

Neighborhood House Association

**Financial Statements
and Supplementary Information in
Accordance with Office of Management
and Budget Circular A-133**

Years Ended June 30, 2011 and 2010

NEIGHBORHOOD HOUSE ASSOCIATION

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Report of Independent Public Accountants

To the Audit Committee
Neighborhood House Association

We have audited the accompanying statements of financial position of Neighborhood House Association ("NHA") as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. We have also audited the statement of functional expenses for the year ended June 30, 2011 (with summarized financial information for 2010). These financial statements are the responsibility of NHA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood House Association as of June 30, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2011, on our consideration of NHA'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* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of expenditures of Federal and State awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2011 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2011 basic financial statements taken as a whole.

 J.H. Cohn LLP

San Diego, California
November 9, 2011

NEIGHBORHOOD HOUSE ASSOCIATION

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2011 AND 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents (Note 13)	\$ 4,885,849	\$ 6,219,762
Investments (Notes 2 and 16)	29,751	39,752
Grants and contracts receivable (Note 3)	5,321,724	5,221,121
Other accounts receivable, less allowance for doubtful accounts of \$71,347 and \$0	252,287	210,474
Operating advances	373,486	557,315
Prepaid expenses	65,187	403,604
Total current assets	<u>10,928,284</u>	<u>12,652,028</u>
Property and equipment (Note 4):		
Property and equipment	25,225,086	24,777,144
Less: accumulated depreciation and amortization	<u>(18,010,125)</u>	<u>(17,647,840)</u>
Total property and equipment	<u>7,214,961</u>	<u>7,129,304</u>
Deposits	<u>69,435</u>	<u>69,435</u>
Total assets	<u>\$ 18,212,680</u>	<u>\$ 19,850,767</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accrued payroll and related liabilities	\$ 1,034,308	\$ 743,304
Accounts payable and accrued expenses	2,763,181	4,778,726
Deferred revenue	34,698	20,808
Accrued annual leave (Note 5)	2,392,738	2,407,229
Current portion of long-term debt (Note 7)	264,873	248,168
Interest rate swap agreement (Note 16)	338,835	393,791
Total current liabilities	<u>6,828,633</u>	<u>8,592,026</u>
Long-term debt, net of current portion (Note 7)	<u>2,461,683</u>	<u>2,734,744</u>
Total liabilities	<u>9,290,316</u>	<u>11,326,770</u>
Commitments and contingencies		
Net assets:		
Unrestricted	<u>8,922,364</u>	<u>8,523,997</u>
Total net assets	<u>8,922,364</u>	<u>8,523,997</u>
Total liabilities and net assets	<u>\$ 18,212,680</u>	<u>\$ 19,850,767</u>

See Notes to Financial Statements.

NEIGHBORHOOD HOUSE ASSOCIATION

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Changes in unrestricted net assets:		
Revenues and support:		
Grants and contracts (Note 10)	\$ 79,425,782	\$ 81,560,914
Food reimbursements	1,178,420	1,200,961
Reimbursements from partners	816,923	943,837
Contributions and donations	501,300	615,928
Service fees	917,852	912,529
Special events	108,634	140,302
Investment return and interest income	7,037	10,688
Other revenues	1,663,325	449,197
Total unrestricted revenues and support	84,619,273	85,834,356
Expenses:		
Program services	76,976,956	78,785,568
Supporting services:		
Fundraising	3,417	695
Management and general	7,295,489	7,586,128
Total expenses	84,275,862	86,372,391
Change in unrestricted net assets from continuing operations before gain (loss) on interest rate swap	343,411	(538,035)
Gain (loss) on mark-to-market of interest rate swap	54,956	(84,585)
Change in unrestricted net assets	398,367	(622,620)
Unrestricted net assets:		
Beginning of year	8,523,997	9,146,617
End of year	\$ 8,922,364	\$ 8,523,997

See Notes to Financial Statements.

NEIGHBORHOOD HOUSE ASSOCIATION

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating activities:		
Change in net assets	\$ 398,367	\$ (622,620)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	904,550	918,235
Bad debt expense	71,347	-
(Gain) loss on mark-to-market of interest rate swap agreement	(54,956)	84,585
Nonoperating grant and contract revenue	(992,347)	(203,885)
Unrealized loss on investments	10,001	-
Loss on disposal of equipment	2,140	7,402
Change in operating assets and liabilities:		
Grants and contracts receivable	(100,603)	(3,332,468)
Other accounts receivable	(113,160)	1,620,927
Prepaid expenses	338,417	(203,574)
Operating advances	183,829	(266,982)
Accounts payable and accrued expenses	(2,015,545)	3,164,846
Accrued payroll and related liabilities	291,004	157,573
Accrued annual leave	(14,491)	616,537
Deferred revenue	13,890	(2,360)
Net cash provided by (used in) operating activities	(1,077,557)	1,938,216
Investing activities:		
Purchases of property and equipment	(992,347)	(203,885)
Net cash used in investing activities	(992,347)	(203,885)
Financing activities:		
Principal repayments on capital lease obligations	-	(165,395)
Repayments on debt	(256,356)	(238,415)
Receipt of grant and contract revenue for capital projects	992,347	203,885
Net cash provided by (used in) financing activities	735,991	(199,925)
Net increase (decrease) in cash and cash equivalents	(1,333,913)	1,534,406
Cash and cash equivalents at beginning of year	6,219,762	4,685,356
Cash and cash equivalents at end of year	\$ 4,885,849	\$ 6,219,762
Cash paid for interest	\$ 70,622	\$ 128,891

See Notes to Financial Statements.

NEIGHBORHOOD HOUSE ASSOCIATION

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011
(with summarized financial information for 2010)**

	Program Services			Supporting Services			Total Expenses	
	Childcare Programs	Health and Nutrition Programs	Youth and Other Services	Fundraising	Management and General	2011	2010	
Salaries	\$ 18,777,708	\$ 1,830,800	\$ 378,685	\$ -	\$ 4,130,692	\$ 25,117,885	\$ 23,150,781	
Fringe benefits	7,243,211	633,233	58,882	-	1,086,081	9,021,407	10,189,290	
Contracted services	856,922	7,594	464,500	-	947,019	2,276,035	2,238,801	
Supplies	1,261,474	133,737	26,541	-	61,492	1,483,244	1,326,209	
Telephone and pagers	316,836	35,129	39,415	-	82,566	473,946	494,665	
Postage	4,083	465	55	-	19,196	23,799	10,930	
Occupancy and storage	2,383,611	318,451	(163,841)	-	83,826	2,622,047	2,528,615	
Utilities	273,057	34,103	58,830	-	50,564	416,554	418,680	
Printing, publications and advertising	59,281	7,742	1,107	-	17,936	86,066	111,776	
Travel and meetings	574,381	122,172	9,905	-	252,365	958,823	1,178,250	
Subcontracts	37,689,658	33,025	6,780	-	13,550	37,743,013	39,904,911	
Food expense	1,291,929	183,588	2,847	-	27,483	1,505,847	1,316,792	
Client assistance	106,941	49,560	65,375	-	2,992	224,868	196,854	
Equipment expense	240,387	75,742	4,613	-	104,953	425,695	1,095,386	
Minor renovations	(86,257)	29,768	58,160	-	-	1,671	93,587	
Depreciation and amortization	766,189	-	(10,972)	-	149,333	904,550	918,235	
Insurance	237,428	19,009	2,315	-	80,111	338,863	485,783	
Direct fundraising expenses	-	-	-	3,417	-	3,417	695	
Interest and fees	102,163	7,000	107,018	-	(5,145)	211,036	273,265	
Other expenses	219,418	6,238	20,965	-	190,475	437,096	438,886	
Indirect cost	6,504,460	408,791	13,711	-	(6,926,962)	-	-	
Subtotal	78,822,880	3,936,147	1,144,891	3,417	368,527	84,275,862	86,372,391	
Less: indirect allocation	(6,504,460)	(408,791)	(13,711)	-	6,926,962	-	-	
Total expenses by function	\$ 72,318,420	\$ 3,527,356	\$ 1,131,180	\$ 3,417	\$ 7,295,489	\$ 84,275,862	\$ 86,372,391	

See Notes to Financial Statements.

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and significant accounting policies:

General:

Neighborhood House Association ("NHA") is a California nonprofit corporation organized to provide an extensive network of services to residents of San Diego County.

NHA provides comprehensive health and human services through programs that include child development, family day care, senior nutrition, adult day health care, mental health services, housing and rental assistance and other related services that assist low-income and less fortunate families.

Basis of accounting:

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with guidance for financial statements of Not-for-Profit Organizations. Under this guidance, NHA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. NHA does not have any temporarily or permanently restricted net assets.

NHA classifies its net assets and its revenues, gains and other support, based on the existence or absence of donor-imposed restrictions. Permanently restricted net assets result from contributions whose use is limited by donor stipulations that do not expire. Temporarily restricted net assets result from contributions whose use is limited by donor stipulations that either expire with the passage of time or can be fulfilled and removed by actions of NHA pursuant to those stipulations. Unrestricted net assets represent resources over which the board of directors has discretionary control.

Revenue and support:

Contributions and support are recognized in the period in which NHA receives a promise to give that is, in substance, unconditional. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily restricted or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and significant accounting policies (continued):

Revenue and support (concluded):

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. NHA provides for losses on accounts receivable by calculating an allowance for uncollectible receivables. The allowance is based on experience, third-party contracts and other circumstances. As of June 30, 2011 an allowance of \$71,347, was deemed necessary. There was no allowance at June 30, 2010. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is NHA's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Support from grants and contracts is recognized in the period in which terms of the grant or contractual agreements have been met, and the revenue earned.

Other revenues:

Other revenues are derived from sources other than operations. Included in other revenues for 2011 is a workers' compensation insurance refund of approximately \$1,078,000. All credits and rebates are recorded in the period that they are received and expended during the same period.

Donated goods and services:

Contributions of services are recognized when they are received if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not donated. During 2011 and 2010, the value of contributed services recognized as revenues in the accompanying financial statements was approximately \$380,000 and \$398,000, respectively, which included ophthalmology services and related use of supplies and equipment.

In addition, a substantial number of volunteers donated their time to NHA's program services during the year; however, the value of these donated services is not reflected in the financial statements, as the requirements for recognition have not been met.

Cash and cash equivalents:

NHA considers all highly-liquid investments with an original maturity of three months or less when acquired to be cash equivalents.

Investments:

NHA invests in marketable securities which are carried at fair value, with realized and unrealized gains and losses included in the statement of activities.

Operating advances:

Operating advances represent advances to delegate agencies that relate to the next program year. Advances are made to ensure that operations continue over the summer. They are repaid through a reduction of funding at the end of the contract.

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and significant accounting policies (continued):

Derivatives:

NHA makes limited use of derivative instruments for the purpose of managing interest rate risks. Interest rate swap agreements are used to convert NHA's floating rate long-term debt to a fixed rate. NHA recognizes all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. Changes in fair value of those instruments are reported in the statement of activities.

Property and equipment:

Property and equipment with an acquisition cost of \$5,000 or greater is capitalized at cost and depreciated using the straight-line method over its estimated useful life. Leasehold improvements are amortized over the shorter of the useful life or the lease term. Useful lives are as follows:

<u>Description</u>	<u>Useful Life</u>
Buildings	15-30 years
Building improvements	3-10 years
Leasehold improvements	3-15 years
Vehicles	5 years
Furniture and equipment	3-5 years
Computer equipment	3-5 years

Income taxes:

NHA is a private, nonprofit agency organized under the laws of the State of California and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

In accordance of FASB ASC 740-10-15-2, income tax benefits and/or liabilities are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. NHA has analyzed the tax positions taken in its filings with the Internal Revenue Service and the California Franchise Tax Board. NHA believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on NHA's financial condition, results of operations or cash flows. Accordingly, NHA has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2011.

The organization's U.S. Federal and state income tax returns prior to fiscal years 2008 and 2007, respectively, are closed. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, change in tax laws and new authoritative rulings. Management is not aware of any pending reviews or examinations.

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and significant accounting policies (concluded):

Advertising:

NHA expenses advertising costs as incurred. Advertising costs for the years ended June 30, 2011 and 2010 were approximately \$9,000 and \$27,000, respectively.

Functional expenses:

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

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications:

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

Subsequent events:

Subsequent events have been evaluated through November 9, 2011, which is the date the financial statements were available to be issued.

Note 2 - Investments:

Investments consist of equity and other securities with an approximate fair value of \$29,751 and \$39,752 at June 30, 2011 and 2010, respectively. Fair values have been determined by reference to the most recent market quotations for the respective investments.

Note 3 - Grants and contracts receivable:

At June 30, 2011 and 2010, grants and contracts receivable consisted of the following:

	<u>2011</u>	<u>2010</u>
Head Start	\$ 3,495,300	\$ 3,848,984
State programs	995,856	549,479
County programs	588,052	468,775
Food reimbursements	208,363	320,212
Other programs	34,153	33,671
Totals	<u>\$ 5,321,724</u>	<u>\$ 5,221,121</u>

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 4 - Property and equipment:

Property and equipment acquired by NHA with funds from award programs is considered to be owned by NHA while used in the program for which it was purchased and in other authorized programs. However, funding sources have reversionary interest in the property and in its disposition (i.e., the asset is returned to the Federal government upon disposal or if no longer in-use), as well as the ownership of any proceeds which are subject to pertinent regulations. The net book value of reversionary assets as of June 30, 2011 and 2010 are \$3,515,531 and \$2,798,544, respectively.

Property and equipment as of June 30, 2011 consists of the following:

	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land	\$ 1,387,475	\$ -	\$ 1,387,475
Building	5,357,733	2,216,102	3,141,631
Building improvements	654,986	653,353	1,633
Leasehold improvements	9,047,609	7,400,465	1,647,144
Vehicles	2,751,909	2,748,487	3,422
Furniture and equipment	5,716,466	4,741,464	975,002
Computer equipment	308,908	250,254	58,654
	\$ 25,225,086	\$ 18,010,125	\$ 7,214,961

Property and equipment as of June 30, 2010 consists of the following:

	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land	\$ 1,317,475	\$ -	\$ 1,317,475
Building	5,270,903	2,024,309	3,246,594
Building improvements	654,986	650,989	3,997
Leasehold improvements	8,784,733	6,979,711	1,805,022
Vehicles	3,122,780	3,112,327	10,453
Furniture and equipment	5,218,528	4,474,493	744,035
Computer equipment	407,739	406,011	1,728
	\$ 24,777,144	\$ 17,647,840	\$ 7,129,304

A significant portion of NHA's property and equipment is identified as collateral for certain long-term debt as described at Note 7. Property and equipment with accumulated depreciation of \$542,201 and \$1,012,381, were disposed during the fiscal years ended June 30, 2011 and 2010, respectively.

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 5 - Accrued annual leave:

Accrued annual leave is presented as a funded liability in the statement of financial position. NHA records the accrued leave as it is earned by the employees. Accrued annual leave for the years ended June 30, 2011 and 2010 was \$2,392,738 and \$2,407,729, respectively. These amounts have been funded with fully FDIC insured deposits with Torrey Pines Bank. These amounts are included in cash and cash equivalents.

The Office of Inspector General from San Francisco California conducted a survey from April 18 through April 21, 2011 to identify and verify the accrued liabilities such as accrued leave, compensatory time and overtime. Management is not aware of any outstanding matters or concerns with The Office of Inspector General related to the accrued annual leave balance.

Note 6 - Line of credit:

NHA has a \$1,500,000 unsecured line of credit with Union Bank of California which expires on February 1, 2012 and requires monthly interest payments with interest at the bank's reference rate (3.25% at June 30, 2011). At June 30, 2011 and 2010, there was no balance outstanding. The line of credit requires that NHA maintain certain loan covenants for which NHA was in compliance with at June 30, 2011.

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 7 - Long-term debt:

Long-term debt consists of the following:

	2011	2010
<p>Note payable to Union Bank of California in monthly installments of principal and interest, with a variable interest rate of LIBOR plus 1.5%. The interest rate as of June 30, 2011 was 1.69%. The loan commenced on May 1, 2005 and matures on April 1, 2020. The note is secured by a Deed of Trust covering real property located at 5660 Copley Drive, San Diego, California. ^(A)</p>	\$ 2,411,380	\$ 2,602,060
<p>Note payable to Neighborhood National Bank in monthly installments of principal and interest, with a variable interest rate at the Wall Street Journal Prime rate plus 1.5%. The interest rate as of June 30, 2011 was 4.75%. The loan commenced on November 2, 2004 and matures on November 2, 2014. The note is secured by a Deed of Trust covering real property located at 802-804 San Pasqual Street, San Diego, California.</p>	109,362	138,330
<p>Note payable to Union Bank of California in monthly installments of principal and interest at a fixed rate of 8.63%. The loan commenced on September 26, 2000 and matures on November 1, 2015. The note is secured by a Deed of Trust covering real property located at 835 N. Hickory Street, Escondido, California.</p>	<u>205,814</u> <u>2,726,556</u>	<u>242,522</u> <u>2,982,912</u>
Less current portion	(264,873)	(248,168)
Long-term portion	<u>\$ 2,461,683</u>	<u>\$ 2,734,744</u>

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 7 - Long-term debt (concluded):

^(A) On May 1, 2005, NHA entered into an interest rate swap agreement with Union Bank of California to reduce exposure to the floating interest rate of LIBOR plus 1.5% (1.69% at June 30, 2011). The agreement sets the interest rate at a fixed rate of 5.15% starting with a notional amount of \$2,601,534 that declines monthly through the term expiring April 1, 2020. At June 30, 2011, the estimated fair value of the interest rate swap agreement was a liability of \$338,835. The change in the fair value of the interest rate swap agreement for the years ended June 30, 2011 and 2010 totaled \$54,956 and (\$84,585), respectively, and is included as a nonoperating gain (loss) in the statements of activities.

Maturities of long-term debt in each of the five years subsequent to June 30, 2011 and thereafter are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 264,873
2013	295,036
2014	316,993
2015	341,782
2016	270,276
Thereafter	<u>1,237,596</u>
Total	<u>\$ 2,726,556</u>

Interest expense for the years ended June 30, 2011 and 2010 was \$70,622 and \$82,675, respectively.

Note 8 - Operating lease commitments:

NHA occupies numerous facilities under operating lease agreements that expire at various dates through September 2019. The future minimum payments under these operating leases for each of the five years subsequent to June 30, 2011 and thereafter are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 1,707,213
2013	1,266,742
2014	755,019
2015	244,606
2016	191,308
Thereafter	<u>668,523</u>
Total	<u>\$ 4,833,411</u>

Total operating lease expense for the years ended June 30, 2011 and 2010 was \$1,727,402 and \$1,692,426, respectively.

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 9 - Contingencies:

NHA is involved in various claims arising from the normal course of operating its programs and activities, none of which in the opinion of management or NHA's legal counsel, will have a material adverse effect on the financial position or results of operations of NHA.

Note 10- Grants and contracts revenues:

In the fiscal years ended June 30, 2011 and 2010, NHA recognized grants and contract revenues from the following sources:

	<u>2011</u>	<u>2010</u>
Head Start program	\$ 72,369,091	\$ 74,051,967
State programs	4,230,176	4,853,062
County programs	2,782,490	2,607,343
Other programs	<u>44,025</u>	<u>48,542</u>
Total grants and contracts	<u>\$ 79,425,782</u>	<u>\$ 81,560,914</u>

Note 11- 401(k) plan:

NHA maintains a defined contribution 401(k) plan covering regular full-time employees. NHA's contribution to the 401(k) plan is based upon a maximum of 6% of the salaries of those employees participating in the plan. Employees covered by the plan have a mandatory contribution of 3% of their respective gross salaries, and can make additional voluntary contributions not to exceed \$16,500 for the tax year ending December 31, 2011. Also, employees age 50 or over by the end of the plan year are allowed to make up to \$5,500 of additional contributions to the 401(k) plan, in excess of the standard limits. The 401(k) plan is administered by a private pension company. Employer contributions charged to operations for the years ended June 30, 2011 and 2010 were \$1,250,401 and \$1,051,569, respectively.

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 12- Indirect costs:

NHA has negotiated and obtained the following indirect cost rates from the U.S. Department of Health and Human Services, the Federal cognizant agency:

	<u>Provisional 2011</u>	<u>Final 2010</u>
All programs	10.8%	10.8%
Delegate agencies	0.2%	0.2%

Indirect costs are charged to the programs in accordance with negotiated rates or specific budgetary limits. The amounts charged for the years ended June 30, 2011 and 2010 were \$6,926,962 and \$7,126,114, respectively.

Note 13- Concentration of credit risk:

Financial instruments which potentially subject NHA to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. NHA maintains its cash and cash equivalents with high-credit quality institutions. At times, such amounts may exceed Federally insured limits. However, to minimize the risk, the funds are diversified among various financial institutions.

NHA has approximately ten government contracts in fiscal year 2011 from Federal, State and local sources. The largest contract was for the Federal Head Start program totaling \$72,369,091. Included in grants and contracts receivable at June 30, 2011 is \$3,495,300 related to this contract.

Note 14- Union contract:

Most non-management personnel (representing 40% of total employees) of NHA are members of the Service Employees International Union, Local #2028. NHA's contract with the union is in effect through June 30, 2013, and continues to be in effect from year to year thereafter, unless either party terminates the contract. NHA's other employees are not represented by a union.

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 15- Subcontracts expense:

Subcontracts expense for the fiscal years ended June 30, 2011 and 2010 included the following:

	<u>2011</u>	<u>2010</u>
Head Start delegate agencies	\$ 21,142,354	\$ 21,369,548
Head Start partners	16,568,139	18,299,446
Head Start/child development day care providers	-	202,223
Health and nutrition programs	<u>32,520</u>	<u>33,694</u>
Totals	<u>\$ 37,743,013</u>	<u>\$ 39,904,911</u>

Note 16- Fair value measurements:

NHA values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, NHA utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 16- Fair value measurements (concluded):

Financial assets and liabilities carried at fair value at June 30, 2011 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Equity securities	\$ 19,751	\$ -	\$ -	\$ 19,751
Investment stock of a local bank	-	-	10,000	10,000
Total assets at fair value	\$ 19,751	\$ -	\$ 10,000	\$ 29,751
Interest rate swap derivative liability		\$ 338,835		\$ 338,835

Financial assets and liabilities carried at fair value at June 30, 2010 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Equity securities	\$ 29,752	\$ -	\$ -	\$ 29,752
Investment stock of a local bank	-	-	10,000	10,000
Total assets at fair value	\$ 29,752	\$ -	\$ 10,000	\$ 39,752
Interest rate swap derivative liability		\$ 393,791		\$ 393,791

Investments in equity securities are valued using market prices on active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

The investment in common stock of a local bank is designated as a Level 3 instrument due to inherent limitations on the availability of market data. Management believes that the investment's cost fairly approximates its fair value as of June 30, 2011 and 2010.

The fair value of the interest rate swap is determined using observable market inputs such as current interest rates, and considers nonperformance risk of the company and that of its counterparties.

SUPPLEMENTARY INFORMATION

NEIGHBORHOOD HOUSE ASSOCIATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Net Federal Program Expenditures</u>
<u>U.S. Department of Health and Human Services</u>			
Head Start Program	93.600	09CH7015/44	\$ 448,491
Head Start Program	93.600	09CH7015/45	70,743,189
American Reinvestment and Recovery Act (ARRA)	93.708	09SE701501	1,177,411
Passed through from the County of San Diego			
Senior Nutrition Program - Supportive Services	93.044	533569	16,230
Senior Nutrition Program - Nutrition Services	93.045	533569	183,424
Senior Nutrition Program - Nutrition Services Incentive Program	93.053	533569	28,545
HIV Case Management	93.914	518041	192,464 ⁽¹⁾
HIV Case Management	93.914	518041	94,740 ⁽²⁾
HIV/AIDS Transportation Services	93.914	512326	149,599 ⁽¹⁾
HIV/AIDS Transportation Services	93.914	512326	96,674 ⁽²⁾
Department of Health Services			
Community Challenge Grant Program	93.558	05-45295	<u>165,528</u>
Total Department of Health and Human Services			<u>73,296,295</u>
<u>U.S. Department of Agriculture</u>			
Passed through from the State Department of Education			
Child and Adult Care Food Program			
Child Care Centers	10.558	37-1564-3A	1,065,177 ⁽⁴⁾
Adult Day Care	10.558	37-5030-1N	<u>49,276</u>
Total Department of Agriculture			<u>1,114,453</u>
<u>U.S. Department of Housing and Urban Development</u>			
Housing Counseling Programs - Loan Modification	14.169	HC100926014	19,106 ⁽³⁾
Housing Counseling Programs - Comprehensive	14.169	HC100921044	<u>24,366 ⁽³⁾</u>
Total Expenditures of Federal Awards			<u>\$ 74,454,220</u>

Notes:

⁽¹⁾ Program year - July 2010 - February 2011

⁽²⁾ Program year - March 2011 - June 2011

⁽³⁾ Program year - October 2010 - September 2011

⁽⁴⁾ Less state portion of \$63,967

Value of non-cash assistance (in - kind)	\$ 28,382,290
Amount of insurance expense during the year	242,240
Loan guarantees outstanding at year - end - Head Start only	315,363

See Accompanying Notes to Schedules of Expenditures of Federal and State Awards.
See Report of Independent Public Accountants.

NEIGHBORHOOD HOUSE ASSOCIATION

SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED JUNE 30, 2011

<u>State Department / Program Title</u>	<u>Award Number</u>	<u>Award Amount</u>	<u>Net Program Expenditures</u>
<u>California State Department of Education</u>			
Child Development Program	CCTR-0257	\$ 525,262	\$ 525,262
Child Development Program	CSPP-0471	3,539,385	3,539,385
Child and Adult Care Food Program - State Portion	37-1564-3A	<u>63,967</u>	<u>63,967</u>
Total Expenditures of State Awards		<u>\$ 4,128,614</u>	<u>\$ 4,128,614</u>

See Accompanying Notes to Schedules of Expenditures of Federal and State Awards.
See Report of Independent Public Accountants.

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Note 1 - Organization and significant accounting policies:

General:

Neighborhood House Association ("NHA") is a California nonprofit corporation organized to provide an extensive network of services to residents of San Diego County.

NHA provides comprehensive health and human services through programs that include child development, family day care, senior nutrition, adult day health care, mental health services, housing and rental assistance and other related services that assist low-income and less fortunate families.

Basis of presentation:

The accompanying schedules of expenditures of Federal and State awards include the Federal and State grant activity of NHA, and are presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Program revenues:

Revenues from award programs are recognized in the period in which terms of the grant or contractual agreements have been met and the revenue earned.

Noncash awards:

Noncash awards are recorded and reflected in the accompanying Schedules of Expenditures of Federal and State Awards at their fair values at the time of receipt, or the assessed value provided by NHA.

Net program expenditures:

It is the policy of NHA to record expenditures in the period incurred in accordance with the accrual basis of accounting. Where applicable, Federal and State expenditures are reflected net of other income sources.

NEIGHBORHOOD HOUSE ASSOCIATION

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Note 2 - Federal contracts:

Reconciliation of Reported and Audited Expenses:

<u>Program</u>	<u>Program Expenses</u>
Reconciliation of Child Care Food Program Revenue:	
Amount shown on the Schedule of Expenditures of Federal Awards	\$ 1,065,177
Add: State portion not included in SEFA	<u>63,967</u>
Total Child Care Food Program Revenue Reimbursed	<u>\$ 1,129,144</u>

Note 3 - Disclosure of audit fees:

In accordance with the audit disclosure requirements of the State of California, Department of Education, the audit contract for NHA for the fiscal year ended June 30, 2011 included an audit fee of \$130,000.

**Report of Independent Public Accountants 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**

To the Audit Committee
Neighborhood House Association

We have audited the financial statements of Neighborhood House Association ("NHA") as of and for the year ended June 30, 2011, and have issued our report thereon, dated November 9, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered NHA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NHA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NHA's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NHA's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Directors, the Audit Committee, management and governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

J.H. Cohen LLP

San Diego, California
November 9, 2011

**Report of Independent Public Accountants on Compliance with
Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

To the Audit Committee
Neighborhood House Association

Compliance

We have audited the compliance of Neighborhood House Association ("NHA") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of NHA's major governmental programs for the year ended June 30, 2011. NHA's major governmental programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major governmental programs is the responsibility of NHA's management. Our responsibility is to express an opinion on NHA's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 governmental program occurred. An audit includes examining, on a test basis, evidence about NHA'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. Our audit does not provide a legal determination on NHA's compliance with those requirements.

In our opinion, NHA complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major governmental programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of NHA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to governmental programs. In planning and performing our audit, we considered NHA's internal control over compliance with the requirements that could have a direct and material effect on a major governmental program to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 NHA'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 governmental program on 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 governmental program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the Board of Directors, the Audit Committee, management and governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

J.H. Cohn LLP

San Diego, California
November 9, 2011

NEIGHBORHOOD HOUSE ASSOCIATION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Part I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified
 Internal control over financial reporting:
 Material weakness(es) identified? _____yes X no
 Significant deficiency(ies) identified? _____yes X none reported

 Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____yes X no
 Significant deficiency(ies) identified? _____yes X none reported

Type of auditor's report issued on compliance
 for major programs: unqualified

Any audit findings disclosed that are required to be
 reported in accordance with Section .510(a) of
 Circular A-133? _____yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Amount</u>
93.600	Head Start	\$ 71,191,680
93.708	American Reinvestment and Recovery Act (ARRA)	\$ 1,177,411 ^(a)

(a) These funds were granted for the Head Start Program.

Dollar threshold used to distinguish between
 Type A and Type B programs: \$1,669,000

Auditee qualified as low-risk auditee? X yes _____no

NEIGHBORHOOD HOUSE ASSOCIATION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Part II - Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

No such items.

Part III - Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133 Section .510(a) (for example, significant deficiencies, material weaknesses and material instances of noncompliance, including questioned costs), as well as any abuse findings involving Federal awards that are material to a major program.

No such items.