

NEIGHBORHOOD HOUSE, INCORPORATED

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2019 AND 2018

UNIFORM GUIDANCE SUPPLEMENTARY FINANCIAL REPORTS
YEAR ENDED DECEMBER 31, 2019



NEIGHBORHOOD HOUSE, INCORPORATED

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

October 15, 2020

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, 2019 and 2018, 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, 2019 and 2018, 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 October 15, 2020 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, 2019 AND 2018

	<u>ASSETS</u>	
	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 2,013,619	\$ 1,853,280
Grants and contracts receivable	3,233,449	3,064,314
Current pledges receivable	253,148	664,088
Other receivables	349,935	117,162
Investments	1,042,879	910,674
Prepaid expenses and deposits	307,739	273,851
	<u>7,200,769</u>	<u>6,883,369</u>
Total Current Assets		
Pledges Receivable, net of current portion above	-	92,900
Equipment and Software, net	291,791	225,393
Facilities, net	<u>13,574,302</u>	<u>13,839,437</u>
	<u>\$21,066,862</u>	<u>\$21,041,099</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities		
Accounts payable	\$ 578,520	\$ 335,534
Accrued expenses	1,263,744	1,100,167
Refundable advance	96,200	-
Deferred revenue	20,487	34,901
	<u>1,958,951</u>	<u>1,470,602</u>
Total Current Liabilities		
Refundable Advances	<u>2,716,015</u>	<u>2,796,315</u>
	<u>4,674,966</u>	<u>4,266,917</u>
Total Liabilities		
Net Assets		
Without Donor Restriction		
Undesignated	14,683,399	14,852,231
Board designated for future operations	714,668	707,127
Total Net Assets Without Donor Restriction	<u>15,398,067</u>	<u>15,559,358</u>
With Donor Restriction	<u>993,829</u>	<u>1,214,824</u>
	<u>16,391,896</u>	<u>16,774,182</u>
Total Net Assets		
	<u>\$21,066,862</u>	<u>\$21,041,099</u>

See notes to financial statements.

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Change in Net Assets Without Donor Restrictions		
Revenues and other support		
Government and private grants and contracts	\$17,528,404	\$17,321,853
In-kind support	785,527	835,430
United Way of King County	1,389,108	886,376
Contributions	856,943	656,041
Investment return	135,709	(11,636)
Service fees and other	157,193	136,119
	<u>20,852,884</u>	<u>19,824,183</u>
Net assets released from purpose restrictions	<u>711,347</u>	<u>718,417</u>
Total Revenues and Other Support Without Donor Restrictions	<u>21,564,231</u>	<u>20,542,600</u>
Expenses		
Program services	18,835,230	18,252,470
Management and general	2,401,818	2,126,838
Fund development	488,474	489,447
	<u>21,725,522</u>	<u>20,868,755</u>
Total Expenses	<u>21,725,522</u>	<u>20,868,755</u>
Change in Net Assets Without Donor Restrictions	<u>(161,291)</u>	<u>(326,155)</u>
Change in Net Assets With Donor Restrictions		
Government and private grants and contracts	119,769	-
United Way of King County	254,236	565,726
Contributions	116,347	426,450
Net assets released from purpose restrictions	<u>(711,347)</u>	<u>(718,417)</u>
Change in Net Assets With Donor Restrictions	<u>(220,995)</u>	<u>273,759</u>
Total Change in Net Assets	(382,286)	(52,396)
Net Assets - beginning of year	<u>16,774,182</u>	<u>16,826,578</u>
Net Assets - end of year	<u>\$16,391,896</u>	<u>\$16,774,182</u>

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	PROGRAM SERVICES							Total Program Services	Management and General	Fund Development	Total Expenses
	Child Development	Housing Stability	Aging & Disabilities Services	Community Health	Adult Employment & Education	Youth & Family Services	Other Programs				
Salaries and wages	\$ 5,200,437	\$ 799,408	\$ 1,676,369	\$ 869,162	\$ 1,057,810	\$ 618,133	\$ 186,973	\$10,408,292	\$ 1,596,637	\$ 276,810	\$12,281,739
Employee health and retirement benefits	744,627	122,700	237,949	99,884	167,464	83,548	24,798	1,480,970	187,104	34,074	1,702,148
Payroll taxes	511,496	72,113	153,294	80,215	98,200	58,086	16,402	989,806	139,864	24,317	1,153,987
Total Salaries and Related Expenses	6,456,560	994,221	2,067,612	1,049,261	1,323,474	759,767	228,173	12,879,068	1,923,605	335,201	15,137,874
Assistance to individuals	-	1,579,001	831	15,290	109,215	3,692	-	1,708,029	-	-	1,708,029
Occupancy	572,583	57,612	87,359	23,056	34,970	37,188	95,244	908,012	113,622	22,391	1,044,025
Supplies	405,117	20,481	37,018	78,011	14,737	51,905	11,374	618,643	91,210	13,252	723,105
Professional fees and contract services	294,694	3,556	34,562	151,603	5,673	55,890	9,544	555,522	96,130	13,887	665,539
Depreciation	308,492	5,139	31,580	15,948	17,402	54,048	89,418	522,027	47,982	6,466	576,475
In-kind other	256,639	4,059	13,521	13,632	4,574	92,767	-	385,192	28,711	24,085	437,988
Conferences and meetings	245,606	4,712	8,304	80,403	3,655	4,161	7,099	353,940	11,246	35,471	400,657
Local transportation	99,574	4,895	26,395	14,388	10,480	26,424	5,157	187,313	8,933	1,576	197,822
Other expenses	68,508	4,531	10,850	15,604	3,968	6,616	4,935	115,012	54,576	14,014	183,602
In-kind occupancy	67,349	1,974	17,830	4,394	25,567	52,225	-	169,339	-	-	169,339
Food	118,111	42	1,864	15,753	2,536	19,064	100	157,470	-	9,931	167,401
Printing and publications	26,660	1,305	1,650	98,805	1,711	424	1,010	131,565	8,719	8,980	149,264
Telephone	55,007	9,088	22,422	9,999	18,398	13,871	6,121	134,906	6,640	1,296	142,842
Postage and shipping	431	13	8,180	271	79	6	212	9,192	10,444	1,924	21,560
Total Expenses	<u>\$ 8,975,331</u>	<u>\$ 2,690,629</u>	<u>\$ 2,369,978</u>	<u>\$ 1,586,418</u>	<u>\$ 1,576,439</u>	<u>\$ 1,178,048</u>	<u>\$ 458,387</u>	<u>\$18,835,230</u>	<u>\$ 2,401,818</u>	<u>\$ 488,474</u>	<u>\$21,725,522</u>

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	PROGRAM SERVICES							Total Program Services	Management and General	Fund Development	Total Expenses
	Child Development	Housing Stability	Aging & Disabilities Services	Community Health	Adult Employment & Education	Youth & Family Services	Other Programs				
Salaries and wages	\$ 5,307,025	\$ 780,567	\$ 1,144,849	\$ 713,635	\$ 1,543,926	\$ 552,235	\$ 180,826	\$10,223,063	\$ 1,390,193	\$ 291,542	\$11,904,798
Employee health and retirement benefits	750,724	119,411	163,252	88,627	225,089	85,970	23,475	1,456,548	185,015	35,853	1,677,416
Payroll taxes	525,042	69,966	103,615	65,712	142,875	51,088	16,449	974,747	121,265	25,972	1,121,984
Total Salaries and Related Expenses	6,582,791	969,944	1,411,716	867,974	1,911,890	689,293	220,750	12,654,358	1,696,473	353,367	14,704,198
Assistance to individuals	-	1,411,687	52	22,472	214,748	953	175	1,650,087	-	-	1,650,087
Occupancy	554,664	56,883	74,098	13,243	52,514	19,828	83,241	854,471	112,280	21,980	988,731
Professional fees and contract services	296,637	4,726	38,156	158,733	46,162	56,758	6,672	607,844	100,416	11,571	719,831
In-kind other	385,633	12,261	13,735	20,900	23,707	78,376	-	534,612	38,922	7,513	581,047
Depreciation	271,321	4,842	23,104	8,477	5,677	61,468	98,257	473,146	41,861	5,613	520,620
Supplies	237,016	19,510	20,811	32,411	31,328	36,399	17,727	395,202	48,293	20,033	463,528
Conferences and meetings	265,319	6,011	6,376	43,681	9,871	6,063	4,376	341,697	15,999	35,101	392,797
Local transportation	100,734	7,200	16,082	13,257	15,146	18,246	6,786	177,451	9,022	1,671	188,144
In-kind occupancy	72,103	3,851	5,475	7,775	32,749	52,129	-	174,082	-	-	174,082
Telephone	54,356	9,273	16,827	7,560	26,183	11,538	7,807	133,544	7,433	1,243	142,220
Food	84,422	-	2,278	19,134	1,062	14,005	308	121,209	-	8,171	129,380
Other expenses	39,566	4,480	4,189	5,293	6,924	5,996	6,227	72,675	41,487	8,859	123,021
Printing and publications	6,871	989	1,173	31,987	4,746	172	4,780	50,718	4,792	10,874	66,384
Postage and shipping	398	19	6,828	123	316	60	3,630	11,374	9,860	3,451	24,685
Total Expenses	<u>\$ 8,951,831</u>	<u>\$ 2,511,676</u>	<u>\$ 1,640,900</u>	<u>\$ 1,253,020</u>	<u>\$ 2,383,023</u>	<u>\$ 1,051,284</u>	<u>\$ 460,736</u>	<u>\$18,252,470</u>	<u>\$ 2,126,838</u>	<u>\$ 489,447</u>	<u>\$20,868,755</u>

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Cash received from:		
Government agencies and grantors	\$17,480,524	\$17,067,483
Donors	2,889,769	2,487,534
Investment return	8,456	10,882
Other income	150,173	143,801
Cash paid to:		
Personnel	(14,974,297)	(14,641,679)
Vendors	(5,194,748)	(4,994,713)
Grantees	<u>-</u>	<u>(94,028)</u>
Net Cash Provided (Used) by Operating Activities	359,877	(20,720)
Cash Flows Used by Investing Activities		
Purchase of leasehold improvements, equipment, and software	<u>(199,538)</u>	<u>(72,438)</u>
Change in Cash and Cash Equivalents	160,339	(93,158)
Cash and Cash Equivalents - beginning of year	<u>1,853,280</u>	<u>1,946,438</u>
Cash and Cash Equivalents - end of year	<u>\$ 2,013,619</u>	<u>\$ 1,853,280</u>

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Change in Net Assets to Net Cash		
Flows from Operating Activities		
Change in net assets	\$ (382,286)	\$ (52,396)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	576,475	520,620
Realized and unrealized (gain) loss on investments	(113,735)	33,973
Reinvested investment earnings	(13,518)	(11,455)
Donation of software	(178,200)	-
Change in		
Grants and contracts receivable	(169,135)	(288,641)
Pledges receivable	503,840	(159,002)
Other receivables	(237,725)	119,624
Prepaid expenses and deposits	(33,888)	(60,013)
Accounts payable	242,986	(139,920)
Accrued expenses	163,577	62,519
Deferred revenue	(14,414)	34,271
Refundable advances	<u>15,900</u>	<u>(80,300)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 359,877</u>	<u>\$ (20,720)</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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 and Family Services - Provides youth tutoring, other youth development programs, and family services 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.

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, and other community health education.

Ageing and Disability Services - Provides outreach, resource referral, group activities, and case management services to low income older adults, individuals with disabilities, and their caregivers throughout King County with a focus on immigrant and refugee populations.

Other Programs - Operate and manage community facilities, hosting other organizations that bring additional services to communities. The Agency serves as the fiscal sponsor for the Seattle Human Services Coalition (SHSC). The financial statements include approximately \$179,000 and \$208,000 revenue and expenses, respectively, for 2019. In 2018, the revenue and expenses included for SHSC were approximately \$202,000 and \$175,000, respectively.

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.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Adoption of new accounting pronouncements

In June 2018, FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Agency has implemented the provisions of ASU 2018-08 applicable to contributions received in the accompanying financial statements under a modified prospective basis. Accordingly, there was no effect on net assets in connection with the implementation of ASU 2018-08.

Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Agency has implemented Topic 606 and considered the need for adjustment to the presentation in these financial statements. Analysis of various provisions of this standard resulted in no significant changes in the way the Agency recognizes revenue and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Basis of presentation

The Agency presents its financial statements on an accrual basis of accounting in accordance with FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Agency is required to report information regarding its financial position and activities based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

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

	<u>2019</u>	<u>2018</u>
Kay Hendricks Bequest Fund (operating reserves)	\$ 300,000	\$ 300,000
Building reserve fund - High Point Center	157,911	138,444
Building reserve fund - Rainier Vista Center	144,862	127,640
Seattle Human Services Coalition	111,895	141,043
	<u>\$ 714,668</u>	<u>\$ 707,127</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor restricted net assets are available as follows as of December 31:

	<u>2019</u>	<u>2018</u>
Housing Stability	\$ 434,931	\$ 307,633
Child Development	213,182	532,106
Adult Employment and Education	145,250	199,350
Youth Development and Education	67,263	21,305
Family and Social Services	57,561	57,717
Other	49,792	75,920
Aging and Disability Services	25,850	-
Community Health	-	20,793
	<u>\$ 993,829</u>	<u>\$ 1,214,824</u>

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

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.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 activity without donor restriction, unless their use is restricted by explicit donor stipulation. Investments consist of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 103,755	\$ 101,579
Certificates of deposit	332,460	327,509
Fixed income securities	105,815	99,976
Equity securities	500,849	381,610
	<u>\$ 1,042,879</u>	<u>\$ 910,674</u>

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

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 21,974	\$ 22,337
Realized and unrealized gains (losses)	113,735	(33,973)
	<u>\$ 135,709</u>	<u>\$ (11,636)</u>

Promises to give (pledges receivable)

Unconditional promises to give are stated at net realizable value. In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period received. Unconditional promises to give are considered to be fully collectible within one year as of December 31, 2019.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and contracts receivable

Grants and contracts receivable consist of grants and contracts administered by various federal, state, and local governmental agencies earned but not yet received. Management reviews the collectability of grants and contracts receivable on a periodic basis. Grants and contracts receivable are stated at net realizable value and are considered fully collectible by management.

Other receivables

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

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	2019	2018
Land (High Point, Rainier Vista)		\$ 3,014,074	\$ 3,014,074
Building (High Point, Rainier Vista)	39 years	13,437,723	13,445,419
Leasehold improvements	3 - 15 years	<u>1,353,048</u>	<u>1,167,552</u>
		17,804,845	17,627,045
Less accumulated depreciation		<u>(4,230,543)</u>	<u>(3,787,608)</u>
		<u>\$ 13,574,302</u>	<u>\$ 13,839,437</u>

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

	Estimated Useful Lives	2019	2018
Furniture, equipment, and other	2 - 7 years	\$ 1,080,077	\$ 958,710
Less accumulated depreciation		<u>(788,286)</u>	<u>(733,317)</u>
		<u>\$ 291,791</u>	<u>\$ 225,393</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support and revenue recognition

The Agency recognizes revenue from services when the services are provided. The Agency recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the year in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restriction.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or release, are not recognized until the conditions on which they depend have been met. The Agency's federal, state, and local government contracts, as well as certain private foundation grants, are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses or allowable services. As of December 31, 2019, conditional contributions totaling \$19,019,228 for which no amounts had been received in advance have not been recognized in the accompanying financial statements. Conditional promises to give for which amounts have been received in advance are shown as refundable advances on the statement of financial position. See Note F.

Support from grants and contracts 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, 2019 and 2018, no significant amounts were disallowed as a result of such examinations.

Concentration

Approximately 37% of total government grants and contracts in 2019 were received from the U.S. Department of Health & Human Services for the Head Start Program.

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 \$2,458,000 and \$2,691,000, respectively, for the years ended December 31, 2019 and 2018.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Service fees and other

Service fee revenue primarily includes rental income and fiscal sponsor management fees.

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. Costs are allocated using reasonable and consistent methods for each type of cost, such as square footage for the occupancy costs of each facility or the number of staff per functional area for liability insurance. Payroll costs are allocated based on time recorded to program cost centers by employees on their timesheets.

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, 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.

Reclassifications

Certain amounts in the 2018 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, 2018.

NOTE C - LIQUIDITY

The Agency's working capital and cash flows have seasonal variations during the year attributable to cash receipts for grants and a concentration of contributions throughout various times of the year. Amounts not available include amounts set aside by board designation that could be drawn upon if the board of trustees approves that action.

The table below presents financial assets available for general expenditures within one year at December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Total financial assets	\$ 6,893,030	\$ 6,702,418
Less: Donor-imposed purpose restrictions	(993,829)	(1,214,824)
Less: Board designated funds	<u>(714,668)</u>	<u>(707,127)</u>
Financial Assets Available for Operations Within One Year	<u>\$ 5,184,533</u>	<u>\$ 4,780,467</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE D - FAIR VALUE MEASUREMENTS

Assets carried at fair value on a recurring basis as of December 31, 2019 and 2018 are:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
As of December 31, 2019				
Money market funds	\$ 103,755	\$ -	\$ -	\$ 103,755
Certificates of deposit	-	332,460	-	332,460
Equity securities	500,849	-	-	500,849
Fixed income securities	105,815	-	-	105,815
Total assets shown at fair value	<u>\$ 710,419</u>	<u>\$ 332,460</u>	<u>\$ -</u>	<u>\$ 1,042,879</u>
As of December 31, 2018				
Money market funds	\$ 101,579	\$ -	\$ -	\$ 101,579
Certificates of deposit	-	327,509	-	327,509
Equity securities	99,976	-	-	99,976
Fixed income securities	381,610	-	-	381,610
Total assets shown at fair value	<u>\$ 583,165</u>	<u>\$ 327,509</u>	<u>\$ -</u>	<u>\$ 910,674</u>

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 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 in 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, 2019 AND 2018

NOTE F - REFUNDABLE ADVANCES

King County - High Point Neighborhood Center

The construction of the High Point Neighborhood Center facility was partially financed with grant proceeds from the King County Department of Community and Human Services. The grant for \$300,000 closed in December 2007 and is collateralized by a deed of trust on the real property. Recognition of the grant is conditioned upon continuous use of the property for its intended purpose through 2025.

Seattle Housing Authority - High Point Neighborhood Center

The acquisition of land by Neighborhood House, Incorporated and the financing of certain other development costs related to the High Point Neighborhood Center was partially financed with grant proceeds from Seattle Housing Authority to Neighborhood House, Incorporated. The initial grant funding 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.

Recognition of the grant is conditioned upon use of the property for its intended purpose. As described in a restrictive covenant that runs concurrent with the term of the grant agreement, the grant is being recognized at a rate of one-fiftieth each year that the property continues to be used for the stated purpose. In the case of sale or change of use, the Agency must also pay to Seattle Housing Authority the lesser of shared appreciation or 6% interest on the unrecognized portion of the grant. During 2019 and 2018, \$80,300 (one-fiftieth) of the grant was recognized. The remaining conditional promise to give related to this grant totaled \$1,956,015 as of December 31, 2019.

City of Seattle - Rainier Vista

The acquisition and construction of the Rainier Vista facility was partially financed with grant proceeds from the City of Seattle, Human Services Department. The grant for \$250,000 is collateralized by a deed of trust on the real property. Recognition of the grant is conditioned upon continuous use of the property for its intended purpose through 2020.

Seattle Housing Authority - Rainier Vista

The acquisition and construction of the Rainier Vista facility was partially financed with loan proceeds from Seattle Housing Authority. The grant for \$210,000 is collateralized by a deed of trust on the real property. In the event the property is sold or used for an unauthorized purpose, the grant proceeds are subject to interest at 3% of the outstanding balance per year from the date of non-compliance. Recognition of the grant is conditioned upon continuous use of the property for its intended purpose through 2054.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE F - REFUNDABLE ADVANCES (Continued)

Other

The Agency's federal, state, and local government contracts, as well as certain private foundation grants, are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses or allowable services. When amounts are received in advance of meeting the conditions, they are recognized as refundable advances. As of December 31, 2019, \$96,200 was received in advance of the provision of allowable services.

NOTE G - 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 funding was recognized as grant revenue when received consistent with financial accounting standards applicable at the time of receipt. The use restrictions are consistent with the use restrictions in the loans in Note F. 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 are:

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

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. Total rent expense for the years ended December 31, 2019 and 2018 was \$736,282 and \$676,301, respectively. Lease obligations also include various program office spaces, expiring through 2024. Future minimum payments are as follows for the years ending December 31:

2020	\$ 647,423
2021	469,941
2022	284,572
2023	248,718
2024	210,325
2025	<u>16,152</u>
	<u>\$ 1,877,131</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE I - 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, 2019 and 2018 were \$348,204 and \$353,411, respectively.

NOTE J - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2019 through October 15, 2020, 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, 2019, including the estimates inherent in the processing of financial statements.

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. On March 23, 2020 the Governor of Washington declared a health emergency and issued an order to close all nonessential businesses until further notice. Management continues to evaluate the financial impact of the COVID-19 pandemic and has concluded that while it is likely that the virus will have a negative effect on the Agency's financial position, change in net assets, and cash flows, the specific impact is not readily determinable as of the date of these financial statements. In addition, the Agency has obtained a \$104,263 Paycheck Protection Program loan as part of its emergency response plan. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

SUPPLEMENTARY INFORMATION

NEIGHBORHOOD HOUSE, INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2019

Federal Grantor

<i>Pass-through Grantor</i> "Program Title"	Contract Number	CFDA Number	Passed Through To Subrecipients	Federal Expenditures
Department of Health and Human Services				
"Head Start"	10CH0224-02		\$ -	\$ 3,257,776
"Head Start"	10CH010785-01		-	900,599
"Head Start"	10CH010418-01		-	2,263,946
		93.600*	-	6,422,321
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	1H79SM080503-01		-	447,477
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	5H79SP021924		-	58,870
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	5H79SP021216		-	282,683
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	1H79SM080766		-	370,839
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	1H79TI082392		-	36,639
		93.243*	-	1,196,508
<i>TRAC Associates</i>				
"Affordable Care Act (ACA) Health Profession Opportunity Grants"	17-640-HWF-NH ; 16-640-HWF-NH	93.093	-	111,387
<i>State of Washington Department of Commerce</i>				
"Community Services Block Grant" 477 Cluster	F18-32101-018 ; F19-32101-018	93.569	-	175,459
<i>King County Community and Human Services</i>				
"Block Grants for Prevention and Treatment of Substance Abuse"	6059040	93.959	-	134,675
<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	DA18-1549	93.044	-	61,548
<i>City of Seattle Human Services Department</i>				
"National Family Caregiver Support, Title III, Part E"	DA18-1288		-	13,073
"National Family Caregiver Support, Title III, Part E"	DA18-1609 ; DA19-1609		-	15,267
		93.052	-	28,340

* Denotes a major program.

NEIGHBORHOOD HOUSE, INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2019

Federal Grantor

<i>Pass-through Grantor</i> "Program Title"	Contract Number	CFDA Number	Passed Through To Subrecipients	Federal Expenditures
<i>City of Seattle Human Services Department</i>				
"Medical Assistance Program"	DA18-1173 ; DA19-1173		-	621,823
"Medical Assistance Program"	DA19-1288		-	499,122
"Medical Assistance Program"	DA19-1549		-	29,759
Medicaid Cluster		93.778*	-	1,150,704
Subtotal Department of Health and Human Services			-	9,280,942
Department of Housing and Urban Development				
<i>City of Seattle</i>				
"Continuum of Care Program"	DA18-1091		-	111,161
"Continuum of Care Program"	DA19-1815		-	149,933
		14.267	-	261,094
Department of Agriculture				
<i>State of Washington Department of Social and Health Services</i>				
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	1812-39170		-	60,323
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	1912-62750 ; 1912-63581		-	44,858
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	1812-39169		-	67,604
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	1812-38882		-	65,914
<i>Seattle Jobs Initiative</i>				
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	1021-19 ; 1021-18		-	30,022
SNAP Cluster		10.561	-	268,721
<i>State of Washington Office of the Superintendent of Public Instruction</i>				
"Child and Adult Care Food Program"	159101	10.558	-	230,886
Subtotal Department of Agriculture			-	499,607

* Denotes a major program.

NEIGHBORHOOD HOUSE, INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2019

Federal Grantor <i>Pass-through Grantor</i> "Program Title"	Contract Number	CFDA Number	Passed Through To Subrecipients	Federal Expenditures
Department of Labor				
<i>King County Workforce Development Council</i> "WIOA Adult Program"	17-141-UPS ; 17-202-UPS ; 18-101-ADU ; 19-101-ADU	17.258	-	494,416
<i>King County Work Training Program</i> "WIOA Youth Activities"	17-141-UPS ; 17-202-UPS	17.278	-	25,953
<i>King County Workforce Development Council</i> "WIOA Dislocated Worker Formula Grants"	17-141-UPS ; 17-202-UPS ; 6038344	17.259	-	49,656
WIOA Cluster	Subtotal Department of Labor		-	570,025
Total Expenditures of Federal Awards			\$ -	\$ 10,611,668

* Denotes a major program.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2019

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 2019, the predetermined rate was 12.6% 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*

October 15, 2020

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, 2019 and 2018, and the related statements of activities, 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 October 15, 2020.

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

October 15, 2020

Board of Directors
Neighborhood House, Incorporated
Seattle, 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, 2019. 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, 2019.

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, 2019

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. 93.243, "Substance Abuse and Mental Health Services Projects of Regional and National Significance"
 - CFDA No. 93.778, "Medical Assistance Program"
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