

NEIGHBORHOOD HOUSE, INCORPORATED

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2017 AND 2016

UNIFORM GUIDANCE SUPPLEMENTARY FINANCIAL REPORTS  
YEAR ENDED DECEMBER 31, 2017



NEIGHBORHOOD HOUSE, INCORPORATED

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2 - 3
STATEMENTS OF FINANCIAL POSITION December 31, 2017 and 2016	4
STATEMENTS OF ACTIVITIES Years ended December 31, 2017 and 2016	5
STATEMENTS OF FUNCTIONAL EXPENSES Year ended December 31, 2017	6
Year ended December 31, 2016	7
STATEMENTS OF CASH FLOWS Years ended December 31, 2017 and 2016	8 - 9
NOTES TO FINANCIAL STATEMENTS	10 - 19
SUPPLEMENTARY INFORMATION Schedule of Expenditures of Federal Awards Year ended December 31, 2017	21
Notes to Schedule of Expenditures of Federal Awards	24
Independent Auditor's Report Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance as Required by the Uniform Guidance	27
Schedule of Findings and Questioned Costs	29

## INDEPENDENT AUDITOR'S REPORT

June 21, 2018

Board of Trustees  
Neighborhood House, Incorporated  
Seattle, Washington

We have audited the accompanying financial statements of Neighborhood House, Incorporated (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 in the first paragraph of this letter present fairly, in all material respects, the financial position of Neighborhood House, Incorporated as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2018 on our consideration of Neighborhood House, Incorporated's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Neighborhood House, Incorporated's internal control over financial reporting and compliance.



Jacobson Jarvis & Co, PLLC

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>ASSETS</u>	
	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 1,946,438	\$ 1,726,571
Grants and contracts receivable	2,775,673	2,972,690
Current pledges receivable	597,986	555,173
Other receivables	240,873	62,968
Prepaid expenses and deposits	213,838	266,326
	<u>5,774,808</u>	<u>5,583,728</u>
Total Current Assets		
Long-term Investments	929,105	744,376
Equipment and Software, net	239,737	254,352
Facilities, net	14,273,275	14,065,269
	<u>\$21,216,925</u>	<u>\$20,647,725</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities		
Accounts payable	\$ 475,454	\$ 444,261
Accrued expenses	1,037,648	933,391
Deferred revenue	630	7,894
Notes payable, current	80,300	80,300
	<u>1,594,032</u>	<u>1,465,846</u>
Total Current Liabilities		
Long-term Debt, less current portion	2,796,315	2,876,615
	<u>4,390,347</u>	<u>4,342,461</u>
Total Liabilities		
Net Assets		
Unrestricted		
Undesignated	15,353,732	14,768,045
Board designated for future operations	531,781	499,364
	<u>15,885,513</u>	<u>15,267,409</u>
Total Unrestricted Net Assets		
Temporarily restricted	941,065	1,037,855
	<u>16,826,578</u>	<u>16,305,264</u>
Total Net Assets	<u>\$21,216,925</u>	<u>\$20,647,725</u>

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Change in Unrestricted Net Assets		
Revenues and other support		
Government and private grants and contracts	\$16,960,048	\$13,453,691
In-kind support	1,044,384	792,628
United Way of King County	882,830	700,258
Contributions	675,033	712,232
Investment return	87,332	43,810
Service fees and other	<u>146,952</u>	<u>208,338</u>
	19,796,579	15,910,957
Net assets released from purpose restrictions	<u>971,609</u>	<u>911,693</u>
Total Unrestricted Revenues and Other Support	<u>20,768,188</u>	<u>16,822,650</u>
Expenses		
Program services	17,585,628	14,547,783
Management and general	2,079,030	1,682,450
Fund development	<u>485,426</u>	<u>480,893</u>
Total Expenses	<u>20,150,084</u>	<u>16,711,126</u>
Change in Unrestricted Net Assets	<u>618,104</u>	<u>111,524</u>
Change in Temporarily Restricted Net Assets		
Contributions	874,819	1,012,491
Net assets released from purpose restrictions	<u>(971,609)</u>	<u>(911,693)</u>
Change in Temporarily Restricted Net Assets	<u>(96,790)</u>	<u>100,798</u>
Total Change in Net Assets	521,314	212,322
Net Assets - beginning of year	<u>16,305,264</u>	<u>16,092,942</u>
Net Assets - end of year	<u>\$16,826,578</u>	<u>\$16,305,264</u>

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	PROGRAM SERVICES							Total Program Services	Management and General	Fund Development	Total Expenses
	Child Development	Adult Employment & Education	Housing Stability	Community Health	Family & Social Services	Youth Development	Other Programs				
Salaries and wages	\$5,149,282	\$ 1,322,388	\$ 761,483	\$ 1,199,254	\$ 581,242	\$ 390,925	\$ 207,872	\$ 9,612,446	\$ 1,339,441	\$ 290,214	\$11,242,101
Employee health and retirement benefits	667,514	197,735	112,024	144,691	86,136	62,729	24,530	1,295,359	169,838	34,614	1,499,811
Payroll taxes	478,860	115,533	65,596	105,695	51,294	34,814	17,735	869,527	112,542	23,795	1,005,864
Total Salaries and Related Expenses	6,295,656	1,635,656	939,103	1,449,640	718,672	488,468	250,137	11,777,332	1,621,821	348,623	13,747,776
Assistance to individuals	-	174,005	1,050,676	18,693	1,835	15,855	175	1,261,239	-	-	1,261,239
Professional fees and contract services	301,458	339,584	3,607	197,350	3,755	38,988	11,390	896,132	120,227	3,721	1,020,080
Occupancy	493,150	35,508	52,655	68,528	46,146	10,066	85,870	791,923	105,975	20,803	918,701
In-kind miscellaneous	452,314	22,921	18,674	46,866	114,332	14,667	-	669,774	41,423	26,386	737,583
Supplies	398,290	37,825	18,802	56,995	20,150	12,784	13,279	558,125	58,497	10,287	626,909
Depreciation	253,120	3,457	2,536	3,432	54,141	19,689	112,382	448,757	39,521	5,594	493,872
Conferences and meetings	280,920	18,440	6,890	51,823	7,040	2,922	7,248	375,283	13,298	41,587	430,168
Local transportation	109,135	16,893	8,426	21,127	6,523	16,136	4,246	182,486	10,821	1,953	195,260
In-kind occupancy	74,488	26,585	4,868	6,617	13,167	55,681	-	181,406	-	-	181,406
Telephone	61,681	29,050	11,317	13,379	11,691	9,755	7,436	144,309	6,106	1,734	152,149
Other expenses	45,780	7,393	5,762	8,197	13,966	4,024	10,461	95,583	42,626	6,030	144,239
Printing and publications	6,207	4,891	869	63,233	1,017	502	7,708	84,427	7,354	8,918	100,699
Food	71,894	412	-	11,304	5,494	8,004	824	97,932	-	1,864	99,796
Postage and shipping	692	932	128	5,026	218	15	13,909	20,920	11,361	7,926	40,207
Total Expenses	<u>\$8,844,785</u>	<u>\$ 2,353,552</u>	<u>\$ 2,124,313</u>	<u>\$ 2,022,210</u>	<u>\$ 1,018,147</u>	<u>\$ 697,556</u>	<u>\$ 525,065</u>	<u>\$17,585,628</u>	<u>\$ 2,079,030</u>	<u>\$ 485,426</u>	<u>\$20,150,084</u>

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	PROGRAM SERVICES							Total Program Services	Management and General	Fund Development	Total Expenses
	Child Development	Adult Employment & Education	Housing Stability	Community Health	Family & Social Services	Youth Development	Other Programs				
Salaries and wages	\$4,022,085	\$ 1,136,292	\$ 602,148	\$ 710,935	\$ 696,791	\$ 404,355	\$ 237,879	\$ 7,810,485	\$ 1,105,721	\$ 267,100	\$ 9,183,306
Employee health and retirement benefits	519,997	169,731	93,157	75,409	103,498	63,680	25,124	1,050,596	130,653	31,685	1,212,934
Payroll taxes	399,418	105,260	56,204	67,021	66,585	38,246	21,708	754,442	100,202	23,966	878,610
Total Salaries and Related Expenses	4,941,500	1,411,283	751,509	853,365	866,874	506,281	284,711	9,615,523	1,336,576	322,751	11,274,850
Assistance to individuals	-	156,670	874,569	18,118	9,248	25,305	1,415	1,085,325	-	-	1,085,325
Professional fees and contract services	298,537	335,168	2,357	154,584	15,493	43,277	24,095	873,511	75,189	9,094	957,794
Occupancy	432,447	32,151	51,336	14,025	40,455	10,031	76,041	656,486	98,078	20,077	774,641
In-kind miscellaneous	199,329	-	-	5,115	125,229	302	553	330,528	4,327	44,022	378,877
Supplies	231,706	29,124	21,174	105,786	35,339	26,102	17,147	466,378	51,984	10,030	528,392
Depreciation	224,360	2,681	2,077	2,658	72,556	17,076	112,658	434,066	27,157	5,157	466,380
Conferences and meetings	319,839	12,936	6,237	31,439	2,696	5,357	3,597	382,101	13,366	39,145	434,612
Local transportation	70,298	19,193	3,109	9,819	11,057	16,606	6,400	136,482	10,296	1,944	148,722
In-kind occupancy	81,465	25,158	1,763	2,990	9,690	55,681	-	176,747	-	144	176,891
Telephone	63,729	28,395	11,819	10,222	18,568	12,047	9,220	154,000	8,726	1,714	164,440
Other expenses	40,241	9,083	5,432	7,257	9,160	5,417	3,320	79,910	45,105	6,828	131,843
Printing and publications	5,908	5,187	769	19,849	5,168	690	7,797	45,368	5,802	10,463	61,633
Food	69,327	358	-	10,266	7,735	4,994	430	93,110	-	1,796	94,906
Postage and shipping	544	1,603	148	666	493	69	14,725	18,248	5,844	7,728	31,820
Total Expenses	<u>\$6,979,230</u>	<u>\$ 2,068,990</u>	<u>\$ 1,732,299</u>	<u>\$ 1,246,159</u>	<u>\$ 1,229,761</u>	<u>\$ 729,235</u>	<u>\$ 562,109</u>	<u>\$14,547,783</u>	<u>\$ 1,682,450</u>	<u>\$ 480,893</u>	<u>\$16,711,126</u>



NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from:		
Government agencies and grantors	\$17,149,801	\$12,775,597
Donors	2,221,344	2,717,866
Investment return	5,157	574
Other income	150,115	616,037
Cash paid to:		
Personnel	(13,643,519)	(11,231,193)
Vendors	(4,511,880)	(3,964,844)
Grantees	<u>(393,886)</u>	<u>(402,155)</u>
Net Cash Provided by Operating Activities	<u>977,132</u>	<u>511,882</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(100,000)	(220,000)
Purchase of leasehold improvements, equipment, and software	<u>(657,265)</u>	<u>(238,578)</u>
Net Cash Used by Investing Activities	<u>(757,265)</u>	<u>(458,578)</u>
<b>Cash Flows Used by Financing Activities</b>		
Repayment of debt	<u>-</u>	<u>(3,864)</u>
Change in Cash and Cash Equivalents	219,867	49,440
Cash and Cash Equivalents - beginning of year	<u>1,726,571</u>	<u>1,677,131</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,946,438</u>	<u>\$ 1,726,571</u>

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of Change in Net Assets to Net Cash</b>		
<b>Flows from Operating Activities</b>		
Change in net assets	\$ 521,314	\$ 212,322
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	493,872	466,380
Realized and unrealized gain on investments	(72,470)	(34,468)
Reinvested earnings	(9,705)	(8,768)
Forgiveness of debt	(80,300)	(230,300)
Contributed vehicles	(29,998)	-
Decrease (increase) in		
Grants and contracts receivable	197,017	(685,988)
Pledges receivable	(42,813)	254,284
Other receivables	(180,459)	439,740
Prepaid expenses and deposits	52,488	(45,744)
Increase (decrease) in		
Accounts payable	31,193	92,873
Accrued expenses	104,257	43,657
Deferred revenue	(7,264)	7,894
Net Cash Provided by Operating Activities	<u>\$ 977,132</u>	<u>\$ 511,882</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE A – ORGANIZATION

Neighborhood House, Incorporated (the Agency) is a Washington not-for-profit agency established to partner with diverse individuals and families to build community and achieve their goals for health, education and self-sufficiency. In furtherance of its mission, the Agency provides a wide range of services in Seattle and King County.

The principal programs of the Agency are:

**Child Development** - Provides a comprehensive early childhood development program (pre-school, including Head Start, and prenatal-to-three programs, including Early Head Start) primarily for low-income children (prenatal to five years).

**Youth Development** - Provides youth tutoring and other youth development programs in communities in Seattle and King County.

**Adult Employment and Education** - Provides employment services for adults, English as a second language training, and citizenship classes and application assistance.

**Family and Social Services** - Provides social and family services to low-income individuals and families primarily residing in public housing communities in Seattle and King County. Services include case management and outreach for seniors and people with disabilities.

**Housing Stability** - Provides rental assistance linked with services to promote long-term housing stability for individuals and families, to prevent homelessness and reduce the duration of housing instability.

**Community Health** - Provides programs to promote healthy communities and combat health problems harming low-income communities. Programs include HIV prevention, wellness, substance abuse prevention, in-home case management for older adults and other community health education.

**Other Programs** - Operate and manage community facilities, hosting other organizations that bring additional services to communities. Publish a monthly newspaper for community residents. The Agency serves as the fiscal sponsor for the Seattle Human Services Coalition (SHSC). The financial statements include approximately \$218,000 and \$185,000 of revenue and expenses, respectively, for 2017. In 2016, the revenue and expenses included for SHSC were approximately \$167,000 and \$146,000, respectively.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Agency reports 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. The net assets of the Agency are classified as follows:

Unrestricted net assets are available without restriction for support of the Agency's operations.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board of Trustees has designated a portion of these funds as follows at December 31:

	<u>2017</u>	<u>2016</u>
Kay Hendricks Bequest Fund (operating reserves)	\$ 300,000	\$ 300,000
Building reserve fund - High Point Center	119,702	102,462
Building reserve fund - Rainier Vista Center	112,079	96,902
	<u>\$ 531,781</u>	<u>\$ 499,364</u>

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

	<u>2017</u>	<u>2016</u>
Child Development	\$ 639,250	\$ 744,169
Adult Employment and Education	95,254	89,668
Other	78,286	-
Family and Social Services	51,095	7,218
Youth Development and Education	42,958	34,083
Housing Stability	34,222	151,388
Community Health	-	11,329
	<u>\$ 941,065</u>	<u>\$ 1,037,855</u>

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations. The Agency had no permanently restricted net assets at December 31, 2017 or 2016.

Cash and cash equivalents

Cash and cash equivalents consist of cash and short term investments in highly liquid instruments, such as money market accounts, purchased with an original maturity of three months or less. The Agency maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. The Agency has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Investments

Investments are recorded at fair value. Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted activity, unless their use is restricted by explicit donor stipulation. Investments consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Money market funds	\$ 58,213	\$ 57,744
Certificates of deposit	323,420	220,368
Fixed income securities	76,053	74,471
Equity securities	471,419	391,793
	<u>\$ 929,105</u>	<u>\$ 744,376</u>

Investment returns consist of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 14,862	\$ 9,342
Realized and unrealized gains	72,470	34,468
	<u>\$ 87,332</u>	<u>\$ 43,810</u>

Other receivables

Other receivables are stated at net realizable value and are considered fully collectible by management.

Government contracts and grants and related receivables

A substantial portion of public support is derived from contracts and grants administered by federal, state, and local government agencies. Revenue from these contracts and grants is subject to audits, which could result in adjustments. 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, 2017 and 2016, no significant amounts were disallowed as a result of such examinations. Government contracts and grants receivable are recorded at net realizable value and are considered fully collectible by management.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to give (pledges receivable)

Unconditional promises to give are recognized as revenues or gains 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. As of December 31, 2017, the Agency did not have any conditional promises to give that were contingent on meeting certain performance outcomes or milestones. As of December 31, 2017, unconditional promises to give were due in less than one year.

Facilities, equipment, and software

Facilities, equipment, and software are stated at cost, or if donated, at fair value at date of donation. Assets purchased under capital leases are stated at the lower of fair value or the net present value of the minimum lease payments. The Agency capitalization threshold is \$5,000. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The Agency uses the direct expensing method to account for planned major maintenance activities.

Assets acquired under certain government grant programs are considered owned by the Agency while used in the program for which they were purchased or in other future authorized programs. However, the governmental grantor has a reversionary interest in the property. Therefore, ownership, disposition, and any proceeds of disposition are subject to governmental regulation.

Facilities are valued as follows for the years ended December 31:

	Estimated Useful Lives	2017	2016
Land (High Point, Rainier Vista)		\$ 3,014,074	\$ 3,014,074
Building (High Point, Rainier Vista)	39 years	13,437,723	13,437,723
Leasehold improvements	3 - 15 years	<u>1,167,552</u>	<u>537,270</u>
		17,619,349	16,989,067
Less accumulated depreciation		<u>(3,346,074)</u>	<u>(2,923,798)</u>
		<u>\$14,273,275</u>	<u>\$14,065,269</u>

Equipment and software are valued as follows for the years ended December 31:

	Estimated Useful Lives	2017	2016
Furniture, equipment, and other	2 - 7 years	\$ 893,967	\$ 1,190,897
Less accumulated depreciation		<u>(654,230)</u>	<u>(936,545)</u>
		<u>\$ 239,737</u>	<u>\$ 254,352</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and unrestricted 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 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 long-lived assets are placed in service.

In-kind goods and services

Contributed goods and services have been recorded on the basis of rates that otherwise would have been paid for similar goods and services. Donated services are recorded as in-kind contributions at estimated fair values at the date of receipt if they (a) create or enhance non-financial assets, or (b) require specialized skills and would need to be purchased if not provided by donation. Corresponding expenses are recognized as the assets and services are utilized by the Agency.

Many volunteers have donated significant time to the Agency's activities. The values of these volunteer services are not recorded in the accompanying financial statements as they do not meet the criteria for recognition. The fair value of these services is estimated to be \$2,627,700 and \$1,216,300, respectively, for the years ended December 31, 2017 and 2016.

In-kind support recorded in the financial statements exceeded in-kind expenses by \$125,395 and \$236,900, respectively, for the years ended December 31, 2017 and 2016, due to the forgiveness of loans, capitalized equipment, vehicle, and construction services.

Concentration

Approximately 37% of total government grants and contracts in 2017 was received from the U.S. Department of Health & Human Services for the Head Start Program.

Functional allocation of expenses

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

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Federal income taxes

The Internal Revenue Service has recognized Neighborhood House, Incorporated as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation. Therefore, no provision for federal income taxes has been made in the financial statements.

Reclassifications

Certain accounts in the 2016 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended December 31, 2016.

NOTE C - FAIR VALUE MEASUREMENTS

Assets carried at fair value on a recurring basis as of December 31, 2017 and 2016 are:

	Quote prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
As of December 31, 2017				
Equity securities	\$ 471,419	\$ -	\$ -	\$ 471,419
Fixed income securities	<u>76,053</u>	<u>-</u>	<u>-</u>	<u>76,053</u>
Total assets shown at fair value	<u>\$ 547,472</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 547,472</u>
	Quote prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
As of December 31, 2016				
Equity securities	\$ 391,793	\$ -	\$ -	\$ 391,793
Fixed income securities	<u>74,471</u>	<u>-</u>	<u>-</u>	<u>74,471</u>
Total assets shown at fair value	<u>\$ 466,264</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 466,264</u>



NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return, which is a level 3 input. The Agency also uses fair value concepts to test various long-lived assets for impairment.

NOTE D - LONG-TERM DEBT

Long-term debt consists of the following at December 31,	<u>2017</u>	<u>2016</u>
<b>High Point Neighborhood Center</b>		
<i>King County</i>		
The construction of the High Point Neighborhood Center facility was partially financed with loan proceeds from the King County Department of Community and Human Services. The loan for \$300,000 closed in December 2007, is non-interest bearing, is collateralized by a deed of trust on the real property, and matures in 2025. The loan is forgivable, provided the property continues to be used for the stated purpose. The Agency fully intends to comply.	\$ 300,000	\$ 300,000
<i>Seattle Housing Authority</i>		
The acquisition of land by Neighborhood House, Incorporated and the financing of certain other development costs related to the High Point Neighborhood Center was financed with the proceeds from Seattle Housing Authority to Neighborhood House, Incorporated. The loan is non-interest bearing and matures in the year 2057. The total loan amount is \$4,014,000. The initial loan amount of \$2,514,000 was used to purchase the land in December 2008 and the cash balance of \$1,500,000 was fully disbursed by December 31, 2009.		
The loan is forgivable (one-fiftieth each year), provided the property continues to be used for the stated purpose, as described in a restrictive covenant that runs concurrent with the term of the loan. In the case of sale or change of use, the Agency must pay to Seattle Housing Authority, the lesser of shared appreciation or 6% interest on the outstanding principal amount of the loan. The loan includes Lender Right of First Refusal. The Agency fully intends to comply with the restrictive covenant and does not intend to sell the property. During 2017, \$80,300 (one-fiftieth) of the loan was forgiven.	2,116,615	2,196,915

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE D - LONG-TERM DEBT (Continued)	<u>2017</u>	<u>2016</u>
<b>Rainier Vista</b>		
The acquisition and construction of the Rainier Vista facility was partially financed with loan proceeds from the City of Seattle, Human Services Department. The loan is non-interest bearing, is collateralized by a deed of trust on the real property, and matures in 2020. The loan is forgivable provided the property continues to be used for the stated purpose. The Agency fully intends to comply.	250,000	250,000
The acquisition and construction of the Rainier Vista facility was partially financed with loan proceeds from Seattle Housing Authority. The loan is non-interest bearing, is collateralized by a deed of trust on the real property, and matures in 2054. In the event the property is sold or used for an unauthorized purpose, the loan is subject to interest at 3% of the outstanding loan balance per year from the date of non-compliance. The Agency fully intends to comply with the authorized purpose.	<u>210,000</u>	<u>210,000</u>
Total	2,876,615	2,956,915
Less: current portion	<u>(80,300)</u>	<u>(80,300)</u>
	<u>\$ 2,796,315</u>	<u>\$ 2,876,615</u>

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

2018	\$ 80,300
2019	80,300
2020	330,300
2021	80,300
2022	80,300
Thereafter	<u>2,225,115</u>
	<u>\$ 2,876,615</u>

NOTE E - SEATTLE HOUSING AUTHORITY MASTER LEASE

As part of the development and operational financing of the High Point Neighborhood Center, Neighborhood House High Point QALICB entered into a lease with Seattle Housing Authority as a tenant for a portion of the space at the High Point Neighborhood Center. The lease began January 2010, and had an initial term of 15 years. As of January 1, 2015, following the merger of Neighborhood House High Point QALICB and Neighborhood House, Incorporated, Neighborhood House, Incorporated has waived base rent payments in this lease and is negotiating in good faith with Seattle Housing Authority on amendments to the lease.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE F - OBLIGATIONS

The acquisition and construction of the High Point Neighborhood Center was partially financed by grants from the State of Washington and City of Seattle that include obligations that restrict the use of the facility for a period of 10 years. The use restrictions are consistent with the use restrictions in the loans in Note D. Should the facility not be used for the purpose intended, the Agency would be obligated to repay the funds. The Agency fully intends to comply. The amounts awarded under these grants through December 31, 2017 are:

State of Washington	\$ 3,945,000
City of Seattle	<u>500,000</u>
	<u>\$ 4,445,000</u>

NOTE G - RETIREMENT PLAN

The Agency sponsors a 403(b) defined contribution plan (the Plan), as defined by the Internal Revenue Code. With some exceptions, employees are eligible for agency contributions to the plan upon reaching approximately three months of employment and completing required enrollment documentation. The Board of Trustees, at its discretion, can prospectively modify the plan, including contribution levels, at any time or terminate the plan entirely. Total employer contributions for the years ended December 31, 2017 and 2016 were \$336,722 and \$284,289, respectively.

NOTE H - COMMITMENTS

The Agency leases office and operating facilities at rates below market rents. The difference between the estimated fair value of the space provided and rent paid is included in the accompanying financial statements as in-kind support and as in-kind occupancy expense. The agency signed a 7-year lease to occupy commercial office space, beginning in March 2015, for its central office. Total rent expense for the years ended December 31, 2017 and 2016 was \$651,509 and \$540,665, respectively.

Lease obligations also include various program office spaces, expiring through 2022. Future minimum payments are as follows for the years ending December 31:

2018	\$ 569,837
2019	474,523
2020	418,943
2021	296,105
2022	<u>33,867</u>
	<u>\$ 1,793,275</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE I - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2017 through June 21, 2018, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2017, including the estimates inherent in the processing of financial statements.

**SUPPLEMENTARY INFORMATION**

NEIGHBORHOOD HOUSE, INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

**Federal Grantor**

<i>Pass-through Grantor</i> "Program Title"	Contract Number	CFDA Number	Passed Through To Subrecipients	Federal Expenditures
<b>Department of Health and Human Services</b>				
"Head Start"	10CH0224-03		\$ -	\$ 2,797,358
"Head Start"	10CH0184-05		-	956,363
"Head Start"	10CH010418-02		-	2,507,270
		93.600*	-	6,260,991
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	1H79SP021216-01		-	326,586
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	1H79SP021924		-	49,680
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	1H79TI025803		86,417	562,518
		93.243	86,417	938,784
<i>TRAC Associates</i>				
"Affordable Care Act (ACA) Health Profession Opportunity Grants"	16-640-HWF-NH ; 17-640-HWF-NH	93.093	-	94,155
<i>State of Washington Department of Commerce</i>				
"Community Services Block Grant" 477 Cluster	F17-32100-018	93.569	-	176,777
<i>King County Community and Human Services</i>				
"Block Grants for Prevention and Treatment of Substance Abuse"	5893754	93.959	-	186,352
<i>City of Seattle Human Services Department</i>				
"Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers" Aging Cluster	DA16-1549;DA17-1549	93.044	-	57,387
<i>City of Seattle Human Services Department</i>				
"National Family Caregiver Support, Title III, Part E"	DA16-1288;DA17-1288		-	31,977
"National Family Caregiver Support, Title III, Part E"	DA16-1609;DA17-1609		-	24,545
		93.052	-	56,522
<i>City of Seattle Human Services Department</i>				
"Medical Assistance Program"	DA16-1173 ; DA17-1173		-	386,723
"Medical Assistance Program"	DA17-1288		-	265
"Medical Assistance Program"	DA16-1549;DA17-1549		-	22,321
Medicaid Cluster		93.778	-	409,309
Subtotal Department of Health and Human Services			86,417	8,180,277

\* Denotes a major program.

NEIGHBORHOOD HOUSE, INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

**Federal Grantor**

<i>Pass-through Grantor</i> "Program Title"	Contract Number	CFDA Number	Passed Through To Subrecipients	Federal Expenditures
<b>Department of Agriculture</b>				
<i>State of Washington Department of Social and Health Services</i>				
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	1612-74831 ; 1712-15785		-	104,080
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	1612-74829 ; 1712-15786		-	45,272
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	1612-71530 ; 1712-16042		-	58,036
<i>Seattle Jobs Initiative</i>				
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	1021-17		-	91,955
SNAP Cluster		10.561	-	299,343
<i>State of Washington Department of Social and Health Services</i>				
"Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP"	1612-76246 ; 1712-16250	10.596	-	293,964
<i>State of Washington Office of the Superintendent of Public Instruction</i>				
"Child and Adult Care Food Program"	17-03-0147	10.558	-	231,286
	Subtotal Department of Agriculture		-	824,593
<b>Department of Housing and Urban Development</b>				
<i>City of Seattle</i>				
"Continuum of Care Program"	DA16-1091 ; DA17-1091	14.267	-	562,068
<i>City of Seattle Human Services Department</i>				
"Emergency Solutions Grant Program"	DA17-1168	14.231	-	161,497
	Subtotal Department of Housing and Urban Development		-	723,565
<b>National Science Foundation</b>				
"Education and Human Resources"	DRL-1311253	47.076	-	89,580
<b>Department of Homeland Security</b>				
"Citizenship Education and Training"	2016-CS-010-000026	97.010	-	108,877

\* Denotes a major program.

NEIGHBORHOOD HOUSE, INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

**Federal Grantor**

<i>Pass-through Grantor</i> "Program Title"	Contract Number	CFDA Number	Passed Through To Subrecipients	Federal Expenditures
<b>Department of Labor</b>				
<i>King County Workforce Development Council</i> "WIA Adult Program"	16-111-ADU ; 17-271-ADU ; 17-141-UPS	17.258*	154,427	467,817
<i>King County Workforce Development Council</i>  "WIA Dislocated Worker Formula Grants"	16-112-DWK ; 17-171-ADU ; 16-263-ISD ; 17-141-UPS ; 16-290- RR ; 17-182-DWK ; 17-183-DWK	17.278*	138,106	359,442
<i>King County Work Training Program</i> "WIA Youth Activities"	17-141-UPS ; 5722297-VII ; 5899347-VII	17.259*	-	77,690
	WIA Cluster		292,533	904,949
<i>King County Workforce Development Council</i> "Workforce Investment Act (WIA) National Emergency Grants"	15/240-SPNEG	17.277	14,936	50,630
	Subtotal Department of Labor		307,469	955,579
	Total Expenditures of Federal Awards		\$ 393,886	\$ 10,882,471

\* Denotes a major program.



NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Neighborhood House, Incorporated and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - INDIRECT COST RATE

Neighborhood House, Incorporated has a negotiated indirect cost rate for use on Federal grants and contracts. For 2017, the predetermined rate was 11.7% based on total modified direct costs. As such, Neighborhood House, Incorporated is not eligible to elect use of the 10% *de minimus* indirect cost rate.

INDEPENDENT AUDITOR'S REPORT  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

June 21, 2018

Board of Trustees  
Neighborhood House, Incorporated  
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Neighborhood House, Incorporated (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activity, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 21, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Neighborhood House, Incorporated's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Neighborhood House, Incorporated's internal control. Accordingly, we do not express an opinion on the effectiveness of Neighborhood House, Incorporated's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

**Purpose of this Report**

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



Jacobson Jarvis & Co, PLLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE

June 21, 2018

Board of Directors  
Neighborhood House, Incorporated  
Federal Way, Washington

**Report on Compliance with Each Major Federal Program**

We have audited Neighborhood House, Incorporated's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Neighborhood House, Incorporated's major federal programs for the year ended December 31, 2017. Neighborhood House, Incorporated's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Neighborhood House, Incorporated's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Neighborhood House, Incorporated's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Neighborhood House, Incorporated's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Neighborhood House, Incorporated complied, in all material respects, with the types of compliance requirements referred to in the first paragraph of this letter that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Jacobson Jarvis & Co, PLLC

NEIGHBORHOOD HOUSE, INCORPORATED

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2017

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Neighborhood House, Incorporated.
2. No material weaknesses relating to the financial statements are reported in the "Independent Auditor's Report Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
3. No instances of noncompliance material to the financial statements of Neighborhood House, Incorporated were disclosed during the audit.
4. No material weaknesses relating to the audit of the major federal award programs are reported in the "Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance as Required by the Uniform Guidance."
5. The auditor's report on compliance for the major federal award programs for Neighborhood House, Incorporated expresses an unmodified opinion.
6. Audit findings relative to the major federal award programs for Neighborhood House, Incorporated are reported in Part C of this Schedule.
7. The programs tested as major were:
  - CFDA No. 93.600, "Head Start"
  - CFDA No. 17.258, "WIA Adult Program"
  - CFDA No. 17.278, "WIA Dislocated Worker Formula Grants"
  - CFDA No. 17.259, "WIA Youth Activities"
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. Neighborhood House, Incorporated was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

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

None