

Neighborhood House Association

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

June 30, 2021 and 2020

Neighborhood House Association

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Independent Auditor's Report

To the Audit Committee
Neighborhood House Association

Report on the Financial Statements

We have audited the accompanying financial statements of Neighborhood House Association ("NHA"), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NHA as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements of NHA as a whole. The accompanying schedules of expenditures of federal and state 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* are presented for purposes of additional analysis and are 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 2021 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2021 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2020 financial statements or to the 2021 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 2021 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, 2021, 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, 2021

Neighborhood House Association

Statements of Financial Position June 30, 2021 and 2020

	<u>Assets</u>	
	2021	2020
Current assets		
Cash and cash equivalents (Note 13)	\$ 5,701,917	\$ 6,096,948
Restricted cash	129,985	65,220
Investments (Note 15)	418,938	414,143
Grants and contracts receivable (Note 3)	6,965,711	2,408,807
Other accounts receivable	390,941	388,190
Prepaid expenses	356,205	319,525
Total current assets	13,963,697	9,692,833
Property and equipment (Note 4)		
Property and equipment	23,110,076	21,593,382
Less accumulated depreciation and amortization	(17,020,437)	(16,501,247)
Total property and equipment, net	6,089,639	5,092,135
Deposits	93,632	93,632
Total assets	\$ 20,146,968	\$ 14,878,600
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accrued payroll and related liabilities	\$ 987,115	\$ 861,968
Accounts payable and accrued expenses	5,118,121	3,645,629
Deferred revenue (Note 10)	3,054,288	90,254
Accrued annual leave (Note 5)	3,538,124	3,394,822
Current portion of long-term debt (Note 6)	87,144	107,461
Total current liabilities	12,784,792	8,100,134
Deferred rent	189,673	90,150
Long-term debt, net (Note 6)	1,999,354	2,099,323
Total liabilities	14,973,819	10,289,607
Commitments and contingencies (Notes 8 and 9)		
Net assets		
Without donor restrictions	5,043,164	4,523,773
With donor restrictions (Note 7)	129,985	65,220
Total net assets	5,173,149	4,588,993
Total liabilities and net assets	\$ 20,146,968	\$ 14,878,600

See Notes to Financial Statements.

Neighborhood House Association

Statements of Activities Years Ended June 30, 2021 and 2020

	2021	2020
Change in net assets without donor restrictions		
Revenues and support		
Grants and contracts (Note 10)	\$ 93,399,583	\$ 95,844,488
Food reimbursements	79,856	1,033,879
Reimbursements from partners	899,857	680,835
Contributions and donations	621,932	1,164,180
Service fees	755,005	893,786
Investment return and interest income	27,304	41,130
Other revenues	1,853,433	1,332,292
Net assets released from restrictions	65,220	18,250
	97,702,190	101,008,840
Expenses		
Program services	90,466,060	93,057,746
Supporting services		
Fundraising	34,991	60,297
Management and general	6,681,748	7,451,354
	97,182,799	100,569,397
Change in net assets without donor restrictions	519,391	439,443
Change in net assets with donor restrictions		
Contributions	129,985	65,220
Net assets released from restrictions	(65,220)	(18,250)
	64,765	46,970
Change in net assets	584,156	486,413
Net assets, beginning	4,588,993	4,102,580
Net assets, end	\$ 5,173,149	\$ 4,588,993

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

Statement of Functional Expenses Year Ended June 30, 2020

	Program services				Supporting services		
	Childcare programs	Health and nutrition programs	Youth and other services	Total	Fundraising	Management and general	Total expenses
Salaries	\$ 25,940,004	\$ 3,370,106	\$ 445,296	\$ 29,755,406	\$ -	\$ 4,360,985	\$ 34,116,391
Fringe benefits	8,174,225	834,881	161,823	9,170,929	-	1,052,577	10,223,506
Contracted services	1,962,207	323,124	67,864	2,353,195	1,105	1,008,525	3,362,825
Supplies	1,795,023	101,844	18,035	1,914,902	23,512	61,114	1,999,528
Telephone and communications	762,875	95,206	8,225	866,306	-	88,417	954,723
Postage	6,037	1,790	549	8,376	-	10,894	19,270
Occupancy and storage	3,131,030	411,063	16,598	3,558,691	-	22,165	3,580,856
Utilities	269,877	20,599	8,383	298,859	-	47,508	346,367
Printing, publications and advertising	11,151	5,991	3,148	20,290	3,687	11,113	35,090
Travel and meetings	861,557	88,613	37,954	988,124	-	212,370	1,200,494
Subcontracts (Note 16)	39,839,860	-	-	39,839,860	-	-	39,839,860
Food expense	1,465,374	66,358	15,124	1,546,856	4,657	8,369	1,559,882
Client assistance	39,048	185,428	34,979	259,455	-	-	259,455
Equipment expense	1,160,054	156,679	10,903	1,327,636	-	47,324	1,374,960
Depreciation and amortization	184,960	-	-	184,960	-	252,097	437,057
Insurance	320,199	33,324	25,599	379,122	-	155,046	534,168
Interest and fees	104,416	8,363	23,382	136,161	-	36,254	172,415
Other expenses	391,113	10,881	46,624	448,618	27,336	76,596	552,550
Indirect cost	5,966,970	606,722	21,868	6,595,560	-	(6,595,560)	-
Subtotal	92,385,980	6,320,972	946,354	99,653,306	60,297	855,794	100,569,397
Less indirect allocation	(5,966,970)	(606,722)	(21,868)	(6,595,560)	-	6,595,560	-
Total expenses by function	<u>\$ 86,419,010</u>	<u>\$ 5,714,250</u>	<u>\$ 924,486</u>	<u>\$ 93,057,746</u>	<u>\$ 60,297</u>	<u>\$ 7,451,354</u>	<u>\$ 100,569,397</u>

See Notes to Financial Statements.

Neighborhood House Association
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 584,156	\$ 486,413
Adjustments to reconcile change in net assets to net cash and restricted cash provided by operating activities		
Depreciation and amortization	519,189	437,057
Deferred rent	99,523	(31,991)
Changes in operating assets and liabilities		
Grants and contracts receivable	(4,556,904)	(1,008,126)
Other accounts receivable	(2,751)	283,742
Prepaid expenses and deposits	(36,680)	(9,607)
Accounts payable and accrued expenses	1,467,697	1,074,091
Deferred revenue	2,964,034	(117,914)
Accrued payroll and related liabilities	125,147	31,380
Accrued annual leave	143,302	530,441
	<u>1,306,713</u>	<u>1,675,486</u>
Net cash and restricted cash provided by operating activities		
Cash flows from investing activities		
Purchases of property and equipment	(1,516,693)	(799,443)
	<u>(1,516,693)</u>	<u>(799,443)</u>
Net cash and restricted cash used in investing activities		
Cash flows from financing activities		
Repayments on debt	(120,286)	(101,691)
	<u>(120,286)</u>	<u>(101,691)</u>
Net cash and restricted cash used in financing activities		
Net increase (decrease) in cash, cash equivalents, and restricted cash	(330,266)	774,352
Cash, cash equivalents and restricted cash, beginning	<u>6,162,168</u>	<u>5,387,816</u>
Cash, cash equivalents, and restricted cash, end	<u>\$ 5,831,902</u>	<u>\$ 6,162,168</u>
Supplemental disclosures of cash flow data		
Cash paid for interest	<u>\$ 110,766</u>	<u>\$ 106,245</u>

See Notes to Financial Statements.

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Notes to Financial Statements June 30, 2021 and 2020

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, 2021.

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.

Adoption of new accounting pronouncements

For the year ended June 30, 2021, NHA has adopted the FASB's Accounting Standard Update ("ASU") No. 2014-09 – FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, and expands disclosures about revenue. NHA adopted the requirements of the new guidance as of July 1, 2020, utilizing the modified retrospective method of transition. The adoption of ASU 2014-09 did not have a material impact on NHA's revenue recognition treatment.

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

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Notes to Financial Statements June 30, 2021 and 2020

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 non-profit 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.

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, 2021 and 2020.

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 2021 and 2020, the value of contributed services recognized as revenues and expenses in the accompanying financial statements was approximately \$32,266 and \$630,000, 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 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.

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Notes to Financial Statements June 30, 2021 and 2020

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:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 5,701,917	\$ 6,096,948
Cash restricted for program-related expenses	<u>129,985</u>	<u>65,220</u>
Total	<u>\$ 5,831,902</u>	<u>\$ 6,162,168</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, 2021 and 2020.

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

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, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020.

NHA's federal and state information returns prior to fiscal years 2018 and 2017, 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.

Reclassifications

Prior period financial statement amounts have been reclassified to conform to the current period.

Advertising

NHA expenses advertising costs as incurred. Advertising costs for the years ended June 30, 2021 and 2020 were approximately \$29,000 and \$18,000, 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.

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, 2021 and

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Notes to Financial Statements June 30, 2021 and 2020

2020, the total award amount was \$91,023,399 and \$87,513,839, 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 \$1,750,000. 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 \$4,817,569 as of June 30, 2021 and \$2,436,454 as of June 30, 2020. Non-federal grants and contracts receivable totaled approximately \$3,000,636 as of June 30, 2021 and \$2,114,661 at June 30, 2020. NHA is also authorized to utilize a pool of short-term investments consisting of approximately \$3,634,459 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.

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:

	2021	2020
Cash and cash equivalents	\$ 5,701,917	6,096,948
Investments (Note 15)	418,938	414,143
Grants and contracts receivable (Note 3)	6,965,711	2,408,807
Other accounts receivable, less allowance for doubtful accounts	390,941	388,190
Current assets, excluding nonfinancial assets	<u>\$ 13,477,507</u>	<u>\$ 9,308,088</u>

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**Notes to Financial Statements
June 30, 2021 and 2020**

Note 3 - Grants and contracts receivable

At June 30, 2021 and 2020, grants and contracts receivable consist of the following:

	2021	2020
Head Start	\$ 5,774,289	\$ 667,961
State programs	-	479,159
County programs	1,159,254	1,240,277
Food reimbursements	32,168	21,410
Total	\$ 6,965,711	\$ 2,408,807

Note 4 - Property and equipment

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

	Cost	Accumulated depreciation and amortization	Net book value
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
	\$ 23,110,076	\$ 17,020,437	\$ 6,089,639

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

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Notes to Financial Statements June 30, 2021 and 2020

Property and equipment as of June 30, 2020 consists of the following:

	Cost	Accumulated depreciation and amortization	Net book value
Land	\$ 1,215,004	\$ -	\$ 1,215,004
Building	4,871,603	3,383,690	1,487,913
Building improvements	627,343	609,809	17,534
Leasehold improvements	8,603,922	6,878,749	1,725,173
Vehicles	2,180,871	1,826,436	354,435
Furniture and equipment	3,626,674	3,513,447	113,227
Computer equipment	335,151	289,116	46,035
Construction in progress	132,814	-	132,814
	<u>\$ 21,593,382</u>	<u>\$ 16,501,247</u>	<u>\$ 5,092,135</u>

Depreciation expenses for the year ended June 30, 2020 was \$437,056.

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, 2021 and 2020 is approximately \$2,432,000 and \$2,116,000, 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, 2021 and 2020 accrued annual leave was \$3,538,124 and \$3,394,822, respectively.

Neighborhood House Association

Notes to Financial Statements June 30, 2021 and 2020

Note 6 - Long-term debt

Long-term debt consists of the following:

	2021	2020
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.	\$ 1,688,278	\$ 1,781,106
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 12, 2017 and matures on January 1, 2023. 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.	398,220	425,678
Less current portion	2,086,498 (87,144)	2,206,784 (107,461)
Long-term portion	\$ 1,999,354	\$ 2,099,323

Maturities of long-term debt in each of the five years subsequent to June 30, 2021 and thereafter are calculated as follows:

2022	\$	87,144
2023		136,935
2024		42,509
2025		34,899
2026		36,321
Thereafter		1,748,691
Total	\$	2,086,498

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, 2021 and 2020, the Company was in compliance with this covenant.

Neighborhood House Association

Notes to Financial Statements June 30, 2021 and 2020

Note 7 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2021 and 2020:

	2021	2020
Homework Center	\$ 95,997	\$ 34,013
College academy	1,500	-
Head Start lets move	28,980	-
Summer internship	3,508	31,207
Total	\$ 129,985	\$ 65,220

Net assets released from donor restrictions at June 30, 2021 and 2020:

	2021	2020
Summer internship	\$ (65,220)	\$ (18,250)
Total	\$ (65,220)	\$ (18,250)

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, 2021 and thereafter are as follows:

2022	\$	1,089,301
2023		737,137
2024		266,754
2025		178,829
2026		184,098
Thereafter		705,013
Total	\$	3,161,132

Total operating lease expense for the years ended June 30, 2021 and 2020 was \$2,627,425 and \$2,532,221, respectively.

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.

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

Neighborhood House Association

Notes to Financial Statements June 30, 2021 and 2020

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, 2021 and 2020, NHA recognized grants and contracts revenues from the following sources:

	<u>2021</u>	<u>2020</u>
Head Start program	\$ 85,197,554	\$ 81,826,351
State programs	1,563,896	6,797,447
County programs	<u>6,638,133</u>	<u>7,220,690</u>
Total grants and contracts	<u>\$ 93,399,583</u>	<u>\$ 95,844,488</u>

From time to time government agencies will provide advances of grant money before qualifying expenditures are reported. For the year ended June 30, 2021, and 2020 NHA recognized deferred revenue of \$3,054,288 and \$90,254.

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, 2020 and 2019, 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, 2021 and 2020 were approximately \$1,729,000 and \$1,679,000, respectively.

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 2021</u>	<u>Final 2020</u>
Head Start	10.1%	10.1%
Non-Head Start	10.9%	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, 2021 and 2020 were approximately \$6,094,000 and \$6,596,000, respectively.

Neighborhood House Association

Notes to Financial Statements June 30, 2021 and 2020

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 \$85,191,392 and \$81,826,351 represents 91% and 85% of total grant revenues as of June 30, 2021 and 2020, respectively. Included in grants and contracts receivable at June 30, 2021 and 2020 is \$5,774,289 and \$667,961, respectively, related to this contract which represents 83% and 28%, respectively.

Note 14 - Union contract

Most nonmanagement personnel (representing 58% 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, 2021, 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 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 June 30, 2021 and 2020

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	\$ 418,938	\$ -	\$ 418,938

Financial assets carried at fair value at June 30, 2020 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Total
Equity securities	\$ 414,143	\$ -	\$ 414,143
Total assets at fair value	\$ 414,143	\$ -	\$ 414,143

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, 2021 and 2020.

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.

Note 16 - Subcontracts expense

Subcontracts expense for the fiscal years ended June 30, 2021 and 2020 included the following:

	2021	2020
Subawards/delegate agencies	\$ 35,886,521	\$ 32,783,284
Contracted child care	2,642,182	7,056,576
Total	\$ 38,528,703	\$ 39,839,860

Note 17 - Subsequent events

Subsequent events have been evaluated through November 15, 2021, 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, 2021

Federal grantor / pass-through grantor / program title or cluster	Federal assistance number	Pass-through entity identifying number	Passed through to subrecipients	Expenditures	
				Federal	State
U.S. Department of Health and Human Services					
Head Start Program 09CH01058703	93.600		\$ 34,123,328	\$ 80,369,394	\$ -
Head Start Program 09CH01058703C3	93.600		1,763,193	3,660,403	-
Head Start Program 09HE00044701C5	93.600		-	234,766	-
Head Start Program 09CH010587-02-01	93.600		-	932,991	-
Total Head Start Cluster			<u>35,886,521</u>	<u>85,197,554</u>	<u>-</u>
Passed through from the County of San Diego:					
HIV Emergency Relief Project Grants (Coordinate Svc) (1)	93.914	559324	-	516,888	-
HIV Emergency Relief Project Grants (Coordinate Svc) (2)	93.914	559324	-	212,850	-
Total HIV Emergency Relief Project Grants			<u>-</u>	<u>729,738</u>	<u>-</u>
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-0212	-	329,816	-
Total Child Care Mandatory and Matching Funds of the CCDF			<u>-</u>	<u>329,816</u>	<u>-</u>
Child Care and Development Block Grant	93.575	CCTR-0212	-	151,614	-
Total for Child Care and Development Block Grant			<u>-</u>	<u>151,614</u>	<u>-</u>
Total CCDF Cluster			<u>-</u>	<u>481,430</u>	<u>-</u>
Child Development Program	93.U00	CCTR-0212	-	-	656,009
Child Development Program	93.U01	CSPP-0481	-	-	908,111
Total for Child Development Program			<u>-</u>	<u>-</u>	<u>1,564,120</u>
Medicaid Cluster:					
Medical Assistance Program	93.778	548929	-	753,894	-
Medical Assistance Program (Medicaid - Title XIX)	93.778	557159	-	168,285	-
Total Medicaid Cluster			<u>-</u>	<u>922,179</u>	<u>-</u>
Maternal and Child Health Services Block Grant to the States	93.994	557159	-	221,943	560,063
Total Maternal and Child Health Services Block Grant to the States			<u>-</u>	<u>221,943</u>	<u>560,063</u>
Total U.S. Department of Health and Human Services			<u>35,886,521</u>	<u>87,552,844</u>	<u>2,124,183</u>
U.S. Department of the Treasury					
Coronavirus Relief Fund	21.019	548929	-	57,358	-
Coronavirus Relief Fund	21.019	548930	-	72,685	-
Coronavirus Relief Fund	21.019	548931	-	38,854	-
Coronavirus Relief Fund	21.019	560754	-	71,817	-
Total Coronavirus Relief Fund and U.S. Department of the Treasury			<u>-</u>	<u>240,714</u>	<u>-</u>
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	-	74,844	-
Adult Day Care Centers	10.558	04500-CACFP-37-NP-CS	-	5,012	-
Total Child and Adult Care Food Program and U.S. Department of Agriculture			<u>-</u>	<u>79,856</u>	<u>-</u>
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	-	378,499	-
Total CDBG - Entitlement Grants Cluster and U.S. Department of Housing and Urban Development			<u>-</u>	<u>378,499</u>	<u>-</u>
Total Expenditures of Federal and State Awards			<u>\$ 35,886,521</u>	<u>\$ 88,251,913</u>	<u>\$ 2,124,183</u>

Notes:

(1) Program year Expenses - July 2020 - February 2021. Contract Award March 2020 - Feb 2021

(2) Program year Expenses - March 2021 - June 2021. Contract Award March 2021 - Aug 2021

Neighborhood House Association

Notes to Schedule of Expenditures of Federal and State Awards June 30, 2021

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, 2021. 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, 2021 included an audit fee of approximately \$149,000.

Note 4 - Indirect cost rate

NHA has been assigned an indirect cost rate of 10.1% for the Head Start program and 10.9% 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 non-cash assistance (in-kind donations) was \$21,297,848 for fiscal year ended June 30, 2021.

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, 2021, 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, 2021.

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 may exist that have not been identified.

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

CohnReznick LLP

San Diego, California
November 15, 2021

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

We have audited Neighborhood House Association's ("NHA") compliance with the types of compliance requirements described 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, 2021. 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.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of NHA's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state 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 on compliance for each major federal and state program. However, our audit does not provide a legal determination of NHA's compliance.

Opinion on Each Major Federal and State Program

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, 2021.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2021-001. Our opinion on NHA's major federal programs is not modified with respect to this matter.

NHA's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. NHA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of NHA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NHA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state 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 or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

San Diego, California
November 15, 2021

Neighborhood House Association
Schedule of Findings and Questioned Costs
June 30, 2021

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 X no
 Significant deficiencies identified? _____yes X none reported
 Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal control over major programs:
 Material weaknesses identified? _____yes X no
 Significant deficiencies identified? _____yes X none 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) X yes _____no

Identification of the major programs tested:

<u>CFDA/Award Number</u>	<u>Name of Federal Program</u>
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: \$2,647,557

Auditee qualified as low-risk auditee? X yes _____no

Neighborhood House Association
Schedule of Findings and Questioned Costs
June 30, 2021

Part II - Financial Statement Findings Section

None noted.

Part III - Federal Award Findings and Questioned Costs Section

Section III - Federal Award Findings and Questioned Costs

Reference Number:	2021-001
Federal Program Title	Head Start Program
Federal Catalog Number:	93.600
Federal Agency:	United States Department of Health and Human Services
Award Numbers:	09CH01058703, 09CH01058703C3
Category of Finding:	Reporting

Criteria

In accordance with Federal Acquisition Regulation 48 § CFR 52.204-10 prime contractors awarded a federal contract are required to file a Federal Funding Accountability and Transparency Act (“FFATA”) subaward report by the end of the month following the month in which the prime contractor awards any subcontract greater than \$25,000 or \$30,000 depending on the date of the subaward.

Condition/Context

During our review of the reporting compliance requirement related to the major program it was determined that FFATA reporting was not done timely for the major subrecipients.

Transactions Tested	Subaward not reported	Report not timely	Subaward amount incorrect	Subaward missing key elements
2	0	2	-	-
Dollar amount of tested transactions	Subaward not reported	Report not timely	Subaward amount incorrect	Subaward missing key elements
\$35,886,521	\$0	\$35,886,521	-	-

Cause

The client was initially unaware of the FFATA reporting requirement when not specifically required in the award document.

Effect

Failure to submit the required FFATA reports by the end of the month following an award given to a subrecipient results in noncompliance with federal regulation 48 § CFR 52.204-10.

Questioned Costs

Questioned costs were not identified.

Identification as a repeat finding

No

Neighborhood House Association
Schedule of Findings and Questioned Costs
June 30, 2021

Recommendation

NHA should evaluate every award for applicability of FFATA reporting and should submit FFATA reports by the end of the month following an award given to a subrecipient.

Management's response

Staff evaluated the regulation and determined that the information required by FFATA was already available to the public through SAMS.gov and IRS Form 990. The Organization believes it has shown a good faith effort by making public the 990 and SAMS.gov grant information. As of July 2021, the audit compliance supplement required the auditor to verify that subawards have been entered into the FSRS system. The Organization has complied with this requirement by inputting the last four years of grant subawards i.e. ECS and AKA. In consultation with the General Services Administration of FSRS, they indicated in writing that there should be no penalty.



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