

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, 2019 and 2018

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, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related statement of functional expenses for the year ended June 30, 2019 (with summarized financial information for 2018), 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, 2019 and 2018, 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 2019 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2019 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2019 financial statements or to the 2019 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 2019 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 14, 2019 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.



San Diego, California
November 14, 2019

Neighborhood House Association

**Statements of Financial Position
June 30, 2019 and 2018**

Assets

	2019	2018
Current assets		
Cash and cash equivalents (Note 14)	\$ 5,369,566	\$ 6,213,354
Restricted cash	18,250	33,750
Investments (Notes 3 and 16)	356,896	186,833
Grants and contracts receivable (Note 4)	1,400,681	2,385,439
Other accounts receivable	671,932	796,260
Prepaid expenses	309,918	147,085
Total current assets	8,127,243	9,762,721
Property and equipment (Note 5)		
Property and equipment	20,793,939	20,431,317
Less accumulated depreciation and amortization	(16,064,190)	(15,667,666)
Total property and equipment, net	4,729,749	4,763,651
Deposits	93,632	89,731
Total assets	\$ 12,950,624	\$ 14,616,103

Liabilities and Net Assets

Current liabilities		
Accrued payroll and related liabilities	\$ 830,588	\$ 934,685
Accounts payable and accrued expenses	2,722,459	4,642,365
Accrued annual leave (Note 6)	2,864,381	2,622,565
Current portion of long-term debt (Note 7)	102,000	78,952
Total current liabilities	6,519,428	8,278,567
Deferred rent	122,141	171,801
Long-term debt, net (Note 7)	2,206,475	2,316,579
Total liabilities	8,848,044	10,766,947
Commitments and contingencies (Notes 9 and 10)		
Net assets		
Without donor restrictions	4,084,330	3,815,406
With donor restrictions (Note 8)	18,250	33,750
Total net assets	4,102,580	3,849,156
Total liabilities and net assets	\$ 12,950,624	\$ 14,616,103

See Notes to Financial Statements.

Neighborhood House Association

Statements of Activities Years Ended June 30, 2019 and 2018

	2019	2018
Change in net assets without donor restrictions		
Revenues and support		
Grants and contracts (Note 11)	\$ 93,467,236	\$ 90,994,005
Food reimbursements	1,475,329	1,380,056
Reimbursements from partners	378,391	418,391
Contributions and donations	1,100,738	1,104,855
Service fees	893,010	897,508
Investment return and interest income	42,801	11,380
Other revenues	1,644,030	1,595,546
Net assets released from restrictions	33,750	71,826
Total revenues and support without donor restrictions	99,035,285	96,473,567
Expenses		
Program services	91,569,888	89,072,244
Supporting services		
Fundraising	69,365	53,839
Management and general	7,127,108	7,232,620
Total expenses	98,766,361	96,358,703
Change in net assets without donor restrictions	268,924	114,864
Change in net assets with donor restrictions		
Contributions	18,250	17,100
Net assets released from restrictions	(33,750)	(71,826)
Change in net assets with donor restrictions	(15,500)	(54,726)
Change in net assets	253,424	60,138
Beginning	3,849,156	3,789,018
End	\$ 4,102,580	\$ 3,849,156

See Notes to Financial Statements.

Neighborhood House Association
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 253,424	\$ 60,138
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	396,524	492,751
Deferred rent	(49,660)	(16,014)
Gain on disposal of equipment	-	350
Changes in operating assets and liabilities		
Grants and contracts receivable	984,758	(270,272)
Other accounts receivable	124,328	(34,894)
Prepaid expenses and deposits	(166,734)	(8,117)
Operating advances	-	23,283
Accounts payable and accrued expenses	(2,089,969)	1,344,872
Accrued payroll and related liabilities	(104,097)	42,192
Accrued annual leave	241,816	146,833
	<u>(409,610)</u>	<u>1,781,122</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Release of restricted cash	15,500	54,726
Purchases of property and equipment	(362,622)	(872,245)
	<u>(347,122)</u>	<u>(817,519)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Repayments on debt	(87,056)	(77,774)
	<u>(87,056)</u>	<u>(77,774)</u>
Net cash used in financing activities		
Net increase (decrease) in cash and cash equivalents	(843,788)	885,829
Cash and cash equivalents, beginning	<u>6,213,354</u>	<u>5,327,525</u>
Cash and cash equivalents, end	<u>\$ 5,369,566</u>	<u>\$ 6,213,354</u>
Supplemental disclosures of cash flow data		
Cash paid for interest	<u>\$ 97,767</u>	<u>\$ 107,049</u>

See Notes to Financial Statements.

Neighborhood House Association
Statement of Functional Expenses
Year Ended June 30, 2019
(With summarized financial information for 2018)

	Program services				Supporting services		Total expenses	
	Childcare programs	nutrition programs	Youth and other services	Total	Fundraising	Management and general	2019	2018
Salaries	\$ 25,034,524	\$ 2,831,859	\$ 362,770	\$ 28,229,153	\$ -	\$ 4,172,255	\$ 32,401,408	\$ 30,962,125
Fringe benefits	8,029,661	750,520	56,107	8,836,288	-	983,419	9,819,707	9,520,398
Contracted services	2,160,140	278,378	161,311	2,599,829	8,895	932,029	3,540,753	3,139,916
Supplies	1,757,971	79,031	17,892	1,854,894	21,507	56,205	1,932,606	2,155,854
Telephone and communications	-	68,937	4,387	73,324	-	85,368	158,692	461,166
Postage	6,600	1,378	301	8,279	-	12,863	21,142	19,279
Occupancy and storage	4,649,445	393,340	41,602	5,084,387	-	-	5,084,387	4,063,391
Utilities	401,886	36,981	-	438,867	-	52,515	491,382	484,456
Printing, publications and advertising	4,790	4,818	1,177	10,785	1,007	13,945	25,737	39,064
Travel and meetings	836,628	75,604	47,911	960,143	621	226,319	1,187,083	1,098,311
Subcontracts (Note 17)	39,250,978	-	-	39,250,978	-	-	39,250,978	39,250,853
Food expense	1,357,982	115,979	17,738	1,491,699	717	18,758	1,511,174	1,550,797
Client assistance	65,446	222,536	19,400	307,382	-	1,197	308,579	256,702
Equipment expense	1,288,990	104,379	56,846	1,450,215	-	66,968	1,517,183	1,821,530
Depreciation and amortization	164,590	-	-	164,590	-	231,934	396,524	493,100
Insurance	361,172	30,411	2,527	394,110	-	151,017	545,127	500,599
Interest and fees	107,261	7,747	6,724	121,732	-	31,183	152,915	165,836
Other expenses	260,571	11,072	21,590	293,233	36,618	91,133	420,984	375,326
Indirect cost	5,960,458	517,384	24,404	6,502,246	-	(6,502,246)	-	-
Subtotal	91,699,093	5,530,354	842,687	98,072,134	69,365	624,862	98,766,361	96,358,703
Less indirect allocation	(5,960,458)	(517,384)	(24,404)	(6,502,246)	-	6,502,246	-	-
Total expenses by function	<u>\$ 85,738,635</u>	<u>\$ 5,012,970</u>	<u>\$ 818,283</u>	<u>\$ 91,569,888</u>	<u>\$ 69,365</u>	<u>\$ 7,127,108</u>	<u>\$ 98,766,361</u>	<u>\$ 96,358,703</u>

See Notes to Financial Statements.

Neighborhood House Association

Notes to Financial Statements June 30, 2019 and 2018

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, 2019.

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 pronouncement

For the year ended June 30, 2019, the Organization has adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by ASU 2016-14 have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions, and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Neighborhood House Association

Notes to Financial Statements June 30, 2019 and 2018

Revenue and support

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the donor's or grantor's restrictions. 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.

Contributions and support are recognized in the period in which NHA receives a promise to give that is, in substance, unconditional. Support that is restricted by the donor is reported as an increase in 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 restriction.

Other accounts receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. NHA provides for losses on accounts receivable by calculating an allowance for uncollectible receivables. The allowance is based on experience, third-party contracts and other circumstances. 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, 2019 or 2018.

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 2019 and 2018, the value of contributed services recognized as revenues and expenses in the accompanying financial statements was approximately \$554,000 and \$545,000, 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

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

Investments

NHA invests in marketable securities which are carried at fair value, with realized and unrealized gains and losses included in the 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, 2019.

Neighborhood House Association

Notes to Financial Statements June 30, 2019 and 2018

Property and equipment

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

Description	Useful life
Buildings	15-30 years
Building improvements	3-10 years
Leasehold improvements	3-15 years
Vehicles	5 years
Furniture and equipment	3-5 years
Computer equipment	3-5 years

Impairment of long-lived assets

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

Deferred rent

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

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, 2019 and 2018, 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, 2019 and 2018.

NHA's federal and state information returns prior to fiscal years 2016 and 2015, 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, 2019 and 2018 were approximately \$15,000 and \$13,000, respectively.

Neighborhood House Association

Notes to Financial Statements June 30, 2019 and 2018

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.

Subsequent events

Subsequent events have been evaluated through November 14, 2019, which is the date the financial statements were available to be issued.

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 period ended June 30, 2019, the total award amount was \$80,263,250. 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 \$1,500,000. NHA cannot, by law, accumulate any reserve amounts with Head Start grant monies.

For Non-Head Start programs and recurring Non-Head Start programs day-to-day expenditures are financed by a combination of state of California and San Diego County Grants, periodic contributions, revenue from fundraising events, accounts receivables and cash without donor restrictions with a balance of approximately \$2,320,651 as of June 30, 2019. Non-federal grants and contracts receivable totaled approximately \$1,953,786 at June 30, 2019. NHA is also authorized to utilize a pool of short-term investments consisting of approximately \$2,864,000 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

Neighborhood House Association

**Notes to Financial Statements
June 30, 2019 and 2018**

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:

Cash and cash equivalents	\$ 5,369,566
Investments (Note 3 and 16)	356,896
Grants and contracts receivable (Note 4)	1,400,681
Other accounts receivable, less allowance for doubtful accounts	<u>671,932</u>
Current assets, excluding non-financial assets	<u><u>\$ 7,799,075</u></u>

Note 3 - Investments

Investments consist of equity and other securities with an approximate fair value of \$357,000 and \$187,000 at June 30, 2019 and 2018, respectively. Fair values have been determined by reference to the most recent market quotations for the respective investments.

Note 4 - Grants and contracts receivable

At June 30, 2019 and 2018, grants and contracts receivable consist of the following:

	<u>2019</u>	<u>2018</u>
Head Start	\$ 111,351	\$ 374,552
State programs	14,600	827,513
County programs	845,297	787,422
Food reimbursements	<u>429,433</u>	<u>395,952</u>
Total	<u><u>\$ 1,400,681</u></u>	<u><u>\$ 2,385,439</u></u>

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Notes to Financial Statements June 30, 2019 and 2018

Note 5 - Property and equipment

Property and equipment as of June 30, 2019 consists of the following:

	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>	<u>Net book value</u>
Land	\$ 1,215,004	\$ -	\$ 1,215,004
Building	4,871,603	3,225,423	1,646,180
Building improvements	609,810	609,810	-
Leasehold improvements	8,091,399	6,703,313	1,388,086
Vehicles	2,090,332	1,758,008	332,324
Furniture and equipment	3,626,674	3,478,519	148,155
Computer equipment	289,117	289,117	-
	<u>\$ 20,793,939</u>	<u>\$ 16,064,190</u>	<u>\$ 4,729,749</u>

Property and equipment as of June 30, 2018 consists of the following:

	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>	<u>Net book value</u>
Land	\$ 1,215,004	\$ -	\$ 1,215,004
Building	4,871,603	3,067,157	1,804,446
Building improvements	615,267	611,238	4,029
Leasehold improvements	8,085,942	6,515,685	1,570,258
Vehicles	1,785,549	1,736,363	49,186
Furniture and equipment	3,568,835	3,448,106	120,729
Computer equipment	289,117	289,117	-
	<u>\$ 20,431,317</u>	<u>\$ 15,667,666</u>	<u>\$ 4,763,651</u>

A significant portion of NHA's property and equipment is identified as collateral for certain long-term debt as described in Note 7. There were disposals with a net carrying value of \$0 and \$777,750 during the fiscal years ended June 30, 2019 and 2018 respectively.

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, 2019 and 2018 is approximately \$4,730,000 and \$4,764,000, respectively, and is included in property and equipment.

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**Notes to Financial Statements
June 30, 2019 and 2018**

Note 6 - 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.

Note 7 - Long-term debt

Long-term debt consists of the following:

	2019	2018
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.	\$ 1,868,475	\$ 1,955,531
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.	440,000	440,000
Less current portion	2,308,475 (102,000)	2,395,531 (78,952)
Long-term portion	<u>\$ 2,206,475</u>	<u>\$ 2,316,579</u>

Maturities of long-term debt in each of the five years subsequent to June 30, 2019 and thereafter are calculated as follows:

2020	\$	102,000
2021		124,046
2022		130,330
2023		136,935
2024		42,509
Thereafter		1,772,655
Total	\$	<u>2,308,475</u>

Neighborhood House Association

**Notes to Financial Statements
June 30, 2019 and 2018**

Note 8 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2019 and 2018:

	2019	2018
Summer internship	18,250	33,750
	18,250	\$ 33,750

Note 9 - 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, 2019 and thereafter are as follows:

2020	\$	1,910,996
2021		1,422,130
2022		958,863
2023		708,557
2024		237,853
Thereafter		1,067,939
Total	\$	6,306,338

Total operating lease expense for the years ended June 30, 2019 and 2018 was \$2,577,004 and \$2,328,664 respectively.

Note 10 - Contingencies

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

Note 11 - Grants and contracts revenues

In the fiscal years ended June 30, 2019 and 2018, NHA recognized grants and contracts revenues from the following sources:

	2019	2018
Head Start program	\$ 81,440,025	\$ 78,747,516
State programs	6,044,079	6,183,127
County programs	5,983,132	6,060,462
Other programs	-	2,900
Total grants and contracts	\$ 93,467,236	\$ 90,994,005

Neighborhood House Association

Notes to Financial Statements June 30, 2019 and 2018

Note 12 - 401(k) plan

NHA maintains a defined contribution 401(k) plan covering regular full-time employees. NHA's contribution to the 401(k) plan is based upon a maximum of 6% of the salaries of those employees participating in the plan. Employees covered by the plan have a mandatory contribution of 3% of their respective gross salaries, and can make additional voluntary contributions not to exceed \$18,500 for the tax year ending December 31, 2019. Also, employees age 50 or over by the end of the plan year are allowed to make up to \$6,000 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, 2019 and 2018 were approximately \$1,558,000 and \$1,571,000, respectively.

Note 13 - 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 2019	Final 2018
Head Start	10.0%	10.0%
Non-Head Start	10.7%	10.7%
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, 2019 and 2018 were approximately \$6,502,000 and \$6,478,000, respectively.

Note 14 - 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.

At June 30, 2019, NHA had cash and cash equivalents in excess of FDIC insured limits at certain financial institutions totaling approximately \$3,288,000.

NHA has ten government contracts in fiscal year 2019 from federal, state and local sources. The largest contract was for the federal Head Start program totaling \$81,440,025. Included in grants and contracts receivable at June 30, 2019 is \$111,351 related to this contract.

Note 15 - Union contract

Most non-management personnel (representing 55% of total employees) of NHA are members of the Service Employees International Union, Local #221. NHA's contract with the union was in effect through June 30, 2017, 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, 2019 and 2018

Note 16 - Fair value measurements

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

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

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

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

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

Financial assets carried at fair value at June 30, 2019 are classified in the table below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Equity securities	<u>\$ 356,896</u>	<u>\$ -</u>	<u>\$ 356,896</u>
Total assets at fair value	<u><u>\$ 356,896</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 356,896</u></u>

Financial assets carried at fair value at June 30, 2018 are classified in the table below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Equity securities	<u>\$ 186,833</u>	<u>\$ -</u>	<u>\$ 186,833</u>
Total assets at fair value	<u><u>\$ 186,833</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 186,833</u></u>

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018.

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, 2019 and 2018**

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 17 - Subcontracts expense

Subcontracts expense for the fiscal years ended June 30, 2019 and 2018 included the following:

	<u>2019</u>	<u>2018</u>
Subawards/delegate agencies	\$ 32,178,817	\$ 32,354,101
Contracted child care	<u>7,072,161</u>	<u>6,896,752</u>
Total	<u>\$ 39,250,978</u>	<u>\$ 39,250,853</u>

Supplementary Information

Neighborhood House Association

Schedule of Expenditures of Federal and State Awards Year Ended June 30, 2019

Federal grantor / pass-through grantor / program title or cluster	Federal CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Expenditures	
				Federal	State
U.S. Department of Health and Human Services					
Head Start Program 09CH911805	93.600			1,834,501	
Head Start Program 09CH010587-01	93.600		\$ 39,250,978	\$ 79,605,524	\$ -
				81,440,025	
Passed through from the County of San Diego:					
Aging Cluster:					
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	547780	-	18,407	-
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	547780	-	54,453	-
Nutrition Services Incentive Program	93.053	547780	-	9,450	-
Total Aging Cluster			-	<u>82,310</u>	-
Passed through from the County of San Diego:					
HIV Emergency Relief Project Grants (Case Management) (1)	93.914	537490	-	225,535	-
HIV Emergency Relief Project Grants (Coordinate Svc) (1)	93.914	559324	-	121,592	-
HIV Emergency Relief Project Grants (Coordinate Svc) (2)	93.914	559324	-	222,656	-
Total for HIV Emergency Relief Project Grants			-	<u>569,783</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-8211	-	329,816	-
Total for Child Care Mandatory and Matching Funds of the CCDF			-	<u>329,816</u>	-
Child Care and Development Block Grant	93.575	CCTR-8211	-	151,614	-
Total for Child Care and Development Block Grant			-	<u>151,614</u>	-
Total CCDF Cluster			-	<u>481,430</u>	-
Child Development Program	93.U00	CCTR-8211	-	-	1,584,027
Child Development Program	93.U01	CSPP-8475	-	-	4,460,052
Total for Child Development Program			-	-	<u>6,044,079</u>
Medicaid Cluster:					
Medical Assistance Program (Medicaid - Title XIX)	93.778	557159	-	170,320	-
Total Medicaid Cluster			-	<u>170,320</u>	-
Maternal and Child Health Services Block Grant to the States	93.994	557159	-	219,459	234,896
			-	<u>219,459</u>	-
Total U.S. Department of Health and Human Services			39,250,978	82,963,327	6,278,975
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	-	1,419,462	-
Adult Day Care Centers	10.558	04500-CACFP-37-NP-CS	-	55,867	-
Total U.S. Department of Agriculture			-	1,475,329	-
Total Expenditures of Federal and State Awards			\$ 39,250,978	\$ 84,438,657	\$ 6,278,975

Notes:

⁽¹⁾ Program year - July 2018 - February 2019

⁽²⁾ Program year - March 2019 - June 2019

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

Neighborhood House Association

**Notes to Schedule of Expenditures of Federal and State Awards
June 30, 2019**

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") include the federal and state grant activity of NHA under programs of the federal and state governments for the year ended June 30, 2019. 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.

Program revenues

Revenues from award programs are recognized in the period in which terms of the grant or contractual agreements have been met and the revenue earned, and is included in NHA's financial statements as "Grants and contracts."

Note 3 - Federal contracts

Reconciliation of reported and audited expenses

Program	Program expenses
Amount shown on the schedule of expenditures of federal awards	\$ 79,605,524
Add obligations liquidated after June 30, 2019	380,798
Unobligated balance of Federal Funds	<u>276,928</u>
Total Head Start expenses reported on the SF-425	<u><u>\$ 80,263,250</u></u>

Note 4 - 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, 2019 included an audit fee of approximately \$135,000.

Note 5 - Indirect cost rate

NHA has been assigned an indirect cost rate of 10% for the Head Start program and 10.7% for Non-Head Start programs by its cognizant agency.

Neighborhood House Association

**Notes to Schedule of Expenditures of Federal and State Awards
June 30, 2019**

Note 6 - Non-cash assistance

In accordance with matching requirements for the Head Start program, the value of non-cash assistance (in-kind donations) was \$27,189,160 for fiscal year ended June 30, 2019.

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"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2019.

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") to determine the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 14, 2019

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, 2019. 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, 2019.

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.



San Diego, California
November 14, 2019

Neighborhood House Association

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Part I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements 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) _____yes X no

Identification of the major programs tested:

<u>CFDA/Award Number</u>	<u>Name of Federal Program</u>
93.600	Head Start Program

Dollar threshold used to distinguish between type A and type B programs: \$2,533,160

Auditee qualified as low-risk auditee? X yes _____no

Neighborhood House Association
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Part II - Financial Statement Findings Section

None noted.

Part III - Federal Award Findings and Questioned Costs Section

None noted.



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