

NEIGHBORHOOD HOUSE, INCORPORATED

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2018 AND 2017

UNIFORM GUIDANCE SUPPLEMENTARY FINANCIAL REPORTS  
YEAR ENDED DECEMBER 31, 2018



NEIGHBORHOOD HOUSE, INCORPORATED

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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## INDEPENDENT AUDITOR'S REPORT

June 20, 2019

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, 2018 and 2017, 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, 2018 and 2017, 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 20, 2019 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, 2018 AND 2017

	<u>ASSETS</u>	
	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 1,853,280	\$ 1,946,438
Grants and contracts receivable	3,064,314	2,775,673
Current pledges receivable	664,088	597,986
Other receivables	117,162	240,873
Prepaid expenses and deposits	<u>273,851</u>	<u>213,838</u>
Total Current Assets	5,972,695	5,774,808
Long-term Investments	910,674	929,105
Long-term Pledges Receivable, net	92,900	-
Equipment and Software, net	225,393	239,737
Facilities, net	<u>13,839,437</u>	<u>14,273,275</u>
	<u>\$21,041,099</u>	<u>\$21,216,925</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities		
Accounts payable	\$ 335,534	\$ 475,454
Accrued expenses	1,100,167	1,037,648
Deferred revenue	34,901	630
Notes payable, current	<u>80,300</u>	<u>80,300</u>
Total Current Liabilities	1,550,902	1,594,032
Long-term Debt, less current portion	<u>2,716,015</u>	<u>2,796,315</u>
Total Liabilities	<u>4,266,917</u>	<u>4,390,347</u>
Net Assets		
Without Donor Restriction		
Undesignated	14,993,274	15,353,732
Board designated for future operations	<u>566,084</u>	<u>531,781</u>
Total Net Assets Without Donor Restriction	15,559,358	15,885,513
With Donor Restriction	<u>1,214,824</u>	<u>941,065</u>
Total Net Assets	<u>16,774,182</u>	<u>16,826,578</u>
	<u>\$21,041,099</u>	<u>\$21,216,925</u>

See notes to financial statements.

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Change in Net Assets Without Donor Restrictions		
Revenues and other support		
Government and private grants and contracts	\$17,321,853	\$16,960,048
In-kind support	835,430	1,044,384
United Way of King County	886,376	882,830
Contributions	656,041	675,033
Investment return	(11,636)	87,332
Service fees and other	136,119	146,952
	<u>19,824,183</u>	<u>19,796,579</u>
Net assets released from purpose restrictions	<u>718,417</u>	<u>971,609</u>
Total Revenues and Other Support Without Donor Restrictions	<u>20,542,600</u>	<u>20,768,188</u>
Expenses		
Program services	18,252,470	17,585,628
Management and general	2,126,838	2,079,030
Fund development	489,447	485,426
	<u>20,868,755</u>	<u>20,150,084</u>
Total Expenses	<u>20,868,755</u>	<u>20,150,084</u>
Change in Net Assets Without Donor Restrictions	<u>(326,155)</u>	<u>618,104</u>
Change in Net Assets With Donor Restrictions		
Contributions	992,176	874,819
Net assets released from purpose restrictions	<u>(718,417)</u>	<u>(971,609)</u>
Change in Net Assets With Donor Restrictions	<u>273,759</u>	<u>(96,790)</u>
Total Change in Net Assets	(52,396)	521,314
Net Assets - beginning of year	<u>16,826,578</u>	<u>16,305,264</u>
Net Assets - end of year	<u>\$16,774,182</u>	<u>\$16,826,578</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	Adult Employment & Education	Aging & Disabilities Services	Community Health	Youth & Family Services	Other Programs				
Salaries and wages	\$ 5,307,025	\$ 780,567	\$ 1,543,926	\$ 1,144,849	\$ 713,635	\$ 552,235	\$ 180,826	\$10,223,063	\$ 1,390,193	\$ 291,542	\$11,904,798
Employee health and retirement benefits	750,724	119,411	225,089	163,252	88,627	85,970	23,475	1,456,548	185,015	35,853	1,677,416
Payroll taxes	525,042	69,966	142,875	103,615	65,712	51,088	16,449	974,747	121,265	25,972	1,121,984
Total Salaries and Related Expenses	6,582,791	969,944	1,911,890	1,411,716	867,974	689,293	220,750	12,654,358	1,696,473	353,367	14,704,198
Assistance to individuals	-	1,411,687	214,748	52	22,472	953	175	1,650,087	-	-	1,650,087
Occupancy	554,664	56,883	52,514	74,098	13,243	19,828	83,241	854,471	112,280	21,980	988,731
Professional fees and contract services	296,637	4,726	46,162	38,156	158,733	56,758	6,672	607,844	100,416	11,571	719,831
In-kind miscellaneous	385,633	12,261	23,707	13,735	20,900	78,376	-	534,612	38,922	7,513	581,047
Depreciation	271,321	4,842	5,677	23,104	8,477	61,468	98,257	473,146	41,861	5,613	520,620
Supplies	237,016	19,510	31,328	20,811	32,411	36,399	17,727	395,202	48,293	20,033	463,528
Conferences and meetings	265,319	6,011	9,871	6,376	43,681	6,063	4,376	341,697	15,999	35,101	392,797
Local transportation	100,734	7,200	15,146	16,082	13,257	18,246	6,786	177,451	9,022	1,671	188,144
In-kind occupancy	72,103	3,851	32,749	5,475	7,775	52,129	-	174,082	-	-	174,082
Telephone	54,356	9,273	26,183	16,827	7,560	11,538	7,807	133,544	7,433	1,243	142,220
Food	84,422	-	1,062	2,278	19,134	14,005	308	121,209	-	8,171	129,380
Other expenses	39,566	4,480	6,924	4,189	5,293	5,996	6,227	72,675	41,487	8,859	123,021
Printing and publications	6,871	989	4,746	1,173	31,987	172	4,780	50,718	4,792	10,874	66,384
Postage and shipping	398	19	316	6,828	123	60	3,630	11,374	9,860	3,451	24,685
Total Expenses	<u>\$ 8,951,831</u>	<u>\$ 2,511,676</u>	<u>\$ 2,383,023</u>	<u>\$ 1,640,900</u>	<u>\$ 1,253,020</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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	PROGRAM SERVICES							Total Program Services	Management and General	Fund Development	Total Expenses
	Child Development	Housing Stability	Adult Employment & Education	Aging & Disabilities Services	Community Health	Youth & Family Services	Other Programs				
Salaries and wages	\$ 5,149,282	\$ 761,483	\$ 1,322,388	\$ 955,614	\$ 684,432	\$ 528,629	\$ 210,618	\$ 9,612,446	\$ 1,339,441	\$ 290,214	\$11,242,101
Employee health and retirement benefits	667,514	112,024	197,735	134,026	84,683	74,398	24,979	1,295,359	169,838	34,614	1,499,811
Payroll taxes	478,860	65,596	115,533	84,052	60,537	47,121	17,828	869,527	112,542	23,795	1,005,864
Total Salaries and Related Expenses	6,295,656	939,103	1,635,656	1,173,692	829,652	650,148	253,425	11,777,332	1,621,821	348,623	13,747,776
Assistance to individuals	-	1,050,676	174,005	770	18,693	16,590	505	1,261,239	-	-	1,261,239
Occupancy	493,150	52,655	35,508	85,188	9,515	25,693	90,214	791,923	105,975	20,803	918,701
Professional fees and contract services	301,458	3,607	339,584	19,469	179,964	40,491	11,559	896,132	120,227	3,721	1,020,080
In-kind miscellaneous	452,314	18,674	22,921	-	46,866	113,045	15,954	669,774	41,423	26,386	737,583
Depreciation	253,120	2,536	3,457	-	3,432	19,689	166,523	448,757	39,521	5,594	493,872
Supplies	398,290	18,802	37,825	19,066	46,176	21,240	16,726	558,125	58,497	10,287	626,909
Conferences and meetings	280,920	6,890	18,440	5,786	47,057	3,850	12,340	375,283	13,298	41,587	430,168
Local transportation	109,135	8,426	16,893	13,460	11,423	18,508	4,641	182,486	10,821	1,953	195,260
In-kind occupancy	74,488	4,868	26,585	-	6,617	55,681	13,167	181,406	-	-	181,406
Telephone	61,681	11,317	29,050	15,812	7,779	10,579	8,091	144,309	6,106	1,734	152,149
Food	71,894	-	412	2,839	11,304	10,659	824	97,932	-	1,864	99,796
Other expenses	45,780	5,762	7,393	5,697	5,387	4,799	20,765	95,583	42,626	6,030	144,239
Printing and publications	6,207	869	4,891	1,313	62,278	923	7,946	84,427	7,354	8,918	100,699
Postage and shipping	692	128	932	5,004	220	35	13,909	20,920	11,361	7,926	40,207
Total Expenses	<u>\$ 8,844,785</u>	<u>\$ 2,124,313</u>	<u>\$ 2,353,552</u>	<u>\$ 1,348,096</u>	<u>\$ 1,286,363</u>	<u>\$ 991,930</u>	<u>\$ 636,589</u>	<u>\$17,585,628</u>	<u>\$ 2,079,030</u>	<u>\$ 485,426</u>	<u>\$20,150,084</u>

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from:		
Government agencies and grantors	\$17,067,483	\$17,149,801
Donors	2,487,534	2,221,344
Investment return	10,882	5,157
Other income	143,801	150,115
Cash paid to:		
Personnel	(14,641,679)	(13,643,519)
Vendors	(4,994,713)	(4,511,880)
Grantees	<u>(94,028)</u>	<u>(393,886)</u>
Net Cash (Used) Provided by Operating Activities	<u>(20,720)</u>	<u>977,132</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	-	(100,000)
Purchase of leasehold improvements, equipment, and software	<u>(72,438)</u>	<u>(657,265)</u>
Net Cash Used by Investing Activities	<u>(72,438)</u>	<u>(757,265)</u>
Change in Cash and Cash Equivalents	(93,158)	219,867
Cash and Cash Equivalents - beginning of year	<u>1,946,438</u>	<u>1,726,571</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,853,280</u>	<u>\$ 1,946,438</u>

NEIGHBORHOOD HOUSE, INCORPORATED

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Reconciliation of Change in Net Assets to Net Cash</b>		
<b>Flows from Operating Activities</b>		
Change in net assets	\$ (52,396)	\$ 521,314
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation	520,620	493,872
Realized and unrealized gain on investments	33,973	(72,470)
Reinvested investment earnings	(11,455)	(9,705)
Forgiveness of debt	(80,300)	(80,300)
Contributed vehicles	-	(29,998)
(Increase) decrease in		
Grants and contracts receivable	(288,641)	197,017
Pledges receivable	(159,002)	(42,813)
Other receivables	119,624	(180,459)
Prepaid expenses and deposits	(60,013)	52,488
(Decrease) increase in		
Accounts payable	(139,920)	31,193
Accrued expenses	62,519	104,257
Deferred revenue	<u>34,271</u>	<u>(7,264)</u>
Net Cash (Used) Provided by Operating Activities	<u>\$ (20,720)</u>	<u>\$ 977,132</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, in-home case management for older adults, and other community health education.

**Aging 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. Publish a monthly newspaper for community residents in partnership with the Seattle Housing Authority, through June of 2018. Thereafter, the Seattle Housing Authority assumed full responsibility for the publication. The Agency serves as the fiscal sponsor for the Seattle Human Services Coalition (SHSC). The financial statements include approximately \$202,000 and \$175,000 of revenue and expenses, respectively, for 2018. In 2017, the revenue and expenses included for SHSC were approximately \$218,000 and \$185,000, respectively.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new accounting pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Agency has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

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 at December 31:

	<u>2018</u>	<u>2017</u>
Kay Hendricks Bequest Fund (operating reserves)	\$ 300,000	\$ 300,000
Building reserve fund - High Point Center	138,444	119,702
Building reserve fund - Rainier Vista Center	<u>127,640</u>	<u>112,079</u>
	<u>\$ 566,084</u>	<u>\$ 531,781</u>

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 at December 31:

	<u>2018</u>	<u>2017</u>
Child Development	\$ 532,106	\$ 639,250
Adult Employment and Education	199,350	95,254
Other	75,920	78,286
Family and Social Services	57,717	51,095
Youth Development and Education	21,305	42,958
Housing Stability	307,633	34,222
Community Health	<u>20,793</u>	<u>-</u>
	<u>\$ 1,214,824</u>	<u>\$ 941,065</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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, 2018 and 2017, 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.

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.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of December 31, 2018, the Agency did not have any conditional promises to give that were contingent on meeting certain performance outcomes or milestones. Unconditional promises to give consisted of the following at December 31, 2018:

Due in less than one year		\$ 664,088	
Due in one to five years		<u>100,000</u>	
		764,088	
Less estimated present value discount at 5.5%		<u>(7,100)</u>	
Total contributions receivable, net		<u>\$ 756,988</u>	

Other receivables

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

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>2018</u>		<u>2017</u>
Money market funds	\$ 101,579	\$	58,213
Certificates of deposit	327,509		323,420
Fixed income securities	99,976		76,053
Equity securities	<u>381,610</u>		<u>471,419</u>
	<u>\$ 910,674</u>		<u>\$ 929,105</u>

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

	<u>2018</u>		<u>2017</u>
Interest and dividends	\$ 22,337	\$	14,862
Realized and unrealized gains (losses)	<u>(33,973)</u>		<u>72,470</u>
	<u>\$ (11,636)</u>		<u>\$ 87,332</u>

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.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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	2018	2017
Land (High Point, Rainier Vista)		\$ 3,014,074	\$ 3,014,074
Building (High Point, Rainier Vista)	39 years	13,445,419	13,437,723
Leasehold improvements	3 - 15 years	<u>1,167,552</u>	<u>1,167,552</u>
		17,627,045	17,619,349
Less accumulated depreciation		<u>(3,787,608)</u>	<u>(3,346,074)</u>
		<u>\$13,839,437</u>	<u>\$14,273,275</u>

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

	Estimated Useful Lives	2018	2017
Furniture, equipment, and other	2 - 7 years	\$ 958,710	\$ 893,967
Less accumulated depreciation		<u>(733,317)</u>	<u>(654,230)</u>
		<u>\$ 225,393</u>	<u>\$ 239,737</u>

Restricted and unrestricted support

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.

Concentration

Approximately 34% of total government grants and contracts in 2018 was received from the U.S. Department of Health & Human Services for the Head Start Program.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$2,691,000 and \$2,627,700, respectively, for the years ended December 31, 2018 and 2017.

In-kind support recorded in the financial statements exceeded in-kind expenses by \$80,300 and \$125,395, respectively, for the years ended December 31, 2018 and 2017, due to the forgiveness of loans, capitalized equipment, vehicle, and construction services.

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 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.

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain accounts in the 2017 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, 2017.

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. To manage liquidity, the Agency maintains a revolving balance of approximately \$460,000 in a money market account. 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, 2018:

Total Financial Assets	\$ 6,702,418
Less: Long-term investments	(910,674)
Less: Donor-imposed purpose restrictions	<u>(1,214,824)</u>
Financial assets available for general expenditures within one year	<u>\$ 4,576,920</u>

NOTE D - FAIR VALUE MEASUREMENTS

Assets carried at fair value on a recurring basis as of December 31, 2018 and 2017 are:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
As of December 31, 2018				
Money market funds	\$ 101,579	\$ -	\$ -	\$ 101,579
Certificates of deposit	-	327,509	-	327,509
Equity securities	381,610	-	-	381,610
Fixed income securities	99,976	-	-	99,976
Total assets shown at fair value	<u>\$ 583,165</u>	<u>\$ 327,509</u>	<u>\$ -</u>	<u>\$ 910,674</u>
As of December 31, 2017				
Money market funds	\$ 58,213	\$ -	\$ -	\$ 58,213
Certificates of deposit	-	323,420	-	323,420
Equity securities	471,419	-	-	471,419
Fixed income securities	76,053	-	-	76,053
Total assets shown at fair value	<u>\$ 605,685</u>	<u>\$ 323,420</u>	<u>\$ -</u>	<u>\$ 929,105</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE D - 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 E - LONG-TERM DEBT

Long-term debt consists of the following at December 31,	<u>2018</u>	<u>2017</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 2018, \$80,300 (one-fiftieth) of the loan was forgiven.	2,036,315	2,116,615

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE E - LONG-TERM DEBT (Continued)	<u>2018</u>	<u>2017</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	2,796,315	2,876,615
Less: current portion	<u>(80,300)</u>	<u>(80,300)</u>
	<u>\$ 2,716,015</u>	<u>\$ 2,796,315</u>

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

2019	\$ 80,300
2020	330,300
2021	80,300
2022	80,300
2023	80,300
Thereafter	<u>2,144,815</u>
	<u>\$ 2,796,315</u>

NOTE F - 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, 2018 AND 2017

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 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 are:

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

NOTE H - 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, 2018 and 2017 were \$353,411 and \$336,722, respectively.

NOTE I - 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, 2018 and 2017 was \$676,301 and \$651,509, respectively.

Lease obligations also include various program office spaces, expiring through 2023. Future minimum payments are as follows for the years ending December 31:

2019	\$ 597,559
2020	522,139
2021	357,227
2022	61,786
2023	<u>22,770</u>
	<u>\$ 1,561,481</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE J - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2018 through June 20, 2019, 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, 2018, 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, 2018

**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"	10CH0224-04		\$ -	\$ 2,899,858
"Head Start"	10CH0184-06		-	970,411
"Head Start"	10CH010418-02		-	2,009,233
		93.600*	-	5,879,502
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	1H79SM080766-01		-	31,521
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	1H79SM080503-01		-	32,176
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	5H79SP021216-03		-	282,202
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	5H79SP021924-02		-	35,127
"Substance Abuse and Mental Health Services Projects of Regional and National Significance"	5H79TI025803-04		61,781	480,370
		93.243	61,781	861,396
<i>TRAC Associates</i>				
"Affordable Care Act (ACA) Health Profession Opportunity Grants"	17-640-HWF-NH ; 18-640-HWF-NH	93.093	-	108,345
<i>State of Washington Department of Commerce</i>				
"Community Services Block Grant" 477 Cluster	F18-32101-018	93.569	-	118,276
<i>King County Community and Human Services</i>				
"Block Grants for Prevention and Treatment of Substance Abuse"	5893754	93.959	-	135,233
<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	DA17-1549 ; DA18-1549	93.044	-	64,781
<i>City of Seattle Human Services Department</i>				
"National Family Caregiver Support, Title III, Part E"	DA17-1288 ; DA18-1288		-	18,080
"National Family Caregiver Support, Title III, Part E"	DA17-1609 ; DA18-1609		-	26,626
		93.052	-	44,706

\* Denotes a major program.

NEIGHBORHOOD HOUSE, INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2018

**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"	DA17-1173 ; DA18-1173		-	533,840
"Medical Assistance Program"	DA17-1288		-	265
"Medical Assistance Program"	DA17-1549 ; DA18-1549		-	10,241
	Medicaid Cluster	93.778	-	544,346
	Subtotal Department of Health and Human Services		61,781	7,756,585
<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"	1712-15785 ; 1812-39170		-	111,875
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	1712-15786 ; 1812-39169		-	52,768
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	1712-16042 ; 1812-38882		-	23,461
<i>Seattle Jobs Initiative</i>				
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	1021-18		-	122,563
	SNAP Cluster	10.561	-	310,667
<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"	1712-16250	10.596	-	331,709
<i>State of Washington Office of the Superintendent of Public Instruction</i>				
"Child and Adult Care Food Program"	17-03-0147	10.558	-	251,334
	Subtotal Department of Agriculture		-	893,710
<b>Department of Housing and Urban Development</b>				
<i>City of Seattle</i>				
"Continuum of Care Program"	DA17-1091 ; DA18-1091	14.267	-	349,571
<b>Department of Homeland Security</b>				
"Citizenship Education and Training"	2016-CS-010-000026	97.010	-	113,958

NEIGHBORHOOD HOUSE, INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2018

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"	17-202-UPS ; 17-271-ADU ; 17-141-UPS	17.258	13,736	402,204
<i>King County Workforce Development Council</i> "WIA Dislocated Worker Formula Grants"	18-101-ADU ; 17-141-UPS ; 17-202-UPS ; 17-183-DWK	17.278	18,511	350,052
<i>King County Work Training Program</i> "WIA Youth Activities"	17-141-UPS ; 17-202-UPS ; 5899347 ; 5722297-II ; 6038344	17.259	-	108,946
WIA Cluster	Subtotal Department of Labor		<u>32,247</u>	<u>861,202</u>
Total Expenditures of Federal Awards			<u>\$ 94,028</u>	<u>\$ 9,975,026</u>

NEIGHBORHOOD HOUSE, INCORPORATED

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2018

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 2018, the predetermined rate was 12.4% 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 20, 2019

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, 2018 and 2017, 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 June 20, 2019.

**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 20, 2019

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, 2018. 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, 2018.

### **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, 2018

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 program tested as major was CFDA No. 93.600, "Head Start."
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