

SENIOR SERVICES AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2006 AND 2005

OMB A-133 SUPPLEMENTARY FINANCIAL REPORTS

YEAR ENDED DECEMBER 31, 2006

SENIOR SERVICES AND AFFILIATES  
CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

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## INDEPENDENT AUDITOR'S REPORT

April 30, 2007

Boards of Directors  
Senior Services and Affiliates  
Seattle, Washington

We have audited the accompanying consolidated statements of financial position of Senior Services and Affiliates as of December 31, 2006 and 2005, and the related consolidated statements of unrestricted activity, changes in net assets and members' equity, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Senior Services and Affiliates as of December 31, 2006 and 2005, and the changes in its net assets and members' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 30, 2007 on our consideration of Senior Services and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements of Senior Services and Affiliates taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

A handwritten signature in black ink that reads "Jacobson Jarvis & Co, PLLC". The signature is written in a cursive, flowing style.

Jacobson Jarvis & Co, PLLC

SENIOR SERVICES AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2006 AND 2005

ASSETS	2006					2005				
	Agency	Centers	Belltown LLC	Eliminations	Total	Agency	Centers	Belltown LLC	Eliminations	Total
Current Assets										
Cash and cash equivalents	\$ 181,433	\$ 1,217,907	\$ 106,013		\$ 1,505,353	\$ 273,121	\$ 1,313,698	\$ 83,203		\$ 1,670,022
Cash and cash equivalents - restricted	36,953	-	78,886		115,839	30,378	-	71,350		101,728
Investments	1,056,772	28,192	-		1,084,964	905,719	95,347	-		1,001,066
Accounts and grants receivable	1,301,883	-	1,472	\$ (14,372)	1,288,983	1,337,188	-	3,258	\$ (25,120)	1,315,326
United Way promise to give	523,183	-	-		523,183	523,183	-	-		523,183
Other promises to give	90,210	110,969	-		201,179	-	-	-		-
Inventory	39,306	-	-		39,306	58,193	-	-		58,193
Due from (to) other funds	789,329	(789,329)	-		-	210,205	(210,205)	-		-
Prepaid expenses	40,770	3,258	14,157		58,185	46,973	3,237	14,760		64,970
Unemployment compensation trust deposits	292,552	-	-		292,552	214,441	-	-		214,441
Total Current Assets	4,352,391	570,997	200,528	(14,372)	5,109,544	3,599,401	1,202,077	172,571	(25,120)	4,948,929
Cash and Cash Equivalents - restricted to long-term purposes	-	-	-		-	310,070	17,723	-		327,793
Promises to Give - long-term or restricted to long-term purposes	100,414	21,877	-		122,291	298,155	86,585	-		384,740
Investment in Partnership	(329)	-	-	329	-	(236)	-	-	236	-
Property and Equipment, net	4,688,429	13,119,812	2,996,018		20,804,259	5,028,812	12,403,570	3,113,179		20,545,561
	<u>\$ 9,140,905</u>	<u>\$13,712,686</u>	<u>\$ 3,196,546</u>	<u>\$ (14,043)</u>	<u>\$26,036,094</u>	<u>\$ 9,236,202</u>	<u>\$13,709,955</u>	<u>\$ 3,285,750</u>	<u>\$ (24,884)</u>	<u>\$26,207,023</u>
<b>LIABILITIES, NET ASSETS, AND MEMBERS' EQUITY</b>										
Current Liabilities										
Accounts payable	\$ 228,753	\$ 59,958	\$ 57,850	\$ (14,372)	\$ 332,189	\$ 172,446	\$ 17,064	\$ 40,311	\$ (25,120)	\$ 204,701
Accrued payroll	478,651	-	-		478,651	811,331	-	-		811,331
Refundable advance	43,981	-	-		43,981	40,470	234	-		40,704
Line of credit	652,923	-	-		652,923	195,923	-	-		195,923
Notes payable - current portion	84,081	3,973	10,582		98,636	13,132	3,675	10,230		27,037
Total Current Liabilities	1,488,389	63,931	68,432	(14,372)	1,606,380	1,233,302	20,973	50,541	(25,120)	1,279,696
Notes Payable, less current portion above	1,210,430	1,170,985	1,326,335		3,707,750	1,294,529	1,098,885	1,339,925		3,733,339
Total Liabilities	2,698,819	1,234,916	1,394,767	(14,372)	5,314,130	2,527,831	1,119,858	1,390,466	(25,120)	5,013,035
Net Assets and Members' Equity										
Unrestricted	4,264,305	5,330,266	-		9,594,571	4,317,220	4,962,101	-		9,279,321
Temporarily restricted	783,870	7,147,504	-		7,931,374	1,056,449	7,627,996	-		8,684,445
Permanently restricted	1,393,911	-	-		1,393,911	1,334,702	-	-		1,334,702
Managing member equity	-	-	(329)	329	-	-	-	(236)	236	-
Investor member equity	-	-	1,802,108		1,802,108	-	-	1,895,520		1,895,520
Total Net Assets and Members' Equity	6,442,086	12,477,770	1,801,779	329	20,721,964	6,708,371	12,590,097	1,895,284	236	21,193,988
	<u>\$ 9,140,905</u>	<u>\$13,712,686</u>	<u>\$ 3,196,546</u>	<u>\$ (14,043)</u>	<u>\$26,036,094</u>	<u>\$ 9,236,202</u>	<u>\$13,709,955</u>	<u>\$ 3,285,750</u>	<u>\$ (24,884)</u>	<u>\$26,207,023</u>

SENIOR SERVICES AND AFFILIATES

CONSOLIDATED STATEMENTS OF UNRESTRICTED ACTIVITY

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006					2005				
	Agency	Centers	Belltown LLC	Eliminations	Total	Agency	Centers	Belltown LLC	Eliminations	Total
Unrestricted Public Support										
United Way contributions	\$ 469,436	\$ 18,090	\$ -		\$ 487,526	\$ 454,226	\$ 23,265	\$ -		\$ 477,491
Net assets released from time restrictions - United Way	392,388	-	-		392,388	427,885	-	-		427,885
Total United Way	861,824	18,090	-		879,914	882,111	23,265	-		905,376
Individuals	899,851	711,247	-		1,611,098	906,206	428,396	-		1,334,602
Corporations	351,781	129,763	-		481,544	660,630	76,832	-		737,462
Foundations	222,100	57,153	-		279,253	98,240	47,576	-		145,816
Special events	435,151	419,795	-		854,946	369,036	348,897	-		717,933
In-kind rent	359,714	69,080	-		428,794	360,309	224,708	-		585,017
Government grants and contracts	5,957,934	2,167,023	-		8,124,957	5,673,349	1,913,431	-		7,586,780
Allocations among funds	(277,298)	277,298	-		-	(458,252)	458,252	-		-
Net assets released from purpose restrictions	423,282	480,492	-		903,774	391,830	1,710,023	-		2,101,853
Total Unrestricted Public Support	9,234,339	4,329,941	-		13,564,280	8,883,459	5,231,380	-		14,114,839
Revenue										
Program service fees	94,860	630,451	-		725,311	89,193	619,578	-		708,771
Program sales	532,174	142,077	-		674,251	508,725	158,020	-		666,745
Incidental revenue	3,211	252,847	-		256,058	2,740	212,838	-		215,578
Rental and other income	53,371	26,564	141,101	\$ (4,131)	216,905	222,576	67,573	146,872	\$ (2,895)	434,126
Interest and investment income	98,586	44,362	458	93	143,499	53,454	47,615	943	87	102,099
Total Revenue	782,202	1,096,301	141,559	(4,038)	2,016,024	876,688	1,105,624	147,815	(2,808)	2,127,319
Total Unrestricted Public Support and Revenue	10,016,541	5,426,242	141,559	(4,038)	15,580,304	9,760,147	6,337,004	147,815	(2,808)	16,242,158
Expenses										
Program services	8,571,901	4,305,827	235,064	(4,131)	13,108,661	8,274,022	4,081,722	235,113	(2,895)	12,587,962
Management and general	1,141,475	573,385	-		1,714,860	1,042,483	514,275	-		1,556,758
Fundraising	356,080	178,865	-		534,945	292,135	144,115	-		436,250
Total Expenses	10,069,456	5,058,077	235,064	(4,131)	15,358,466	9,608,640	4,740,112	235,113	(2,895)	14,580,970
Change in Unrestricted Net Assets and Members' Equity	\$ (52,915)	\$ 368,165	\$ (93,505)	\$ 93	\$ 221,838	\$ 151,507	\$ 1,596,892	\$ (87,298)	\$ 87	\$ 1,661,188

SENIOR SERVICES AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS AND MEMBERS' EQUITY

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006					2005				
	Agency	Centers	Belltown LLC	Eliminations	Total	Agency	Centers	Belltown LLC	Eliminations	Total
Unrestricted Net Assets										
Unrestricted public support	\$ 8,418,669	\$ 3,849,449			\$ 12,268,118	\$ 7,863,744	\$ 3,521,357			\$ 11,385,101
Revenue	782,202	1,096,301	\$ 141,559	\$ (4,038)	2,016,024	876,688	1,105,624	\$ 147,815	\$ (2,808)	2,127,319
Net assets released from restriction	815,670	480,492			1,296,162	1,019,715	1,710,023			2,729,738
Total Unrestricted Public Support and Revenue	10,016,541	5,426,242	141,559	(4,038)	15,580,304	9,760,147	6,337,004	147,815	(2,808)	16,242,158
Total expenses	(10,069,456)	(5,058,077)	(235,064)	4,131	(15,358,466)	(9,608,640)	(4,740,112)	(235,113)	2,895	(14,580,970)
Change in Unrestricted Net Assets and Members' Equity	(52,915)	368,165	(93,505)	93	221,838	151,507	1,596,892	(87,298)	87	1,661,188
Temporarily Restricted Net Assets										
Public Support										
United Way	392,388	-			392,388	392,388	-			392,388
Contributed use of property	-	-			-	-	7,774,477			7,774,477
Other contributions	150,703	-			150,703	46,341	103,134			149,475
Total Temporarily Restricted Public Support	543,091	-			543,091	438,729	7,877,611			8,316,340
Net Assets Released from Restriction										
United Way	(392,388)	-			(392,388)	(427,885)	-			(427,885)
Amortization of contributed use of property	-	(376,184)			(376,184)	-	(250,789)			(250,789)
Net assets transfer (Note D)	-	-			-	(200,000)				(200,000)
Other contributions	(423,282)	(104,308)			(527,590)	(391,830)	(1,459,234)			(1,851,064)
Total Net Assets Released from Restriction	(815,670)	(480,492)			(1,296,162)	(1,019,715)	(1,710,023)			(2,729,738)
Change in Temporarily Restricted Net Assets	(272,579)	(480,492)			(753,071)	(580,986)	6,167,588			5,586,602
Permanently Restricted Net Assets										
Contributions	59,209	-			59,209	297,235	-			297,235
Net assets transfer (Note D)	-	-			-	200,000	-			200,000
Change in Permanently Restricted Net Assets	59,209	-			59,209	497,235	-			497,235
Change in Net Assets and Members' Equity	(266,285)	(112,327)	(93,505)	93	(472,024)	67,756	7,764,480	(87,298)	87	7,745,025
Net Assets and Members' Equity										
Beginning of year	6,708,371	12,590,097	1,895,284	236	21,193,988	6,640,615	4,825,617	1,982,582	149	13,448,963
End of year	\$ 6,442,086	\$12,477,770	\$ 1,801,779	\$ 329	\$ 20,721,964	\$ 6,708,371	\$12,590,097	\$ 1,895,284	\$ 236	\$ 21,193,988

SENIOR SERVICES AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2006

	Information and Assistance Projects	Nutrition Projects	Senior Wellness	Senior Centers	Adult Day Health	Belltown LLC	Total Program Services	Management and General	Fund Raising	Total All Services
Salaries and wages	\$ 2,031,851	\$ 917,153	\$ 408,583	\$ 1,608,163	\$ 394,641	\$ -	\$ 5,360,391	\$ 750,178	\$ 188,639	\$ 6,299,208
Employee benefits	389,802	216,157	74,102	303,896	81,465	-	1,065,422	120,253	26,482	1,212,157
Payroll taxes	221,076	90,795	37,538	153,650	39,358	-	542,417	64,434	16,702	623,553
Total Payroll Expenses	2,642,729	1,224,105	520,223	2,065,709	515,464	-	6,968,230	934,865	231,823	8,134,918
Program supplies	149,674	1,222,227	27,691	150,674	64,038	2,298	1,616,602	38,883	23,912	1,679,397
Depreciation and amortization	7,384	12,864	-	483,928	265,028	117,163	886,367	315,008	-	1,201,375
Professional fees	42,967	509,884	12,768	256,079	16,916	26,660	865,274	119,904	61,914	1,047,092
Occupancy	80,849	74,056	-	426,630	53,994	47,509	683,038	85,119	-	768,157
Client and other transportation	250,587	83,470	6,489	214,953	573	-	556,072	9,978	1,396	567,446
In-kind rent	-	359,714	-	69,080	-	-	428,794	-	-	428,794
Other	208,388	(4,936)	1,008	36,574	3,809	6,045	250,888	44,420	77,867	373,175
Printing and publications	70,181	11,593	13,570	101,908	8,250	317	205,819	9,282	41,432	256,533
Cost of special events	30	-	-	113,473	-	-	113,503	-	79,190	192,693
Interest	-	-	-	14,272	-	32,972	47,244	115,182	-	162,426
Insurance	27,030	39,546	2,502	37,011	5,564	-	111,653	24,302	3,550	139,505
Telephone	35,137	12,212	2,285	55,363	9,623	2,100	116,720	6,932	1,107	124,759
Cost of sales	-	87,921	-	30,699	504	-	119,124	-	-	119,124
Postage and shipping	30,056	6,407	5,959	27,487	1,663	-	71,572	7,489	7,325	86,386
Meetings	24,438	1,868	12,319	8,320	102	-	47,047	3,010	5,296	55,353
Rental and equipment maintenance	1,771	2,216	183	20,675	-	-	24,845	486	133	25,464
Total Expenses	3,571,221	3,643,147	604,997	4,112,835	945,528	235,064	13,112,792	1,714,860	534,945	15,362,597
Eliminations						(4,131)	(4,131)			(4,131)
	<u>\$ 3,571,221</u>	<u>\$ 3,643,147</u>	<u>\$ 604,997</u>	<u>\$ 4,112,835</u>	<u>\$ 945,528</u>	<u>\$ 230,933</u>	<u>\$13,108,661</u>	<u>\$ 1,714,860</u>	<u>\$ 534,945</u>	<u>\$ 15,358,466</u>

SENIOR SERVICES AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2005

	Information and Assistance Projects	Nutrition Projects	Senior Wellness	Social Work	Senior Centers	Adult Day Health	Belltown LLC	Total Program Services	Management and General	Fund Raising	Total All Services
Salaries and wages	\$ 1,894,141	\$ 957,667	\$ 317,255	\$ 80,999	\$ 1,551,696	\$ 486,573	\$ -	\$ 5,288,331	\$ 748,800	\$ 160,723	\$ 6,197,854
Employee benefits	324,494	190,012	48,863	12,968	281,279	80,128	-	937,744	96,356	20,418	1,054,518
Payroll taxes	221,948	102,056	30,667	8,373	159,562	51,457	-	574,063	54,915	14,707	643,685
Total Payroll Expenses	2,440,583	1,249,735	396,785	102,340	1,992,537	618,158	-	6,800,138	900,071	195,848	7,896,057
Program supplies	164,398	1,584,982	7,060	20	125,889	65,157	5,154	1,952,660	22,318	9,874	1,984,852
Depreciation and amortization	14,509	18,253	663	-	313,195	131,198	117,164	594,982	333,055	-	928,037
Professional fees	22,362	170,082	40,954	350	215,224	19,629	24,907	493,508	98,280	66,116	657,904
Occupancy	68,211	123,395	4,542	-	333,369	30,734	49,597	609,848	33,133	-	642,981
Client and other transportation	213,137	97,800	4,109	729	228,328	1,537	-	545,640	10,527	1,477	557,644
In-kind rent	-	360,309	-	-	224,708	-	-	585,017	-	-	585,017
Other	151,391	6,600	1,041	36	38,503	3,417	2,274	203,262	(6,718)	56,403	252,947
Printing and publications	59,241	12,621	11,256	170	83,756	3,274	449	170,767	9,777	27,643	208,187
Cost of special events	-	-	-	-	86,644	-	-	86,644	-	66,580	153,224
Interest	-	-	-	-	10,089	-	33,256	43,345	103,376	-	146,721
Insurance	22,576	32,661	2,676	588	63,281	4,651	-	126,433	36,215	2,604	165,252
Telephone	38,580	12,616	2,863	-	43,180	7,665	2,312	107,216	6,301	1,198	114,715
Cost of sales	-	99,776	-	-	33,308	994	-	134,078	-	-	134,078
Postage and shipping	29,604	5,688	2,728	-	25,249	1,422	-	64,691	6,496	4,121	75,308
Meetings	24,536	1,998	13,144	562	9,847	253	-	50,340	3,830	4,347	58,517
Rental and equipment maintenance	401	489	41	-	20,856	501	-	22,288	97	39	22,424
Total Expenses	3,249,529	3,777,005	487,862	104,795	3,847,963	888,590	235,113	12,590,857	1,556,758	436,250	14,583,865
Eliminations							(2,895)	(2,895)			(2,895)
	<u>\$ 3,249,529</u>	<u>\$ 3,777,005</u>	<u>\$ 487,862</u>	<u>\$ 104,795</u>	<u>\$ 3,847,963</u>	<u>\$ 888,590</u>	<u>\$ 232,218</u>	<u>\$12,587,962</u>	<u>\$ 1,556,758</u>	<u>\$ 436,250</u>	<u>\$14,580,970</u>

SENIOR SERVICES AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from:		
Government agencies	\$ 8,174,287	\$ 7,439,164
Donors	3,165,915	2,745,685
United Way	879,914	845,895
Sales to the public	674,251	666,745
Program participants	725,311	708,771
Investments	103,221	96,927
Rental and other income	474,749	438,434
Cash paid for:		
Personnel	(8,545,709)	(8,011,173)
Services and supplies	(5,229,384)	(5,028,429)
Interest	<u>(155,953)</u>	<u>(140,249)</u>
Net Cash Provided (Used) by Operating Activities	<u>266,602</u>	<u>(238,230)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase and construction of property and equipment	(1,460,071)	(3,287,143)
Purchase of investments	(848,562)	(403,159)
Proceeds from sales of investments	821,664	455,154
Proceeds from sale of building	-	284,488
Change in restricted reserves	<u>(14,111)</u>	<u>(13,689)</u>
Net Cash Used by Investing Activities	<u>(1,501,080)</u>	<u>(2,964,349)</u>
<b>Cash Flows from Financing Activities</b>		
Net proceeds from (repayment of) line of credit	457,000	(259,000)
Proceeds from notes payable	76,075	803,276
Principal payments on notes payable	(36,538)	(35,224)
Proceeds from contributions restricted to endowment	59,209	129,848
Proceeds from contributions restricted to investment in property	<u>186,270</u>	<u>521,806</u>
Net Cash Provided by Financing Activities	<u>742,016</u>	<u>1,160,706</u>
Change in Cash and Cash Equivalents	(492,462)	(2,041,873)
Cash and Cash Equivalents - beginning of year	<u>1,997,815</u>	<u>4,039,688</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,505,353</u>	<u>\$ 1,997,815</u>

See notes to financial statements.

SENIOR SERVICES AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>Reconciliation of Change in Net Assets and Members' Equity to Net Cash Flows from Operating Activities</b>		
Change in net assets and members' equity	\$ (472,024)	\$ 7,745,025
Adjustments to reconcile change in net assets and members' equity to net cash provided (used) by operating activities		
Depreciation and amortization	1,201,375	928,037
Donated investments	(16,629)	(28,287)
Deferred interest	6,473	6,472
Amortization of loan costs	603	603
Gain on investments	(40,371)	(5,259)
Gain on sale of building	-	(210,960)
Contributions restricted to investment in property	(195,000)	(105,634)
Contributions restricted to endowment	(59,209)	(297,235)
Contributed use of property	-	(7,980,159)
Bad debt expense	70,000	48,275
Decrease (increase) in		
United Way promise to give	-	(23,984)
Accounts and grants receivable	47,839	(186,055)
Inventory	18,887	(2,641)
Prepaid expenses	6,182	28,813
Unemployment compensation trust deposits	(78,111)	(72,875)
Increase (decrease) in		
Accounts payable	105,771	(30,099)
Accrued payroll	(332,680)	(42,241)
Refundable advance	3,496	(10,026)
Net Cash Provided (Used) by Operating Activities	<u>\$ 266,602</u>	<u>\$ (238,230)</u>

SENIOR SERVICES AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Senior Services is a multi-service, not-for-profit agency, which 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 the County.

The following Senior Centers were in operation during 2006 and 2005. Their financial position and changes in their net assets and their cash flows have been included in the accompanying consolidated financial statements. All inter-agency transactions and accounts have been eliminated in consolidation.

Central Area	Southeast Seattle
Northshore (Bothell)	Sno-Valley
Northwest (Ballard)	Vashon-Maury Island
Shoreline/Lake Forest Park	West Seattle

Programs provided by Senior Services include:

Senior Information and Assistance

Information and Assistance is the single access point for the wide range of community services for older adults. Staff provides information to callers, initiates services for those unable to act on their own behalf, and follows up to ensure that services are in place and are appropriate.

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.

Homesharing

The goal of this program, which serves City of Seattle residents, is to help seniors stay in their homes longer and provide affordable housing for people of all ages. The program matches people who want to share their homes with people who are looking for a place to live.

Senior Outreach

This program is designed to identify individuals sixty 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.

Project Enhance

This project includes three evidenced-based components: EnhancedFitness, an exercise program; EnhancedWellness, a health behavior change program; and Living a Healthy Life Workshop, a chronic disease management program. All three programs are offered to older adults in community settings in King County and various locations around the country.

## SENIOR SERVICES AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

#### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Transportation

This program organizes volunteer drivers to transport the frail elderly to medical and other essential appointments. The primary objective of the program is to assist elderly individuals who are unable to utilize other available forms of transportation.

##### 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.

##### 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. 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.

##### Adult Day Health

The adult day health programs provide supportive and therapeutic services that maintain or improve the health and functioning of frail and disabled elders and provide support to caregivers.

##### 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.

##### 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.

The Belltown Senior Apartments, LLC (Belltown LLC) was formed in 2001 in order to facilitate the use of low-income housing tax credits in the development of Belltown Senior Apartments. Senior Services is the managing member with a 0.1% interest. The Investor Members, holding the remaining 99.9% interest, purchased the low-income housing tax credits upon project completion.

SENIOR SERVICES AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The building is divided into two separate condominium units, a residential unit and a commercial unit. The commercial unit consists of three floors occupied by Senior Services for countywide operations, a senior health and wellness center, and community room. The residential unit consists of 25 affordable senior housing units on five floors managed by Senior Services.

Principles of consolidation

The financial statements consolidate the assets, liabilities, and activities of Senior Services, its affiliated Senior Centers, and the Belltown Senior Apartments, LLC. Senior Services is the sole managing member in the Belltown Senior Apartments, LLC. Senior Services, its affiliated Senior Centers, and the Belltown Senior Apartments, LLC are collectively referred to as Senior Services and Affiliates. All significant intercompany transactions have been eliminated in the consolidation.

Financial statement presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are available without restriction for support of Senior Services' operations.

Temporarily restricted net assets are restricted by the donor to be used for certain purposes or future periods. Temporarily restricted net assets are available for the following purposes as of December 31:

	<u>2006</u>	<u>2005</u>
Contributed use of property	\$ 7,147,504	\$ 7,523,688
Capital Campaign	254,225	608,225
Subsequent year's operations - United Way	392,388	392,388
West Seattle Senior Center Capital Campaign	-	104,308
Senior Outreach	80,556	-
Meals on Wheels	25,000	25,000
Congregate Meals	11,701	15,836
Minor Home Repair	20,000	15,000
	<u>\$ 7,931,374</u>	<u>\$ 8,684,445</u>

Permanently restricted net assets 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.

SENIOR SERVICES AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently restricted net assets as of December 31 are:

	<u>2006</u>	<u>2005</u>
Senior Rights Assistance Endowment	\$ 644,135	\$ 644,135
General Endowment	<u>749,776</u>	<u>690,567</u>
	<u>\$ 1,393,911</u>	<u>\$ 1,334,702</u>

Cash and cash equivalents

Cash and cash equivalents consist of general checking and savings accounts, certificates of deposit, and money market accounts. Senior Services maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. Senior Services has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk. Cash reserves have been established per terms of the contracts with Washington Community Reinvestment Association. Cash reserves consisted of the following at December 31:

	<u>Senior Services</u>		<u>Belltown LLC</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Replacement reserves	\$ 36,953	\$ 30,378	\$ 26,512	\$ 19,308
Operating reserves	<u>-</u>	<u>-</u>	<u>52,374</u>	<u>52,042</u>
	<u>\$ 36,953</u>	<u>\$ 30,378</u>	<u>\$ 78,886</u>	<u>\$ 71,350</u>

Investments

Investment securities are recorded at market values and consist of the following at December 31:

	<u>2006</u>	<u>2005</u>
Equities	\$ 667,963	\$ 874,973
Fixed income securities	<u>417,001</u>	<u>126,093</u>
	<u>\$ 1,084,964</u>	<u>\$ 1,001,066</u>

Accounts and grants receivable

Accounts and grants receivable are stated at net realizable value.

Promises to give

In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Senior Services had no conditional promises to give at December 31, 2006.

SENIOR SERVICES AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional promises to give at December 31, 2006 are as follows:

Receivable in less than one year	\$ 318,982
Receivable in one to five years	<u>131,116</u>
	450,098
Less allowance for uncollectible accounts	(117,803)
Less discounts to net present value at 5%	<u>(8,825)</u>
Unconditional promises to give, net	<u><u>\$ 323,470</u></u>

Deferred financing fees

Loan fees on permanent financing are capitalized and amortized over the term of the loan. At December 31, 2006 and 2005, deferred financing fees, net of accumulated amortization, were \$27,113 and \$27,716, respectively, and are included in prepaid expenses.

Inventory

Inventory, consisting of food and supplies, is stated at the lower of cost (determined on the first-in, first-out method) or market.

Property and Equipment

Property and equipment are stated at cost or, if donated, at estimated fair value at date of receipt. Senior Services capitalizes all expenditures for property and equipment in excess of \$1,000. Interest expense capitalized was \$57,509 and \$6,812 for the years ended December 31, 2006 and 2005, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Property and equipment consist of the following:

	Estimated <u>Useful Lives</u>	<u>2006</u>	<u>2005</u>
Land		\$ 1,440,995	\$ 1,440,995
Construction in progress		-	1,681,369
Buildings	20-30 years	19,735,897	18,200,782
Equipment	5-10 years	2,669,093	2,662,524
Furniture	5 years	489,528	500,573
Vehicles	5 years	777,767	813,529
Leasehold improvements	5-10 years	<u>1,254,278</u>	<u>358,397</u>
		26,367,558	25,658,169
Less: Accumulated depreciation		<u>(5,563,299)</u>	<u>(5,112,608)</u>
		<u><u>\$20,804,259</u></u>	<u><u>\$20,545,561</u></u>

## SENIOR SERVICES AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

#### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Included in total buildings above are the Northshore Senior Center and Northshore Health and Wellness Center. These buildings and the land on which they are located are owned by the Northshore Park and Recreation Service Area (PRSA). During 2005, Senior Services and the PRSA signed a 20-year lease allowing for Senior Services' rent-free use of the building and land until December 31, 2025. The fair value of the promise to give the use of property evidenced by this lease has been recognized as an asset (building) and as temporarily restricted support in the financial statements.

In addition to the contributed portion of the buildings, certain construction costs related to the Health and Wellness Center and a Skybridge were paid by Senior Services and have been capitalized subject to the lease agreement noted above. If Senior Services violates the terms of the lease, the PRSA may terminate the lease. Senior Services would then incur a loss for the net book value of the buildings of \$8,375,000 and the related leasehold improvements of \$788,151 as of December 31, 2006.

#### Restricted and unrestricted public support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the year in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of unrestricted activity as net assets released from restrictions.

Gifts of equipment are reported as unrestricted 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.

#### Revenue from government agencies

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, 2006 and 2005, no such adjustments were made.

## SENIOR SERVICES AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

#### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### In-kind contributions

Senior Services occupies certain premises at either reduced rates or no charge. The fair value of the space occupied at below market rates is reflected as in-kind support and expense in the consolidated statements of unrestricted activity and of functional expenses.

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

##### Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of unrestricted activity and of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

##### Federal income taxes

The Internal Revenue Service has recognized Senior Services 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.

Senior Services obtained a group exemption in 1981, which allows Senior Services to fulfill the Internal Revenue Service's filing requirements for its affiliated Senior Centers. Federal income tax is not payable by, or provided for, the Belltown Senior Apartments, LLC. Members are taxed individually on their share of LLC earnings.

##### Use of estimates

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

#### NOTE B - LINE OF CREDIT

Senior Services has a \$750,000 line of credit bearing interest at prime rate plus .25% (8.5% as of December 31, 2006) maturing August 2007. The line is secured by substantially all assets of the organization.

SENIOR SERVICES AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE C - NOTES PAYABLE

Long-term debt consists of the following:

2006

2005

Agency

Note payable to the Washington State Community Reinvestment Association (WCRA), bearing interest at 7% per annum, collateralized by the commercial unit of the Belltown Project. Monthly payments of \$7,318 began September 2003. The note matures August 2018, at which time the remaining principal is due.

\$ 1,059,511    \$ 1,072,661

Non-interest bearing note payable to the City of Seattle secured by deed of trust on the Belltown Project. The note expires and the debt shall be forgiven on December 31, 2017, provided that no default has occurred. Senior Services fully intends to comply with the terms of the note.

165,000                      165,000

Non-interest bearing note payable to the City of Bellevue secured by deed of trust on the Belltown Project. The note expires and the debt shall be forgiven on December 31, 2007, provided that no default has occurred. Senior Services fully intends to comply with the terms of the note.

70,000                      70,000

Subtotal Agency

1,294,511                      1,307,661

Centers

Note payable to Impact Capital, bearing interest at 6% per annum. Interest only payments are due monthly. The note matures January 2008 and is secured by a deed of trust on the West Seattle Senior Center building.

\$ 879,351    \$ 803,276

Non-interest bearing note payable to King County secured by deed of trust on property owned by Northshore Park and Recreation Service Area. The note expires and the debt shall be forgiven in 2016, provided that no default has occurred. Senior Services fully intends to comply with the terms of the note.

185,000                      185,000

Note payable to Washington Federal Savings and Loan, due in monthly installments of \$805 including interest at 9% per annum. The note matures in November 2029 and is secured by a deed of trust on a Southeast Senior Center building.

93,537                      94,716

SENIOR SERVICES AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE C - NOTES PAYABLE (Continued)	<u>2006</u>	<u>2005</u>
Note payable to Washington Mutual, due in monthly installments of \$320 including interest at 7.25% per annum. The note matures in May 2012 and is secured by a deed of trust on a Southeast Senior Center building.	17,070	19,568
Subtotal Centers	<u>1,174,958</u>	<u>1,102,560</u>
<u>Belltown LLC</u>		
Note payable to the City of Seattle bearing interest at 1% per annum collateralized by the Belltown Project. The note matures in October 2051 with the option to extend by one 25 year period. Annual payments began June 2004 and are based on net cash flow of the preceding year. Deferred interest totaled \$2,027 and \$5,034 as of December 31, 2006 and 2005, respectively.	647,254	647,254
Note payable to the State of Washington, bearing interest at 1% per annum, collateralized by the Belltown Project. Annual payments of \$9,937 began December 2003. The note matures December 2052.	364,967	371,193
Note payable to the Washington State Community Reinvestment Association (WCRA), bearing interest at 7% per annum, collateralized by the residential unit of the Belltown Project. Monthly payments of \$2,229 began September 2003. The note matures August 2033.	322,669	326,674
Deferred interest on above notes	2,027	5,034
Subtotal Belltown LLC	<u>1,336,917</u>	<u>1,350,155</u>
Total Notes Payable	3,806,386	3,760,376
Less Current Portion	<u>(98,636)</u>	<u>(27,037)</u>
	<u>\$ 3,707,750</u>	<u>\$ 3,733,339</u>

Principal reductions of notes payable for the years ending December 31 are:

2007	\$ 98,636
2008	909,700
2009	32,185
2010	34,155
2011	221,265
Thereafter	<u>2,510,445</u>
	<u>\$ 3,806,386</u>

SENIOR SERVICES AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE D - NET ASSET TRANSFER

During 2005, management became aware that a certain contribution originally understood to be for the capital campaign was actually permanently restricted by the donor's trust document. Accordingly, the amount was transferred from the temporarily restricted net asset class to the permanently restricted net asset class.

NOTE E - CAFETERIA PLAN

Senior Services pays the full cost of Medical (Core Plan) and Dental for all benefited employees. Employees with more than one year of service are awarded a monthly 'allowance' to use toward elected pre-tax Medical premiums, dependent Dental Coverage, Retirement Plan Contributions, Flexible Spending Accounts (FSA), and/or (taxable) cash.

NOTE F - RETIREMENT PLAN

Effective January 1, 2000, Senior Services adopted a 401(k) defined contribution plan which replaced an existing plan. All employees over 21 years of age are eligible to make elective deferrals using their monthly cafeteria plan allowance and/or additional pre-tax payroll deductions.

NOTE G - LEASE COMMITMENTS

Senior Services leases warehouse space under a five-year, non-cancelable operating lease. Rent expenses under this operating lease were \$75,520 and \$71,680 respectively, for the years ended December 31, 2006 and 2005 and are included in occupancy expense. Future minimum lease payments under this lease for the years ending December 31 are as follows:

2007	\$	79,360
2008		<u>26,880</u>
	\$	<u>106,240</u>

OMB A-133 SUPPLEMENTARY INFORMATION

SENIOR SERVICES AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2006

<b>Federal Grantor</b>	CFDA	Federal
<i>Pass-through Grantor</i>	Number	Expenditures
<u>"Program Title"</u>		
<b>Department of Health and Human Services</b>		
"Special Program for the Aging: Title IV and Title II - Discretionary Projects"	93.048	\$ <b>70,000</b>
<i>City of Seattle Human Services Department</i>		
"Special Program for the Aging: Title III Part B - Grants for Supportive Services and Senior Centers"	93.044 *	677,724
"Special Program for the Aging: Title III Part C - Nutrition Services"	93.045 *	1,376,928
"Nutrition Services Incentive Program"	93.053 *	406,306
<i>Snohomish County Human Services</i>		
"Special Program for the Aging: Title III Part B - Grants for Supportive Services and Senior Centers"	93.044 *	21,474
Total Cluster		<u><b>2,482,432</b></u>
<i>City of Seattle Human Services Department</i>		
"National Family Caregiver Support"	93.052	323,533
<i>Snohomish County Human Services</i>		
"National Family Caregiver Support"	93.052	35,203
Total National Family Caregiver Support		<u><b>358,736</b></u>
<i>City of Seattle Human Services Department</i>		
"Special Program for the Aging: Title III Part D - Disease Prevention and Health Promotion Services "	93.043	<b>106,821</b>
"Medical Assistance Program (Medicaid: Title XIX)"	93.778	<b>65,000</b>
<i>University of Washington</i>		
"Centers for Research and Demonstration for Health Promotion and Disease Prevention"	93.135	<b>36,213</b>
<b>Department of Housing and Urban Development</b>		
<i>City of Seattle Office of Housing</i>		
"Community Development Block Grant"	14.218	449,917
<i>City of Bellevue</i>		
"Community Development Block Grant"	14.218	61,756
<i>King County</i>		
"Community Development Block Grant"	14.218	21,127
<i>City of Shoreline</i>		
"Community Development Block Grant"	14.218	88,225
Total Community Development Block Grant		<u><b>621,025</b></u>

SENIOR SERVICES OF SEATTLE/KING COUNTY AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

YEAR ENDED DECEMBER 31, 2006

**Department of Agriculture**

*City of Seattle Human Services Department*

"Child and Adult Care Food Program"	10.558	<b>28,814</b>
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"State Administrative Matching Grants for Food Stamp Program"	10.561	<b>4,146</b>
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**Department of Justice**

*Washington State Department of Social and Health Services*

"Crime Victim Assistance"	16.575	<u><b>28,581</b></u>
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Total Federal Awards		<u><u><b>\$ 3,801,768</b></u></u>
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\* Denotes the major program.

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Senior Services and Affiliates and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

April 30, 2007

Boards of Directors  
Senior Services and Affiliates  
Seattle, Washington

We have audited the consolidated financial statements of Senior Services and Affiliates as of and for the year ended December 31, 2006 and have issued our report thereon dated April 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Senior Services and Affiliates' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. We noted certain matters, however, involving the internal control over financial reporting and its operation that we consider to be significant deficiencies.

A significant deficiency is a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. The significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 06-1 and 06-2.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. However, we believe the significant deficiency described in item 06-1 to be a material weakness.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Jacobson Jarvis & Co, PLLC". The signature is written in a cursive, flowing style.

Jacobson Jarvis & Co, PLLC

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
*OMB CIRCULAR A-133*

April 30, 2007

Boards of Directors  
Senior Services and Affiliates  
Seattle, Washington

Compliance

We have audited the compliance of Senior Services and Affiliates with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. Senior Services and Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Senior Services and Affiliates' management. Our responsibility is to express an opinion on Senior Services and Affiliates' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about Senior Services and Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Senior Services and Affiliates' compliance with those requirements.

In our opinion, Senior Services and Affiliates complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of Senior Services and Affiliates is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Senior Services and Affiliates' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jacobson Jarvis & Co, PLLC

SENIOR SERVICES AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the consolidated financial statements of Senior Services of Seattle/King County and Affiliates.
2. Significant deficiencies relating to the financial statements is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the significant deficiencies is considered to be a material weakness.
3. No instances of noncompliance material to the consolidated financial statements of Senior Services of Seattle/King County and Affiliates were disclosed during the audit.
4. No material weaknesses relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements Applicable to the Major Programs and on Internal Control Over Compliance in Accordance with OMB Circular A-
5. The auditor's report on compliance for the major federal award programs for Senior Services of Seattle/King County and Affiliates expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Senior Services of Seattle/King County and Affiliates are reported in Part C of this Schedule.
7. The program tested as major was the cluster "Special Program for the Aging: Title III Part B - Grants for Supportive Services and Senior Centers", "Special Program for the Aging: Title III Part C - Nutrition Services" and "Nutrition Services Incentive Program," CFDA Nos. 93.044, 93.045 and 93.053, respectively.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Senior Services and Affiliates was determined to be a low-risk auditee.

SENIOR SERVICES AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2006

B. FINDINGS – FINANCIAL STATEMENT AUDIT

06-1 - Internal Control over External Financial Reporting

The internal control structure of Senior Services has focused primarily on the objective of effectiveness and efficiency of operations (i.e. performance and mission goals and safeguarding of resources) and the objective of compliance. However, the system of internal control over the objective of reliability of financial reporting contains certain significant deficiencies as evidenced by adjusting journal entries resulting from the audit process. The internal control structure lacks a thorough monitoring system to ensure that all accounts are reconciled on a timely basis and not all reconciliations are independently reviewed for accuracy.

We recommend that management implement sufficient internal controls to ensure the accuracy of financial reporting in accordance with required standards.

*Views of a Responsible Official:* Management concurs with the finding and recommendation as reflected in the corrective action plan.

06-2 - Segregation of Duties at Senior Center Locations

While the majority of the accounting activities of Senior Services occur within the centralized finance department of the agency, certain cash receipt and cash disbursement activities are initiated at the affiliated senior center locations. At certain of these locations, the segregation of duties over accounting transactions is insufficient to ensure that there is only a remote likelihood that a misstatement that is more than inconsequential will not be prevented or detected.

Examples of this lack of segregation of duties include bookkeeping staff with access to both cash receipts and accounting records, signed disbursement checks returned to bookkeeping staff and a bookkeeper as an authorized check signers. We also noted the lack of certain mitigating controls such as the independent review of unopened bank statements and the immediate endorsement of cash receipt checks upon receipt.

We recommend that management provide education and support to the Senior Center staff such that they may design their bookkeeping activities to maximize internal controls.

*Views of a Responsible Official:* Management concurs with the finding and recommendation as reflected in the corrective action plan.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None

Senior Services Summary of Prior Audit Findings  
Year Ended December 31, 2006

**05-1 – Internal Control over External Financial Reporting**

**Finding:** Numerous adjustments were made to the accounting records subsequent to the start of the 2005 audit process. These adjustments affected nearly all financial statement line items.

**Recommendation:** Management should implement sufficient internal controls to ensure the accuracy of financial reporting.

**Action Taken:** Accounting Department is implementing the following in order to generate GAAP compliant financial statements.:

1. Formulate all entries necessary to generate GAAP compliant financial statements and issue these statements; but to ensure the correctness of these entries before regularly entering them into the general ledger this process will culminate in 2007 with the direct posting, on a monthly basis, of all these entries. These entries include, but are not limited to depreciation and in-kind rental contributions.
2. Reconciling monthly internal management reports with GAAP statements
3. Reviewing statements on a monthly basis with Denise Klein, Executive Director.
4. Providing both sets of reports to the Finance Committee and Board of Directors.
5. Research and record unique transactions in the month occurred.

**05-2 – Reportable Condition**

**Finding:** Certain federal awards (both direct and pass-through) were not initially identified on the schedule of expenditures of federal awards.

**Recommendation:** Senior Services should implement procedures to review all contracts in order to identify fund sources. All government grants, including those with federal funding sources, should be monitored to ensure they are in compliance.

**Action Taken:** Tara Voss, Controller, inserted an additional column on the internal contracts tracking schedule, noting the CFDA #, if applicable, beginning April 2006. Any questions regarding a specific contract's funding source(s) are discussed with Tim Bridges, CFO. This schedule is reviewed by both Tim and Tara on a monthly basis.

Senior Services submits the following corrective action plan for the year ended December 31, 2006

**Name and address of independent accounting firm:** Jacobson Jarvis & Co, PLLC, 600 Stewart Street, Suite 1900, Seattle WA 98101-1219

**Audit period:** January 1, 2006 – December 31, 2006

**Contact person responsible for corrective action:** Tim Bridges, Chief Financial Officer

**Anticipated completion date for corrective action:** These will all be ongoing processes; although we anticipate the completion of one cycle by the end of 2007.

The findings from the December 31, Schedule of Findings and Questioned Costs are discussed below. The findings are numbered the same as in the schedule.

#### 06-1 - Internal Control over External Financial Reporting

Staff will put into place the following procedures which will result in a system that ensures a thorough monitoring system to ensure that all accounts are reconciled on a timely basis and all reconciliations are independently reviewed for accuracy.

- 1 All bank and investment accounts will be reconciled on a monthly basis by staff.
- 2 These reconciliations will be reviewed and signed off on by the Controller and/or the Chief Financial Officer.
- 3 Regular reconciliation of asset and liability accounts will be completed by all members of the accounting staff and reviewed by the Controller and/or the Chief Financial Officer.
- 4 The Controller and the Chief Financial Officer will make no less than semi-annual visits to each Senior Center to provide education and training, and assess the internal controls. This will begin in May, 2007.
- 5 The Controller and the Chief Financial Officer will make regular visits to each outlying site (i.e. Community Dining sites, the transportation program, the Spokane Street warehouse) to provide education and training, and assess the internal controls. This will begin in May, 2007.

If you have any questions regarding this Corrective Action Plan, please contact Tim Bridges at 206 727-6211.

Sincerely,



Denise Klein, Executive Director

Senior Services submits the following corrective action plan for the year ended December 31, 2006

**Name and address of independent accounting firm:** Jacobson Jarvis & Co, PLLC, 600 Stewart Street, Suite 1900, Seattle WA 98101-1219

**Audit period:** January 1, 2006 – December 31, 2006

**Contact person responsible for corrective action:** Tim Bridges, Chief Financial Officer

**Anticipated completion date for corrective action:** The first round of visits should be completed by the end of 2007 and will ongoing thereafter.

The findings from the December 31, Schedule of Findings and Questioned Costs are discussed below. The findings are numbered the same as in the schedule

06-2 - Segregation of Duties at Senior Center Locations

The Controller and the Chief Financial Officer will make no less than semi-annual visits to each Senior Center to provide education and training, and assess the internal controls. This will begin in May, 2007.

If you have any questions regarding this Corrective Action Plan, please contact Tim Bridges at 206 727-6211.

Sincerely,



Denise Klein, Executive Director