |
| Washington Hospitality Association | Regional Associate Member | \$ 500 | Paid 10/1/2018 | |
| | Total | \$ 10,000 | | |
| | | | | |



SOUND CITIES ASSOCIATION

38 Cities. A Million People. One Voice.

2019 SCA Assessments

| Municipality | 2018 OFM Population w/80K cap | 2019 Assessment (0.65521184 rate) | Payment Status |
|--------------------|----------------------------------|--------------------------------------|-------------------|
| Algona | 3,180 | \$ 2,083.57 | Paid |
| Auburn (part) | 70,650 | \$ 46,290.72 | Paid |
| Beaux Arts Village | 300 | \$ 196.56 | Paid |
| Bellevue | 80,000 | \$ 52,416.95 | Paid |
| Black Diamond | 4,360 | \$ 2,856.72 | Paid |
| Bothell (part) | 27,440 | \$ 17,979.01 | Paid |
| Burien | 51,850 | \$ 33,972.73 | Paid |
| Carnation | 2,155 | \$ 1,411.98 | Paid |
| Clyde Hill | 3,045 | \$ 1,995.12 | Paid |
| Covington | 20,080 | \$ 13,156.65 | Paid |
| Des Moines | 31,140 | \$ 20,403.30 | Paid |
| Duvall | 7,655 | \$ 5,015.65 | Paid |
| Enumclaw (part) | 11,660 | \$ 7,639.77 | Paid |
| Federal Way | 80,000 | \$ 52,416.95 | Paid |
| Hunts Point | 420 | \$ 275.19 | Paid |
| Issaquah | 37,110 | \$ 24,314.91 | Paid |
| Kenmore | 22,920 | \$ 15,017.46 | Paid |
| Kent | 80,000 | \$ 52,416.95 | Paid |
| Kirkland | 80,000 | \$ 52,416.95 | Paid |
| Lake Forest Park | 13,090 | \$ 8,576.72 | Paid |
| Maple Valley | 25,280 | \$ 16,563.76 | Paid |
| Medina | 3,245 | \$ 2,126.16 | Paid |
| Mercer Island | 24,270 | \$ 15,901.99 | Paid |
| Milton (part) | 1,195 | \$ 782.98 | |
| Newcastle | 12,410 | \$ 8,131.18 | Paid |
| Normandy Park | 6,595 | \$ 4,321.12 | Paid |
| North Bend | 6,825 | \$ 4,471.82 | Paid |
| Pacific (part) | 6,875 | \$ 4,504.58 | Paid |
| Redmond | 64,050 | \$ 41,966.32 | Paid |
| Renton | 80,000 | \$ 52,416.95 | Paid |
| Sammamish | 63,470 | \$ 41,586.30 | Paid |
| SeaTac | 29,130 | \$ 19,086.32 | Paid |
| Shoreline | 55,730 | \$ 36,514.96 | Paid |
| Skykomish | 205 | \$ 134.32 | Paid |
| Snoqualmie | 13,450 | \$ 8,812.60 | Paid |
| Tukwila | 19,800 | \$ 12,973.19 | Paid |
| Woodinville | 11,830 | \$ 7,751.16 | Paid |
| Yarrow Point | 1,065 | \$ 697.80 | Paid |