

**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, 2020 and 2019**

---

# Neighborhood House Association

## Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Statements of Financial Position	4
Statements of Activities	5
Statement of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information	
Schedules of Expenditures of Federal and State Awards	21
Notes to Schedules of Expenditures of Federal and State Awards	22
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 <i>Government Auditing Standards</i>	23
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	25
Schedule of Findings and Questioned Costs	27

## 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, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NHA as of June 30, 2020 and 2019, 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 2020 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2020 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2020 financial statements or to the 2020 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 2020 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 December 8, 2020 on our consideration of NHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NHA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NHA's internal control over financial reporting and compliance.

*CohnReznick LLP*

San Diego, California  
December 8, 2020

**Neighborhood House Association**

**Statements of Financial Position  
June 30, 2020 and 2019**

	<u>Assets</u>	
	2020	2019
Current assets		
Cash and cash equivalents (Note 13)	\$ 6,096,948	\$ 5,369,566
Restricted cash	65,220	18,250
Investments (Note 15)	414,143	356,896
Grants and contracts receivable (Note 3)	2,408,807	1,400,681
Other accounts receivable	388,190	671,932
Prepaid expenses	319,525	309,918
Total current assets	9,692,833	8,127,243
Property and equipment (Note 4)		
Property and equipment	21,593,382	20,793,939
Less accumulated depreciation and amortization	(16,501,247)	(16,064,190)
Total property and equipment, net	5,092,135	4,729,749
Deposits	93,632	93,632
Total assets	\$ 14,878,600	\$ 12,950,624
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accrued payroll and related liabilities	\$ 861,968	\$ 830,588
Accounts payable and accrued expenses	3,735,883	2,722,459
Accrued annual leave (Note 5)	3,394,822	2,864,381
Current portion of long-term debt (Note 6)	107,461	102,000
Total current liabilities	8,100,134	6,519,428
Deferred rent	90,150	122,141
Long-term debt, net (Note 6)	2,099,323	2,206,475
Total liabilities	10,289,607	8,848,044
Commitments and contingencies (Notes 8 and 9)		
Net assets		
Without donor restrictions	4,523,773	4,084,330
With donor restrictions (Note 7)	65,220	18,250
Total net assets	4,588,993	4,102,580
Total liabilities and net assets	\$ 14,878,600	\$ 12,950,624

See Notes to Financial Statements.

**Neighborhood House Association**  
**Statements of Activities**  
**Years Ended June 30, 2020 and 2019**

	2020	2019
Change in net assets without donor restrictions		
Revenues and support		
Grants and contracts (Note 10)	\$ 95,844,488	\$ 93,467,236
Food reimbursements	1,033,879	1,475,329
Reimbursements from partners	680,835	378,391
Contributions and donations	1,164,180	1,100,738
Service fees	893,786	893,010
Investment return and interest income	41,130	42,801
Other revenues	1,332,292	1,644,030
Net assets released from restrictions	18,250	33,750
Total revenues and support without donor restrictions	101,008,840	99,035,285
Expenses		
Program services	93,057,746	91,569,888
Supporting services		
Fundraising	60,297	69,365
Management and general	7,451,354	7,127,108
Total expenses	100,569,397	98,766,361
Change in net assets without donor restrictions	439,443	268,924
Change in net assets with donor restrictions		
Contributions	65,220	18,250
Net assets released from restrictions	(18,250)	(33,750)
Change in net assets with donor restrictions	46,970	(15,500)
Change in net assets	486,413	253,424
Beginning	4,102,580	3,849,156
End	\$ 4,588,993	\$ 4,102,580

See Notes to Financial Statements.

## Neighborhood House Association

### Statement of Functional Expenses Year Ended June 30, 2020

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

See Notes to Financial Statements.

## Neighborhood House Association

### Statement of Functional Expenses Year Ended June 30, 2019

	Program services				Supporting services		Total expenses
	Childcare programs	Health and nutrition programs	Youth and other services	Total	Fundraising	Management and general	
Salaries	\$ 25,034,524	\$ 2,831,859	\$ 362,770	\$ 28,229,153	\$ -	\$ 4,172,255	\$ 32,401,408
Fringe benefits	8,029,661	750,520	56,107	8,836,288	-	983,419	9,819,707
Contracted services	2,160,140	278,378	161,311	2,599,829	8,895	932,029	3,540,753
Supplies	1,757,971	79,031	17,892	1,854,894	21,507	56,205	1,932,606
Telephone and communications	-	68,937	4,387	73,324	-	85,368	158,692
Postage	6,600	1,378	301	8,279	-	12,863	21,142
Occupancy and storage	4,649,445	393,340	41,602	5,084,387	-	-	5,084,387
Utilities	401,886	36,981	-	438,867	-	52,515	491,382
Printing, publications and advertising	4,790	4,818	1,177	10,785	1,007	13,945	25,737
Travel and meetings	836,628	75,604	47,911	960,143	621	226,319	1,187,083
Subcontracts (Note 16)	39,250,978	-	-	39,250,978	-	-	39,250,978
Food expense	1,357,982	115,979	17,738	1,491,699	717	18,758	1,511,174
Client assistance	65,446	222,536	19,400	307,382	-	1,197	308,579
Equipment expense	1,288,990	104,379	56,846	1,450,215	-	66,968	1,517,183
Depreciation and amortization	164,590	-	-	164,590	-	231,934	396,524
Insurance	361,172	30,411	2,527	394,110	-	151,017	545,127
Interest and fees	107,261	7,747	6,724	121,732	-	31,183	152,915
Other expenses	260,571	11,072	21,590	293,233	36,618	91,133	420,984
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
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>

See Notes to Financial Statements.



**Neighborhood House Association**  
**Statements of Cash Flows**  
**Years Ended June 30, 2020 and 2019**

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 486,413	\$ 253,424
Adjustments to reconcile change in net assets to net cash and restricted cash provided by (used in) operating activities		
Depreciation and amortization	437,057	396,524
Deferred rent	(31,991)	(49,660)
Changes in operating assets and liabilities		
Grants and contracts receivable	(1,008,126)	984,758
Other accounts receivable	283,742	124,328
Prepaid expenses and deposits	(9,607)	(166,734)
Accounts payable and accrued expenses	956,177	(2,089,969)
Accrued payroll and related liabilities	31,380	(104,097)
Accrued annual leave	530,441	241,816
	<u>1,675,486</u>	<u>(409,610)</u>
Net cash and restricted cash provided by (used in) operating activities		
Cash flows from investing activities		
Purchases of property and equipment	(799,443)	(362,622)
	<u>(799,443)</u>	<u>(362,622)</u>
Net cash and restricted cash used in investing activities		
Cash flows from financing activities		
Repayments on debt	(101,691)	(87,056)
	<u>(101,691)</u>	<u>(87,056)</u>
Net cash and restricted cash used in financing activities		
Net increase (decrease) in cash, cash equivalents, and restricted cash	774,352	(859,288)
Cash, cash equivalents and restricted cash, beginning	5,387,816	6,247,104
Cash, cash equivalents, and restricted cash, end	<u>\$ 6,162,168</u>	<u>\$ 5,387,816</u>
Supplemental disclosures of cash flow data		
Cash paid for interest	<u>\$ 106,245</u>	<u>\$ 97,767</u>

See Notes to Financial Statements.

## Neighborhood House Association

### Notes to Financial Statements June 30, 2020 and 2019

#### 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, 2020.

*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

In May 2014, the Financial Accounting Standards Board ("FASB") issued *ASU No. 2014-09, Revenue from Contracts with Customers (ASC 606)*, to replace the existing revenue recognition criteria for contracts with customers and to establish the disclosure requirements for revenue from contract with customers. Subsequent to the initial ASU, the FASB issued various related corrective and clarifying ASUs for the new revenue recognition standard, all of which have been codified in ASC 606. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers to reflect the consideration to which the entity expects to be entitled in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues. ASC 606 was originally effective for private companies for annual periods beginning after December 15, 2018, with early adoption permitted.

On April 21, 2020, the FASB issued *ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. The amendments in this Update defer, for one year, the required effective date of ASC 606 and ASC 842 for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of the new standard. Those entities may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019, and for interim reporting periods

## Neighborhood House Association

### Notes to Financial Statements June 30, 2020 and 2019

within annual reporting periods beginning after December 15, 2020. The Organization has elected to defer its adoption of ASC 606. The Organization is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

For the year ended June 30, 2020, the Organization has adopted the FASB's ASU No. 2018-08. In June 2018, the FASB issued *ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the Organization's implementation of ASU 2018-08.

In November 2016, the FASB issued *ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash*. This ASU provides additional guidance related to transfers between cash and restricted cash and how entities present, in their statements of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. The Organization has adopted these provisions in the accompanying financial statements.

#### **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, 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.

#### **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, 2020 and 2019.

#### **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 2020 and 2019, the

## Neighborhood House Association

### Notes to Financial Statements June 30, 2020 and 2019

value of contributed services recognized as revenues and expenses in the accompanying financial statements was approximately \$630,000 and \$554,000, respectively, which included ophthalmology services and related use of supplies and equipment.

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

#### Cash and cash equivalents

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

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:

	2020	2019
Cash and cash equivalents	\$ 6,096,948	\$ 5,369,566
Cash restricted for program-related expenses	65,220	18,250
Total	<u>\$ 6,162,168</u>	<u>\$ 5,387,816</u>

#### Investments

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

#### Operating advances

Operating advances, if any, represent advances to delegate agencies that relate to the next program year. Advances are made to ensure that operations continue over the summer. The advances were fully recouped as of June 30, 2020 and 2019.

#### 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

## **Neighborhood House Association**

### **Notes to Financial Statements June 30, 2020 and 2019**

#### **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, 2020 and 2019, 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, 2020 and 2019.

NHA's federal and state information returns prior to fiscal years 2017 and 2016, 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, 2020 and 2019 were approximately \$18,000 and \$15,000, respectively.

#### **Functional expenses**

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

## Neighborhood House Association

### Notes to Financial Statements June 30, 2020 and 2019

#### 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, 2020 and 2019, the total award amount was \$87,513,839 and \$80,263,250, respectively. For the period ended June 30, 2020, \$5,851,101 of the total award amount was carried over to YR-55 for Covid-19. 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 \$1,600,000. 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 \$2,436,454 as of June 30, 2020 and \$2,320,651 as of June 30, 2019. Non-federal grants and contracts receivable totaled approximately \$2,114,661 as of June 30, 2020 and \$1,953,786 at June 30, 2019. NHA is also authorized to utilize a pool of short-term investments consisting of approximately \$2,771,000 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 donor restrictions cash pool also funds a variety of NHA fundraising efforts, including an annual Golf Gathering and an annual "Virtual Gala" reception. Cash pool without donor restrictions is available to support certain payroll expenditures that are not allowed to be expensed under federal programs, as well as certain advocacy consulting activity that is not considered reimbursable under federal or county guidelines.

**Neighborhood House Association**

**Notes to Financial Statements  
June 30, 2020 and 2019**

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:

	2020	2019
Cash and cash equivalents	\$ 6,096,948	\$ 5,369,566
Investments (Note 15)	414,143	356,896
Grants and contracts receivable (Note 3)	2,408,807	1,400,681
Other accounts receivable, less allowance for doubtful accounts	388,190	671,932
Current assets, excluding non-financial assets	\$ 9,308,088	\$ 7,799,075

**Note 3 - Grants and contracts receivable**

At June 30, 2020 and 2019, grants and contracts receivable consist of the following:

	2020	2019
Head Start	\$ 667,961	\$ 111,351
State programs	479,159	14,600
County programs	1,240,277	845,297
Food reimbursements	21,410	429,433
Total	\$ 2,408,807	\$ 1,400,681

**Note 4 - Property and equipment**

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

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

## Neighborhood House Association

### Notes to Financial Statements June 30, 2020 and 2019

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>

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, 2020 and 2019 is approximately \$2,116,000 and \$4,730,000, respectively, and is included in property and equipment.

#### Note 5 - Accrued annual leave

Accrued annual leave is presented as a liability in the statements of financial position. NHA records the accrued leave as it is earned by the employees. These amounts have been funded with cash covered by FDIC insurance included as cash and cash equivalents in the statement of financial position.



**Neighborhood House Association**

**Notes to Financial Statements  
June 30, 2020 and 2019**

**Note 6 - Long-term debt**

Long-term debt consists of the following:

	2020	2019
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.	\$ 1,781,106	\$ 1,868,475
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.	425,678	440,000
	2,206,784	2,308,475
Less current portion	(107,461)	(102,000)
Long-term portion	\$ 2,099,323	\$ 2,206,475

Maturities of long-term debt in each of the five years subsequent to June 30, 2020 and thereafter are calculated as follows:

2021	\$	107,461
2022		130,330
2023		136,935
2024		142,509
2025		42,509
Thereafter		1,647,040
Total	\$	2,206,784

The Note Purchase Agreement requires a minimum Debt Service Ratio to be maintained or maintain liquid assets in an amount not less than \$1,000,000. As of June 30, 2020 and 2019, the Company was in compliance with all covenants contained in the Note Purchase Agreement.

## Neighborhood House Association

### Notes to Financial Statements June 30, 2020 and 2019

#### Note 7 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2020 and 2019:

	2020	2019
Homework Center	\$ 34,013	\$ -
Summer internship	31,207	18,250
Total	\$ 65,220	\$ 18,250

Net assets released from donor restrictions at June 30, 2020 and 2019:

	2020	2019
Summer internship	\$ (18,250)	\$ (33,750)
Total	\$ (18,250)	\$ (33,750)

#### Note 8 - Operating lease commitments

NHA occupies numerous facilities under operating lease agreements that expire at various dates through June 2029. The future minimum payments under these operating leases for each of the five years subsequent to June 30, 2020 and thereafter are as follows:

2021	\$	1,781,026
2022		1,090,853
2023		737,457
2024		266,754
2025		178,829
Thereafter		889,111
Total	\$	4,944,030

Total operating lease expense for the years ended June 30, 2020 and 2019 was \$2,532,221 and \$2,577,004, respectively.

#### Note 9 - Contingencies

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

#### COVID-19

In December 2019 and early 2020, the coronavirus that causes COVID-19 was reported to have surfaced in China. The spread of this virus globally including in early 2020 has caused business disruption domestically in the United States, which is where the Organization predominately operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration. Therefore, while the Organization expects this matter may

## Neighborhood House Association

### Notes to Financial Statements June 30, 2020 and 2019

negatively impact the Organization's financial position, results of operations, or cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time.

#### Note 10 - Grants and contracts revenues

In the fiscal years ended June 30, 2020 and 2019, NHA recognized grants and contracts revenues from the following sources:

	<u>2020</u>	<u>2019</u>
Head Start program	\$ 81,826,351	\$ 81,440,025
State programs	6,797,447	6,044,079
County programs	<u>7,220,690</u>	<u>5,983,132</u>
Total grants and contracts	<u>\$ 95,844,488</u>	<u>\$ 93,467,236</u>

#### Note 11 - 401(k) plan

NHA maintains a defined contribution 401(k) plan covering regular full-time employees. NHA's contribution to the 401(k) plan is based upon a maximum of 6% of the salaries of those employees participating in the plan. Employees covered by the plan have a mandatory contribution of 3% of their respective gross salaries, and can make additional voluntary contributions not to exceed the IRS statutory limit \$19,000 and \$18,500 for the tax year ending December 31, 2019 and 2018, respectively. 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, 2020 and 2019 were approximately \$1,679,000 and \$1,558,000, respectively.

#### Note 12 - Indirect costs

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

	<u>2020</u>	<u>2019</u>
Head Start	10.1%	10.0%
Non-Head Start	10.9%	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, 2020 and 2019 were approximately \$6,596,000 and \$6,502,000, respectively.

#### Note 13 - Concentrations of credit risk

Financial instruments, which potentially subject NHA to concentrations of credit risk, consist primarily of cash and cash equivalents and accounts receivable. NHA maintains its cash and cash equivalents with high-credit quality institutions. At times, such amounts may exceed federally

## Neighborhood House Association

### Notes to Financial Statements June 30, 2020 and 2019

insured limits. However, to minimize risk, the funds are diversified among various financial institutions.

The federal Head Start program totaling \$81,826,351 and \$81,440,025 represents 85% and 87% of total grant revenues as of June 30, 2020 and 2019, respectively. Included in grants and contracts receivable at June 30, 2020 and 2019 is \$667,961 and \$111,351, respectively related to this contract.

#### Note 14 - Union contract

Most non-management personnel (representing 58% of total employees) of NHA are members of the Service Employees International Union, Local #221. NHA's contract with the union was in effect through June 30, 2021, and continues to be in effect from year to year thereafter, unless either party terminates the contract. NHA's other employees are not represented by a union.

#### Note 15 - Fair value measurements

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

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

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

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

## Neighborhood House Association

### Notes to Financial Statements June 30, 2020 and 2019

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>

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, 2020 and 2019.

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

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

#### Note 16 - Subcontracts expense

Subcontracts expense for the fiscal years ended June 30, 2020 and 2019 included the following:

Subawards/delegate agencies	\$ 32,783,284	\$ 32,178,817
Contracted child care	<u>7,056,576</u>	<u>7,072,161</u>
Total	<u><u>\$ 39,839,860</u></u>	<u><u>\$ 39,250,978</u></u>

#### Note 17 - Subsequent events

Subsequent events have been evaluated through December 8, 2020, which is the date the financial statements were available to be issued.

**Neighborhood House Association**

**Schedule of Expenditures of Federal and State Awards  
Year Ended June 30, 2020**

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 09CH9118-05-03	93.600		\$ -	\$ 132,814	\$ -
Head Start Program 09CH010587-01	93.600		230,000	380,799	-
Head Start Program 09CH010587-02-01	93.600		39,609,860	81,312,738	-
			<u>39,839,860</u>	<u>81,826,351</u>	<u>-</u>
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	-	10,080	-
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	547780	-	12,519	-
Nutrition Services Incentive Program	93.053	547780	-	1,943	-
Total Aging Cluster			<u>-</u>	<u>24,542</u>	<u>-</u>
Passed through from the County of San Diego:					
HIV Emergency Relief Project Grants (Coordinate Svc) (1)	93.914	559324		501,945	
HIV Emergency Relief Project Grants (Coordinate Svc) (2)	93.914	559324		234,103	
Total for HIV Emergency Relief Project Grants			<u>-</u>	<u>736,048</u>	<u>-</u>
Passed through California State Department of Education:					
Child Care and Development Fund (CCDF) Cluster:					
Child Care Mandatory and Matching Funds of the CCDF	93.596	CCTR-9207	-	329,816	-
Total for Child Care Mandatory and Matching Funds of the CCDF			<u>-</u>	<u>329,816</u>	<u>-</u>
Child Care and Development Block Grant	93.575	CCTR-9207	-	151,614	-
Total for Child Care and Development Block Grant			<u>-</u>	<u>151,614</u>	<u>-</u>
Total CCDF Cluster			<u>-</u>	<u>481,430</u>	<u>-</u>
Child Development Program	93.U00	CCTR-9207	-	-	1,874,788
Child Development Program	93.U01	CSPP-9475	-	-	4,922,659
Total for Child Development Program			<u>-</u>	<u>-</u>	<u>6,797,447</u>
Medicaid Cluster:					
Medical Assistance Program (Medicaid - Title XIX)	93.778	557159	-	106,664	-
Total Medicaid Cluster			<u>-</u>	<u>106,664</u>	<u>-</u>
Maternal and Child Health Services Block Grant to the States	93.994	557159	-	31,133	789,270
				<u>31,133</u>	
Total U.S. Department of Health and Human Services			<u>39,839,860</u>	<u>83,206,168</u>	<u>7,586,717</u>
U.S. Department of Agriculture					
Passed through from the State Department of Education:					
Child and Adult Care Food Program:					
Child Care Centers	10.558	04500-CACFP-37-NP-CS	-	993,611	-
Adult Day Care Centers	10.558	04500-CACFP-37-NP-CS	-	40,268	-
Total U.S. Department of Agriculture			<u>-</u>	<u>1,033,879</u>	<u>-</u>
Total Expenditures of Federal and State Awards			<u>\$ 39,839,860</u>	<u>\$ 84,240,047</u>	<u>\$ 7,586,717</u>

Notes:

(1) Program year - July 2019 - February 2020

(2) Program year - March 2020 - June 2020

**Neighborhood House Association**

**Notes to Schedule of Expenditures of Federal and State Awards  
June 30, 2020**

**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, 2020. 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 for the current year grant**

Program	Program expenses
Amount shown on the schedule of expenditures of federal awards	\$ 81,312,738
Extension to the liquidation period for 09CH010587-02-01	350,000
Total Head Start expenses reported on the SF-425	\$ 81,662,738

**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, 2020 included an audit fee of approximately \$142,000.

**Note 5 - Indirect cost rate**

NHA has been assigned an indirect cost rate of 10.1% for the Head Start program and 10.9% for Non-Head Start programs by its cognizant agency.

**Note 6 - Non-cash assistance**

In accordance with matching requirements for the Head Start program, the value of non-cash assistance (in-kind donations) was \$23,933,247 for fiscal year ended June 30, 2020.

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 the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Neighborhood House Association ("NHA"), as of and for the year ended June 30, 2020, 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 December 8, 2020.

#### 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NHA's internal control. Accordingly, we do not express an opinion on the effectiveness of NHA's internal control.

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

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether NHA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CohnReznick LLP*

San Diego, California  
December 8, 2020

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, 2020. 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, 2020.

## 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  
December 8, 2020

**Neighborhood House Association**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2020**

**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 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:

<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: \$2,527,201

Auditee qualified as low-risk auditee? Xyes \_\_\_\_\_no

**Neighborhood House Association**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2020**

**Part II - Financial Statement Findings Section**

None noted.

**Part III - Federal Award Findings and Questioned Costs Section**

None noted.



**Independent Member of Nexia International**

**[cohnreznick.com](http://cohnreznick.com)**