

Neighborhood House Association

**Financial Statements
and Schedule of Expenditures of Federal and State
Awards and Internal Control over Compliance
and Independent Auditor's Reports**

June 30, 2022 and 2021

Neighborhood House Association

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Independent Auditor's Report

To the Audit Committee
Neighborhood House Association

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Neighborhood House Association ("NHA"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NHA as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NHA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NHA's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NHA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NHA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2022, 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NHA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NHA's internal control over financial reporting and compliance.

CohnReznick LLP

San Diego, California
November 15, 2022

Neighborhood House Association

Statements of Financial Position June 30, 2022 and 2021

	<u>Assets</u>	
	2022	2021
Current assets		
Cash and cash equivalents (Note 13)	\$ 6,192,658	\$ 5,701,917
Restricted cash	114,776	129,985
Investments (Note 15)	403,390	418,938
Grants and contracts receivable (Note 3)	6,449,162	6,965,711
Other accounts receivable	739,481	390,941
Prepaid expenses	294,236	356,205
Total current assets	14,193,703	13,963,697
Property and equipment (Note 4)		
Property and equipment	24,059,583	23,110,076
Less accumulated depreciation and amortization	(17,554,892)	(17,020,437)
Total property and equipment, net	6,504,691	6,089,639
Deposits	93,632	93,632
Total assets	<u>\$ 20,792,026</u>	<u>\$ 20,146,968</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accrued payroll and related liabilities	\$ 1,258,134	\$ 987,115
Accounts payable and accrued expenses	4,971,684	5,118,121
Deferred revenue (Note 10)	3,090,413	3,054,288
Accrued annual leave (Note 5)	3,881,410	3,538,124
Current portion of long-term debt (Note 6)	95,226	87,144
Total current liabilities	13,296,867	12,784,792
Deferred rent	183,204	189,673
Long-term debt, net (Note 6)	1,873,416	1,999,354
Total liabilities	15,353,487	14,973,819
Commitments and contingencies (Notes 8 and 9)		
Net assets		
Without donor restrictions	5,323,763	5,043,164
With donor restrictions (Note 7)	114,776	129,985
Total net assets	5,438,539	5,173,149
Total liabilities and net assets	<u>\$ 20,792,026</u>	<u>\$ 20,146,968</u>

See Notes to Financial Statements.

Neighborhood House Association

Statements of Activities Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Change in net assets without donor restrictions		
Revenues and support		
Grants and contracts (Note 10)	\$ 101,467,755	\$ 93,399,583
Food reimbursements	737,220	79,856
Reimbursements from partners	955,073	899,857
Contributions and donations	392,423	621,932
Service fees	758,551	755,004
Investment return and interest income	23,607	27,304
Other revenues	1,898,847	1,853,434
Net assets released from restrictions	<u>129,985</u>	<u>65,220</u>
Total revenues and support without donor restrictions	<u>106,363,461</u>	<u>97,702,190</u>
Expenses		
Program services	98,893,141	90,466,060
Supporting services		
Fundraising	45,547	34,991
Management and general	<u>7,144,174</u>	<u>6,681,748</u>
Total expenses	<u>106,082,862</u>	<u>97,182,799</u>
Change in net assets without donor restrictions	<u>280,599</u>	<u>519,391</u>
Change in net assets with donor restrictions		
Contributions	114,776	129,985
Net assets released from restrictions	<u>(129,985)</u>	<u>(65,220)</u>
Change in net assets with donor restrictions	<u>(15,209)</u>	<u>64,765</u>
Change in net assets	265,390	584,156
Net assets, beginning	<u>5,173,149</u>	<u>4,588,993</u>
Net assets, end	<u><u>\$ 5,438,539</u></u>	<u><u>\$ 5,173,149</u></u>

See Notes to Financial Statements.

Neighborhood House Association

Statement of Functional Expenses Year Ended June 30, 2022

	Program services				Supporting services		
	Childcare programs	Health and nutrition programs	Youth and other services	Total	Fundraising	Management and general	Total expenses
Salaries	\$ 27,694,535	\$ 3,549,079	\$ 762,191	\$ 32,005,805	\$ -	\$ 4,527,642	\$ 36,533,447
Fringe benefits	8,111,964	849,691	146,487	9,108,142	-	1,133,625	10,241,767
Contracted services	1,375,858	480,234	60,736	1,916,828	7,026	371,582	2,295,436
Supplies	4,222,234	119,259	16,176	4,357,669	35,737	50,657	4,444,063
Telephone and communications	42,759	82,248	9,729	134,736	-	62,580	197,316
Postage	4,495	2,120	656	7,271	-	14,351	21,622
Occupancy and storage	4,398,960	452,304	74,082	4,925,346	-	46,252	4,971,598
Utilities	276,216	7,833	18,296	302,345	-	46,523	348,868
Printing, publications and advertising	22,040	5,894	7,685	35,619	1,480	9,382	46,481
Travel and meetings	816,124	96,671	46,467	959,262	-	182,100	1,141,362
Subcontracts (Note 16)	38,361,984	-	-	38,361,984	-	-	38,361,984
Food expense	1,823,787	41,649	35,121	1,900,557	1,304	4,147	1,906,008
Client assistance	154,838	265,908	55,755	476,501	-	8,438	484,939
Equipment expense	2,859,109	134,092	17,815	3,011,016	-	24,750	3,035,766
Depreciation and amortization	306,964	-	-	306,964	-	323,504	630,468
Insurance	349,257	36,080	7,072	392,409	-	180,282	572,691
Interest and fees	105,823	10,079	35,040	150,942	-	45,395	196,337
Other expenses	530,571	9,174	-	539,745	-	112,964	652,709
Indirect cost	6,311,714	696,168	24,380	7,032,262	-	(7,032,262)	-
Subtotal	97,769,232	6,838,483	1,317,688	105,925,403	45,547	111,912	106,082,862
Less indirect allocation	(6,311,714)	(696,168)	(24,380)	(7,032,262)	-	7,032,262	-
Total expenses by function	<u>\$ 91,457,518</u>	<u>\$ 6,142,315</u>	<u>\$ 1,293,308</u>	<u>\$ 98,893,141</u>	<u>\$ 45,547</u>	<u>\$ 7,144,174</u>	<u>\$ 106,082,862</u>

See Notes to Financial Statements.

Neighborhood House Association

Statement of Functional Expenses Year Ended June 30, 2021

	Program services				Supporting services		
	Childcare programs	Health and nutrition programs	Youth and other services	Total	Fundraising	Management and general	Total expenses
Salaries	\$ 26,133,370	\$ 3,368,713	\$ 566,959	\$ 30,069,042	\$ -	\$ 4,622,056	\$ 34,691,098
Fringe benefits	7,908,632	867,839	162,638	8,939,109	-	665,590	9,604,699
Contracted services	735,613	371,376	61,414	1,168,403	2,199	422,839	1,593,441
Supplies	2,020,731	96,779	-	2,117,510	-	58,353	2,175,863
Telephone and communications	393,838	108,599	18,636	521,073	-	77,238	598,311
Postage	11,352	2,841	1,098	15,291	-	12,593	27,884
Occupancy and storage	2,825,430	423,994	48,392	3,297,816	-	123,910	3,421,726
Utilities	204,392	6,445	17,181	228,018	-	42,563	270,581
Printing, publications and advertising	10,349	10,715	3,780	24,844	2,733	10,875	38,452
Travel and meetings	538,625	72,846	14,310	625,781	-	121,389	747,170
Subcontracts (Note 16)	38,528,703	-	-	38,528,703	-	-	38,528,703
Food expense	1,353,994	23,398	20,377	1,397,769	1,297	6,291	1,405,357
Client assistance	177,056	72,034	22,331	271,421	15,150	10,150	296,721
Equipment expense	1,763,139	149,238	61,878	1,974,255	4,005	-	1,978,260
Depreciation and amortization	250,357	-	-	250,357	-	268,832	519,189
Insurance	355,412	34,650	8,226	398,288	-	162,247	560,535
Interest and fees	113,894	9,566	6,251	129,711	608	24,640	154,959
Other expenses	459,891	27,214	21,564	508,669	8,999	52,182	569,850
Indirect cost	5,463,865	598,456	31,255	6,093,576	-	(6,093,576)	-
Subtotal	89,248,643	6,244,703	1,066,290	96,559,636	34,991	588,172	97,182,799
Less indirect allocation	(5,463,865)	(598,456)	(31,255)	(6,093,576)	-	6,093,576	-
Total expenses by function	<u>\$ 83,784,778</u>	<u>\$ 5,646,247</u>	<u>\$ 1,035,035</u>	<u>\$ 90,466,060</u>	<u>\$ 34,991</u>	<u>\$ 6,681,748</u>	<u>\$ 97,182,799</u>

See Notes to Financial Statements.

Neighborhood House Association
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ 265,390	\$ 584,156
Adjustments to reconcile change in net assets to net cash and restricted cash provided by operating activities		
Depreciation and amortization	630,468	519,189
Unrealized and realized investment loss (income)	15,548	(4,795)
Changes in operating assets and liabilities		
Grants and contracts receivable	516,549	(4,556,904)
Other accounts receivable	(348,540)	(2,751)
Prepaid expenses and deposits	61,969	(36,680)
Accounts payable and accrued expenses	(146,437)	1,472,492
Deferred revenue	36,125	2,964,034
Accrued payroll and related liabilities	271,019	125,147
Accrued annual leave	343,286	143,302
Deferred rent	(6,469)	99,523
	<u>1,638,908</u>	<u>1,306,713</u>
Net cash and restricted cash provided by operating activities		
Cash flows from investing activities		
Purchases of property and equipment	(1,045,520)	(1,516,693)
	<u>(1,045,520)</u>	<u>(1,516,693)</u>
Net cash and restricted cash used in investing activities		
Cash flows from financing activities		
Repayments on debt	(117,856)	(120,286)
	<u>(117,856)</u>	<u>(120,286)</u>
Net cash and restricted cash used in financing activities		
Net increase (decrease) in cash, cash equivalents and restricted cash	475,532	(330,266)
Cash, cash equivalents and restricted cash, beginning	<u>5,831,902</u>	<u>6,162,168</u>
Cash, cash equivalents and restricted cash, end	<u>\$ 6,307,434</u>	<u>\$ 5,831,902</u>
Supplemental disclosures of cash flow data		
Cash paid for interest	<u>\$ 113,194</u>	<u>\$ 110,677</u>

See Notes to Financial Statements.

Neighborhood House Association

Notes to Financial Statements June 30, 2022 and 2021

Note 1 - Organization and significant accounting policies

General

Neighborhood House Association ("NHA" or the "Organization") 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 Organization's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: Without donor restrictions and with donor restrictions. They are described as follows:

Net assets without donor restrictions - Net assets for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve through a board-designated endowment. No such endowments existed as of June 30, 2022.

Net assets with donor restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time, purpose or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-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.

Revenue and support

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when allowable, qualified expenditures have been incurred in compliance with the donor's or grantor's restrictions. Program fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Grants and contracts awarded for the acquisition of long-lived assets are reported as operating revenue without donor restrictions, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

Other revenues primarily consist of food reimbursements for childcare programs from other agencies at the Organization's Central Kitchen location and hosting trainings for other nonprofit organizations. The Organization recognizes fees for the trainings at the time the trainings occur. The Organization recognizes food reimbursements at the time the food is provided for the childcare programs.

Neighborhood House Association

Notes to Financial Statements June 30, 2022 and 2021

Contributions and support, including unconditional promises to give, are considered to be available without restriction unless specifically restricted by the donor and are recognized as revenues in the period in which NHA receives the unconditional promise to give. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Accounts receivable

Accounts receivable primarily consists of grants receivable, contract receivables and other accounts receivables. Grants and contracts receivables consist of amounts billed and unbilled from government and state agencies. Other accounts receivables 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. 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. There were no allowances for doubtful accounts or write offs recorded as of June 30, 2022 and 2021.

Donated goods and services

The Organization receives in-kind contributions of ophthalmology services and related use of supplies and equipment. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation.

During 2022 and 2021, the value of contributed services recognized as revenues and expenses in the accompanying financial statements was approximately \$0 and \$32,266, respectively.

All donated services were utilized by the Organization's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets. Donated services are valued at the difference between the Medical Rate charged and the Market Rate for the services provided.

In addition, a substantial number of volunteers donated their time to NHA's program services during each 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

We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash restricted for program-related expenses, or other long-term purposes are excluded from this definition.

Neighborhood House Association

Notes to Financial Statements June 30, 2022 and 2021

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position to the sum of the corresponding amounts within the statements of cash flows:

	2022	2021
Cash and cash equivalents	\$ 6,192,658	\$ 5,701,917
Cash restricted for program-related expenses	114,776	129,985
Total	<u>\$ 6,307,434</u>	<u>\$ 5,831,902</u>

Investments

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

Operating advances

Operating advances, if any, represent advances to delegate agencies that relate to the next program year. Advances are made to ensure that operations continue over the summer. The advances were fully recouped as of June 30, 2022 and 2021.

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:

Description	Useful life
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

Impairment of long-lived assets

NHA reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, NHA compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. NHA does not believe that any material impairment currently exists related to its long-lived assets.

Deferred rent

Rent expense on operating leases with scheduled or minimum rent increases is expensed on the straight-line basis over the lease terms. Deferred rent represents the excess of rent charged to expense over rent payable under the lease agreements.

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Notes to Financial Statements June 30, 2022 and 2021

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.

For the years ended June 30, 2022 and 2021, management of NHA believes it has adequate support for all material tax positions and that it is more likely than not, based on the technical merits, that the positions will be sustained upon examination. NHA recognizes interest and penalties, if any, related to tax in interest expense. NHA has analyzed the tax positions taken in its filings with the Internal Revenue Service and the California Franchise Tax Board. Accordingly, NHA has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2022 and 2021.

NHA's federal and state information returns prior to fiscal years 2019 and 2018, respectively, are closed. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax laws and new authoritative rulings. Management is not aware of any pending reviews or examinations.

Advertising

NHA expenses advertising costs as incurred. Advertising costs for the years ended June 30, 2022 and 2021 were approximately \$37,000 and \$29,000, respectively.

Functional expenses

Amounts for program services shown in the statement of functional expenses include expenses of the various programs and other activities. Management and general expenses are expenses of the Organization's administrative office. Accordingly, expenses are charged to program services, management and general, and fundraising based on a combination of specific identification and cost allocations by management. Costs are allocated to the various programs based on what is reasonable and necessary for the performance of the funding source, consistent with policies that are applied uniformly, determined in accordance with GAAP, and adequately documented. Some of the common considerations used for allocating activities include the number of children served, number of employees, number of meals prepared, square footage occupied, square-foot shared, etc. A personnel activity report is utilized when a specific measure is not appropriate. Costs incurred for a common objective that cannot be readily identified with a particular fund or program are allocated to the indirect cost pool.

New accounting pronouncement adopted

For the year ended June 30, 2022, the Organization adopted ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This standard provides guidance on the presentation of contributed nonfinancial assets in the statement of activities and additional disclosure requirements for each type of contributed nonfinancial asset. The ASU provides transparency on the measurement of the contributed nonfinancial assets of the organization and will not change existing recognition and measurement requirements. The Organization has implemented the provisions of ASU 2020-07 applicable to all contributed nonfinancial assets, which has been applied retrospectively to all periods presented.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842) which allowed entities

Neighborhood House Association

Notes to Financial Statements June 30, 2022 and 2021

that had not yet issued their financial statements reflecting the adoption of ASC 842 to defer implementation for one year. ASC 842 will be applicable to the Organization for the year ending June 30, 2023. The Organization is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

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 the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be significant.

Note 2 - Liquidity and availability

The Organization funds its Head Start programmatic expenditures by utilizing the federal government's Payment Management System ("PMS") to advance amounts up to the limit of its awarded grant amount for that particular fiscal year. For the periods ended June 30, 2022 and 2021, the total award amount was \$86,196,807 and \$91,023,399, respectively. The PMS allows NHA to periodically electronically draw down its authorized grant monies to accommodate Head Start program requirements for the particular grant year. Draws on grant monies are required to be exhausted before NHA is authorized to initiate further drawdowns to fund its program and/or delegate agency needs. Typical draws are made on average one to two times per week to fund payroll and recurring payables for NHA and its two delegate agencies and average approximately \$1,658,000. NHA cannot, by law, accumulate any reserve amounts with Head Start grant monies.

For Non-Head Start programs and recurring Non-Head Start programs, day-to-day expenditures are financed by a combination of State of California and San Diego County Grants, periodic contributions, revenue from fundraising events, accounts receivables and cash without donor restrictions with a balance of approximately \$2,446,524 as of June 30, 2022 and \$4,817,569 as of June 30, 2021. Non-federal grants and contracts receivable totaled approximately \$3,693,983 as of June 30, 2022 and \$3,000,636 at June 30, 2021. NHA is also authorized to utilize a pool of short-term investments consisting of approximately \$3,805,725 in FDIC insured deposits, which is included in cash and cash equivalents in the financial statements, to sustain payment of vacation accruals for agency employees. NHA's Board has also authorized management to provide without donor restrictions cash to fund the delegate agencies for a number of San Diego County programs while the county processes NHA's reimbursable claims. Although reimbursement float time has been reduced by half, the without donor restrictions cash balance serves as the programmatic funding source for continuing county grant fulfillment. The without donor restrictions cash pool also funds a variety of NHA fundraising efforts, including an annual Golf Gathering and an annual "Virtual Gala" reception. Cash pool without donor restrictions is available to support certain payroll expenditures that are not allowed to be expensed under federal programs, as well as certain advocacy consulting activity that is not considered reimbursable under federal or county guidelines.

Neighborhood House Association

Notes to Financial Statements June 30, 2022 and 2021

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

	2022	2021
Cash and cash equivalents	\$ 6,192,658	\$ 5,701,917
Investments (Note 15)	403,390	418,938
Grants and contracts receivable (Note 3)	6,449,162	6,965,711
Other accounts receivable, less allowance for doubtful accounts	739,481	390,941
	<u>739,481</u>	<u>390,941</u>
Current assets, excluding nonfinancial assets	<u>\$ 13,784,691</u>	<u>\$ 13,477,507</u>

Note 3 - Grants and contracts receivable

At June 30, 2022 and 2021, grants and contracts receivable consist of the following:

	2022	2021
Head Start	\$ 2,755,179	\$ 5,774,289
State programs	2,208,403	-
County programs	1,230,051	1,159,254
Food reimbursements	255,529	32,168
	<u>255,529</u>	<u>32,168</u>
Total	<u>\$ 6,449,162</u>	<u>\$ 6,965,711</u>

Note 4 - Property and equipment

Property and equipment as of June 30, 2022 consist of the following:

	Cost	Accumulated depreciation and amortization	Net book value
Land	\$ 1,215,004	\$ -	\$ 1,215,004
Building	4,871,603	3,700,224	1,171,379
Building improvements	609,809	609,809	-
Leasehold improvements	9,021,471	7,384,445	1,637,026
Vehicles	2,452,759	1,912,451	540,308
Furniture and equipment	4,431,254	3,652,270	778,984
Computer equipment	335,151	295,693	39,458
Construction in progress	1,122,532	-	1,122,532
	<u>\$ 24,059,583</u>	<u>\$ 17,554,892</u>	<u>\$ 6,504,691</u>

Depreciation expense for the year ended June 30, 2022 was \$630,468.

Neighborhood House Association

Notes to Financial Statements June 30, 2022 and 2021

Property and equipment as of June 30, 2021 consist of the following:

	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>	<u>Net book value</u>
Land	\$ 1,215,004	\$ -	\$ 1,215,004
Building	4,871,603	3,541,957	1,329,646
Building improvements	609,809	609,809	-
Leasehold improvements	9,021,471	7,115,024	1,906,447
Vehicles	2,243,329	1,907,798	335,531
Furniture and equipment	3,747,904	3,550,156	197,748
Computer equipment	335,151	295,693	39,458
Construction in progress	1,065,805	-	1,065,805
	<u>\$ 23,110,076</u>	<u>\$ 17,020,437</u>	<u>\$ 6,089,639</u>

Depreciation expenses for the year ended June 30, 2021 was \$519,189.

A significant portion of NHA's property and equipment is identified as collateral for certain long-term debt as described in Note 6.

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, 2022 and 2021 is approximately \$2,732,000 and \$2,432,000, respectively, and is included in property and equipment.

Note 5 - Accrued annual leave

Accrued annual leave is presented as a liability in the statements of financial position. NHA records the accrued leave as it is earned by the employees. These amounts have been funded with cash covered by FDIC insurance included as cash and cash equivalents in the statement of financial position. As of June 30, 2022 and 2021 accrued annual leave was \$3,881,410 and \$3,538,124, respectively.

Neighborhood House Association

Notes to Financial Statements June 30, 2022 and 2021

Note 6 - Long-term debt

Long-term debt consists of the following:

	<u>2022</u>	<u>2021</u>
Note payable to Torrey Pines Bank in monthly installments of principal and interest, with a fixed interest rate of 5.25%. The loan commenced on July 25, 2013 and matures on July 28, 2023. The note is secured by a Deed of Trust covering real property located at 5660 Copley Drive, San Diego, California.	\$ 1,599,061	\$ 1,688,278
Note payable to Alliance Healthcare Foundation in monthly installments of principal and interest, with a fixed interest rate of 4%. The loan commenced on January 10, 2017 and matures on December 15, 2031. Repayments of the loan commence on January 1, 2020. The note is secured by real property located at 851 South 35th Street, San Diego, California.	<u>369,581</u>	<u>398,220</u>
	1,968,642	2,086,498
Less current portion	<u>(95,226)</u>	<u>(87,144)</u>
Long-term portion	<u><u>\$ 1,873,416</u></u>	<u><u>\$ 1,999,354</u></u>

Maturities of long-term debt in each of the five years subsequent to June 30, 2022 and thereafter are calculated as follows:

2023	\$ 95,226
2024	1,502,216
2025	34,899
2026	36,321
2027	37,800
Thereafter	<u>262,180</u>
Total	<u><u>\$ 1,968,642</u></u>

The note payable to Torrey Pines Bank requires a minimum Debt Service Ratio to be maintained or to maintain liquid assets in an amount not less than \$1,000,000. As of June 30, 2022 and 2021, the Organization was in compliance with this covenant.

Neighborhood House Association

Notes to Financial Statements June 30, 2022 and 2021

Note 7 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2022 and 2021:

	2022	2021
Homework Center	\$ 89,851	\$ 95,997
College academy	2,500	1,500
Head Start lets move	4,858	28,980
Summer internship	7,545	3,508
Black Youth Initiative	10,022	-
	<u>114,776</u>	<u>129,985</u>
Total	<u>\$ 114,776</u>	<u>\$ 129,985</u>

Net assets released from donor restrictions at June 30, 2022 and 2021:

	2022	2021
Summer internship	\$ (129,985)	\$ (65,220)
Total	<u>\$ (129,985)</u>	<u>\$ (65,220)</u>

Note 8 - Operating lease commitments

NHA occupies numerous facilities under operating lease agreements that expire at various dates through June 2029. The future minimum payments under these operating leases for each of the five years subsequent to June 30, 2022 and thereafter are as follows:

2023	\$ 2,169,437
2024	1,020,230
2025	252,228
2026	255,045
2027	190,542
Thereafter	<u>523,625</u>
Total	<u>\$ 4,411,107</u>

Total operating lease expense for the years ended June 30, 2022 and 2021 was \$2,621,268 and \$2,627,425, respectively. This amount is included in the occupancy and storage line item on the Statement of Functional Expenses.

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.

Neighborhood House Association

Notes to Financial Statements June 30, 2022 and 2021

COVID-19

In December 2019 and early 2020, the coronavirus that causes COVID-19 was reported to have surfaced in China. The spread of this virus globally including in early 2020 has caused business disruption domestically in the United States, which is where the Organization predominately operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration. Therefore, while the Organization expects this matter may negatively impact the Organization's financial position, results of operations, or cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time.

Note 10 - Grants and contracts revenues

In the fiscal years ended June 30, 2022 and 2021, NHA recognized grants and contracts revenues from the following sources:

	2022	2021
Head Start program	\$ 88,975,832	\$ 85,197,554
State programs	5,418,241	1,563,896
County programs	7,073,682	6,638,133
Total grants and contracts	<u>\$ 101,467,755</u>	<u>\$ 93,399,583</u>

From time to time government agencies will provide advances of grant money before qualifying expenditures are reported. For the year ended June 30, 2022, and 2021 NHA recognized deferred revenue of \$3,090,413 and \$3,054,288.

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 an automatic contribution of 3% of their respective gross salaries, and can make additional voluntary contributions not to exceed the IRS statutory limit \$19,500 and \$19,000 for the tax year ending December 31, 2021 and 2020, respectively. Also, employees age 50 or over by the end of the plan year are allowed to make up to \$6,500 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, 2022 and 2021 were approximately \$1,784,000 and \$1,729,000, respectively. This amount is included in the fringe benefits line item on the Statement of Functional Expenses.

Neighborhood House Association

Notes to Financial Statements June 30, 2022 and 2021

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:

	Provisional 2022	Final 2021
Head Start	10.1%	10.1%
Non-Head Start	10.8%	10.9%
Subawards/delegate agencies	2.0%	2.0%

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, 2022 and 2021 were approximately \$7,032,000 and \$6,094,000, respectively.

Note 13 - Concentrations 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 risk, the funds are diversified among various financial institutions.

The federal Head Start program totaling \$88,975,832 and \$85,191,392 represents 88% and 91% of total grant revenues as of June 30, 2022 and 2021, respectively. Included in grants and contracts receivable at June 30, 2022 and 2021 is \$2,755,179 and \$5,774,289, respectively, related to this contract which represents 43% and 83%, respectively.

Note 14 - Union contract

Most nonmanagement personnel (representing 55% of total employees) of NHA are members of the Service Employees International Union, Local #221. NHA's contract with the union was in effect through June 30, 2022, 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.

Note 15 - 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

Neighborhood House Association

Notes to Financial Statements June 30, 2022 and 2021

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.

Financial assets carried at fair value at June 30, 2022 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Total
Equity securities	\$ 403,390	\$ -	\$ 403,390
Total assets at fair value	<u>\$ 403,390</u>	<u>\$ -</u>	<u>\$ 403,390</u>

Financial assets carried at fair value at June 30, 2021 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Total
Equity securities	\$ 418,938	\$ -	\$ 418,938
Total assets at fair value	<u>\$ 418,938</u>	<u>\$ -</u>	<u>\$ 418,938</u>

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2022 and 2021.

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 preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Neighborhood House Association

Notes to Financial Statements June 30, 2022 and 2021

Note 16 - Subcontracts expense

Subcontracts expense for the fiscal years ended June 30, 2022 and 2021 included the following:

	<u>2022</u>	<u>2021</u>
Subawards/delegate agencies	\$ 35,937,225	\$ 35,886,521
Contracted child care	<u>2,424,759</u>	<u>2,642,182</u>
Total	<u>\$ 38,361,984</u>	<u>\$ 38,528,703</u>

Note 17 - Subsequent events

Subsequent events have been evaluated through November 15, 2022, which is the date the financial statements were available to be issued.

Supplementary Information

Neighborhood House Association

Schedule of Expenditures of Federal and State Awards Year Ended June 30, 2022

Federal grantor / pass-through grantor / program title or cluster	Federal/ state assistance number	Pass-through entity identifying number	Pass-through entity	Passed through to subrecipients	Award Amount			Expenditures	
					Federal	State	Total	Federal	State
U.S. Department of Health and Human Services									
Head Start Program 09CH01058704	93.600			\$ 34,495,026	\$ 82,209,705	\$ -	\$ 82,209,705	\$ 82,209,705	\$ -
Head Start Program 09CH01058703	93.600			-	3,807,678	-	3,807,678	3,807,678	-
Head Start Program 09HE00044701C5	93.600			226,615	826,315	-	826,315	826,315	-
Head Start Program 09HE00044701C6	93.600			1,215,584	2,132,134	-	2,132,134	2,132,134	-
Total Head Start Cluster				35,937,225	88,975,832	-	88,975,832	88,975,832	-
Passed through from the County of San Diego:									
HIV Emergency Relief Project Grants (Coordinate Svc) (1)	93.914	559324	County of San Diego	-	547,257	-	547,257	547,257	-
HIV Emergency Relief Project Grants (Coordinate Svc) (2)	93.914	559324	County of San Diego	-	184,317	-	184,317	184,317	-
Total HIV Emergency Relief Project Grants				-	731,574	-	731,574	731,574	-
Passed through California State Department of Education:									
Child Care and Development Fund (CCDF) Cluster:									
Child Care Mandatory and Matching Funds of the CCDF	93.596	CCTR-1221	California State Department of Education	-	329,816	-	329,816	329,816	-
Total Child Care Mandatory and Matching Funds of the CCDF				-	329,816	-	329,816	329,816	-
Child Care and Development Block Grant	93.575	CCTR-1221	California State Department of Education	-	164,456	-	164,456	164,456	-
Total for Child Care and Development Block Grant				-	164,456	-	164,456	164,456	-
Total CCDF Cluster				-	494,272	-	494,272	494,272	-
Child Development Program	93.U00	CCTR-1221	California State Department of Education	-	-	1,963,563	1,963,563	-	1,478,411
Child Development Program	93.U01	CSP-1473	California State Department of Education	-	-	4,037,022	4,037,022	-	3,738,984
Total for Child Development Program				-	-	6,000,585	6,000,585	-	5,217,395
Medicaid Cluster:									
Medical Assistance Program	93.778	548929	County of San Diego	-	578,137	-	578,137	578,137	-
Medical Assistance Program	93.778	585526	County of San Diego	-	56,934	-	56,934	56,934	-
Medical Assistance Program (Medicaid - Title XIX)	93.778	557159	County of San Diego	-	152,723	-	152,723	152,723	-
Total Medicaid Cluster				-	787,794	-	787,794	787,794	-
Maternal and Child Health Services Block Grant to the States	93.994	557159	County of San Diego	-	211,840	-	211,840	211,840	-
Total Maternal and Child Health Services Block Grant to the States				-	211,840	-	211,840	211,840	-
Total U.S. Department of Health and Human Services				35,937,225	91,201,312	6,000,585	97,201,897	91,201,312	5,217,395
U.S. Department of Agriculture									
Passed through from the State Department of Education:									
Child and Adult Care Food Program:									
Child Care Centers	10.558	04500-CACFP-37-NP-CS	California State Department of Education	-	720,691	-	720,691	720,691	-
Adult Day Care Centers	10.558	04500-CACFP-37-NP-CS	California State Department of Education	-	16,530	-	16,530	16,530	-
Total Child and Adult Care Food Program and U.S. Department of Agriculture				-	737,220	-	737,220	737,220	-
U.S. Department of Housing and Urban Development									
California Education Facilities Authority									
Passed through from the Rural Community Development Project:									
Community Development Block Grants/Entitlement Grants	14.218	B-19-MC-06-0542	City of San Diego	-	378,499	-	378,499	378,499	-
Total CDBG - Entitlement Grants Cluster and U.S. Department of Housing and Urban Development				-	378,499	-	378,499	378,499	-
Total Expenditures of Federal and State Awards				\$ 35,937,225	\$ 92,317,032	\$ 6,000,585	\$ 98,317,617	\$ 92,317,032	\$ 5,217,395

Notes:

⁽¹⁾ Program year Expenses - July 2021 - February 2022. Contract Award March 2021 - Feb 2022

⁽²⁾ Program year Expenses - March 2022 - June 2022. Contract Award March 2022 - Aug 2022

See Notes to Schedule of Expenditures of Federal and State Awards.

Neighborhood House Association

Notes to Schedule of Expenditures of Federal and State Awards June 30, 2022

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state grant activity of NHA under programs of the federal and state governments for the year ended June 30, 2022. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), and with the requirements of the California Department of Education issued *Audit Guide*. Because the schedule presents only a selected portion of the operations of NHA, it is not intended to, and does not present, the financial position, changes in net assets or cash flows of NHA.

Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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, 2022 included an audit fee of approximately \$156,000.

Note 4 - Indirect cost rate

NHA has been assigned an indirect cost rate of 10.1% for the Head Start program and 10.8% for Non-Head Start programs by its cognizant agency.

Note 5 - Non-cash assistance

In accordance with matching requirements for the Head Start program, the value of noncash assistance (in-kind donations) was \$0 for fiscal year ended June 30, 2022.

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Audit Committee
Neighborhood House Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Neighborhood House Association ("NHA"), a nonprofit organization, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2022.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether NHA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 NHA'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 NHA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

San Diego, California
November 15, 2022

Independent Auditor's Report on Compliance for Each Major Federal and State Program and
Report on Internal Control over Compliance Required by the Uniform Guidance

To the Audit Committee
Neighborhood House Association

Report on Compliance for Each Major Federal and State Program

Opinion on Each Major Federal Program

We have audited Neighborhood House Association's ("NHA") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of NHA's major federal and state programs for the year ended June 30, 2022. NHA's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, NHA 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 and state programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of NHA and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of NHA's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to NHA's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on NHA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about NHA's compliance with the requirements of each major federal and state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding NHA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of NHA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 NHA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

CohnReznick LLP

San Diego, California
November 15, 2022

Neighborhood House Association
Schedule of Findings and Questioned Costs
June 30, 2022

Part I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial
Statements audited were prepared in accordance with GAAP: unmodified

Internal control over financial reporting:

Material weaknesses identified? _____yes Xno

Significant deficiencies identified? _____yes Xnone reported

Noncompliance material to financial statements noted? _____yes Xno

Federal Awards

Internal control over major programs:

Material weaknesses identified? _____yes Xno

Significant deficiencies identified? _____yes Xnone reported

Type of auditor's 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 Xno

Identification of the major programs tested:

CFDA/Award Number

Name of Federal Program

93.600

United States Department of
Health and Human Services: Head Start Cluster

Dollar threshold used to distinguish between
type A and type B programs: \$2,769,511

Auditee qualified as low-risk auditee? Xyes _____no

Neighborhood House Association
Schedule of Findings and Questioned Costs
June 30, 2022

Part II - Financial Statement Findings Section

None noted.

Part III - Federal Award Findings and Questioned Costs Section

None noted.



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