

**Neighborhood House Association**

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

**June 30, 2024 and 2023**

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# Neighborhood House Association

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## Independent Auditor's Report

To the Audit Committee  
Neighborhood House Association

Report on the Audit of the Financial Statements

### *Opinion*

We have audited the accompanying financial statements of Neighborhood House Association ("NHA"), which comprise the statements of financial position as of June 30, 2024 **and 2023**, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NHA as of June 30, 2024 **and 2023**, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

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

### *Responsibilities of Management for the Financial Statements*

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

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NHA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NHA's ability to continue as a going concern for a reasonable period of time.

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

### Report on Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report November 14, 2024, on our consideration of NHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NHA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NHA's internal control over financial reporting and compliance.

*CohnReznick LLP*

San Diego, California  
November 14, 2024

## Neighborhood House Association

### Statements of Financial Position June 30, 2024 and 2023

<u>Assets</u>	<u>2024</u>	<u>2023</u>
Current assets		
Cash and cash equivalents	\$ 6,328,560	\$ 6,036,607
Restricted cash	270,130	115,885
Investments (Note 15)	590,657	496,611
Grants and contracts receivable (Note 3)	9,173,343	12,405,563
Other accounts receivable	549,294	651,375
Prepaid expenses	700,193	485,797
Total current assets	17,612,177	20,191,838
Property and equipment (Note 4)		
Property and equipment	25,369,768	25,504,293
Less accumulated depreciation and amortization	(17,726,085)	(18,361,241)
Total property and equipment, net	7,643,683	7,143,052
Deposits	36,486	36,486
Operating lease right-of-use asset (Note 8)	5,124,440	4,735,550
Finance lease right-of-use asset (Note 8)	403,375	277,225
Total assets	\$ 30,820,161	\$ 32,384,151
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accrued payroll and related liabilities	\$ 2,123,488	\$ 2,436,938
Accounts payable and accrued expenses	5,015,082	9,488,124
Deferred revenue (Note 10)	5,400,990	3,548,932
Accrued annual leave (Note 5)	4,577,116	4,381,013
Current portion of long-term debt (Note 6)	34,899	33,533
Current portion of operating lease liability (Note 8)	1,018,466	909,312
Current portion of finance lease liability (Note 8)	107,612	63,695
Total current liabilities	18,277,653	20,861,547
Long-term debt, net (Note 6)	268,930	303,828
Long-term operating lease liability, net (Note 8)	4,441,904	4,048,350
Long-term finance lease liability, net (Note 8)	279,198	213,530
Total liabilities	23,267,685	25,427,255
Commitments and contingencies (Note 9)		
Net assets		
Without donor restrictions	7,282,346	6,841,011
With donor restrictions (Note 7)	270,130	115,885
Total net assets	7,552,476	6,956,896
Total liabilities and net assets	\$ 30,820,161	\$ 32,384,151

See Notes to Financial Statements.

## Neighborhood House Association

### Statements of Activities Years Ended June 30, 2024 and 2023

	2024	2023
Change in net assets without donor restrictions		
Revenues and support		
Grants and contracts (Note 10)	\$ 123,026,132	\$ 114,141,949
Food reimbursements	1,190,927	1,078,758
Reimbursements from partners	1,042,793	1,022,337
Contributions and donations	928,965	344,820
Service fees	135,465	563,522
Investment return and interest income	153,612	25,128
Other revenues	2,668,019	3,232,347
Net assets released from restrictions	168,121	55,225
Total revenues and support without donor restrictions	129,314,034	120,464,086
Expenses		
Program services	119,768,188	110,939,293
Supporting services		
Fundraising	61,602	50,390
Management and general	9,042,909	7,957,155
Total expenses	128,872,699	118,946,838
Change in net assets without donor restrictions	441,335	1,517,248
Change in net assets with donor restrictions		
Contributions	322,366	56,334
Net assets released from restrictions	(168,121)	(55,225)
Change in net assets with donor restrictions	154,245	1,109
Change in net assets	595,580	1,518,357
Net assets, beginning	6,956,896	5,438,539
Net assets, end	\$ 7,552,476	\$ 6,956,896

See Notes to Financial Statements.

## Neighborhood House Association

### Statement of Functional Expenses Year Ended June 30, 2024

	Program services				Supporting services		Total expenses
	Childcare programs	Health and nutrition programs	Youth and other services	Total	Fundraising	Management and general	
Salaries	\$ 37,357,405	\$ 5,064,034	\$ 784,755	\$ 43,206,194	\$ -	\$ 5,097,946	\$ 48,304,140
Fringe benefits	9,329,710	987,336	217,784	10,534,830	-	1,127,134	11,661,964
Contracted services	3,067,062	651,562	280,799	3,999,423	4,490	625,391	4,629,304
Supplies	3,211,749	134,420	117,272	3,463,441	19,011	22,575	3,505,027
Telephone and communications	515,136	137,936	18,830	671,902	-	54,847	726,749
Postage	6,016	1,437	1,107	8,560	160	8,120	16,840
Occupancy and storage	6,811,861	804,672	26,659	7,643,192	-	162,768	7,805,960
Utilities	414,234	6,248	14,626	435,108	-	60,121	495,229
Printing, publications and advertising	154,240	132,236	4,461	290,937	-	12,382	303,319
Travel and meetings	1,174,906	175,190	97,161	1,447,257	890	286,605	1,734,752
Subcontracts (Note 16)	40,846,406	-	-	40,846,406	-	-	40,846,406
Food expense	2,446,804	48,703	92,538	2,588,045	1,633	17,693	2,607,371
Client assistance	141,893	557,184	71,575	770,652	34,711	(29,686)	775,677
Equipment expense	2,218,906	174,476	25,145	2,418,527	16	134,970	2,553,513
Depreciation and amortization	787,796	-	-	787,796	-	392,031	1,179,827
Insurance	456,246	48,250	3,142	507,638	-	209,091	716,729
Interest and fees	13,151	21,091	12,851	47,093	691	37,100	84,884
Other expenses	569,394	73,339	(541,546)	101,187	-	823,821	925,008
<b>Total expenses by function</b>	<b>\$ 109,522,915</b>	<b>\$ 9,018,114</b>	<b>\$ 1,227,159</b>	<b>\$ 119,768,188</b>	<b>\$ 61,602</b>	<b>\$ 9,042,909</b>	<b>\$ 128,872,699</b>

See Notes to Financial Statements.



## Neighborhood House Association

### Statement of Functional Expenses Year Ended June 30, 2023

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

See Notes to Financial Statements.

**Neighborhood House Association**  
**Statements of Cash Flows**  
**Years Ended June 30, 2024 and 2023**

	2024	2023
Cash flows from operating activities		
Change in net assets	\$ 595,580	\$ 1,518,357
Adjustments to reconcile change in net assets to net cash and restricted cash provided by operating activities		
Depreciation and amortization	1,179,827	827,490
Amortization of operating ROU asset	2,217,731	2,596,529
Amortization of finance ROU asset	12,672	133,819
Gain on sale of land	-	(1,023,415)
Unrealized and realized investment loss (income)	(94,046)	(93,221)
Changes in operating assets and liabilities		
Grants and contracts receivable	3,232,220	(5,956,401)
Other accounts receivable	102,081	88,106
Prepaid expenses and deposits	(214,396)	(134,415)
Accrued payroll and related liabilities	(313,450)	1,178,804
Accounts payable and accrued expenses	(4,473,042)	4,516,439
Deferred revenue	1,852,058	458,519
Accrued annual leave	196,103	499,603
Operating lease liability	(2,103,913)	(2,374,417)
Deferred rent	-	(183,204)
	<u>2,189,425</u>	<u>2,052,593</u>
Net cash and restricted cash provided by operating activities		
Cash flows from investing activities		
Proceeds from sale of land	-	1,028,168
Purchases of property and equipment	(1,680,458)	(1,470,603)
	<u>(1,680,458)</u>	<u>(442,435)</u>
Net cash and restricted cash used in investing activities		
Cash flows from financing activities		
Repayments on debt	(33,532)	(1,631,281)
Principal payments on finance leases	(29,237)	(133,819)
	<u>(62,769)</u>	<u>(1,765,100)</u>
Net cash and restricted cash used in financing activities		
Net increase (decrease) in cash, cash equivalents and restricted cash	446,198	(154,942)
Cash, cash equivalents and restricted cash, beginning	<u>6,152,492</u>	<u>6,307,434</u>
Cash, cash equivalents and restricted cash, end	<u>\$ 6,598,690</u>	<u>\$ 6,152,492</u>
Supplemental disclosures of cash flow data		
Cash paid for interest	\$ 11,982	\$ 65,750
Cash paid for interest on finance leases	-	12,851
Right-of-use assets obtained in exchange for lease liabilities		
Operating	2,606,621	7,332,079
Finance	138,822	411,044

See Notes to Financial Statements.

## Neighborhood House Association

### Notes to Financial Statements June 30, 2024 and 2023

#### 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 statements 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, 2024 and 2023.

*Net assets with donor restrictions* - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time, purpose or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

##### Revenue and support

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when allowable, qualified expenditures have been incurred in compliance with the donor's or grantor's conditions. Food reimbursements represent government grants for the Child and Adult Care Food Program. Reimbursements from partners represent Head Start unsubsidized food reimbursements for the Child Care Food Program. Program fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Grants and contracts awarded for the acquisition of long-lived assets are reported as operating revenue without donor restrictions, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. The beginning balance of deferred revenue and refundable advances as of July 1, 2022 was \$3,090,413 and \$0, respectively.

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

## **Neighborhood House Association**

### **Notes to Financial Statements June 30, 2024 and 2023**

The Organization recognizes food reimbursements at the time the food is provided for the childcare programs.

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

#### **Accounts receivable**

Accounts receivable primarily consists of grants receivable, contract receivables and other accounts receivables. Grants and contracts receivables consist of amounts billed and unbilled from government and state agencies. Other accounts receivables are stated at unpaid balances, less an allowance for expected credit losses. NHA provides for losses on accounts receivable by calculating an allowance for expected credit losses. 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 expected credit losses or write-offs recorded as of June 30, 2024 and 2023. The beginning balance of grants and contracts receivables and other accounts receivable as of July 1, 2022 was \$6,449,162 and \$739,481, respectively.

#### **Donated goods and services**

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

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

During 2024 and 2023, no contributed services were received.

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

#### **Cash, cash equivalents and restricted cash**

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

## Neighborhood House Association

### Notes to Financial Statements June 30, 2024 and 2023

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

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 6,328,560	\$ 6,036,607
Cash restricted for program-related expenses	<u>270,130</u>	<u>115,885</u>
Total	<u>\$ 6,598,690</u>	<u>\$ 6,152,492</u>

#### Investments

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

#### Property and equipment

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

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

#### Impairment of long-lived assets

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

#### 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, 2024 and 2023, 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

## Neighborhood House Association

### Notes to Financial Statements June 30, 2024 and 2023

has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2024 and 2023.

NHA's federal and state information returns prior to fiscal years 2021 and 2020, 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, 2024 and 2023 were \$280,637 and \$125,177, respectively. These amounts are included in the printing, publications and advertising line item on the Statement of Functional Expenses.

#### **Functional expenses**

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

#### **New accounting pronouncement adopted**

In June 2016, the FASB issued accounting Standards Update No. 2016-13, *Financial Instruments-Credit Losses* ("ASC 326"), which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the current and expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by NHA that are subject to the guidance in ASC 326 were trade accounts receivable. NHA adopted the standard effective July 1, 2023. The impact of the adoption was not considered material to the financial statements and resulted in enhanced disclosures only.

#### **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.

## Neighborhood House Association

### Notes to Financial Statements June 30, 2024 and 2023

#### 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, 2024 and 2023, the total award amount was \$101,025,538 and \$98,445,952, respectively. The PMS allows NHA to periodically electronically draw down its authorized grant monies to accommodate Head Start program requirements for the particular grant year. Draws on grant monies are required to be exhausted before NHA is authorized to initiate further drawdowns to fund its program and/or delegate agency needs. Typical draws are made on average one to two times per week to fund payroll and recurring payables for NHA and its two delegate agencies and average approximately \$1,968,224. NHA cannot, by law, accumulate any reserve amounts with Head Start grant monies. NHA is currently in the second year of a five-year contract term with Head Start. Continued funding is anticipated through the full grant term, contingent upon the availability of federal funds.

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 \$1,441,798 as of June 30, 2024 and \$3,075,258 at June 30, 2023. Nonfederal grants and contracts receivable totaled \$4,926,811 as of June 30, 2024 and \$3,572,248 at June 30, 2023. NHA is also authorized to utilize a pool of short-term investments consisting of \$4,125,917 in FDIC insured deposits, which is included in cash and cash equivalents in the financial statements, to sustain payment of vacation accruals for agency employees. NHA's Board has also authorized management to provide without donor restrictions cash to fund the delegate agencies for a number of San Diego County programs while the county processes NHA's reimbursable claims. The without donor restrictions cash pool also funds a variety of NHA fundraising efforts, including an annual Golf Gathering and an annual "Virtual Gala" reception. Cash pool without donor restrictions is available to support certain payroll expenditures that are not allowed to be expensed under federal programs, as well as certain advocacy consulting activity that is not considered reimbursable under federal or county guidelines.

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

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 6,328,560	\$ 6,036,607
Investments (Note 15)	590,657	496,611
Grants and contracts receivable (Note 3)	9,173,343	12,405,563
Other accounts receivable, less allowance for doubtful accounts	<u>549,294</u>	<u>651,375</u>
Current assets, excluding nonfinancial assets	<u>\$ 16,641,854</u>	<u>\$ 19,590,156</u>

**Neighborhood House Association**

**Notes to Financial Statements  
June 30, 2024 and 2023**

**Note 3 - Grants and contracts receivable**

At June 30, 2024 and 2023, grants and contracts receivable consist of the following:

	2024	2023
Head Start	\$ 4,246,532	\$ 8,833,315
State programs	1,963,046	1,003,268
County programs	2,571,464	2,335,339
Food reimbursements	392,301	233,641
 Total	 \$ 9,173,343	 \$ 12,405,563

**Note 4 - Property and equipment**

Property and equipment as of June 30, 2024 consist of the following:

	Cost	Accumulated depreciation and amortization	Net book value
Land	\$ 1,210,254	\$ -	\$ 1,210,254
Building	4,871,603	4,016,757	854,846
Building improvements	609,809	609,809	-
Leasehold improvements	9,633,692	6,950,396	2,683,296
Vehicles	4,401,920	2,512,516	1,889,404
Furniture and equipment	4,352,342	3,368,691	983,651
Computer equipment	290,148	267,916	22,232
	\$ 25,369,768	\$ 17,726,085	\$ 7,643,683

Depreciation expense for the year ended June 30, 2024 was \$1,179,827.

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

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

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



## Neighborhood House Association

### Notes to Financial Statements June 30, 2024 and 2023

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, 2024 and 2023 is \$5,055,623 and \$4,554,994, respectively, and is included in property and equipment.

#### Note 5 - Accrued annual leave

Accrued annual leave is presented as a liability in the statements of financial position. NHA records the accrued leave as it is earned by the employees. These amounts have been funded with cash covered by FDIC insurance included as cash and cash equivalents in the statement of financial position. As of June 30, 2024 and 2023 accrued annual leave was \$4,577,116 and \$4,381,013, respectively.

#### Note 6 - Long-term debt

Long-term debt consists of the following:

	2024	2023
Note payable to Alliance Healthcare Foundation in monthly installments of principal and interest, with a fixed interest rate of 4%. The loan commenced on January 10, 2017 and matures on December 15, 2031. Repayments of the loan commence on January 1, 2020. The note is secured by real property located at 851 South 35th Street, San Diego, California.	303,829	337,361
Less current portion	(34,899)	(33,533)
Long-term portion	\$ 268,930	\$ 303,828

Maturities of long-term debt in each of the five years subsequent to June 30, 2024 and thereafter are calculated as follows:

2025	\$	34,899	
2026		36,321	
2027		37,800	
2028		39,340	
2029		40,943	
Thereafter		114,526	
Total	\$	303,829	

## Neighborhood House Association

### Notes to Financial Statements June 30, 2024 and 2023

The note payable to Alliance Healthcare Foundation requires a minimum Debt Service Ratio to be maintained. For the years ended June 30, 2024 and 2023, the Organization was in compliance with this covenant.

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

Net assets with donor restrictions are restricted for the following purposes at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Homework Center	\$ 36,008	\$ 89,851
College academy	20,000	10,000
Head Start lets move	-	6,013
Summer internship	204,100	-
Black Youth Initiative	<u>10,022</u>	<u>10,021</u>
Total	<u>\$ 270,130</u>	<u>\$ 115,885</u>

Net assets released from donor restrictions at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Head Start lets move	\$ (77,364)	\$ (2,679)
Summer internship	(26,915)	(52,545)
College Academy	(10,000)	-
Homework Centre	(53,842)	-
Black Youth Initiative	<u>-</u>	<u>(1)</u>
Total	<u>\$ (168,121)</u>	<u>\$ (55,225)</u>

## Neighborhood House Association

### Notes to Financial Statements June 30, 2024 and 2023

#### Note 8 - Leases

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

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

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

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

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

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

The Organization's leases contain a non-appropriation clause that allows for early termination of the lease if funding from grantors is not appropriated or is otherwise lost. This clause provides financial protection by ensuring that lease obligations are contingent upon continued grant funding.

## Neighborhood House Association

### Notes to Financial Statements June 30, 2024 and 2023

The following provides information about the Organization's right-of-use assets and lease liabilities for its operating and finance leases as of June 30, 2024 and 2023:

	<u>Balance Sheet Classification</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Right-of-use assets			
Operating leases	Operating lease right-of-use asset	\$ 5,124,440	\$ 4,735,550
Finance leases	Finance lease right-of-use asset	403,375	277,225
Total leased assets		<u>\$ 5,527,815</u>	<u>\$ 5,012,775</u>
Lease liabilities			
<i>Current</i>			
Operating leases	Current portion of operating lease liability	\$ 1,018,466	\$ 909,312
Finance leases	Current portion of finance lease liability	107,612	63,695
<i>Noncurrent</i>			
Operating leases	Long-term operating lease liability	4,441,904	4,048,350
Finance leases	Long-term finance lease liability	279,198	213,530
Total lease liabilities		<u>\$ 5,847,180</u>	<u>\$ 5,234,887</u>

The components of lease expense for the years ended June 30, 2024 and 2023 are as follows:

	<u>Statement of Functional Expense</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Operating lease cost			
Amortization of right-of-use asset	Occupancy and storage	\$ 2,217,731	\$ 2,596,529
Total operating lease cost		<u>\$ 2,217,731</u>	<u>\$ 2,596,529</u>
Finance lease cost			
Amortization expense	Depreciation and amortization	\$ 12,672	\$ 133,819
Interest expense	Interest and fees	-	12,851
Total finance lease cost		<u>\$ 12,672</u>	<u>\$ 146,670</u>

Weighted average remaining lease term and weighted average discount rate for the Organization's leases as of June 30, 2024:

<u>Year Ended June 30, 2024</u>	<u>Operating leases</u>	<u>Finance leases</u>
Weighted average remaining term (in years)	4.90	3.40
Weighted average discount rate	4.10%	2.67%

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

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

## Neighborhood House Association

### Notes to Financial Statements June 30, 2024 and 2023

Annual maturity analysis of the Organization's lease liabilities as of June 30, 2024:

Calendar year	Operating leases	Finance leases	Total
2025	\$ 818,820	\$ 87,849	\$ 906,669
2026	1,406,067	152,394	1,558,461
2027	1,295,274	139,622	1,434,896
2028	1,147,956	91,416	1,239,372
2029	755,900	46,379	802,279
Thereafter	947,272	15,335	962,607
Total	6,371,289	532,995	6,904,284
Less interest on lease liabilities	(910,919)	(146,185)	(1,057,104)
Present value of lease liability	5,460,370	386,810	5,847,180
Less current portion of lease liabilities	(1,018,466)	(107,612)	(1,126,078)
Noncurrent portion of lease liabilities	\$ 4,441,904	\$ 279,198	\$ 4,721,102

Total operating lease expense for the years ended June 30, 2024 and 2023 was \$2,217,731 and \$2,596,529, respectively. This amount is included in the occupancy and storage line item on the Statement of Functional Expenses.

#### Note 9 - Contingency

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

#### Note 10 - Grants and contracts revenues

In the fiscal years ended June 30, 2024 and 2023, NHA recognized grants and contracts revenues from the following sources:

	2024	2023
Head Start program - federal	\$ 101,025,538	\$ 95,105,871
Other federal	6,041,097	4,589,806
State programs	9,920,671	9,256,753
County programs	6,038,826	5,189,519
Total grants and contracts	\$ 123,026,132	\$ 114,141,949

From time to time, government agencies will provide advances of grant money before qualifying expenditures are reported. For the years ended June 30, 2024 and 2023, NHA recognized deferred revenue of \$5,400,990 and \$3,548,932, respectively.

**Neighborhood House Association**

**Notes to Financial Statements  
June 30, 2024 and 2023**

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

NHA maintains a defined contribution 401(k) plan covering regular full-time employees. NHA's contribution to the 401(k) plan is based upon a maximum of 6% of the salaries of those employees participating in the plan. Employees covered by the plan have an automatic contribution of 3% of their respective gross salaries, and can make additional voluntary contributions not to exceed the IRS statutory limit \$23,000 and \$22,500 for the tax year ending December 31, 2024 and 2023, respectively. Also, employees age 50 or over by the end of the plan year are allowed to make up to \$7,500 of additional contributions to the 401(k) plan, in excess of the standard limits. The 401(k) plan is administered by a private pension company. Employer contributions charged to operations for the years ended June 30, 2024 and 2023 were \$2,153,579 and \$1,844,251, respectively. This amount is included in the fringe benefits line item on the Statement of Functional Expenses.

**Note 12 - Indirect costs**

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

	<u>Provisional 2024</u>	<u>Final 2023</u>
Head Start	10.0%	10.0%
Non-Head Start	10.8%	10.8%
Subawards/delegate agencies	2.0%	2.0%

Indirect costs are charged to the programs in accordance with negotiated rates or specific budgetary limits. The amounts charged for the years ended June 30, 2024 and 2023 were \$8,590,549 and \$8,130,756, respectively.

**Note 13 - Concentrations of credit risk**

Financial instruments, which potentially subject NHA to concentrations of credit risk, consist primarily of cash and cash equivalents and accounts receivable. NHA maintains its cash and cash equivalents with high-credit quality institutions. At times, such amounts may exceed federally insured limits. However, to minimize risk, the funds are diversified among various financial institutions.

The federal Head Start program totaling \$101,025,538 and \$95,105,871 represents 82% and 83% of total grant revenues as of June 30, 2024 and 2023, respectively. Included in grants and contracts receivable at June 30, 2024 and 2023 is \$4,246,532 and \$8,833,315, respectively, related to this contract which represents 46% and 71% of total grants and contracts receivable, respectively.

**Note 14 - Union contract**

Most nonmanagement personnel (representing 55% of total employees) of NHA are members of the Service Employees International Union, Local #221. NHA's contract with the union was in effect through June 30, 2024, 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, 2024 and 2023

#### 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, 2024 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Equity securities	\$ 590,657	\$ -	\$ -	\$ 590,657
Total assets at fair value	<u>\$ 590,657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 590,657</u>

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

	Level 1	Level 2	Level 3	Total
Equity securities	\$ 496,611	\$ -	\$ -	\$ 496,611
Total assets at fair value	<u>\$ 496,611</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 496,611</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, 2024 and 2023.

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, 2024 and 2023**

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, 2024 and 2023 included the following:

	<u>2024</u>	<u>2023</u>
Subawards/delegate agencies	\$ 38,719,743	\$ 39,699,758
Contracted child care	<u>2,126,663</u>	<u>2,232,444</u>
Total	<u>\$ 40,846,406</u>	<u>\$ 41,932,202</u>

**Note 17 - Subsequent events**

Subsequent events have been evaluated through November 14, 2024, which is the date the financial statements were available to be issued.



## **Supplementary Information**

# Neighborhood House Association

## Schedule of Expenditures of Federal and State Awards Year Ended June 30, 2024

Federal grantor / pass-through grantor / program title or cluster	Federal/ state assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Expenditures	
				Federal	State
U.S. Department of Health and Human Services					
Head Start Program 09CH012267-0-02	93.600		\$ 38,367,230	\$ 95,227,642	\$ -
Head Start Program 09CH01058705	93.600		-	2,614,243	-
Head Start Program 09CH01058705C3	93.600		<u>352,513</u>	<u>3,183,653</u>	<u>-</u>
Total Head Start Cluster			<u>38,719,743</u>	<u>101,025,538</u>	<u>-</u>
Passed through from the County of San Diego:					
HIV Emergency Relief Project Grants (Coordinate Svc) (1)	93.914	559324	-	551,722	-
HIV Emergency Relief Project Grants (Coordinate Svc) (2)	93.914	559324	<u>-</u>	<u>149,045</u>	<u>-</u>
Total HIV Emergency Relief Project Grants			<u>-</u>	<u>700,767</u>	<u>-</u>
Passed through from the California State Department of Social Services:					
Child Care and Development Fund (CCDF) Cluster:					
Child Care Mandatory and Matching Funds of the CCDF	93.596	CCTR-3254	-	329,816	-
Total Child Care Mandatory and Matching Funds of the CCDF			<u>-</u>	<u>329,816</u>	<u>-</u>
Child Care and Development Block Grant	93.575	CCTR-3254	-	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>
Passed through from the County of San Diego:					
Medicaid Cluster:					
Medical Assistance Program	93.778	569391	-	449,783	-
Medical Assistance Program	93.778	567868	-	2,817,979	-
Medical Assistance Program	93.778	565526	<u>-</u>	<u>314,281</u>	<u>-</u>
Total Medicaid Cluster			<u>-</u>	<u>3,582,043</u>	<u>-</u>
Maternal and Child Health Services Block Grant to the States	93.994	569391	-	85,930	-
Total Maternal and Child Health Services Block Grant to the States			<u>-</u>	<u>85,930</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>38,719,743</u>	<u>105,875,708</u>	<u>-</u>
U.S. Department of Agriculture					
Passed through from the California State Department of Education:					
Child and Adult Care Food Program:					
Child Care Centers	10.558	04500-CACFP-37-NP-CS	-	1,181,845	-
Adult Day Care Centers	10.558	04500-CACFP-37-NP-CS	<u>-</u>	<u>9,082</u>	<u>-</u>
Total Child and Adult Care Food Program and U.S. Department of Agriculture			<u>-</u>	<u>1,190,927</u>	<u>-</u>
Passed through from the California State Department of Social Services:					
Child Development Program		CCTR-3254	-	-	2,794,956
Passed through from the California State Department of Education:					
Child Development Program		CSPP-3471	<u>-</u>	<u>-</u>	<u>7,125,715</u>
Total for Child Development Program			<u>-</u>	<u>-</u>	<u>9,920,671</u>
Total Expenditures of Federal and State Awards			<u>\$ 38,719,743</u>	<u>\$ 107,066,635</u>	<u>\$ 9,920,671</u>

Notes:

(1) Program year Expenses - July 2023 - February 2024. Contract Award March 2024 - Feb 2025

(2) Program year Expenses - March 2023 - June 2024. Contract Award March 2024 - Feb 2025

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, 2024

#### **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, 2024. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of NHA, it is not intended to, and does not present, the financial position, changes in net assets or cash flows of NHA.

#### **Note 2 - Summary of significant accounting policies**

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

#### **Note 3 - Disclosure of audit fees**

In accordance with the audit disclosure requirements of the State of California, Department of Education, the audit contract for NHA for the fiscal year ended June 30, 2024 included an audit fee of approximately \$177,625.

#### **Note 4 - Indirect cost rate**

NHA has been assigned an indirect cost rate of 10.0% for the Head Start program and 10.8% for Non-Head Start programs by its cognizant agency. Delegate agencies have been assigned an indirect cost rate of 2.0% by NHA's cognizant agency.

#### **Note 5 - Noncash assistance**

In accordance with matching requirements for the Head Start program, the value of noncash assistance (in-kind donations) was \$0 for fiscal year ended June 30, 2024.

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

To the Audit Committee  
Neighborhood House Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Neighborhood House Association ("NHA"), a nonprofit organization, which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2024.

#### Report on Internal Control over Financial Reporting

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

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

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

#### Report on Compliance and Other Matters

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

Purpose of this Report

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

*CohnReznick LLP*

San Diego, California  
November 14, 2024

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

To the Audit Committee  
Neighborhood House Association

Report on Compliance for Each Major Federal Program

*Opinion on Each Major Federal Program*

We have audited Neighborhood House Association's ("NHA") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of NHA's major federal programs for the year ended June 30, 2024. NHA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, NHA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

*Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

*Responsibilities of Management for Compliance*

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

### *Auditor's Responsibilities for the Audit of Compliance*

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding NHA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of NHA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of NHA's internal control over compliance. Accordingly, no such opinion is expressed.

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

### *Other Matters*

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2024-001. Our opinion on each major federal program is not modified with respect to these matters. *Government Auditing Standards* requires the auditor to perform limited procedures on NHA's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. NHA's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### Report on Internal Control over Compliance

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with

a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

*CohnReznick LLP*

San Diego, California  
November 14, 2024



**Neighborhood House Association**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2024**

**Part I - Summary of Auditor's Results**

Financial Statements

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

Internal control over financial reporting:  
 Material weaknesses identified?       yes   X  no  
 Significant deficiencies identified?       yes   X  none reported  
 Noncompliance material to financial statements noted?       yes   X  no

Federal Awards

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

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)   X  yes       no

Identification of the major programs tested:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
93.600	United States Department of Health and Human Services: Head Start Cluster
93.778	United States Department of Health and Human Services: Medicaid Cluster

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee?   X  yes       no

**Neighborhood House Association**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2024**

**Part II - Financial Statement Findings Section**

None noted.

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

**Finding 2024-001 - Reporting**

Name of Federal Agency: United States Department of Health and Human Services  
 Federal Program Name: Head Start Cluster  
 Assistance Listing Number: 93.600  
 Federal Award Identification Number and Year: 09CH012267-0-02, 7/1/2023 - 6/30/2024

**Criteria**

Under the requirements of the Federal Funding Accountability and Transparency Act ("FFATA") that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to identify awards subject to FFATA, collect and report information on each first tier subaward or amendment of \$30,000 or more in federal funds in the FFATA Subaward Reporting System.

**Condition**

During our testing of FFATA reporting requirements we noted for 2 subrecipients tested the Organization did not perform the mandatory FFATA reporting requirements.

<b>Transactions Tested</b>	<b>Subaward not reported</b>	<b>Report not timely</b>	<b>Subaward amount incorrect</b>	<b>Subaward missing key elements</b>
2	0	2	2	0
<b>Dollar Amount of Tested Transactions</b>	<b>Subaward not reported</b>	<b>Report not timely</b>	<b>Subaward amount incorrect</b>	<b>Subaward missing key elements</b>
\$33,983,683	\$0	\$4,383,546	\$4,383,546	0

**Cause**

The Organization did not have adequate policies, procedures, and controls in place to ensure compliance with the requirements regarding FFATA reporting.

**Effect or Potential Effect**

Failure to comply with the reporting requirements of the Uniform Guidance could result in noncompliance with laws and regulations.

**Questioned Costs**

None.

**Context**

See the context of the finding detailed in the condition section above.

**Identification as a Repeat Finding**

This finding is not a repeat finding.

## **Neighborhood House Association**

### **Schedule of Findings and Questioned Costs Year Ended June 30, 2024**

#### **Recommendation**

We recommend that the Organization establish policies, procedures, and controls to ensure that the required information is reported in the FFATA Subaward Reporting System on a timely basis.

#### **Views of Responsible Officials**

Management reviewed the FFATA requirements and believes it has filed all award documentation to the FFATA in the appropriate amount of time. However, when submitting to the FSRS system no system generated email is issued showing that the filing was made on time and no screenshot was taken of the filing to substantiate the timely filing of the report to the auditors. Going forward the Organization will screenshot the submission to provide physical evidence to the auditors of the timely filing.



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