

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, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, 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 available to be 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 November 9, 2023, 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.

A handwritten signature in black ink that reads "CohnReznick LLP".

San Diego, California
November 9, 2023

Neighborhood House Association

Statements of Financial Position June 30, 2023 and 2022

Assets

	<u>2023</u>	<u>2022</u>
Current assets		
Cash and cash equivalents (Note 13)	\$ 6,036,607	\$ 6,192,658
Restricted cash	115,885	114,776
Investments (Note 15)	496,611	403,390
Grants and contracts receivable (Note 3)	12,405,563	6,449,162
Other accounts receivable	651,375	739,481
Prepaid expenses	485,797	294,236
Total current assets	<u>20,191,838</u>	<u>14,193,703</u>
Property and equipment (Note 4)		
Property and equipment	25,504,293	24,059,583
Less accumulated depreciation and amortization	<u>(18,361,241)</u>	<u>(17,554,892)</u>
Total property and equipment, net	7,143,052	6,504,691
Deposits	36,486	93,632
Operating lease right-of-use asset (Note 8)	4,735,550	-
Finance lease right-of-use asset (Note 8)	<u>277,225</u>	<u>-</u>
Total assets	<u><u>\$ 32,384,151</u></u>	<u><u>\$ 20,792,026</u></u>

Liabilities and Net Assets

Current liabilities		
Accrued payroll and related liabilities	\$ 2,436,938	\$ 1,258,134
Accounts payable and accrued expenses	9,488,124	4,971,684
Deferred revenue (Note 10)	3,548,932	3,090,413
Accrued annual leave (Note 5)	4,381,013	3,881,410
Current portion of long-term debt (Note 6)	33,533	95,226
Current portion of operating lease liability (Note 8)	909,312	-
Current portion of finance lease liability (Note 8)	<u>63,695</u>	<u>-</u>
Total current liabilities	20,861,547	13,296,867
Deferred rent	-	183,204
Long-term debt, net (Note 6)	303,828	1,873,416
Long-term operating lease liability, net (Note 8)	4,048,350	-
Long-term finance lease liability, net (Note 8)	<u>213,530</u>	<u>-</u>
Total liabilities	<u>25,427,255</u>	<u>15,353,487</u>
Commitments and contingencies (Notes 8 and 9)		
Net assets		
Without donor restrictions	6,841,011	5,323,763
With donor restrictions (Note 7)	<u>115,885</u>	<u>114,776</u>
Total net assets	<u>6,956,896</u>	<u>5,438,539</u>
Total liabilities and net assets	<u><u>\$ 32,384,151</u></u>	<u><u>\$ 20,792,026</u></u>

See Notes to Financial Statements.

Neighborhood House Association

Statements of Activities Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Change in net assets without donor restrictions		
Revenues and support		
Grants and contracts (Note 10)	\$ 114,141,949	\$ 101,467,755
Food reimbursements	1,078,758	737,220
Reimbursements from partners	1,022,337	955,073
Contributions and donations	344,820	392,423
Service fees	563,522	758,551
Investment return and interest income	25,128	23,607
Other revenues	3,232,347	1,898,847
Net assets released from restrictions	<u>55,225</u>	<u>129,985</u>
Total revenues and support without donor restrictions	<u>120,464,086</u>	<u>106,363,461</u>
Expenses		
Program services	110,939,293	98,893,141
Supporting services		
Fundraising	50,390	45,547
Management and general	<u>7,957,155</u>	<u>7,144,174</u>
Total expenses	<u>118,946,838</u>	<u>106,082,862</u>
Change in net assets without donor restrictions	<u>1,517,248</u>	<u>280,599</u>
Change in net assets with donor restrictions		
Contributions	56,334	114,776
Net assets released from restrictions	<u>(55,225)</u>	<u>(129,985)</u>
Change in net assets with donor restrictions	<u>1,109</u>	<u>(15,209)</u>
Change in net assets	1,518,357	265,390
Net assets, beginning	<u>5,438,539</u>	<u>5,173,149</u>
Net assets, end	<u><u>\$ 6,956,896</u></u>	<u><u>\$ 5,438,539</u></u>

See Notes to Financial Statements.

Neighborhood House Association

Statement of Functional Expenses Year Ended June 30, 2023

	Program services				Supporting services		
	Childcare programs	Health and nutrition programs	Youth and other services	Total	Fundraising	Management and general	Total expenses
Salaries	\$ 31,678,424	\$ 3,759,485	\$ 552,579	\$ 35,990,488	\$ -	\$ 4,713,169	\$ 40,703,657
Fringe benefits	8,680,378	776,188	122,377	9,578,943	-	1,076,376	10,655,319
Contracted services	2,413,739	216,926	151,396	2,782,061	7,245	970,590	3,759,896
Supplies	3,863,039	181,364	56,937	4,101,340	11,208	45,504	4,158,052
Telephone and communications	569,609	113,457	5,248	688,314	-	60,716	749,030
Postage	6,647	1,178	1,169	8,994	99	7,834	16,927
Occupancy and storage	3,724,881	679,343	91,156	4,495,380	-	26,182	4,521,562
Utilities	443,865	10,802	8,915	463,582	-	54,599	518,181
Printing, publications and advertising	39,529	69,655	1,499	110,683	6,065	19,495	136,243
Travel and meetings	997,070	132,733	64,978	1,194,781	490	251,896	1,447,167
Subcontracts (Note 16)	41,932,202	-	-	41,932,202	-	-	41,932,202
Food expense	2,210,745	61,353	52,295	2,324,393	4,309	7,093	2,335,795
Client assistance	95,768	357,511	57,193	510,472	-	6,760	517,232
Equipment expense	4,255,409	514,858	16,034	4,786,301	-	58,376	4,844,677
Depreciation and amortization	495,673	-	-	495,673	-	331,817	827,490
Insurance	448,319	40,819	11,458	500,596	-	199,023	699,619
Interest and fees	64,771	19,144	23,593	107,508	752	24,365	132,625
Other expenses	790,040	32,010	45,532	867,582	20,222	103,360	991,164
Indirect cost	7,290,323	810,587	29,846	8,130,756	-	(8,130,756)	-
Subtotal	110,000,431	7,777,413	1,292,205	119,070,049	50,390	(173,601)	118,946,838
Less indirect allocation	(7,290,323)	(810,587)	(29,846)	(8,130,756)	-	8,130,756	-
Total expenses by function	<u>\$ 102,710,108</u>	<u>\$ 6,966,826</u>	<u>\$ 1,262,359</u>	<u>\$ 110,939,293</u>	<u>\$ 50,390</u>	<u>\$ 7,957,155</u>	<u>\$ 118,946,838</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
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ 1,518,357	\$ 265,390
Adjustments to reconcile change in net assets to net cash and restricted cash provided by operating activities		
Depreciation and amortization	827,490	630,468
Amortization of operating ROU asset	2,596,529	-
Amortization of finance ROU asset	133,819	-
Gain on sale of land	(1,023,415)	
Unrealized and realized investment loss (income)	(93,221)	15,548
Changes in operating assets and liabilities		
Grants and contracts receivable	(5,956,401)	516,549
Other accounts receivable	88,106	(348,540)
Prepaid expenses and deposits	(134,415)	61,969
Accrued payroll and related liabilities	1,178,804	271,019
Accounts payable and accrued expenses	4,516,439	(146,437)
Deferred revenue	458,519	36,125
Accrued annual leave	499,603	343,286
Operating lease liability	(2,374,417)	-
Deferred rent	(183,204)	(6,469)
Net cash and restricted cash provided by operating activities	<u>2,052,593</u>	<u>1,638,908</u>
Cash flows from investing activities		
Proceeds from sale of land	1,028,168	-
Purchases of property and equipment	(1,470,603)	(1,045,520)
Net cash and restricted cash used in investing activities	<u>(442,435)</u>	<u>(1,045,520)</u>
Cash flows from financing activities		
Repayments on debt	(1,631,281)	(117,856)
Principal payments on finance leases	(133,819)	-
Net cash and restricted cash used in financing activities	<u>(1,765,100)</u>	<u>(117,856)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	(154,942)	475,532
Cash, cash equivalents and restricted cash, beginning	<u>6,307,434</u>	<u>5,831,902</u>
Cash, cash equivalents and restricted cash, end	<u>\$ 6,152,492</u>	<u>\$ 6,307,434</u>
Supplemental disclosures of cash flow data		
Cash paid for interest	\$ 65,750	\$ 113,194
Cash paid for interest on finance leases	12,851	-
Right-of-use assets obtained in exchange for lease liabilities		
Operating	7,332,079	-
Finance	411,044	-

See Notes to Financial Statements.

Neighborhood House Association

Notes to Financial Statements June 30, 2023 and 2022

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, 2023 and 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 conditions. Food reimbursements represent government grants for the Child and Adult Care Food Program. Reimbursements from partners represent Head Start unsubsidized food reimbursements for the Child Care Food Program. 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, 2023 and 2022

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, 2023 and 2022.

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 2023 and 2022, no contributed services were received.

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, cash equivalents and restricted cash

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, 2023 and 2022

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:

	2023	2022
Cash and cash equivalents	\$ 6,036,607	\$ 6,192,658
Cash restricted for program-related expenses	115,885	114,776
Total	<u>\$ 6,152,492</u>	<u>\$ 6,307,434</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.

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.

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, 2023 and 2022, 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, 2023 and 2022.

Neighborhood House Association

Notes to Financial Statements June 30, 2023 and 2022

NHA's federal and state information returns prior to fiscal years 2020 and 2019, 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, 2023 and 2022 were \$125,177 and \$36,614, 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

The Organization adopted Accounting Standards Update 2016-02 (as amended), *Leases* ("Topic 842") on July 1, 2022. Topic 842 requires lessees to recognize a right-of-use asset and a corresponding lease liability for most leases. The Organization elected and applied the following transition practical expedients when initially adopting Topic 842:

- To apply the provisions of Topic 842 at the adoption date, instead of applying them to the earliest comparative period presented in the consolidated financial statements.
- The package of practical expedients permitting the Organization to not reassess (i) the lease classification of existing leases; (ii) whether existing and expired contracts are or contain leases; and (iii) initial direct costs for existing leases.

The Organization recognized the following as of the adoption date in connection with transitioning to Topic 842:

	As of July 1, 2022
Operating lease right-of-use assets	\$ 7,332,079
Finance lease right-of-use assets	411,044
Operating lease liabilities	\$ 7,515,283
Finance lease liabilities	411,044

The Organization's adoption of Topic 842 also resulted in a decrease of \$183,204 in deferred rent and deferred lease incentives, which amount was reclassified to operating lease right-of-use assets at adoption. See full lease disclosure in Note 8.

Neighborhood House Association

Notes to Financial Statements June 30, 2023 and 2022

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, 2023 and 2022, the total award amount was \$98,445,952 and \$88,975,832, 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 \$1,893,191. 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 \$3,075,258 as of June 30, 2023 and \$2,446,524 as of June 30, 2022. Nonfederal grants and contracts receivable totaled \$3,572,248 as of June 30, 2023 and \$3,693,983 at June 30, 2022. NHA is also authorized to utilize a pool of short-term investments consisting of \$2,846,385 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. 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 statement of financial position date, comprise the following:

	2023	2022
Cash and cash equivalents	\$ 6,036,607	\$ 6,192,658
Investments (Note 15)	496,611	403,390
Grants and contracts receivable (Note 3)	12,405,563	6,449,162
Other accounts receivable, less allowance for doubtful accounts	651,375	739,481
Current assets, excluding nonfinancial assets	<u>\$ 19,590,156</u>	<u>\$ 13,784,691</u>

Neighborhood House Association

Notes to Financial Statements June 30, 2023 and 2022

Note 3 - Grants and contracts receivable

At June 30, 2023 and 2022, grants and contracts receivable consist of the following:

	2023	2022
Head Start	\$ 8,833,315	\$ 2,755,179
State programs	1,003,268	2,208,403
County programs	2,335,339	1,230,051
Food reimbursements	233,641	255,529
Total	<u>\$ 12,405,563</u>	<u>\$ 6,449,162</u>

Note 4 - Property and equipment

Property and equipment as of June 30, 2023 consist of the following:

	Cost	Accumulated depreciation and amortization	Net book value
Land	\$ 1,210,254	\$ -	\$ 1,210,254
Building	4,871,603	3,858,490	1,013,113
Building improvements	609,809	609,809	-
Leasehold improvements	10,650,531	7,647,701	3,002,830
Vehicles	3,136,542	2,133,228	1,003,314
Furniture and equipment	4,697,531	3,806,222	891,309
Computer equipment	328,023	305,791	22,232
	<u>\$ 25,504,293</u>	<u>\$ 18,361,241</u>	<u>\$ 7,143,052</u>

Depreciation expense for the year ended June 30, 2023 was \$827,490.

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>

Neighborhood House Association

Notes to Financial Statements June 30, 2023 and 2022

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

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, 2023 and 2022 is \$4,554,994 and \$2,731,190, 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, 2023 and 2022 accrued annual leave was \$4,381,013 and \$3,881,410 respectively.

Note 6 - Long-term debt

Long-term debt consists of the following:

	<u>2023</u>	<u>2022</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 matured on July 28, 2023. The loan was paid in full on January 25, 2023.	\$ -	\$ 1,599,061
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>337,361</u>	<u>369,581</u>
	337,361	1,968,642
Less current portion	<u>(33,533)</u>	<u>(95,226)</u>
Long-term portion	<u>\$ 303,828</u>	<u>\$ 1,873,416</u>

Neighborhood House Association

Notes to Financial Statements June 30, 2023 and 2022

Maturities of long-term debt in each of the five years subsequent to June 30, 2023 and thereafter are calculated as follows:

2024	\$	33,533
2025		34,899
2026		36,321
2027		37,800
2028		39,340
Thereafter		<u>155,468</u>
Total	\$	<u><u>337,361</u></u>

The note payable to Alliance Healthcare Foundation requires a minimum Debt Service Ratio to be maintained. As of June 30, 2023 and 2022, the Organization was in compliance with this covenant. The note payable to Torrey Pines Bank required a minimum Debt Service Ratio to be maintained or to maintain liquid assets in an amount not less than \$1,000,000. The Organization was in compliance with this covenant for the year ended June 30, 2022, and continued to be in compliance up to January 25, 2023, the date of repayment.

Note 7 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Homework Center	\$ 89,851	\$ 89,851
College academy	10,000	2,500
Head Start lets move	6,013	4,858
Summer internship	-	7,545
Black Youth Initiative	<u>10,021</u>	<u>10,022</u>
Total	<u>\$ 115,885</u>	<u>\$ 114,776</u>

Net assets released from donor restrictions at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Head Start lets move	\$ (2,679)	\$ -
Summer internship	(52,545)	(129,985)
Black Youth Initiative	<u>(1)</u>	<u>-</u>
Total	<u>\$ (55,225)</u>	<u>\$ (129,985)</u>

Neighborhood House Association

Notes to Financial Statements June 30, 2023 and 2022

Note 8 - Leases

NHA occupies numerous facilities under operating lease agreements that expire at various dates through June 2029.

At lease commencement, the Organization recognizes a lease liability, which is measured at the present value of future lease payments, and a corresponding right-of-use asset equal to the lease liability, adjusted for prepaid lease costs, initial direct costs and lease incentives. The Organization has elected and applies the practical expedient available to lessees to combine nonlease components with their related lease components and account for them as a single combined lease component for all its leases. The Organization remeasures lease liabilities and related right-of-use assets whenever there is a change to the lease term and/or there is a change in the amount of future lease payments, but only when such modification does not qualify to be accounted for as a separate contract.

The Organization determines an appropriate discount rate to apply when determining the present value of the remaining lease payments for purposes of measuring or remeasuring lease liabilities. As the rate implicit in the lease is generally not readily determinable, the Organization applied the risk-free rate. The Organization uses rates on US government securities for periods comparable with lease terms as risk-free rates.

For accounting purposes, the Organization's leases commence on the earlier of (i) the date upon which the Organization obtains control of the underlying asset and (ii) the contractual effective date of a lease. Lease commencement for most of the Organization's leases coincides with the contractual effective date. The Organization's leases generally have minimum base terms with renewal options or fixed terms with early termination options. Such renewal and early termination options are exercisable at the option of the Organization and, when exercised, usually provide for rental payments during the extension period at then current market rates or at pre-determined rental amounts.

Unless the Organization determines that it is reasonably certain that the term of a lease will be extended, such as through the exercise of a renewal option or nonexercise of an early termination option, the term of a lease begins at lease commencement and spans for the duration of the minimum noncancellable contractual term. When the exercise of a renewal option or nonexercise of an early termination option is reasonably certain, the lease term is measured as ending at the end of the renewal period or on the date an early termination may be exercised.

The Organization elected to utilize the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

Neighborhood House Association

Notes to Financial Statements June 30, 2023 and 2022

The components of lease expense for the year ended June 30, 2023 are as follows:

	Statement of Functional Expense classification	June 30, 2023
Operating lease cost		
Amortization of right-of-use asset	Occupancy and storage	\$ 2,596,529
Total operating lease cost		<u>\$ 2,596,529</u>
Finance lease cost, net		
Amortization expense	Depreciation and amortization	\$ 133,819
Interest expense	Interest and fees	<u>12,851</u>
Total finance lease cost		<u>\$ 146,670</u>

Weighted average remaining lease term and weighted average discount rate for the Organization's leases as of June 30, 2023:

Year Ended June 30, 2023	Operating leases	Finance leases
Weighted average remaining term (in years)	5.40	3.00
Weighted average discount rate	4.17%	3.69%

Annual maturity analysis of the Organization's lease liabilities as of June 30, 2023:

Calendar year	Operating leases	Finance leases	Total
2024	\$ 909,312	\$ 63,695	\$ 973,007
2025	1,143,207	100,483	1,243,690
2026	751,575	66,216	817,791
2027	665,624	53,444	719,068
2028	612,561	9,213	621,774
Thereafter	<u>1,471,585</u>	<u>-</u>	<u>1,471,585</u>
Total	5,553,864	293,051	5,846,915
Less interest on lease liabilities	<u>(596,202)</u>	<u>(15,826)</u>	<u>(612,028)</u>
Present value of lease liability	4,957,662	277,225	5,234,887
Less current portion of lease liabilities	<u>(909,312)</u>	<u>(63,695)</u>	<u>(973,007)</u>
Noncurrent portion of lease liabilities	<u>\$ 4,048,350</u>	<u>\$ 213,530</u>	<u>\$ 4,261,880</u>

Neighborhood House Association

Notes to Financial Statements June 30, 2023 and 2022

Total operating lease expense for the year ended June 30, 2023 was \$2,596,529. This amount is included in the occupancy and storage line item on the Statement of Functional Expenses.

Future minimum lease payments at June 30, 2022, prior to the adoption of Topic 842, are as follows:

<u>Calendar year</u>	<u>Operating leases</u>
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 year ended June 30, 2022 was \$2,621,268. This amount is included in the occupancy and storage line item on the Statement of Functional Expenses.

Note 9 - Contingency

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

Note 10 - Grants and contracts revenues

In the fiscal years ended June 30, 2023 and 2022, NHA recognized grants and contracts revenues from the following sources:

	<u>2023</u>	<u>2022</u>
Head Start program	\$ 95,105,871	\$ 88,975,832
State programs	10,460,168	5,418,241
County programs	<u>8,575,910</u>	<u>7,073,682</u>
Total grants and contracts	<u>\$ 114,141,949</u>	<u>\$ 101,467,755</u>

From time to time government agencies will provide advances of grant money before qualifying expenditures are reported. For the year ended June 30, 2023 and 2022, NHA recognized deferred revenue of \$3,548,932 and \$3,090,413, respectively.

Neighborhood House Association

Notes to Financial Statements June 30, 2023 and 2022

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 \$22,500 and \$20,500 for the tax year ending December 31, 2023 and 2022, 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, 2023 and 2022 were \$1,844,251 and \$1,784,136, respectively. This amount is included in the fringe benefits line item on the Statement of Functional Expenses.

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 2023	Final 2022
Head Start	10.6%	10.1%
Non-Head Start	11.7%	10.8%
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, 2023 and 2022 were \$8,130,756 and \$7,032,262, 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 \$95,105,871 and \$88,975,832 represents 83% and 88% of total grant revenues as of June 30, 2023 and 2022, respectively. Included in grants and contracts receivable at June 30, 2023 and 2022 is \$8,833,315 and \$2,755,179, respectively, related to this contract which represents 71% and 43%, respectively.

Note 14 - Union contract

Most nonmanagement personnel (representing 53% 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, 2023, and continues to be in effect from year to year thereafter, unless either party terminates the contract. NHA's other employees are not represented by a union.

Neighborhood House Association

Notes to Financial Statements June 30, 2023 and 2022

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.

Financial assets carried at fair value at June 30, 2023 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Equity securities	\$ 496,611	\$ -	\$ -	\$ 496,611
Total assets at fair value	\$ 496,611	\$ -	\$ -	\$ 496,611

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	Level 3	Total
Equity securities	\$ 403,390	\$ -	\$ -	\$ 403,390
Total assets at fair value	\$ 403,390	\$ -	\$ -	\$ 403,390

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, 2023 and 2022.

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.

Neighborhood House Association

Notes to Financial Statements June 30, 2023 and 2022

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, 2023 and 2022 included the following:

	<u>2023</u>	<u>2022</u>
Subawards/delegate agencies	\$ 39,699,758	\$ 35,937,225
Contracted child care	<u>2,232,444</u>	<u>2,424,759</u>
Total	<u>\$ 41,932,202</u>	<u>\$ 38,361,984</u>

Note 17 - Subsequent events

Subsequent events have been evaluated through November 9, 2023, 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, 2023

Federal grantor / pass-through grantor / program title or cluster	Federal/ state assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Expenditures	
				Federal	State
U.S. Department of Health and Human Services					
Head Start Program 09CH01058705	93.600		\$ 36,544,670	\$ 85,410,058	\$ -
Head Start Program 09CH01058704	93.600		-	2,918,879	-
COVID 19 - Head Start Program 09HE00044701C5	93.600		694,685	942,771	-
Head Start Program 09HE00044701C6	93.600		2,460,403	5,834,163	-
Total Head Start Cluster			39,699,758	95,105,871	-
Passed through from the County of San Diego:					
HIV Emergency Relief Project Grants (Coordinate Svc) (1)	93.914	559324	-	602,313	-
HIV Emergency Relief Project Grants (Coordinate Svc) (2)	93.914	559324	-	114,237	-
Total HIV Emergency Relief Project Grants			-	716,550	-
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-2223	-	329,816	-
Total Child Care Mandatory and Matching Funds of the CCDF			-	329,816	-
Child Care and Development Block Grant	93.575	CCTR-2223	-	866,601	-
Total for Child Care and Development Block Grant			-	866,601	-
Total CCDF Cluster			-	1,196,417	-
Medicaid Cluster:					
Medical Assistance Program	93.778	548929	-	509,733	-
Medical Assistance Program	93.778	567868	-	886,223	-
Medical Assistance Program (Medicaid - Title XIX)	93.778	557159	-	94,580	-
Total Medicaid Cluster			-	1,490,536	-
Maternal and Child Health Services Block Grant to the States	93.994	557159	-	107,545	-
Total Maternal and Child Health Services Block Grant to the States			-	107,545	-
Total U.S. Department of Health and Human Services			39,699,758	98,616,919	-
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	-	1,041,063	-
Adult Day Care Centers	10.558	04500-CACFP-37-NP-CS	-	37,695	-
Total Child and Adult Care Food Program and U.S. Department of Agriculture			-	1,078,758	-
California State Department of Education					
Child Development Program		CCTR-2223	-	-	2,131,038
Child Development Program		CSPP-2460	-	-	7,125,715
Total for Child Development Program			-	-	9,256,753
Total Expenditures of Federal and State Awards			\$ 39,699,758	\$ 99,695,677	\$ 9,256,753

Notes:

⁽¹⁾ Program year Expenses - July 2022 - February 2023. Contract Award March 2023 - Feb 2024

⁽²⁾ Program year Expenses - March 2022 - June 2023. Contract Award March 2023 - Aug 2023

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

Neighborhood House Association

Notes to Schedule of Expenditures of Federal and State Awards Year Ended June 30, 2023

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, 2023. 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"). 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, 2023 included an audit fee of approximately \$163,000.

Note 4 - Indirect cost rate

NHA has been assigned an indirect cost rate of 10.6% for the Head Start program and 11.7% for Non-Head Start programs by its cognizant agency.

Note 5 - Noncash 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, 2023.

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, 2023, 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 9, 2023.

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 9, 2023

Independent Auditor's Report on Compliance for Each Major Federal 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 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 programs for the year ended June 30, 2023. NHA's major federal 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 programs for the year ended June 30, 2023.

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 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.



San Diego, California
November 9, 2023

Neighborhood House Association
Schedule of Findings and Questioned Costs
June 30, 2023

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:

Assistance Listing Number Name of Federal Program or Cluster

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: \$2,990,870

Auditee qualified as low-risk auditee? Xyes no

Neighborhood House Association
Schedule of Findings and Questioned Costs
June 30, 2023

Part II - Financial Statement Findings Section

None noted.

Part III - Federal Award Findings and Questioned Costs Section

None noted.



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