THE HOUSE NEXT DOOR, INC. AND
THE HOUSE NEXT DOOR FAMILY FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The House Next Door, Inc.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The House Next Door, Inc., and The House Next Door Family Foundation, Inc., which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The House Next Door, Inc., and its Foundation, as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, in the current year, the Organization adopted FASB Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958)*, which modifies the presentation of the financial statements, including the recognition of long-lived assets acquired with donor-restricted funds. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying additional information on pages 18 – 20 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements, but is required by certain contracts with the Florida Department of Children and Families and Lutheran Services Florida. The accompanying schedule of expenditures of federal awards on pages 21 – 22 is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying additional information and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the consolidated 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 January 8, 2019 on our consideration of The House Next Door, 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 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 The House Next Door, Inc.'s internal control over financial reporting and compliance.

James Moore & Co., P.L.

Daytona Beach, Florida
January 8, 2019

THE HOUSE NEXT DOOR, INC. AND
THE HOUSE NEXT DOOR FAMILY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
Current assets			
Cash and cash equivalents	$ 779,272	$ 2,708	$ 781,980
Investments	1,605,963	-	1,605,963
Grant funds receivable	339,319	-	339,319
In-kind promise to give - rent, current portion	-	7,798	7,798
Other receivables	105,468	-	105,468
Prepaid expenses and other assets	70,842	-	70,842
Total current assets	2,900,864	10,506	2,911,370
Property and equipment, net	405,706	-	405,706
Total Assets	$ 3,306,570	$ 10,506	$ 3,317,076
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and other current liabilities	$ 195,749	$ -	$ 195,749
Accrued wages and leave payable	115,023	-	115,023
Total current liabilities	310,772	-	310,772
Net assets			
Without Donor Restrictions			
Undesignated	737,666	-	737,666
Undesignated - Foundation	595,565	-	595,565
Foundation Board-designated endowment	588,098	-	588,098
Designated by the Board for operating reserve	668,763	-	668,763
Invested in property and equipment	405,706	-	405,706
With Donor Restrictions			
Purpose restrictions	-	2,708	2,708
Time-restricted for future periods	-	7,798	7,798
Total net assets	2,995,798	10,506	3,006,304
Total Liabilities and Net Assets	$ 3,306,570	$ 10,506	$ 3,317,076

The accompanying notes to consolidated financial statements
are an integral part of this statement.

THE HOUSE NEXT DOOR, INC. AND
THE HOUSE NEXT DOOR FAMILY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support			
Revenue from governmental agencies	$ 2,933,523	$ -	$ 2,933,523
Grants - other	655,116	-	655,116
United Way	96,105	-	96,105
In-kind contributions	261,551	288	261,839
Contributions	67,585	25,500	93,085
Charges for services	803,937	-	803,937
Investment income	89,113	-	89,113
Other	34,489	-	34,489
Total support	4,941,419	25,788	4,967,207
Net assets released from restrictions			
Satisfaction of program restrictions	33,379	(33,379)	-
Total net assets released from restrictions	33,379	(33,379)	-
Total support and net assets released from restrictions	4,974,798	(7,591)	4,967,207
Expenses			
Program services	4,102,473	-	4,102,473
Fundraising	106,778	-	106,778
Administration	377,323	-	377,323
Total expenses	4,586,574	-	4,586,574
Change in net assets	388,224	(7,591)	380,633
Net assets, beginning of year, as restated	2,607,574	18,097	2,625,671
Net assets, end of year	$ 2,995,798	$ 10,506	$ 3,006,304

The accompanying notes to consolidated financial statements are an integral part of this statement.

THE HOUSE NEXT DOOR, INC. AND
THE HOUSE NEXT DOOR FAMILY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services					Supporting Services			
	Little House Next Door Daycare	Intervention	Prevention	Quality Assurance	Total Program Services	Fundraising	Administration	Total Supporting Services	Total
Salaries	$ 272,177	$ 1,122,936	$ 306,638	$ 16,540	$ 1,718,291	$ 68,283	$ 217,612	$ 285,895	$ 2,004,186
Fringe benefits	31,652	255,177	78,824	5,422	371,075	14,449	48,669	63,118	434,193
Building occupancy	60,000	196,564	29,362	-	285,926	575	37,596	38,171	324,097
Professional services	1,597	131,987	1,322,192	-	1,455,776	3,839	27,519	31,358	1,487,134
Travel	-	36,630	9,648	467	46,745	241	2,865	3,106	49,851
Insurance	3,915	10,601	3,096	-	17,612	-	64	64	17,676
Operating supplies	28,902	130,023	26,008	558	185,491	19,251	33,381	52,632	238,123
Conferences and meetings	3,259	2,228	433	-	5,920	140	689	829	6,749
Depreciation and amortization	256	14,601	780	-	15,637	-	8,928	8,928	24,565
Total before allocations	401,758	1,900,747	1,776,981	22,987	4,102,473	106,778	377,323	484,101	4,586,574
Quality assurance allocation	-	72,136	13,151	-	85,287	-	(85,287)	(85,287)	-
Administrative allocation	-	266,442	48,581	(22,987)	292,036	-	(292,036)	(292,036)	-
Total	$ 401,758	$ 2,239,325	$ 1,838,713	$ -	$ 4,479,796	$ 106,778	$ -	$ 106,778	$ 4,586,574

The accompanying notes to consolidated financial statements are an integral part of this statement.

THE HOUSE NEXT DOOR, INC. AND
THE HOUSE NEXT DOOR FAMILY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Cash flows from operating activities			
Change in net assets	$ 388,224	$ (7,591)	$ 380,633
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
In-kind donation of land	(75,776)	-	(75,776)
Depreciation and amortization	24,565	-	24,565
In-kind promise to give - rent	-	7,812	7,812
Bad debt expense	24,232	-	24,232
Unrealized gain on investments	(3,409)	-	(3,409)
Changes in operating assets and liabilities:			
Grant funds receivable	37,083	-	37,083
Other receivables	(44,170)	-	(44,170)
Prepaid expenses and other assets	5,406	-	5,406
Accounts payable and other current liabilities	(21,331)	-	(21,331)
Accrued wages payable and leave payable	5,822	-	5,822
Total adjustments	(47,578)	7,812	(39,766)
Net cash provided by (used in) operating activities	340,646	221	340,867
Cash flows from investing activities			
Purchases of property and equipment	(9,668)	-	(9,668)
Purchases of investments	(92,207)	-	(92,207)
Net cash provided by (used in) investing activities	(101,875)	-	(101,875)
Net increase (decrease) in cash and cash equivalents	238,771	221	238,992
Cash and cash equivalents, beginning of year	540,501	2,487	542,988
Cash and cash equivalents, end of year	$ 779,272	$ 2,708	$ 781,980
Noncash Investing Activities:			
In-kind donation of land	$ 75,776	$ -	$ 75,776

The accompanying notes to consolidated financial statements are an integral part of this statement.

(1) Summary of Significant Accounting Policies:

The following is a summary of the more significant accounting policies and practices of The House Next Door, Inc., and The House Next Door Family Foundation, Inc., which affect significant elements of the accompanying consolidated financial statements.

(a) **Organization**—The House Next Door, Inc. (the Organization) is a not-for-profit corporation that provides mental health and educational services as a ministry of care and concern for families in the community. Its primary purpose is to prevent problems from developing in individuals and families, and to show those experiencing problems how to solve them before they become more serious. The Organization also operates a child day care program that supports its primary purpose of preventative mental health and education.

The Organization's main office is located in DeLand, Florida. Services are provided to children and parents in various locations in Volusia and Flagler counties. These locations include schools, churches, and clients' homes.

(b) **Consolidated controlling financial interest—**On January 28, 2002, the Board of Directors formed The House Next Door Family Foundation, Inc. (the Foundation). The purpose of this Foundation is to seek and receive from interested donors planned and/or outright gifts whose earnings can be used to promote and support The House Next Door, Inc.'s activities. The bylaws require the Board of Directors of The House Next Door, Inc. to elect or appoint the majority of the members of the Foundation Board of Trustees, consistent with the Foundation's status as a supporting organization under Section 509(a)(3) of the Internal Revenue Code. Therefore, in accordance with generally accepted accounting principles, consolidation is required and the accounts of The House Next Door Family Foundation, Inc. are included in the accompanying consolidated financial statements.

(c) **Basis of presentation**—Net assets, gains, and losses are classified 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 governing board has designated, from net assets without donor restrictions, net assets for an operating reserve. The governing board of the Foundation has also designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net Assets with Donor Restrictions—Net assets subject to donor-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. 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Net assets with donor restrictions that expire with the passage of time consisted of an in-kind promise to give for rent space and contributions from a private grant at June 30, 2018.

(1) **Summary of Significant Accounting Policies:** (Continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. It is the Organization's policy to record donor-restricted contributions on which restrictions are met in the same reporting period, as unrestricted contributions.

(d) **Basis of accounting—**The Organization prepares its consolidated financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

(e) **Cash and cash equivalents**—For the purposes of the consolidated statement of cash flows, the Organization considers all cash on hand and in bank accounts, including highly liquid investments purchased with maturities of three months or less, to be cash and cash equivalents.

(f) **Investments**—Investments are stated at fair value, with the exception of certificates of deposit which are recorded at cost plus accrued interest, which approximates fair value. To calculate realized gain or loss on the disposition of investments and unrealized gains and losses, cost is determined by specific identification. All gains and losses and ordinary income from investments are accounted for as unrestricted revenue unless it is restricted for a specified purposes by the donor. Investments in shares of registered investment companies are valued at quoted market prices, which represent the value of shares held by the Organization at year-end. Short-term investments are carried at the fair value established by the issuer.

(g) **Grant funds receivable—**Grants receivable consist of amounts due to the Organization from governmental units and cultural agencies under the terms of various grant contracts. Due to the nature of these agencies, no allowance for uncollectible amounts has been established.

(h) **Other receivables**—Other receivables consist primarily of amounts due from federal and state governmental entities for services provided. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the status of individual accounts. The nature of these receivables allows the Organization up to one year to collect from the governmental agencies, as such any receivables over one year old are deemed to be uncollectible. As of June 30, 2018, no allowance for uncollectible amounts has been established based on management's estimate of collectability. It is the Organization's policy to charge off uncollectible receivables when management determines the receivable will not be collected. During the year ended June 30, 2018, $24,232 in uncollectible receivables were written off due to Medicaid billing issues.

(i) **Impairment of long-lived assets**—The Organization periodically reviews its long-lived assets to be held and used in operations for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets.

(1) **Summary of Significant Accounting Policies:** (Continued)

(j) **Property and equipment**—The Organization capitalizes all expenditures in excess of $1,500 for property and equipment. The fair value of donated assets is simultaneously capitalized and recognized as support. Property and equipment are stated at cost for purchased assets and at fair market value at date of donation for donated assets. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Furniture, equipment, and software	5 – 7 years
Building	40 years
Building and leasehold improvements	7 – 40 years

The Florida Department of Health maintains an equitable interest in the assets purchased by the Organization with Child Care Food Program grant monies as well as the right to determine the use of any proceeds from the sale of these assets. The Florida Department of Health has a reversionary interest in those assets purchased with its funds that have a cost of $1,000 or more and an estimated useful life of more than two years.

(k) **Accrued leave**—Paid-time off is accrued and reported in the financial statements. Employees are reimbursed for a maximum of eighty (80) hours of paid-time off upon separation. Management is reimbursed for a maximum of one hundred and sixty (160) hours of paid-time off upon separation.

(l) **Deferred revenue**—Deferred revenue, if any, primarily consists of advances received for contracted programs and fundraising events that apply to future periods.

(m) **Donated services and facilities—**The Organization recognizes donated services and facilities that create or enhance nonfinancial assets or that require specialized skills, which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations. Donated services and facilities that meet the above criteria are recognized as revenues and are reported in the accompanying consolidated financial statements at their estimated fair value at the time of receipt.

(n) **Expense allocation—**The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(o) **Income taxes**—Under Section 501(c)(3) of the Internal Revenue Code and Florida Statutes, the Organization is exempt from taxes on income other than unrelated business income. The Organization had no net unrelated business income during the year ended June 30, 2018. Therefore, no provision for income taxes has been made in these consolidated financial statements.

The Organization files income tax returns in the U.S. federal jurisdiction. Tax returns for the Organization for the past three years are subject to examination by tax authorities. The Organization has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with accounting principles generally accepted in the United States of America, and determined that there are no uncertain tax positions that would have a material impact on the consolidated financial statements of the Organization.

(1) **Summary of Significant Accounting Policies:** (Continued)

(p) **Subsequent events—**The Organization has evaluated events and transactions for potential recognition or disclosure in the consolidated financial statements through January 8, 2019, the date which the consolidated financial statements were available to be issued. No subsequent events have been recognized or disclosed, other than the payment of the deferred compensation plan described in Note 12.

(q) **Use of estimates—**The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

(r) **Recently issued accounting pronouncements—**The FASB and other entities issues new or modifications to, or interpretations of existing accounting guidance during the year ended June 30, 2018, and earlier years. The Organization has considered the new pronouncements that altered accounting principles generally accepted in the United States of America, and other than as disclosed in the notes to the consolidated financial statements below, does not believe that any other new or modified principles will have a material impact on the Organization's reported financial position or operations in the near term.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09: *Revenue from Contracts with Customers*, to clarify the principles used to recognize revenue for all entities. The new standard (as amended) is effective for fiscal years beginning after December 15, 2018 and may be adopted early. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In February 2016, the FASB issued ASU 2016-02: *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The new standard is effective for fiscal years beginning after December 15, 2019 and may be adopted early. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves current guidance about whether a transfer of assets is a contribution or an exchange transaction and clarifies how an entity determines whether a resource provider is participating in an exchange transaction. ASU 2018-08 is effective to the Foundation for fiscal years beginning after December 15, 2018, with earlier adoption by one year permitted. The effects of this change are still being determined.

(1) **Summary of Significant Accounting Policies:** (Continued)

In August 2016, the FASB issued ASU 2016-14: *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, to make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities, including net asset classification requirements and the information presented about an entity's liquidity, financial performance, and cash flows. The new standard is effective for fiscal years beginning after December 15, 2017 and may be adopted early. The Organization has elected to early implement this new standard during fiscal year ended June 30, 2018. See Note 14 for restatement of beginning net assets.

(2) **Liquidity and Availability:**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	$ 110,509
Accounts receivable	444,787
Operating investments	1,017,865
	$ 1,573,161

As part of our operating reserves policy, we designate a portion of any cash surplus to be invested in short-term investments, CDs, and money market funds. Also, on an annual basis the Board assesses cash reserves and designates three months of operating costs to its operating reserve, which was $668,763 as of June 30, 2018. Although we do not intend to spend from this board-designated reserve, these amounts could be made available if necessary.

The Foundation board-designated endowment of $588,098 is subject to the spending policy as described in Note 8. Although we do not intend to spend from this Foundation board-designated endowment, these amounts could be made available if necessary.

(3) **Fair Value of Financial Instruments:**

Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. The Organization's financial instruments consist principally of cash and cash equivalents, certificates of deposit, grants and other receivables, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value. The fair value of a financial instrument is the amount that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

(3) **Fair Value of Financial Instruments:** (Continued)

Level 2: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

The fair value of the majority of the Organization's cash equivalents was determined based on "Level 1" inputs. The fair value of certain marketable securities, including $1,605,963 of mutual funds held with three issuers, were determined based on "Level 1" inputs. The mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. There have been no changes in Level 1, Level 2, and Level 3 and no changes in valuation techniques for these assets or liabilities for the year ended June 30, 2018.

The following tables summarize the consolidated assets of the Organization as of June 30, 2018 for which fair value is determined on a recurring basis:

Description	Quoted Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Mutual Funds				
Fixed Income Fund	$ 422,453	$ -	$ -	$ 422,453
Equity Fund	430,346	-	-	430,346
Balanced Fund	627,465	-	-	627,465
International Stock Fund	125,699	-	-	125,699
Total	$ 1,605,963	$ -	$ -	$ 1,605,963

(4) **Medicaid:**

The Organization bills Medicaid at Medicaid established rates for eligible services performed. Services rendered are reimbursed by Medicaid subject to specific documentation requirements. Compliance audits are conducted periodically by the Medicaid fiscal intermediaries, as well as the Organization's corporate compliance program, which can result in the recoupment of fees paid to the Organization.

(5) Donated Services, Materials and Facilities:

Donated services, materials and facilities received during the year ended June 30, 2018 were, in the judgment of management, both significant and essential to the continuing programs of the Organization. In addition, the Organization received a $75,776 donation of land during the year ended June 30, 2018. The Organization expensed donated use of facilities as follows during the year ended June 30, 2018:

	Intervention	Prevention	Total Program Services	Administration	Total
Building occupancy	$ 140,403	$ 19,771	$ 160,174	$ 30,131	$ 190,305

(6) Property and Equipment:

Property and equipment consist of the following:

Land	$ 244,476
Building	181,300
Building and leasehold improvements	125,414
Furniture and equipment	103,851
Software	91,870
	746,911
Less: Accumulated depreciation and amortization	341,205
Property and equipment, net	$ 405,706

Depreciation and amortization expense of $24,565 was functionally allocated, based on use, to program services and supporting services for the year ended June 30, 2018.

(7) Grants and Match Requirements:

The Organization has entered into agreements to provide services on a reimbursement of allowable cost basis with certain agencies. In addition, one agreement has a requirement that a specified amount of federal program activities be funded by matching funds from specified sources. The Organization is subject to audit by the granting agencies and, if these audits are unfavorable, the agencies can require a refund of a portion of the contracts. It is management’s opinion that the terms of the agreements have been substantially met and costs submitted for reimbursements are allowable under the agreements.

The Organization receives a substantial portion of its support from the United States Government and the State of Florida. Under certain terms of these contracts, expenditures for funded program services could exceed the amount of the grant.

Management believes that the matching requirements were met, as expenditures for programs funded by the grant exceeded the amount required to receive the maximum amount of reimbursement.

(8) **Endowment:**

The Foundation's endowment consists entirely of net assets without donor restrictions that have been designated for endowment by the Board of Trustees. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Absent explicit donor stipulations to the contrary, the Foundation's Board of Trustees has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds. As a result of this interpretation, the Organization will classify as net assets with donor restrictions (a) the original value of any gift amounts donated to the endowment, (b) any accumulations to that endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation Board of Trustees in a manner consistent with the standard of prudence prescribed by SPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the organization and the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization and Foundation, and (7) the Foundation's investment policies.

As of June 30, 2018, the Foundation had the following endowment net asset composition by type of fund:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 588,098	$ -	$ 588,098
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	-	-
Accumulated investment gains	-	-	-
Endowment net assets, end of year	$ 588,098	$ -	$ 588,098

Investment Return Objectives, Risk Parameters and Strategies – The Foundation has adopted investment and spending policies, approved by the Board of Trustees, for board-designated endowment assets. Those policies attempt to maintain the purchasing power of those board-designated endowment assets over the long-term while also providing as-needed funding to programs of the Organization. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Board-designated endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities. The Organization expects its board-designated endowment assets, over time, to produce an average rate of return in pace with annual inflation. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to prevent exposing the fund to unacceptable levels of risk.

(8) **Endowment:** (Continued)

Spending Policy – The Foundation has a policy of appropriating for distribution each year the amount needed for any state filing or bank fees and for determining on a case-by-case basis the prudence and necessity of any appeals of the Organization. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual board-designated endowment funds and the possible effects of inflation. The Foundation expects the current spending policy to allow its board-designated endowment funds to grow at an average rate in line with the inflation rate. This is consistent with the Foundation's objective to maintain the purchasing power of the board-designated endowment assets as well as to provide additional real growth through new gifts and investment return.

Changes in Foundation net assets without donor restrictions for the year ended June 30, 2018 are as follows:

	Unrestricted	Board-Designated Endowment	Total Foundation Net Assets
Foundation net assets, beginning of year	$ 511,289	$ 584,281	$ 1,095,570
Contributions	-	3,817	3,817
Net appreciation (depreciation)	10,264	-	10,264
Investment interest and dividends	75,572	-	75,572
Amounts appropriated for expenditure	(1,560)	-	(1,560)
Foundation net assets, end of year	$ 595,565	$ 588,098	$ 1,183,663

(9) **Retirement Plan:**

The Organization provides a SIMPLE IRA whereby participants may contribute a portion of compensation, but not in excess of the maximum amount allowed under the Internal Revenue Code. The Plan provides for a matching contribution up to 3% by the Organization, which amounted to $27,564 for the year ended June 30, 2018.

(10) **Concentration of Risk:**

Revenue to support the Organization's programs is received primarily from federal, state and local government grants and awards, and accounts for a significant portion of total support. Thus the Organization is subject to changes in government funding allocations. In the event these entities discontinue funding these programs, the Organization would have a difficult time achieving current program goals.

Credit risk with respect to receivables is limited due to the credit worthiness of the government entities and organizations from whom the amounts are due. The Organization does not require collateral to support financial instruments.

The Organization maintains cash in demand deposit accounts with two federally insured banks. At times, the balances in these accounts were in excess of federally insured limits. At June 30, 2018, the aggregate bank balances of these accounts were $785,815, of which $297,890 was in excess of the coverage provided by the Federal Deposit Insurance Corporation.

(10) **Concentration of Risk:** (Continued)

The Organization maintains mutual funds with a brokerage firm. The funds with the brokerage firm of $422,453 at June 30, 2018, are insured up to $500,000 by the Securities Investor Protection Corporation.

(11) **Commitments and Contingencies:**

The Organization leases various office equipment and facilities under noncancellable operating lease agreements which expire through 2021. At June 30, 2018, future rental commitments in excess of one year under noncancellable operating leases were as follows:

Year Ending June 30,	Amount
2019	$ 61,769
2020	32,288
2021	9,513
	$ 103,570

Rent expense was $81,429 for the year ended June 30, 2018.

(12) **Deferred Compensation:**

Effective July 1, 2012, a deferred compensation plan was established for the benefit of the Executive Director of the Organization. At the end of each fiscal year, the Organization shall contribute $6,000 to the Deferred Compensation Account. This amount has been accrued at June 30, 2018 and deferred until termination of employment. However, the deferred compensation is forfeited if employment is terminated by cause or voluntarily terminates before reaching age sixty-five. Subsequent to year end, in October 2018, the Executive Director retired and the deferred compensation plan was liquidated and paid out.

(13) **In-kind Promise to Give - Rent:**

The Organization leases certain real property that is used for mental health and educational services under a lease agreement expiring in 2019. The annual rent paid for the leased property is significantly less than fair market value. Therefore, the leasing transaction was recorded in the year the lease was executed as facility leases receivable and in-kind contribution. The in-kind contribution recorded was based on the present value of the fair rental value less the amount of the lease payments, not to exceed the fair market value of the property, using other significant inputs. The valuation technique used to measure the fair value of the rent was valued $13 per square foot of space rented based on the market approach using the cost per square foot paid by the Organization in similar facilities leases. The total in-kind receivable amount recorded in the year ended June 30, 2016, upon the execution of the lease was $24,294, with a discount rate of 2.24% used. The total facility lease in-kind receivable amount remaining as of June 30, 2018, was $8,094, which includes $296 of unamortized discount, and which will be fully recognized as in-kind expense during the year ended June 30, 2019. No discount is recorded if the property's value at the date of initial recognition is used to measure the fair value of the contribution.

(14) Restatement of Net Assets:

As discussed in Note 1(r), during the year ended June 30, 2018, the Organization early implemented ASU 2016-14: *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The implementation of this standard makes improvements to the information provided in financial statements and accompanying notes of not-for-profit entities, including net asset classification requirements, recognition of long-lived assets acquired with donor-restricted funds, and the information presented about an entity's liquidity, financial performance, and cash flows. As a result, the Organization's recognition of property acquired with donor-restricted funds as net assets with donor restrictions, released over the estimated useful life of the asset, requires restatement as net assets without donor restrictions. Also, the Foundation endowment was reclassified from with donor restrictions held in perpetuity to board-designated without donor restrictions. As a result, restatements to beginning net assets for the year ended June 30, 2018, were made as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets at June 30, 2017	$ 1,773,008	$ 852,663	$ 2,625,671
Release of restriction on long-lived asset acquired with donor-restricted funds	250,285	(250,285)	-
Board-designated endowment reclassification	584,281	(584,281)	-
Net assets at June 30, 2017, as restated	$ 2,607,574	$ 18,097	$ 2,625,671

THE HOUSE NEXT DOOR, INC. AND
THE HOUSE NEXT DOOR FAMILY FOUNDATION, INC.
SCHEDULE OF STATE EARNINGS
REQUIRED BY CONTRACT NO. LS 035
FOR THE YEAR ENDED JUNE 30, 2018

1	Total Expenditures	$ 4,586,574
2	Less Other State & Federal Funds	$ (1,425,485)
3	Less non-Match SAMH Funds *	$ 356,143
4	Less Unallowable Costs per 65E-14, F.A.C.	$ -
5	Total Allowable Expenditures (Sum of lines 1, 2, 3, & 4)	$ 3,517,232
6	Maximum Available Earnings (Line 5 times 75%)	$ 2,637,924
7	Amount of State Funds Requiring Match *	$ 65,607
8	Amount Due to Department (Subtract line 7 from line 6, enter on line 8 if negative)	$ -

* Amounts estimated based on proportionate amounts required for the year ended June 30, 2016. Final amounts will be reported upon the receipt of the Post Award Notice issued by Lutheran Services Florida.

THE HOUSE NEXT DOOR, INC. AND
THE HOUSE NEXT DOOR FAMILY FOUNDATION, INC.
SUBSTANCE ABUSE & MENTAL HEALTH SERVICES PROGRAM/COST CENTER
ACTUAL REVENUES SCHEDULE REQUIRED BY CONTRACT NO. LS 035
FOR THE YEAR ENDED JUNE 30, 2018

Part I: ACTUAL FUNDING SOURCES AND REVENUES

	State - Designated SAMH Cost Centers													
	State SAMH - Funded Cost Centers											Total for All		
	CMH Program			CSA Program			AMH Program			Total for State	Total for Non	State-		
					Prevent/					SAMH-Funded	State Funded	Designated	Non-SAMH	Total
Funding Sources & Revenues	**Intervention**	**Prevention**	**Total**	**Prevention**	**Interv. Day**	**Total**	**Intervention**	**Prevention**	**Total**	**CC**	**SAMH CC**	**SAMH CC**	**Cost Center**	**Funding**
IA. State SAMH Funding														
DCF LS 035	$ 52,242	$ -	$ 52,242	$ 72,967	$ 331,660	$ 404,627	$ 160,724	$ -	$ 160,724	$ 617,593	$ 24,097	$ 641,690	$ -	$ 641,690
IB. Other Govt. Funding														
Other State Funding	148,904	-	148,904	-	-	-	80,179	-	80,179	229,083	685,446	914,529	-	914,529
Local Government	51,872	-	51,872	15,897	84,396	100,293	27,931	-	27,931	180,096	324,616	504,712	-	504,712
Medicaid	192,590	-	192,590	-	-	-	103,702	-	103,702	296,292	453	296,745	-	296,745
Federal Grants	4,059	-	4,059	-	-	-	2,185	-	2,185	6,244	-	6,244	-	6,244
Tot. Other Govt. Funding	397,425	-	397,425	15,897	84,396	100,293	213,997	-	213,997	711,715	1,010,515	1,722,230	-	1,722,230
IC. All Other Revenues														
1st/3rd Party	9,309	-	9,309	-	-	-	5,013	-	5,013	14,322	-	14,322	-	14,322
Contributions & Donations	75,985	-	75,985	25,100	-	25,100	41,454	-	41,454	142,539	350	142,889	70,066	212,955
Other	73,112	-	73,112	-	743	743	39,368	-	39,368	113,223	1,904,968	2,018,191	631	2,018,822
In-Kind	99,009	-	99,009	19,771	20,300	40,071	61,810	-	61,810	200,890	30,530	231,420	30,131	261,551
Total All Other Revenue	257,415	-	257,415	44,871	21,043	65,914	147,645	-	147,645	470,974	1,935,848	2,406,822	100,828	2,507,650
Total Funding	$ 707,082	$ -	$ 707,082	$ 133,735	$ 437,099	$ 570,834	$ 522,366	$ -	$ 522,366	$ 1,800,282	$ 2,970,460	$ 4,770,742	$ 100,828	$ 4,871,570

THE HOUSE NEXT DOOR, INC. AND
THE HOUSE NEXT DOOR FAMILY FOUNDATION, INC.
SUBSTANCE ABUSE & MENTAL HEALTH SERVICES PROGRAM/COST CENTER
ACTUAL EXPENSES SCHEDULE REQUIRED BY CONTRACT NO. LS 035
FOR THE YEAR ENDED JUNE 30, 2018

Part II: ACTUAL EXPENSES

	State - Designated SAMH Cost Centers												
	State SAMH - Funded Cost Centers										Total for All		
	CMH Program		CSA Program			AMH Program			Total for State	Total for Non	State-Designated		
				Prevent./					Funded AMH	State Funded	SAMH Cost		Total
Expense Categories	Intervention	Total	Prevention	Interv. Day	Total	Intervention	Prevention	Total	CC	SAMH CC	Centers	Administration	Expenses
IIA. PERSONNEL EXP													
1. Salaries	$ 362,459	$ 362,459	$ 31,046	$ 206,661	$ 237,707	$ 226,424	$ -	$ 226,424	$ 826,590	$ 875,161	$ 1,701,751	$ 302,435	$ 2,004,186
2. Fringe Benefits	79,806	79,806	3,009	54,967	57,976	49,579	-	49,579	187,361	178,291	365,652	68,541	434,193
TOTAL PERSONNEL EXPENSES	442,265	442,265	34,055	261,628	295,683	276,003	-	276,003	1,013,951	1,053,452	2,067,403	370,976	2,438,379
IIB. Other Expenses													
1. Building Occupancy	29,217	29,217	4,148	3,378	7,526	17,975	-	17,975	54,718	86,672	141,390	16,968	158,358
2. Professional Services	5,885	5,885	1,676	3,839	5,515	4,269	-	4,269	15,669	11,802	27,471	4,739	32,210
3. Travel	3,848	3,848	1,169	2,969	4,138	3,420	-	3,420	11,406	34,872	46,278	3,573	49,851
4. Equipment	14,837	14,837	2,644	1,011	3,655	8,427	-	8,427	26,919	12,244	39,163	7,622	46,785
5. Subcontracted Svs	51,315	51,315	9,265	9,876	19,141	30,929	-	30,929	101,385	1,325,671	1,427,056	24,989	1,452,045
6. Insurance	2,608	2,608	361	2,329	2,690	1,779	-	1,779	7,077	10,535	17,612	64	17,676
7. Op. Supplies & Exp	38,568	38,568	12,946	14,796	27,742	23,251	-	23,251	89,561	51,099	140,660	38,276	178,936
8. Other - Training	1,639	1,639	207	634	841	1,122	-	1,122	3,602	5,108	8,710	9,748	18,458
9. In-kind expense/Donated items	55,020	55,020	19,771	20,300	40,071	38,123	-	38,123	133,214	30,530	163,744	30,132	193,876
TOTAL OTHER EXPENSES	202,937	202,937	52,187	59,132	111,319	129,295	-	129,295	443,551	1,568,533	2,012,084	136,111	2,148,195
TOTAL PERSONNEL AND OTHER EXPENSES	$ 645,202	$ 645,202	$ 86,242	$ 320,760	$ 407,002	$ 405,298	$ -	$ 405,298	$ 1,457,502	$ 2,621,985	$ 4,079,487	$ 507,087	$ 4,586,574
IIC. DISTRIBUTED INDIRECT COSTS	$ 95,192	$ 95,192	$ 17,817	$ 55,889	$ 73,706	$ 72,747	$ -	$ 72,747	$ 241,645	$ 158,664	$ 400,309	$ (400,309)	$ -
IID. UNALLOWABLE COSTS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL ALLOWABLE OPERATING EXPENSES	$ 740,394	$ 740,394	$ 104,059	$ 376,649	$ 480,708	$ 478,045	$ -	$ 478,045	$ 1,699,147	$ 2,780,649	$ 4,479,796	$ 106,778	$ 4,586,574

THE HOUSE NEXT DOOR, INC. AND
THE HOUSE NEXT DOOR FAMILY FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Agency/Pass-Through Entity/ Federal Program	CFDA Number	Pass-Through Entity/ Contract Identifying Number	Program Expenditures
FEDERAL AWARDS			
United States Department of Health and Human Services			
Passed through Lutheran Services Florida:			
Temporary Assistance for Needy Families	93.558	LS 035	$ 156,954
Total TANF Cluster			156,954
Passed through Lutheran Services Florida:			
Block Grants for Community Mental Health Services	93.958	LS 035	11,094
Block Grants for Prevention and Treatment of Substance Abuse	93.959	LS 035	263,286
Passed through Community Partnership for Children:			
Promoting Safe and Stable Families	93.556	D12-17-HND-FC	105,862
Community-Based Child Abuse Prevention Grants	93.590	D12-17-HND-FC	118,720
Foster Care Title IV-E	93.658	D12-17-HND-FC	32,611
Child Welfare Services - State Grants	93.645	D12-17-HND-FC	8,669
Administration for Children, Youth, and Families	93.669	D12-17-HND-FC	6,417
Total United States Department of Health and Human Services			703,613
United States Department of Justice			
Passed through Florida Office of Attorney General:			
Crime Victim Assistance Grant	16.575	VOCA-2017-The House Next Door-00527	151,924
Total United States Department of Justice			151,924
United States Department of Agriculture			
Pass-through Florida Department of Health:			
Child and Adult Care Food Program	10.558	D-2784	349,654
Child and Adult Care Food Program	10.558	U-4448	901,490
Child and Adult Care Food Program	10.558	I-4108	14,069
Total United States Department of Agriculture			1,265,213
Total Expenditures of Federal Awards			$ 2,120,750

See notes to schedule of expenditures of federal awards.

THE HOUSE NEXT DOOR, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

(1) **Basis of Presentation:**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes federal award activity of The House Next Door, Inc. (the Organization) under programs of the federal government for the year ended June 30, 2018. 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

(2) **Summary of Significant Accounting Policies:**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

No amounts were passed through to subrecipients during the year ended June 30, 2018.

(3) **De Minimis Indirect Cost Rate Election:**

The Organization does not elect to use the 10% de minimis indirect cost rate as covered in §200.414, *Indirect (F&A) costs*, of the Uniform Guidance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
The House Next Door, Inc.:

Report on Compliance for Each Major Federal Program

We have audited The House Next Door, Inc.'s compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of The House Next Door, Inc.'s major federal programs for the year ended June 30, 2018. The House Next Door, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of The House Next Door, Inc.'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 The House Next Door, Inc.'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 The House Next Door, Inc.'s compliance.

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Opinion on Each Major Federal Program

In our opinion, The House Next Door, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002. Our opinion on each major federal program is not modified with respect to this matter.

The Organization’s response to the noncompliance findings identified in our audit are described in the accompanying management’s response to findings as listed in the table of contents. The Organization’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of The House Next Door, Inc. 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 The House Next Door, Inc.’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 an opinion on compliance for each major 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 The House Next Door, Inc.’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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

The Organization's response to the internal control over compliance findings identified in our audit are described in the accompanying management's response to findings as listed in the table of contents. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

James Moore & Co., P.L.

Daytona Beach, Florida
January 8, 2019

THE HOUSE NEXT DOOR, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

I. **Summary of Auditors' Results:**

Consolidated Financial Statements:

- Type of audit report issued on the basic consolidated financial statements: Unmodified
- Internal control over financial reporting:
  - Are any material weaknesses identified? No
  - Are any significant deficiencies identified? None reported
- Is any noncompliance material to the consolidated financial statements noted? No

Federal Awards:

- Internal control over major federal programs:
  - Are any material weaknesses identified? No
  - Are any significant deficiencies identified? Yes
- Type of report issued on compliance for major programs: Unmodified
- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes
- Major federal program identification:

  CFDA Number 10.558 – Child and Adult Care Food Program
- The dollar threshold used to distinguish between Type A and Type B programs was $750,000.
- Auditee qualified as a low-risk auditee? Yes

II. **Consolidated Financial Statement Findings:**

None.

III. Federal Award Findings and Questioned Costs:

2018-001 – CFDA 10.558 – Child and Adult Care Food Program: Provider Monitorings Second Party Check

Criteria: Per the Florida Department of Health Child Care Food Program (CCFP) Sponsor Oversight Responsibilities for Sponsors of Day Care Homes Manual, after monitoring reviews are conducted and the monthly claim has been submitted, the sponsor's designated Program Manager should check the review forms to ensure that they are completely and correctly filled out (second-party check). The second party check should not be performed by the same person who has conducted the review.

Condition and Context: Nine provider monitoring reviews were identified that did not have the Second Party Check performed on the Provider Review Form.

Cause: Turnover in the CCFP staff caused confusion about the second-party check and several Monitoring Review Forms were not checked by the designated Program Manager.

Effect: The Organization could face corrective action from the grantor or be penalized by having to repay grant reimbursements or by having the funding award reduced.

Recommendation: We recommend the Organization follow their established provider monitoring procedures in order to comply with the Florida Department of Health standards for the Child Care Food Program.

2018-002 – CFDA 10.558 – Child and Adult Care Food Program: Provider Monitorings Meal Count Performance

Criteria: Per the Florida Department of Health Child Care Food Program (CCFP) Sponsor Oversight Responsibilities for Sponsors of Day Care Homes Manual, sponsors are required to have two of the three monitoring reviews performed in a year that include observation of a meal service.

Condition and Context: One Day Care Home provider was identified that had only one monitoring review that included observation of a meal service performed.

Cause: Turnover in the CCFP staff resulted in lapses in some aspects of the performance of provider monitoring procedures, such as the meal count.

Effect: The Organization could face corrective action from the grantor or be penalized by having to repay grant reimbursements or by having the funding award reduced.

Recommendation: We recommend the Organization follow their established provider monitoring procedures in order to comply with the Florida Department of Health standards for the Child Care Food Program.

IV. Prior Audit Findings:

See Schedule of Prior Audit Findings on page 30.

V. Corrective Action Plan:

See Corrective Action Plan on page 31.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
The House Next Door, Inc.:

We have audited in accordance with auditing standards generally accepted in the United States of America and then standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of The House Next Door, Inc. (the Organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated January 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered The House Next Door, 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 consolidated 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 consolidated 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James Moore & Co., P.L.

Daytona Beach, Florida
January 8, 2019

Nurturing Families
Building Communities

The House Next Door

Serving
Volusia and Flagler Counties

Administrative Offices
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January 8, 2019

Schedule of Prior Audit Findings:

2017-001 – CFDA 10.558 – Child Care Food Program: Provider Monitorings Performance Timing: Corrective action taken.

2017-002 – CFDA 10.558 – Child Care Food Program: Provider Monitorings Performance: Corrective action taken.

2017-003 – CFDA 10.558 – Child Care Food Program: Child Eligibility: Corrective action taken.

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January 8, 2019

Fiscal Year 2018 Audit Findings:

2018-001 – CFDA 10.558 – Child Care Food Program: Provider Monitorings Second Party Check
Contact Person: Helen Harris
Completion Date: 2/22/2018

Identified Problem: Nine providers were identified for which the required Second Party Check on provider monitoring reviews were not performed for the grant period ended September 30, 2017, during the beginning of the current fiscal year.

Action: The agency will follow the required provider monitoring procedures by having the Program Manager perform the Second Party Check on Provider Review Forms in order to comply with the Florida Department of Health standards for the Child Care Food Program. Procedures were followed regarding the Second Party Check and files were in compliance for the grant year that covered the majority of the Organization's fiscal year.

2018-002 – CFDA 10.558 – Child Care Food Program: Provider Monitorings Meal Count Performance
Contact Person: Helen Harris
Completion Date: 2/22/2018

Identified Problem: One Day Care Home provider was identified that only had one monitoring review performed that included observation of a meal service for the grant period ended September 30, 2017, during the beginning of the current fiscal year.

Action: The agency will follow the required provider monitoring procedures by having the Second Party Check ensure that each provider has 3 monitorings per grant year and that at least 2 monitorings include observation of a meal in order to comply with the Florida Department of Health standards for the Child Care Food Program. Procedures were followed regarding the observation of meal service during monitorings and files were in compliance for the grant year that covered the majority of the Organization's fiscal year.