

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

(With Summarized Totals for the Year Ended June 30, 2019)

DRAFT

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.

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Independent Auditor's Report

Board of Directors
Neighborhood House of Milwaukee, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Neighborhood House of Milwaukee, Inc. which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood House of Milwaukee, Inc. as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Ritz Holman LLP

Serving business, nonprofits, individuals and trusts.

330 E. Kilbourn Ave., Suite 550
Milwaukee, WI 53202

t. 414.271.1451
f. 414.271.7464
ritzholman.com

Board of Directors
Neighborhood House of Milwaukee, Inc.

Report on Summarized Comparative Information

We have previously audited Neighborhood House of Milwaukee, Inc.'s June 30, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 9, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program revenue and expenses - without donor restrictions and DHS cost reimbursement award schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis in accordance with the *Department of Health Services Audit Guide* and the *Provider Agency Audit Guide*, and is also not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 2, 2020, on our consideration of Neighborhood House of Milwaukee, Inc.'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 solely 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 the effectiveness of the Neighborhood House of Milwaukee, Inc.'s 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 of Milwaukee, Inc.'s internal control over financial reporting and compliance.

RITZ HOLMAN LLP
Certified Public Accountants

Milwaukee, Wisconsin
October 2, 2020

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020
(With Summarized Totals for June 30, 2019)

ASSETS		2020	2019
CURRENT ASSETS			
Cash and Cash Equivalents	\$	469,222	\$ 97,579
Grants and Contracts Receivable		143,130	233,723
Accounts Receivable		1,886	3,695
Current Pledges Receivable		28,982	47,024
Allowance for Uncollectible Receivables		---	(11,400)
Estate Receivable		---	39,737
Prepaid Expenses		3,347	10,309
Total Current Assets	\$	<u>646,567</u>	<u>\$ 420,667</u>
NONCURRENT ASSETS			
Pledge Receivable - Net of Current Portion	\$	---	\$ 10,000
Certificate of Deposit - Restricted		35,935	35,863
Beneficial Interest - Greater Milwaukee Foundation Fund		1,248,684	838,193
Total Noncurrent Assets	\$	<u>1,284,619</u>	<u>\$ 884,056</u>
FIXED ASSETS			
Land	\$	192,736	\$ 192,736
Building and Improvements		3,438,319	3,438,319
Farm Improvements		194,162	166,678
Furniture and Equipment		520,901	520,901
Automobiles		99,812	71,296
Total Fixed Assets	\$	<u>4,445,930</u>	<u>\$ 4,389,930</u>
Less: Accumulated Depreciation		(3,130,674)	(3,033,876)
Net Fixed Assets	\$	<u>1,315,256</u>	<u>\$ 1,356,054</u>
TOTAL ASSETS	\$	<u><u>3,246,442</u></u>	<u><u>\$ 2,660,777</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts Payable	\$	60,319	\$ 64,478
Accrued Payroll Expenses		87,316	85,009
Note Payable - Current Portion		21,454	19,963
Paycheck Protection Program Loan		352,200	---
Total Current Liabilities	\$	<u>521,289</u>	<u>\$ 169,450</u>
NONCURRENT LIABILITIES			
Note Payable - Long-Term Portion	\$	19,537	\$ 41,579
Total Noncurrent Liabilities	\$	<u>19,537</u>	<u>\$ 41,579</u>
Total Liabilities	\$	<u>540,826</u>	<u>\$ 211,029</u>
NET ASSETS			
Without Donor Restricted	\$	2,657,940	\$ 2,343,704
Net Assets With Donor Restrictions		47,676	106,044
Total Net Assets	\$	<u>2,705,616</u>	<u>\$ 2,449,748</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u><u>3,246,442</u></u>	<u><u>\$ 2,660,777</u></u>

The accompanying notes are an integral part of these financial statements.

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020
(With Summarized Totals for the Year Ended June 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
REVENUE				
Grants	\$ 651,837	\$ ---	\$ 651,837	\$ 781,933
Contributions	537,692	17,250	554,942	393,847
Bequests	413,741	---	413,741	39,737
In-Kind Revenue	42,398	---	42,398	43,780
United Way	316,296	---	316,296	374,131
Wisconsin Shares	430,398	---	430,398	418,503
Child Care Fees	94,913	---	94,913	123,453
Gain (Loss) on Beneficial Interest	26,750	---	26,750	30,631
Contract Services	21,556	---	21,556	37,831
Interest Income	72	---	72	60
Special Events Revenue	173,261	1,150	174,411	226,159
Special Events Expense	(22,985)	---	(22,985)	(43,738)
Rental Income	10,663	---	10,663	15,325
Other Revenue	16,180	---	16,180	4,863
Net Assets Released from Restrictions	76,768	(76,768)	---	---
Total Revenue	\$ 2,789,540	\$ (58,368)	\$ 2,731,172	\$ 2,446,515
EXPENSES				
Program Services	\$ 2,015,754	\$ ---	\$ 2,015,754	\$ 2,105,055
Management and General	244,714	---	244,714	283,881
Fundraising	214,836	---	214,836	212,156
Total Expenses	\$ 2,475,304	\$ ---	\$ 2,475,304	\$ 2,601,092
CHANGE IN NET ASSETS	\$ 314,236	\$ (58,368)	\$ 255,868	\$ (154,577)
Net Assets, Beginning of Year	2,343,704	106,044	2,449,748	2,604,325
NET ASSETS, END OF YEAR	\$ 2,657,940	\$ 47,676	\$ 2,705,616	\$ 2,449,748

The accompanying notes are an integral part of these financial statements.

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
(With Summarized Totals for the Year Ended June 30, 2019)

	Program Services	Management and General	Fundraising	2020 Total	2019 Total
Salaries and Wages	\$ 1,221,329	\$ 96,624	\$ 89,447	\$ 1,407,400	\$ 1,521,282
Employee Benefits	102,956	9,449	8,298	120,703	99,456
Retirement	16,580	1,312	1,214	19,106	10,602
Payroll Taxes	152,479	13,677	12,105	178,261	144,500
Professional Fees	37,365	58,048	66,609	162,022	162,629
Contract Services	47,992	3,884	250	52,126	70,638
Office Supplies	5,871	3,254	285	9,410	12,773
Human Resources Supplies	4,015	5,489	535	10,039	13,930
Telephone	11,618	1,312	708	13,638	12,047
Postage	31	1,626	4,987	6,644	3,749
Printing	292	693	4,316	5,301	5,018
Technology	8,876	121	1,475	10,472	5,921
Subscriptions	579	—	357	936	695
Occupancy	47,535	1,505	812	49,852	69,778
Utilities	53,549	6,045	3,261	62,855	63,449
Marketing and Promotion	—	—	—	—	1,568
Program and Special Event Supplies	21,220	309	336	21,865	15,073
Educational Supplies	10,425	—	—	10,425	17,651
Participant Engagement	2,268	—	—	2,268	2,102
Food	37,447	1,532	253	39,232	55,203
Field Trips	10,139	—	—	10,139	15,123
Playground Expense	—	—	—	—	285
Grant Supplies	6,064	—	—	6,064	4,806
Equipment Rental and Maintenance	44,240	1,671	3,214	49,125	47,176
Maintenance and Housekeeping Supplies	23,603	2,919	1,461	27,983	29,694
Depreciation	82,467	9,309	5,022	96,798	93,272
Travel	24,407	478	255	25,140	43,042
Conferences, Conventions and Meetings	1,937	210	—	2,147	1,720
Fundraising Expense	—	—	4,800	4,800	—
Interest Expense	2,356	266	143	2,765	3,366
Insurance	29,432	3,323	1,792	34,547	35,740
Membership Dues	4,134	11,694	375	16,203	13,358
Staff Development	3,516	—	25	3,541	3,935
Bank Charges and Fees	167	2,920	1,714	4,801	7,939
Awards and Donations	—	—	—	—	1,404
Licenses	489	235	279	1,003	2,779
Real Estate Taxes	54	8	4	66	66
Other Expense	322	6,801	504	7,627	929
Bad Debt Expense	—	—	—	—	8,394
Subtotal	<u>\$ 2,015,754</u>	<u>\$ 244,714</u>	<u>\$ 214,836</u>	<u>\$ 2,475,304</u>	<u>\$ 2,601,092</u>
SPECIAL EVENTS					
Food and Venue	\$ —	\$ —	\$ 17,024	\$ 17,024	\$ 36,973
Supplies	—	—	—	—	925
Other Expenses	—	—	3,794	3,794	1,215
Printing	—	—	2,167	2,167	510
Total Special Events Expenses	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 22,985</u>	<u>\$ 22,985</u>	<u>\$ 39,623</u>
TOTAL EXPENSES	<u><u>\$ 2,015,754</u></u>	<u><u>\$ 244,714</u></u>	<u><u>\$ 237,821</u></u>	<u><u>\$ 2,498,289</u></u>	<u><u>\$ 2,640,715</u></u>

The accompanying notes are an integral part of these financial statements.

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(With Summarized Totals for the Year Ended June 30, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 255,868	\$ (154,577)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided (Used) by Operating Activities		
Donated Goods and Services - Capitalized	(18,618)	(20,000)
(Gain) Loss on Beneficial Interest	(26,750)	(30,631)
Depreciation	96,798	93,272
(Increase) Decrease in Grants and Contracts Receivable	90,593	(68,162)
(Increase) Decrease in Accounts Receivable	1,809	48,246
(Increase) Decrease in Pledges Receivable	28,042	149,160
(Increase) Decrease in Allowance for Uncollectible Accounts	(11,400)	8,394
(Increase) Decrease in Estate Receivable	39,737	(39,737)
(Increase) Decrease in Prepaid Expenses	6,962	(10,309)
Increase (Decrease) in Accounts Payable	(4,159)	(11,204)
Increase (Decrease) in Accrued Payroll Expenses	2,307	7,018
Net Cash Provided (Used) by Operating Activities	\$ 461,189	\$ (28,530)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	\$ (37,382)	\$ (110,012)
Contributions to Greater Milwaukee Foundation Fund	(413,741)	----
Proceeds from Greater Milwaukee Foundation Fund	30,000	----
Net Cash Used by Investing Activities	\$ (421,123)	\$ (110,012)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the Paycheck Protection Program Loan	\$ 352,200	\$ -
Payments on Notes Payable	(20,551)	(19,694)
Proceeds from Line of Credit	75,000	----
Payments on Line of Credit	(75,000)	----
Net Cash Provided (Used) by Financing Activities	\$ 331,649	\$ (19,694)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 371,715	\$ (158,236)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	133,442	255,815
CASH AND CASH EQUIVALENTS AT END OF YEAR - UNRESTRICTED	\$ 469,222	\$ 97,579
CASH AND CASH EQUIVALENTS AT END OF YEAR - RESTRICTED	\$ 35,935	\$ 35,863
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 2,765	\$ 3,366

The accompanying notes are an integral part of these financial statements.

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE A - Summary of Significant Accounting Policies

Organization

Neighborhood House of Milwaukee, Inc. (the "Organization") is a non-profit community center founded in 1945 which serves nearly 3,500 area residents each year. Its mission is to inspire and connect to strengthen families and the community. Its vision is to be the cornerstone of a safe and nurturing community. Neighborhood House offers programs for early school-aged children, teens, and families. It also serves as a center for several community-based collaborative initiatives such as the Personal Responsibility Education Program (PREP) and the Story School after school program. Neighborhood House also operates the International Learning Center, as the largest educator of refugees in Wisconsin, which prepares newly arrived refugees for self-sufficiency by conducting English as a second language and citizenship classes.

Accounting Method

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Contributions and Grant Revenue

Contributions received and unconditional promises to give are measured at fair value and are reported as increases in net assets. Contributions are considered available for the Organization's general operations and included in net assets without donor restrictions unless specifically restricted by a donor. A restricted contribution is reported in revenue and net assets without donor restrictions when the restriction is met within the same reporting period as the contribution is received. Contributions received restricted for a purpose not yet met or to support a future period are included in net assets with donor restrictions. When a donor restriction from a prior year expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Conditional contributions are not recognized as revenue until they become unconditional. A conditional contribution is one that has both a barrier that must be overcome and an agreement requiring advance payment to be returned or future payment not to be obligated if the barrier is not overcome.

Net assets restricted for acquisition of building or equipment are reported as net assets with donor restrictions until the specified asset is placed in service when the net assets are released to net assets without donor restrictions.

When a donor requires the investment of a contribution and restricts the use of investment income, the investment income is reported as net assets with donor restrictions until appropriated for the designated time or use when the net assets are released to net assets without donor restrictions.

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE A - Summary of Significant Accounting Policies (continued)

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Donated services are recognized as contributions if the services create or enhance nonfinancial assets or the services require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Accordingly, the value of contributed time that does not meet these requirements has not been determined and is not reflected in the accompanying financial statements.

Government Grants and Contract Revenue

Government grants and contract revenue are recognized when earned. Revenue is earned when eligible expenditures, as defined in each grant, contract or other allowable cost manual, are made. Any cash received for revenue not yet earned is considered to be deferred revenue. Revenue earned but not yet paid to the Organization is included in grants receivable. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such review reduces expenditures allowable under these grants or contracts, the Organization records the disallowance at the time the final assessment is made. Management believes that disallowances, if any, would not have a significant effect on the financial statements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less at purchase.

Grants and Contracts Receivable

Grants and contracts receivable includes amounts due to the Organization for revenue from services provided or reimbursable costs per grant and contract agreements.

Accounts Receivable

Accounts receivable includes amounts due related to contract service receivables and receivables from insurance claims.

Pledges Receivable

Pledges receivable are recorded when the Organization receives an unconditional promise to give or when the condition is met of a conditional promise to give. Pledges expected to be received in more than one year from the statement of financial position date are discounted for their estimated present value and recorded in long-term assets. Pledges receivable also includes contributions considered to be in-transit as of year-end.

Allowance for Uncollectible Accounts

Receivables are stated at unpaid balances, less an allowance for doubtful accounts when amounts are not expected to be fully collectible. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of customers to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Management believes all receivables will be collected in accordance with the terms of the agreements. Thus, no allowance for uncollectible accounts is necessary at year end.

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE A - Summary of Significant Accounting Policies (continued)

Fixed Assets

Fixed assets are recorded at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The Organization capitalizes all fixed assets with a value greater than \$2,500. Donated fixed assets are recorded at fair value at the date of donation.

Functional Expenses

The Organization allocates costs directly to program, management or fundraising whenever possible. Program costs are those associated with carrying out the mission; management are those for management of the Organization including accounting, office expense, human resources, budgeting or board of directors costs; and fundraising costs are those attributed to the solicitation of contributions. Whenever possible, the Organization charges costs directly to program, management or fundraising. Certain expenses are attributable to one or more programs or supporting functions of the organization. Those expenses include maintenance and occupancy which are allocated on direct payroll expenses, and salaries for individuals working in more than one function which are allocated based on an estimate of time and effort in each function.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - Accounting Change

The Organization's financial statements have changed to adopt the *Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606)*, and all subsequently issued accounting updates issued to clarify the standards. The updates are effective for the year ended June 30, 2020. The updates are required and establish principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of the guidance is that an organization should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled.

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE B - Accounting Change (continued)

The Organization's financial statements have changed to adopt the *Accounting Standards Update 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* effective for the year ended June 30, 2020. This update is required. The goal of this update is to help organizations determine reciprocal and nonreciprocal transactions. The guidance clarifies that an exchange transaction is when the resource provider receives equal value in return for what the resource provider pays. When the general public is the recipient of the service or goods, the transaction is not considered a reciprocal transaction, it is considered a contribution. The guidance also clarifies that a conditional contribution is one that has both a barrier that must be overcome and an agreement requiring advance payment to be returned or future payment not to be obligated if the barrier is not overcome.

The Organization applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of July 1, 2019. Results for reporting periods beginning after July 1, 2019 are presented under Topic 606 while prior period amounts are not adjusted and continue to be reported in accordance with legacy generally accepted accounting principles.

The adoption of this new standard did not result in a material impact to the Organization's financial statements. The adoption of the new standard is the new footnote disclosure regarding service fee revenue, fundraising event revenue, and rental income. There was no significant effect on the financial statements related to the adoption of this new standard which would require cumulative effect adjustment to net assets at the date of adoption under the modified retrospective method.

Future Accounting Pronouncements

Accounting Standards Update 2016-02, Leases (Topic 842) will be effective for fiscal years beginning after December 15, 2021. This update requires the recognition of lease assets and lease liabilities on the statement of financial position measured at the present value of lease payments and requires disclosure of key information about the leasing arrangements.

Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326) will be effective for fiscal years beginning after December 15, 2023. The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates, including exploring more forward-looking alternatives.

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE C - Comparative Financial Information

The financial information shown for 2019 in the accompanying financial statements is included to provide a basis for comparison with 2020. The comparative information is summarized by total only, not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity to generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2020 financial statements. Net assets and changes in net assets are unchanged due to these reclassifications.

NOTE D - Concentration of Credit Risk Arising From Cash Deposits in Excess of Insured Limit

The Federal Deposit Insurance Corporation insures all non-interest bearing cash accounts and also interest bearing accounts up to \$250,000 at each financial institution. At June 30, 2020, the Organization's uninsured cash balances totaled \$66,274.

NOTE E - Liquidity

The Organization's operations are primarily funded through grants and contributions received throughout the year. Financial assets are expected to be available within one year from the financial position date to meet the cash needs of the Organization for general expenditures and to pay obligations as they come due. Assets subject to donor or other contractual restrictions are not considered to be available for general use. In addition to the financial assets listed below, the Organization has a line of credit of \$300,000 which could be drawn upon in the event of a liquidity need.

Financial assets available for use consist of the following:

<u>Description</u>	<u>Amount</u>
Cash and Cash Equivalents	\$469,222
Grants and Contracts Receivable	143,130
Accounts Receivable	1,886
Pledges Receivable	28,982
Greater Milwaukee Foundation	
Income Available to Spend	117,263
Less: Receivables with Purpose Restrictions	<u>(36,526)</u>
Financial Assets Available for Use	<u>\$723,957</u>

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE F - Restricted Certificate of Deposit - State Unemployment Reserve

The Organization adopted the reimbursement method for state unemployment compensation purposes. As required by the Wisconsin Unemployment Fund, the Organization assures reimbursement to the Wisconsin Unemployment Fund by means of holding a restricted certificate of deposit as a reserve for state unemployment. The balance of the certificate of deposit was \$35,935 as of June 30, 2020.

NOTE G - Grants Receivable

Grants receivable consists of the following as of June 30, 2020:

<u>Source</u>	<u>Amount</u>
City of Milwaukee	\$ 8,897
Wisconsin Department of Health Services	26,733
Milwaukee Public Schools - CARES	20,000
Milwaukee Public Schools – Arts and Humanities	5,102
Milwaukee Public Schools – Story Place	20,436
Next Door Foundation	7,786
Maximus	5,812
Wisconsin Technical College System	6,668
Wisconsin Department of Children and Families	22,794
Boys and Girls Club of Greater Milwaukee/United Way	9,305
Wisconsin Department of Public Instruction	1,354
Other Grantors	<u>8,243</u>
Total	<u>\$143,130</u>

NOTE H - Beneficial Interest - Greater Milwaukee Foundation

The Organization maintains a fund with the Greater Milwaukee Foundation, a community foundation, for investment purposes. The Neighborhood House Fund is considered a component fund of the Greater Milwaukee Foundation. The Greater Milwaukee Foundation accepted a contribution from the Organization and agrees to transfer those assets and the return on investment of those assets back to the Organization. The Greater Milwaukee Foundation is legal owner of the assets. The Greater Milwaukee Foundation makes investment decisions and determines the amount of income to be distributed annually to the Organization. The size of distributions from the fund is determined in accordance with the Greater Milwaukee Foundation's distribution policy.

The fair value of the fund as of June 30, 2020 was \$1,248,684 and includes contributions, net investment return, less distributions. The fund includes \$117,263 of income available to spend which may be withdrawn at the request of Neighborhood House, Inc. without any action by the Greater Milwaukee Foundation board of directors. The Board of Directors of Neighborhood House, Inc. designated \$100,000 of amounts contributed to the Greater Milwaukee Foundation in the year ended June 30, 2020, to be held in liquid reserves and which is included in the \$117,263 of income available to spend.

**NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE H - Beneficial Interest - Greater Milwaukee Foundation (continued)

Gain on beneficial interest is summarized as follows:

Investment Income	\$35,176
Investment Management Fees	<u>(8,426)</u>
Total Gain on Beneficial Interest	<u>\$26,750</u>

NOTE I - Fair Value Measurements

The Organization has adopted the Financial Accounting Standards Board guidance on fair value measurements. A three-tier hierarchy is used to maximize the use of observable market data inputs and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using level 3 inputs are based primarily on valuation models with significant unobservable pricing inputs and which result in the use of management estimates.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2020.

<u>Investment Category</u>	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Greater Milwaukee Foundation Investments	<u>\$1,248,684</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$1,248,684</u>
Total	<u>\$1,248,684</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$1,248,684</u>

Greater Milwaukee Foundation investments include equities securities, fixed income securities, absolute return hedge funds, and long/short equity hedge funds. The funds are held by the Greater Milwaukee Foundation which reports on a calendar year.

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE I - Fair Value Measurements (continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Fair Value Measurements Using Significant
Unobservable Inputs (Level 3) – GMF Investments

Beginning Balance, July 01, 2019	\$ 838,193
Contribution	413,741
Distribution	(30,000)
Investment Income	35,176
Less: Investment Fees	(8,426)
Ending Balance, June 30, 2020	<u>\$1,248,684</u>

The amount of unrealized gains or losses for the year ended June 30, 2020, included in the net assets without donor restricted for assets still held at the reporting date was a gain of \$26,750.

NOTE K - Line of Credit

The Organization has a revolving line of credit agreement with a bank allowing for maximum borrowings of \$300,000. Borrowings under the line of credit bear a variable interest rate equal to the bank index rate, which was 5% as of June 30, 2020. The line of credit matures on April 15, 2021 and is secured by all security agreements, guarantees, mortgages, and other security instruments previously granted, contemporaneously granted, and granted in the future. As of June 30, 2020, the line of credit had no balance.

NOTE L - Note Payable

The Organization has a note payable that matures on April 10, 2022. At June 30, 2020, the note had an outstanding balance of \$40,991. The interest rate is a fixed interest rate of 4.25%. The note is collateralized by all assets.

Maturities of the note payable for the next two years are as follows:

<u>For the Year Ending June 30,</u>	<u>Amount</u>
2021	\$21,454
2022	<u>19,537</u>
Total	<u>\$40,991</u>

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE M - Paycheck Protection Program Loan

The Organization has entered into the Paycheck Protection Program and received a loan that matures on April 16, 2022. The interest rate is a fixed interest rate of 1%. The Organization may be eligible for full or partial loan forgiveness based on if the proceeds are spent on eligible expenditures in the loan coverage period and if the Organization meets other loan requirements such as maintaining employment levels as compared to a reference period previous to the loan period. The Organization anticipates the loan will be forgiven or repaid in the year ended June 30, 2021. At June 30, 2020, the note had an outstanding balance of \$352,200.

NOTE N - Operating Lease

The Organization entered into a five-year lease agreement for the use of a copy machine on September 25, 2014. Rent expense was \$7,795 for the year ended June 30, 2020.

NOTE O - Net Assets With Donor Restrictions

Pledges receivable have an implied time restriction until collected, absent specific donor direction indicating otherwise. Donor designations from the United Way campaign that are included in pledges receivable are considered to be designated for the campaign period, even when collected thereafter, and as such those pledge receivable balances are not included in net assets with donor restrictions.

Net assets with donor restrictions consists on the following as of June 30, 2020.

<u>Time Restricted</u>	<u>Amount</u>
Sustaining Support - Restricted for 2021	<u>\$11,150</u>
<u>Purpose Restricted</u>	
Food Pantry	\$17,250
Lead and Learn Urban Ecology Program	<u>19,276</u>
Total Purpose Restricted	<u>\$36,526</u>
Total Net Assets With Donor Restrictions	<u>\$47,676</u>

NOTE P - In Kind Donations

The Organization uses space at a local church and is not charged rent, only a portion of the utilities. The estimated fair value of the space received at no charge is \$23,780. The Organization also received \$18,618 of donated labor enhancing a fixed asset which has been recorded in in-kind revenue and fixed assets.

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE Q - Revenue From Contracts with Customers

Program Revenue

The Organization receives program service fees for child care and contract services. The fees are recorded as revenue at the point in time that the customer receives the services, such as when the class or educational program takes place. Revenue collected in advance of the program is considered deferred revenue.

For the year ended June 30, 2020, child care fees revenue was \$94,913 and contract services revenue was \$21,556. At June 30, 2020, there were no assets or obligations related to program revenue.

NOTE Q - Revenue From Contracts with Customers (continued)

Special Events

The Organization holds various fundraising events throughout the year. Registration fees for these events are billed to participants at the time of registration. The event revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing the registrants access to the events and event activities. Revenue from these events are recognized at the point in time the event is held and the Organization's performance obligation to hold the event is completed. The Organization also provides the opportunity to sponsor events. Registration and sponsorships for the Organization's events opens months before the events are scheduled to be held. Cash receipts and sponsorships collected in advance of the special events are deferred as contract liabilities until earned when the event is held at which point the revenue is recognized.

At June 30, 2020, there were no assets or obligations related to revenue from contracts with customers. For the year ended June 30, 2020, special event revenue was \$174,411.

Rental Income

The Organization leased space to various organizations to hold events. Rent revenue is recognized at the point in time the event is held and the Organization's performance obligation to hold the event and provide the space is completed. The rental income for the year ended June 30, 2020, was \$10,663.

NOTE R - Conditional Contributions and Grants

The Organization has contracts with government agencies which include specific use stipulations requiring funds be used only on qualifying expenses determined by grant contracts and allowable cost policies. The Organization will not receive the grant funds unless spent on the required activities and within allowable cost guidance. As of June 30, 2020, the Organization has available grant funds of \$222,062, for various programs, which are available through grant periods ending in the year ending June 30, 2021.

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE S - Retirement Plan

The Organization participates in a 401(k) plan where the Organization will contribute an amount equal to 100% of employee contributions up to 4% to the plan. Employees who work more than 1,000 hours by the first anniversary of hire or 1,000 hours in any subsequent plan year are eligible to participate. The expense for the year ended June 30, 2020, was \$19,106.

NOTE T - Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of Internal Revenue Code and is classified as other than a private foundation. Management has reviewed all tax positions recognized in previously filed tax returns and those expected to be taken in future tax returns. As of June 30, 2020, the Organization had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Organization does not anticipate any significant changes to unrecognized income tax benefits over the next year.

NOTE U - Subsequent Events

The Organization has evaluated events and transactions occurring after June 30, 2020 through October 2, 2020, the date the financial statements are available to be issued, for possible adjustments to the financial statements or disclosures. The Organization has determined that the following subsequent event needs to be disclosed.

The COVID-19 outbreak in the United States has caused business disruption though mandated and voluntary closings of many businesses and nonprofits. While the disruption is expected to be temporary, there is considerable uncertainty around the duration of the pandemic. The impact, if any, to the Organization's financial position is unknown at this time.

NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
SCHEDULE OF PROGRAM REVENUE AND EXPENSES - WITHOUT DONOR RESTRICTIONS
FOR THE YEAR ENDED JUNE 30, 2020
(With Summarized Totals for the Year Ended June 30, 2019)

	Community and Outdoor Programs	Early Childhood Development	Youth Services	Family Life and Education	International Learning Center	Other	2020 Total	2019 Total
REVENUE								
Grants	\$ 5,350	\$ 98,311	\$ 44,774	\$ 250,898	\$ 252,504	\$ ---	\$ 651,837	\$ 781,933
Contributions	46,000	35,500	---	118,500	11,550	---	537,992	393,847
Bequests	---	---	---	---	---	413,741	413,741	---
In-Kind Revenue	18,618	---	---	---	23,780	---	42,398	43,780
United Way	---	234,233	34,225	---	---	47,838	316,296	374,131
Wisconsin Shares	47,946	382,403	49	---	---	---	430,398	418,503
Child Care Fees	2,470	88,627	1,455	---	2,361	---	94,913	123,453
Gain (Loss) on Beneficial Interest	---	---	---	---	---	26,750	26,750	30,631
Contract Services	---	---	---	700	---	20,858	21,556	37,831
Other Investment Income	---	---	---	---	---	72	72	60
Special Events Revenue	---	---	---	---	---	173,261	173,261	226,159
Special Events Expense	---	---	(179)	(96)	---	(22,710)	(22,885)	(43,738)
Rental Income	---	---	725	---	1,200	8,738	10,663	15,325
Other Revenue	51	---	---	63	3,335	12,731	16,180	4,863
Net Assets Released from Restrictions	---	10,000	---	27,031	---	39,737	76,768	94,979
Total Revenue	\$ 122,435	\$ 849,074	\$ 81,049	\$ 397,096	\$ 294,730	\$ 1,045,156	\$ 2,789,540	\$ 2,501,757
EXPENSES								
Salaries and Wages	\$ 142,857	\$ 470,435	\$ 80,662	\$ 192,285	\$ 191,435	\$ 329,728	1,407,400	\$ 1,521,282
Employee Benefits	362	35,942	267	8,800	16,017	56,315	120,703	99,456
Retirement	---	3	---	---	---	19,103	19,106	10,602
Payroll Taxes	18,029	58,439	11,728	21,142	24,820	44,103	178,281	144,500
Professional Fees	1,000	5,867	1,850	17,143	3,043	133,119	162,022	162,629
Contract Services	5,847	13,199	302	25,100	320	7,358	52,126	70,638
Office Supplies	---	197	---	1,179	4,495	3,639	9,410	12,773
Human Resource Supplies	816	1,451	723	339	435	6,275	10,030	13,930
Telephone	2,296	300	150	---	1,924	8,968	13,638	12,047
Postage	---	---	---	---	31	6,613	6,644	3,749
Printing	193	---	---	(98)	---	5,206	5,301	5,018
Technology	---	5,497	---	2,907	472	1,598	10,472	5,921
Subscriptions	40	539	---	---	---	357	936	695
Occupancy	4,805	---	---	---	32,275	12,772	49,852	68,778
Utilities	2,351	---	---	---	9,200	51,304	62,855	63,449
Marketing and Promotion	---	---	---	---	---	---	---	1,568
Program and Special Event Supplies	1,908	2,113	1,936	8,476	6,765	677	21,885	15,073
Educational Supplies	21	3,576	---	3,539	3,289	---	10,425	17,651
Participant Engagement	---	---	---	2,160	108	---	2,268	2,102
Food	32	29,410	2,252	5,753	---	1,785	39,232	55,203
Field Trips	1,817	5,186	1,228	1,908	---	---	10,139	16,123
Playground Expense	---	---	---	---	---	---	---	285
Grant Supplies	---	429	---	5,635	---	---	6,064	4,806
Equipment Rental and Maintenance	960	154	295	2,920	2,061	42,735	49,125	47,176
Maintenance and Housekeeping Supplies	3,199	690	---	447	445	23,202	27,953	29,694
Depreciation	1,935	37,752	23,232	12,584	---	21,295	96,798	93,272
Travel	5,070	5,754	1,557	8,444	470	3,835	25,140	43,042
Conferences, Conventions and Meetings	---	---	---	950	987	210	2,147	1,720
Fundraising Expense	---	---	---	---	---	4,800	4,800	---
Interest Expense	---	---	---	---	---	2,765	2,765	3,366
Insurance	934	---	383	3,145	---	30,085	34,547	35,740
Membership Dues	200	1,887	---	740	1,507	12,069	16,203	13,358
Staff Development	320	1,035	---	1,007	1,154	26	3,541	3,935
Bank Charges and Fees	---	3	---	---	6	4,792	4,801	7,939
Awards and Donations	---	---	---	---	---	---	---	1,404
Licenses	59	160	---	20	---	764	1,003	2,779
Real Estate Taxes	---	---	---	---	---	66	66	66
Other Expenses	---	---	---	300	---	7,327	7,627	929
Bad Debt Expense	---	---	---	---	---	---	---	8,384
Occupancy Allocation	30,994	106,467	20,048	47,815	45,000	(250,324)	---	---
Indirect Expense Allocation	45,947	159,148	29,776	74,359	69,132	(378,362)	---	---
Total Expenses	\$ 271,992	\$ 945,433	\$ 175,399	\$ 448,998	\$ 415,381	\$ 217,100	\$ 2,475,304	\$ 2,601,092
CHANGE IN NET ASSETS	\$ (149,557)	\$ (96,359)	\$ (95,350)	\$ (51,903)	\$ (120,651)	\$ 828,056	\$ 314,236	\$ (99,335)

**NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
WISCONSIN DEPARTMENT OF HEALTH SERVICES
DHS COST REIMBURSEMENT AWARD SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2020**

Grant	Personal Responsibility Education Program	Personal Responsibility Education Program	
CFDA Number	93.092	93.092	
State ID Number/CARS	159354	159354	
Award Amount	\$ 200,000	\$ 209,500	
Award Period	10/1/18-9/30/19	10/1/19-9/30/20	2020
Period of Award Within Audit Period	7/1/19-9/30/19	10/1/19-6/30/20	Total
EXPENDITURES REPORTED FOR PAYMENT			
State of Wisconsin - Department of Health Services	\$ 51,429	\$ 114,000	\$ 165,429
Total Revenue	\$ 51,429	\$ 114,000	\$ 165,429
TOTAL COSTS OF AWARD			
Salaries and Wages	\$ 23,868	\$ 69,719	\$ 93,587
Employee Benefits	2,560	5,607	8,167
Payroll Taxes	3,309	5,876	9,185
Professional Fees	600	1,460	2,060
Contract Services	---	2,500	2,500
Supplies	682	10,884	11,566
Printing	---	45	45
Equipment Rental and Maintenance	265	154	419
Travel	746	3,815	4,561
Conferences, Conventions and Meetings	---	875	875
Food	1,628	1,230	2,858
Staff Development	307	700	1,007
Licenses	20	---	20
Allocated Administration	12,079	27,773	39,852
Allocated Maintenance	5,430	18,611	24,041
Total Allowable Costs	\$ 51,494	\$ 149,249	\$ 200,743
Expenditures Reported Less Allowable Costs	\$ (65)	\$ (35,249)	\$ (35,314)

**NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures	Total
FEDERAL EXPENDITURES				
United States Department of Agriculture				
Wisconsin Department of Public Instruction				
Child and Adult Care Food Program	10.568		\$	23,042
Maximus Human Services, Inc.				
Stated Administrative Matching Grants for the Supplemental				
Nutrition Assistance Program/SNAP Cluster	10.561	435400-O19-0759FSET-RG-02		9,035
Total U.S. Department of Agriculture			\$	32,077
United States Department of Housing and Urban Development				
City of Milwaukee				
Community Development Block Grants/Entitlement Grants Cluster	14.218	CD4400050446	\$	24,219
Total CFDA #14.218/Cluster				
United States Environmental Protection Agency				
Environmental Education Grant Program	66.951	00E02410	\$	30,364
United States Department of Education				
Wisconsin Technical College System				
Adult Education/Basic Grant to States	84.002A	80001149179	\$	85,002
United States Department of Health and Human Services				
Wisconsin Department of Health Services/Medical College of Wisconsin				
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	159354	\$	165,429
United Way of Greater Milwaukee & Waukesha County				
Teen Pregnancy Prevention Program	93.297	TP1AH000103-04-UW		19,011
Wisconsin Department of Children and Families				
Refugee and Entrant Assistance/State Administered Programs	93.566	7056	\$	93,564
Wisconsin Department of Children and Families				
Refugee and Entrant Assistance/Discretionary Grants	93.566	7031	\$	59,128
Total CFDA #93.566				152,692
Next Door Foundation				
Head Start	93.600			75,269
Community Advocates				
Block Grants for Prevention and Treatment of Substance Abuse	93.959			20,890
Total U.S. Department of Health and Human Services			\$	433,291
TOTAL FEDERAL EXPENDITURES			\$	604,953

The accompanying note is an integral part of this schedule.

**NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Neighborhood House of Milwaukee, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *Department of Health Services Audit Guide* and the *Provider Agency Audit Guide*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

General and administrative costs are allocated based on actual direct costs; the Organization does not use the de minimis cost rate.

Draft 10.8.2020

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards and the
Department of Health Services Audit Guide and the Provider Agency Audit Guide

Independent Auditor's Report

To the Board of Directors
Neighborhood House of Milwaukee, Inc.

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, and in accordance with the *Department of Health Services Audit Guide*, issued by the Wisconsin Department of Health Services and the *Provider Agency Audit Guide*, issued by the Wisconsin Department of Children and Families, the financial statements of Neighborhood House of Milwaukee, Inc., which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 2, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Neighborhood House of Milwaukee, Inc.'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 of Milwaukee, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Neighborhood House of Milwaukee, Inc.'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 of Milwaukee, Inc.'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*, the *Department of Health Services Audit Guide* or the *Provider Agency Audit Guide*.

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, the *Department of Health Services Audit Guide*, and the *Provider Agency Audit Guide* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Milwaukee, Wisconsin
October 2, 2020

RITZ HOLMAN LLP
Certified Public Accountants

**NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? None Reported
- Significant deficiencies identified? None Reported

Noncompliance material to financial statements noted? No

B. FINANCIAL STATEMENT FINDINGS

No matters were reported.

C. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Item #2019-001 Material Weakness in Internal Controls Related to Reporting Errors Affecting Allowable Costs for the Wisconsin Department of Health Services Grant CARS #159354

Criteria: The Organization shall have internal controls to timely detect and correct financial reporting errors.

Condition: Reporting errors affecting financial statement accounts were noted during the audit causing significant proposed adjustments in order for the financial statements to be presented fairly. One such reporting error was the over-charging of the Wisconsin Department of Health services grant caused by the use of a full year of program expenditures on a grant period of nine (9) months. The June 2019 cost report showed accumulated expenditures for the grant period October 1, 2018 through June 30, 2019 of \$174,961, while the general ledger supported allowable costs of \$141,418 on the grant period October 1, 2018 through June 30, 2019.

Current Status: Corrected

D. OTHER ISSUES

1. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern? No

**NEIGHBORHOOD HOUSE OF MILWAUKEE, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

D. OTHER ISSUES (continued)

2. Does the audit report show audit issues (i.e., material noncompliance, non-material noncompliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *Provider Agency Audit Guide* or the *Department of Health Services Audit Guide*?

Department of Children and Families
Department of Health Services

No
No

3. Was a Management Letter or other document conveying audit comments issued as a result of this audit?

No

4. Name and signature of partner

Diana Luttmann

5. Date of report

October 2, 2020

October 2, 2020

To the Board of Directors
Neighborhood House of Milwaukee, Inc.

We have audited the financial statements of Neighborhood House of Milwaukee, Inc. for the year ended June 30, 2020, and have issued our report thereon dated October 2, 2020. Professional standards require that we provide you with the information about our responsibilities under *Generally Accepted Auditing Standards* and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 17, 2020.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Neighborhood House of Milwaukee, Inc. are described in Note A to the financial statements. The Organization's financial statements include implementation of *Accounting Standards Update 2014-09, Revenues from Contracts with Customers (Topic 606)*, effective for years beginning after December 15, 2018. This new revenue recognition standard affects all entities, including public, private, and non-profit entities, that have contracts with customers, except where other specific guidance is issued by the Financial Accounting Standards Board. The standard eliminates transaction and industry specific guidance and replaces it with a principles-based approach for determining an entity's revenue recognition policies. The core principle of the standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization has also implemented *Accounting Standards Update 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* effective for years beginning after December 15, 2018. This standard clarifies the definition of exchange transactions and contributions and provides additional guidance on evaluating if a contribution is considered conditional.

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

- Management's estimate of the expense allocation to program, management and fundraising on the statement of activities is based on management's estimate of costs attributable to the relative nature of the expenses.
- Management's estimate of depreciation expense and accumulated depreciation on fixed assets is based on the estimated useful life of the fixed assets.

Ritz Holman LLP
Serving business, nonprofits, individuals and trusts.

330 E. Kilbourn Ave., Suite 550
Milwaukee, WI 53202
t. 414.271.1451
f. 414.271.7464
ritzholman.com

To the Board of Directors
Neighborhood House of Milwaukee, Inc.
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- Management's estimate of the United Way Donor Choice of \$18,000 included in pledges receivable is based on the first quarter's payment received in the year ended June 30, 2020. It is estimated that the remaining three quarters will be similar which are expected to be collected in the year ended June 30, 2021.
- Management's estimate of the net assets with donor restrictions is based on interpretation of donor intentions for time and use based on information provided by donors.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. Significant adjustments recorded after the onset of fieldwork, primarily determined through management's year-end reconciliation processes, included adjusting the childcare receivable by \$18,000, Greater Milwaukee Foundation Beneficial Interest by \$25,000, recording in-kind donations of \$24,000, and recording pledges receivable of \$13,000.

Disagreements With Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 2, 2020.

Management Consultations With Other Independent Accountants

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

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Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

RITZ HOLMAN LLP
Certified Public Accountants

Neighborhood House of Milwaukee, Inc. Financial Ratios



	Ratios					Prior Year		Peer Group Median *	
	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020	Change		Not Available	
Current Ratio	3.2	3.7	3.8	2.5	1.2	↓		3.14	
Defensive Interval	2.1	3.1	3.5	2.0	3.3	↑		2.2	
Liquid Funds Indicator	4.0	5.5	6.4	5.0	6.7	↑		2.1%	
Savings Indicator	4.0%	8.5%	7.3%	-6.3%	9.4%	↑		542,637	
Liquid Funds Amount	877,905	1,141,648	1,204,961	1,049,192	1,383,675	↑			

* Peer Group Median: comparative information from the 2018 IRS Form 990s for 1,945 human service organizations with revenue between \$2,000,000 - \$5,000,000.

Financial Statement Summary

	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
Assets	2,489,487	2,732,989	2,839,234	2,660,777	3,245,583
Liabilities	284,639	318,240	234,909	211,029	540,826
Net Assets	2,204,848	2,414,749	2,604,325	2,449,748	2,704,757
Revenue	2,286,508	2,467,124	2,594,023	2,446,515	2,731,172
Expense	(2,195,141)	(2,257,223)	(2,404,447)	(2,601,092)	(2,475,304)
Change In Net Assets	91,367	209,901	189,576	(154,577)	255,868

Definitions

Current Ratio	Number greater than 1 indicates the organization has the ability to pay current obligations with current assets. Current assets include cash, investments, beneficial interest, receivables, prepaid expenses, inventory and other current assets, and excludes net fixed and intangible assets.
Defensive Interval	Number of months the organization could operate using cash, marketable securities, receivables, and prepaids at year end. The ratio does not account for restrictions and it excludes depreciation and donated goods and services.
Liquid Funds Indicator	Number of months the organization could operate based on unrestricted net assets, excluding net fixed assets and related debt.
Debt Ratio	Total liabilities to total net assets without donor restrictions. The result is a percentage of unrestricted net assets that are financed by liabilities.
Savings Indicator	Income as a percentage of total revenue. Positive number indicates income and negative number indicates loss.
Liquid Funds Amount	Amount of liquidity remaining from net assets without restrictions, after fixed assets and capital debt are removed.
Inventory Turnover	Number of times inventory is sold and replaced with new inventory each year, not taking into account that some inventory may result in many turnovers and some none.

**Neighborhood House of Milwaukee, Inc.
2819 W. Richardson Place
Milwaukee, WI 53208**

Ritz Holman LLP
330 East Kilbourn Avenue, Ste. 550
Milwaukee, WI 53202-3144

We are providing this letter in connection with your audit of the financial statements of Neighborhood House of Milwaukee, Inc., which include the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audit.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 17, 2020.
- The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error.
- We acknowledge the responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable, complete, and appropriate. The measurement process used by management in determining accounting estimates is appropriate and consistent.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. generally accepted accounting principles.

- We have evaluated and classified any subsequent events as recognized or nonrecognized and disclosed the date through which this determination was made. No events, including instances of noncompliance, have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. When applicable, a list of the uncorrected misstatements is attached to the representation letter. In addition, you have recommended adjusting journal entries that have been posted to the Organization's accounts. We are in agreement with those adjustments.
- We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. generally accepted accounting principles, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- Material concentrations have been appropriately disclosed in accordance with U.S. generally accepted accounting principles.
- Guarantees, whether written or oral, under which the organization is contingently liable, have been properly recorded or disclosed in accordance with U.S. generally accepted accounting principles.
- We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
- With respect to federal and state awards:
 - We are responsible for understanding and complying with, and have complied with the requirements of the applicable audit guides including the *Department of Health Services Audit Guide*, *Provider Agency Audit Guide*, including requirements related to preparation of the schedule of expenditures of federal and state awards.
 - We have prepared the schedule of expenditures of federal and state awards in accordance with the applicable audit guidelines and have identified and disclosed in the schedule expenditures made during the audit period for all awards provided by state agencies in the form of grants, state cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

- We acknowledge our responsibility for presenting the schedule of expenditures of federal and state awards (SEFA) in accordance with the requirements of the applicable audit guidelines, and we believe the SEFA, including its form and content, is fairly presented in accordance with the applicable audit guidelines. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
- We have identified and disclosed to you all of our government programs and related activities subject to the applicable audit guidelines.
- We are responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to state programs that provides reasonable assurance that we are managing our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended.
- We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal or state agencies or pass-through entities relevant to state programs and related activities.
- We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- We have complied with the direct and material compliance requirements (except for any noncompliance disclosed to you) including when applicable, those set forth in the applicable audit guidelines, related to federal and state awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal and state awards.
- We have disclosed any communication from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- We have disclosed to you the findings received, if any, and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken for the end of the period covered by the compliance audit to the date of the auditor's report.
- Amounts claimed or used for matching, if any, were determined in accordance with relevant guidelines in the applicable audit guidelines.

- We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to state program financial reports and claims for advances and reimbursements.
- We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- There are no such instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- State program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
- The copies of state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective state agency or pass-through entity, as applicable.
- We have charged costs to federal and state awards in accordance with applicable cost principles.
- We are responsible for preparing and implementing a corrective action plan for each audit finding, if any.
- We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations related to noncompliance at the service organization.
- We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported to us, if any.
- We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and all audit or relevant monitoring reports, if any, received from funding sources, and other matters.
 - Additional information that you have requested from us for the purposes of this audit.

- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - Completeness and availability of all minutes of the meetings the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- All material transactions have been recorded in the accounting records and are reflected in the financial statements or the schedule of expenditures of federal and state awards.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the organization and involves:
 - Management,
 - Employees who have significant roles in internal control, or,
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud or suspected fraud affecting the organization's financial statements communicated by employees, former employees, grantors, regulators or others.
- We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing financial statements.
- We have disclosed to you the identity of the organization's related parties and all the related party relationships and transactions of which we are aware.
- The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- Neighborhood House of Milwaukee, Inc. is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.

- We acknowledge our responsibility for presenting supplementary information in accordance with U.S. generally accepted accounting principles and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. generally accepted accounting principles. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
- As part of your audit, you prepared the draft financial statements and related notes and schedule of federal and state awards from the trial balance, SEFA Worksheet, and other accounting records. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of federal and state awards.

Neighborhood House of Milwaukee, Inc.


Name (signature)


Title

Executive Director NH

10/16/2020

October 2, 2020