

NEIGHBORHOOD HOUSE ASSOCIATION

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

RN /
**R. NAVARRO
& ASSOCIATES, INC.**
CERTIFIED PUBLIC ACCOUNTANTS

NEIGHBORHOOD HOUSE ASSOCIATION

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AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3
STATEMENTS OF CASH FLOWS	4
STATEMENTS OF FUNCTIONAL EXPENSES	5 - 6
NOTES TO FINANCIAL STATEMENTS	7 - 16



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INDEPENDENT AUDITORS' REPORT

Board of Directors
NEIGHBORHOOD HOUSE ASSOCIATION
5660 Copley Drive
San Diego, CA 92111

We have audited the accompanying statements of financial position of the Neighborhood House Association ("NHA") as of June 30, 2007 and 2006, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the agency's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described at Note 12, the financial statements as of and for the year ended June 30, 2007, include indirect costs which have been charged to the various grant programs in accordance with provisional indirect cost rates negotiated with the U.S. Department of Health and Human Services (DHHS). The amounts recorded as indirect costs are subject to future adjustment when final rates are issued by DHHS.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Neighborhood House Association as of June 30, 2007 and 2006, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007, on our consideration of Neighborhood House Association's internal control over financial reporting and on its compliance with laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

San Diego, California
October 31, 2007

NEIGHBORHOOD HOUSE ASSOCIATION
Statements of Financial Position
June 30, 2007 and 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Current assets		
Cash and cash equivalents (Note 1)	\$3,931,055	\$5,645,872
Investments (Notes 2 and 3)	1,225,746	38,307
Grants and contracts receivable (Note 4)	4,149,304	4,160,453
Other accounts receivable	84,089	251,564
Operating advances	187,265	46,729
Inventory	186,418	139,779
Prepaid expenses	<u>21,783</u>	<u>49,160</u>
Total current assets	<u>9,785,660</u>	<u>10,331,864</u>
Property and equipment (Notes 1 and 5)		
Property and equipment	35,145,131	34,771,439
Less: accumulated depreciation and amortization	<u>(17,487,713)</u>	<u>(15,399,925)</u>
Total property and equipment	<u>17,657,418</u>	<u>19,371,514</u>
Other assets		
Deposits	152,174	185,620
Other capitalized costs (net accumulated amortization of \$38,628)	<u>68,945</u>	<u>119,637</u>
Total other assets	<u>221,119</u>	<u>305,257</u>
Total Assets	<u>\$27,664,197</u>	<u>\$30,008,635</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 1,821,066	\$ 3,661,184
Accrued payroll and related liabilities	1,305,246	1,604,661
Accrued annual leave	3,388,706	3,209,540
Grant and contract advances		
Deferred revenue	278,512	256,846
Loans payable, current portion (Note 6)	710,870	255,054
Capital lease obligations, current portion (Note 7)	<u>247,284</u>	<u>143,606</u>
Total current liabilities	<u>7,751,684</u>	<u>9,130,891</u>
Long-term debt liabilities		
Capital lease obligations, less current portion (Note 7)	441,399	421,673
Loans payable, less current portion (Note 6)	<u>7,027,768</u>	<u>7,298,089</u>
Total long-term debt	<u>7,469,167</u>	<u>7,719,762</u>
Total liabilities	<u>15,220,851</u>	<u>16,850,653</u>
Unrestricted net assets	12,393,346	12,612,837
Temporarily restricted net assets	<u>50,000</u>	<u>545,145</u>
Total net assets (Note 9)	<u>12,443,346</u>	<u>13,157,982</u>
Total Liabilities and Net Assets	<u>\$ 27,664,197</u>	<u>\$ 30,008,635</u>

See accompanying notes to financial statements

NEIGHBORHOOD HOUSE ASSOCIATION
Statements of Activities
Years Ended June 30, 2007 and 2006

CHANGES IN UNRESTRICTED NET ASSETS

	<u>2007</u>	<u>2006</u>
Revenues and support (Note 1)		
Grants and contracts (Note 10)	\$86,874,160	\$87,068,275
Food reimbursements	2,652,930	2,536,867
Contributions and donations	1,643,456	998,892
Service fees	1,196,926	1,085,874
Special events, less costs of direct benefits to donors of \$0 and \$40,336, respectively	86,250	285,029
Investment return and interest income (Note 3)	125,037	62,736
Donated food	2,141,645	1,548,003
Other revenues	<u>1,877,945</u>	<u>819,888</u>
Total unrestricted revenues and support	<u>96,598,349</u>	<u>94,405,564</u>
Net assets released from restriction		
Restrictions satisfied by payments	295,145	345,145
Restrictions satisfied by time	<u>200,000</u>	<u>50,000</u>
Total	<u>495,145</u>	<u>395,145</u>
Total unrestricted revenues and other support	<u>97,093,494</u>	<u>94,800,709</u>
Expenses		
Program Services	89,105,046	87,213,421
Supporting Services		
Fund raising	42,680	970,372
Management and general	<u>8,165,259</u>	<u>7,780,834</u>
Total expenses	<u>97,312,985</u>	<u>95,964,627</u>
Increase (decrease) in unrestricted net assets	<u>\$ (219,491)</u>	<u>\$ (1,163,918)</u>

CHANGES IN TEMPORARILY RESTRICTED

Amount released from restriction	\$ (495,145)	\$ (395,145)
Return of contribution to donor (Note 16)	<u>0</u>	<u>(500,000)</u>
Increase (decrease) in restricted net assets	<u>\$ (495,145)</u>	<u>\$ (895,145)</u>

CHANGES IN NET ASSETS

Net increase (decrease) in net assets	\$(714,636)	\$(2,059,063)
Net assets at beginning of year	<u>13,157,982</u>	<u>15,217,045</u>
Net assets at end of year (Note 9)	<u>\$ 12,443,346</u>	<u>\$ 13,157,982</u>

See accompanying notes to financial statements

NEIGHBORHOOD HOUSE ASSOCIATION
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

CASH FLOWS FROM OPERATING ACTIVITIES

	<u>2007</u>	<u>2006</u>
Change in net assets	\$ (714,636)	\$(2,059,063)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	2,087,788	2,202,187
Unrealized (gain) loss on investments	(54,163)	19,946
Change in grants receivable	11,149	612,774
Change in accounts receivable	167,475	550,583
Change in prepaid expenses	27,377	37,896
Change in operating advances	(140,536)	59,659
Change in deposits and other assets	84,138	(59,239)
Change in inventory	(46,639)	(26,494)
Change in accounts payable and accrued expenses	(1,840,118)	643,960
Change in accrued payroll & related expenses	(299,415)	(376,131)
Change in accrued leave	179,166	21,750
Change in advances	0	(943,428)
Change in deferred revenue	<u>21,666</u>	<u>130,499</u>
Net cash provided by operating activities	<u>\$ (516,748)</u>	<u>\$ 814,899</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investments in Certificates of Deposit	\$ (1,133,276)	\$ (5,036)
Net purchases of property and equipment	<u>(373,692)</u>	<u>(406,848)</u>
Net cash used in investing activities	<u>\$ (1,506,968)</u>	<u>\$ (411,884)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments for capital leases	\$ 123,404	\$ (133,926)
Principal payments for loans payable	<u>185,495</u>	<u>(248,101)</u>
Net cash provided by (used in) financing activities	<u>\$ 308,899</u>	<u>\$ (382,027)</u>

TOTAL INCREASE (DECREASE) IN CASH

Net increase (decrease) in cash and cash equivalents	\$ (1,714,817)	\$ 20,988
Cash and cash equivalents at beginning of year	<u>5,645,872</u>	<u>5,624,884</u>
Cash and cash equivalents at end of year	<u>\$ 3,931,055</u>	<u>\$ 5,645,872</u>

NEIGHBORHOOD HOUSE ASSOCIATION
Statement of Functional Expenses
Year Ended June 30, 2007

	<u>Childcare Programs</u>	<u>Health & Nutrition Programs</u>	<u>Youth & Other Services</u>	<u>Fundraising</u>	<u>Management & General</u>	<u>Total</u>
Salaries	\$34,647,042	\$1,917,017	\$254,248	\$0	\$4,312,969	\$41,131,276
Fringe benefits	11,806,776	554,607	88,651	0	1,046,912	13,496,946
Contracted services	1,044,463	283,329	51,033	40,925	821,540	2,241,290
Supplies	2,028,960	184,604	25,762	688	95,502	2,335,516
Telephone & pagers	327,843	31,567	7,405	0	129,593	496,408
Postage	33,324	9,400	129	0	33,733	76,586
Occupancy & storage	4,388,747	269,923	(334,784)	0	(37,078)	4,286,808
Utilities	468,239	107,210	50,665	0	50,094	676,208
Printing, publications & advertising	65,229	10,947	287	0	57,007	133,470
Travel & meetings	1,048,974	342,938	1,400	0	151,285	1,544,597
Subcontracts	20,697,478	0	0	0	0	20,697,478
Food expense	1,500,209	122,645	4,798	0	8,232	1,635,884
Client assistance	141,564	99,017	8,735	0	180	249,496
Equipment expense	623,550	47,149	9,866	0	148,805	829,370
Minor renovations	0	67,358	0	0	0	67,358
Depreciation & amortization	1,383,284	380,073	0	0	333,878	2,097,235
Insurance	606,059	46,149	1,080	0	118,929	772,217
Direct fund raising expenses	304,550	0	0	0	0	304,550
Interest & fees	108,165	298,067	325	1,067	234,867	642,491
Other expenses	217,642	167,320	9,784	0	658,811	1,053,557
Food costs & donations	236,473	2,307,771	0	0	0	2,544,244
Indirect cost	7,261,864	396,789	3,580	0	(7,662,233)	0
Subtotal	88,940,435	7,643,880	182,964	42,680	503,026	97,312,985
Less: indirect allocation	(7,261,864)	(396,789)	(3,580)	0	7,662,233	0
Total expenses by function	\$81,678,571	\$7,247,091	\$179,384	\$42,680	\$8,165,259	\$97,312,985

See accompanying notes to financial statements

NEIGHBORHOOD HOUSE ASSOCIATION
Statement of Functional Expenses
Year Ended June 30, 2006

	<u>Childcare Programs</u>	<u>Health & Nutrition Programs</u>	<u>Youth & Other Services</u>	<u>Fundraising</u>	<u>Management & General</u>	<u>Total</u>
Salaries	\$33,992,190	\$2,093,853	\$252,157	\$283,680	\$4,071,341	\$40,693,221
Fringe benefits	12,016,190	616,392	77,786	95,088	1,040,061	13,845,517
Contracted services	1,386,688	243,860	78,506	58,085	1,131,346	2,898,485
Supplies	1,842,629	144,940	33,253	5,883	85,112	2,111,817
Telephone & pagers	385,429	31,603	9,945	3,669	105,586	536,232
Postage	33,422	5,124	329	5,029	46,874	90,778
Occupancy & storage	4,008,264	219,723	(340,922)	82,063	(76,002)	3,893,126
Utilities	417,554	107,136	57,003	26,076	36,387	644,156
Printing, publications & advertising	100,393	12,618	39	57,058	95,456	265,564
Travel & meetings	1,043,974	324,768	3,044	40,721	234,370	1,646,877
Subcontracts	20,732,144	45,499	0	0	0	20,777,643
Food expense	1,200,004	121,986	3,408	0	755	1,326,153
Client assistance	149,980	156,394	25,338	0	5,265	336,977
Equipment expense	902,723	46,779	7,901	20,011	189,122	1,166,536
Minor renovations	13,629	0	0	0	0	13,629
Depreciation & amortization	1,484,094	378,248	0	6,698	333,147	2,202,187
Insurance	564,149	52,827	16,063	8,464	116,245	757,748
Direct fund raising expenses	0	9,227	0	219,349	10,713	239,289
Interest & fees	126,520	239,259	0	2,870	228,539	597,188
Other expenses	176,767	9,757	(211)	55,278	126,517	368,108
Food costs & donations	0	1,553,046	0	350	0	1,553,396
Indirect cost	7,079,125	374,941	10,229	57,783	(7,522,078)	0
Subtotal	87,655,868	6,787,980	233,868	1,028,155	258,756	95,964,627
Less: indirect allocation	(7,079,125)	(374,941)	(10,229)	(57,783)	7,522,078	0
Total expenses by function	\$80,576,743	\$6,413,039	\$223,639	\$970,372	\$7,780,834	\$95,964,627

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

NEIGHBORHOOD HOUSE ASSOCIATION
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Neighborhood House Association (NHA) is a California non-profit 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, youth diversion and counseling, youth drug prevention, youth employment, senior nutrition, adult day health care, mental health services, food distribution, housing and rental assistance, employment services, and other related services that assist low-income and less fortunate families.

Basis of Accounting

The financial statements of NHA have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the guidance of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, NHA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. NHA does not have any permanently restricted assets.

Revenue and Support

Contributions and support are recognized in the period in which NHA receives a promise to give that is, in substance, unconditional. Support that is restricted by the donor is reported as an increase in unrestricted net assets 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 temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Support from award programs is recognized in the period in which terms of the contractual agreements have been met, and the revenue earned.

Donated Goods and Services

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

Food, materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the time of receipt. However, goods received by NHA which are required to be passed through to other agencies are not considered NHA donations and, accordingly, are not recorded in these financial statements.

NEIGHBORHOOD HOUSE ASSOCIATION
Notes to Financial Statements
June 30, 2007 and 2006

Expenses

It is the policy of NHA to record expenses in the period incurred in accordance with the accrual method of accounting.

Cash and cash equivalents

NHA considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

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 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

Income Taxes

NHA is a private, non-profit 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 23701d of the California Revenue and Taxation Code.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NEIGHBORHOOD HOUSE ASSOCIATION
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 2 - INVESTMENTS

Investments at June 30, 2007 and 2006 consist of the following:

	<u>June 30, 2007</u>			<u>June 30, 2006</u>		
	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Equity Securities	\$ 8,654	\$ 4,052	\$ (4,602)	\$ 8,654	\$ 4,379	\$ (4,275)
Other Securities	13,816	15,700	1,884	13,816	13,928	112
Certificates of Deposit	<u>1,165,000</u>	<u>1,195,994</u>	<u>30,994</u>	<u>10,000</u>	<u>10,000</u>	<u>0</u>
Subtotal	1,187,470	1,215,746	28,276	32,470	28,307	(4,163)
Limited Partnerships	0	0	0	50,000	0	(50,000)
Other Investments	<u>10,000</u>	<u>10,000</u>	<u>0</u>	<u>10,000</u>	<u>10,000</u>	<u>0</u>
	<u>\$1,197,470</u>	<u>\$1,225,746</u>	<u>\$ 28,276</u>	<u>\$ 92,470</u>	<u>\$ 38,307</u>	<u>\$ (54,163)</u>

Investments in marketable securities, fixed income funds and mutual funds are carried at fair market value. Other investments are carried at the lower of cost or fair market value.

NOTE 3 - INVESTMENT RETURN AND INTEREST INCOME

Investment returns for the years ended June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Interest income	\$ 123,592	\$ 87,682
Realized loss on the disposition of investments	4,163	(5,000)
Net unrealized loss on limited partnerships	0	(20,000)
Net unrealized gain (loss) on marketable securities carried at fair market value	<u>(2,718)</u>	<u>54</u>
	<u>\$ 125,037</u>	<u>\$ 62,736</u>

NOTE 4 - GRANTS AND CONTRACTS RECEIVABLE

At June 30, 2007 and 2006, grants and contracts receivable consisted of the following:

	<u>2007</u>	<u>2006</u>
Head Start	\$2,846,107	\$2,651,306
Advanced training program	559,550	469,938
Food reimbursements	420,505	327,088
County programs	296,387	712,121
State programs	<u>26,755</u>	<u>0</u>
Other programs	<u>\$4,149,304</u>	<u>\$4,160,453</u>

NEIGHBORHOOD HOUSE ASSOCIATION
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 5 - PROPERTY AND EQUIPMENT

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 or in other authorized programs. However, funding sources have reversionary interest in the property and in its disposition, as well as the ownership of any proceeds which are subject to pertinent regulations.

Property and equipment as of June 30, 2007 consists of the following:

	<u>Cost</u>	<u>Accumulated Depreciation Amortization</u>	<u>Net Book Value</u>
Land	\$ 4,417,475	\$ 0	\$ 4,417,475
Building	8,545,903	1,831,012	6,714,891
Building Improvements	2,751,646	1,344,236	1,407,410
Leasehold Improvements	9,191,316	5,970,407	3,220,908
Vehicles	4,848,520	4,415,180	433,341
Furniture and Equipment	4,246,589	3,313,157	933,432
Equipment acquired with capital leases (Note 7)	741,601	242,747	498,854
Computer Equipment	<u>402,081</u>	<u>370,974</u>	<u>31,107</u>
	<u>\$ 35,145,131</u>	<u>\$ 17,487,713</u>	<u>\$ 17,657,418</u>

Property and equipment as of June 30, 2006 consists of the following:

	<u>Cost</u>	<u>Accumulated Depreciation Amortization</u>	<u>Net Book Value</u>
Land	\$ 4,417,475	\$ 0	\$ 4,417,475
Building	8,545,903	1,530,051	7,015,852
Building Improvements	2,784,307	1,149,226	1,635,081
Leasehold Improvements	9,159,119	5,143,269	4,015,850
Vehicles	4,818,933	4,145,485	673,448
Furniture and Equipment	3,891,873	2,885,040	1,006,833
Equipment acquired with capital leases (Note 7)	751,747	212,324	539,423
Computer Equipment	<u>402,082</u>	<u>334,530</u>	<u>67,552</u>
	<u>\$ 34,771,439</u>	<u>\$ 15,399,925</u>	<u>\$ 19,371,514</u>

A significant portion of NHA's property and equipment is identified as collateral for certain of the loans payable described at Note 6, and for the capital leases described at Note 7.

NEIGHBORHOOD HOUSE ASSOCIATION
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 6 - LOANS PAYABLE

Loans payable as of June 30, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
A. Note payable to Union Bank of California with interest at a prime rate of prime plus 2%. Monthly payments vary with the rate of interest. The average monthly payment during fiscal year 2007 was \$28,600, including interest. The interest as of June 30, 2007 was 7.35%. The final payment of all remaining unpaid principal and interest is due and payable on May 1, 2013. The note is secured by a Deed of Trust covering real property located at 9850 Distribution Avenue, San Diego, California.		
Loan payable	\$ 3,655,336	\$ 3,726,387
Less current portion	<u>(75,603)</u>	<u>(71,944)</u>
	<u>\$ 3,579,733</u>	<u>\$ 3,654,443</u>
B. Note payable to Union Bank, with interest at 6.65%, with a monthly downward or upward adjustment for SWAP activity. The monthly principal payments average \$11,200 plus interest approximating \$18,000 per month. The interest rate as of June 30, 2007 was 6.82%. The loan commenced on May 1, 2005 and matures on April 1, 2020. The note is secured by a Deed of Trust covering real property located at 5660 Copley Drive, San Diego, California.		
Loan payable	\$ 3,099,785	\$ 3,243,995
Less current portion	<u>(154,635)</u>	<u>(144,211)</u>
	<u>\$ 2,945,150</u>	<u>\$ 3,099,784</u>
C. Note payable to Neighborhood National Bank, with monthly payments of \$2,778, including interest at a variable rate currently at 9.75% as of June 30, 2007. The final payment of all remaining unpaid principal and interest is due and payable on November 2, 2014. The note is secured by a Deed of Trust covering real property located at 802-804 San Pasqual Street, San Diego, California.		
Loan payable	\$ 209,303	\$ 221,228
Less current portion	<u>(13,529)</u>	<u>(12,875)</u>
	<u>\$ 195,774</u>	<u>\$ 208,353</u>

NEIGHBORHOOD HOUSE ASSOCIATION
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 6 - LOANS PAYABLE (Continued)

	<u>2007</u>	<u>2006</u>
D. Note payable to Union Bank of California, with monthly payments of \$4,684, at a fixed interest rate of 8.63%. The remaining principal and interest is due and payable on November 1, 2015. The note is secured by a Deed of Trust covering real property located at 635 N. Hickory Street, Escondido, California.	\$ 335,474	\$ 361,533
	<u>(28,363)</u>	<u>(26,024)</u>
Loan payable	<u>\$ 307,111</u>	<u>\$ 335,509</u>
Less current portion		
E. Line of Credit payable to the Union Bank of California with monthly interest only payments of \$3,016 at a fixed rate of 8.25%. The outstanding principal is due and payable on April 1, 2008. No collateral is attached to the loan.		
Loan payable	\$ 438,740	\$ 0
Less current portion	<u>(438,740)</u>	<u>0</u>
	<u>0</u>	<u>0</u>
Total loans payable	\$ 7,738,638	\$ 7,553,143
Loans payable, current portion	<u>(710,870)</u>	<u>(255,054)</u>
Loans payable, less current portion	<u>\$ 7,027,768</u>	<u>\$ 7,298,089</u>

The scheduled payments of principal and interest for the next five years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2008	\$ 710,870	\$ 521,871	\$ 1,232,741
2009	293,019	501,273	794,292
2010	315,526	479,077	794,603
2011	339,779	455,154	794,933
2012	365,915	429,371	795,286
Thereafter	<u>5,274,788</u>	<u>1,444,311</u>	<u>6,719,099</u>
	<u>\$ 7,299,897</u>	<u>\$ 3,831,057</u>	<u>\$ 11,130,954</u>

NEIGHBORHOOD HOUSE ASSOCIATION
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 7 – CAPITAL LEASE OBLIGATIONS

NHA acquired several copiers under the provisions of capital leases. The copiers were installed primarily at NHA's Head Start centers. The leases provide for 60 monthly payments totaling \$23,897, and contain end-of-lease options to purchase the copiers for \$1 each. The total capital lease obligation as of June 30, 2007, was as follows:

Principal payments due	\$ 688,683
Less: current portion	<u>(247,284)</u>
Long-term portion	<u>\$441,399</u>

The minimum annual lease payments are as follows:

Total minimum lease payments	\$741,601
Less: interest portion	<u>(52,918)</u>
Present value of net minimum lease payments	688,683
Less: current portion	<u>(247,284)</u>
Long-term portion	<u>\$441,399</u>

NOTE 8 - OPERATING LEASE COMMITMENTS

NHA occupies numerous facilities under operating lease agreements that expire at various dates through December 2023. The future minimum payments under these operating leases as of June 30, 2007, are as follows:

<u>Years Ending June 30:</u>	
2008	\$ 2,860,970
2009	2,101,827
2010	1,486,809
2011	1,126,951
2012	855,536
Thereafter	<u>836,408</u>
	<u>\$ 9,268,501</u>

NEIGHBORHOOD HOUSE ASSOCIATION
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 9 - NET ASSETS

Net assets at June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Unrestricted net assets		
Equity designated for specific programs	\$ 104,554	\$ 84,899
Equity in property and equipment from agency programs	4,405,282	5,475,473
Equity in equipment, vehicles and improvements from agency's general funds	1,613,629	2,078,453
Equity available for operations		
Equity in agency owned buildings	3,709,157	3,699,166
Other equity available	<u>2,560,724</u>	<u>1,274,846</u>
	<u>12,393,346</u>	<u>12,612,837</u>
Temporarily restricted net assets		
Restricted for building improvements at the San Diego Food Bank facility	0	295,145
Restricted for use in Head Start Program	<u>50,000</u>	<u>250,000</u>
	<u>50,000</u>	<u>545,145</u>
Total net assets	<u>\$ 12,443,346</u>	<u>\$ 13,157,982</u>

NOTE 10 - GRANTS AND CONTRACTS REVENUES

In fiscal years 2007 and 2006, NHA recognized grant and contract revenues from the following sources:

	<u>2007</u>	<u>2006</u>
Head Start program	\$ 82,433,007	\$ 82,705,600
County programs	2,041,351	2,021,090
State programs	2,281,696	2,288,353
Other programs	<u>118,106</u>	<u>53,232</u>
Total grants and contracts	<u>\$ 86,874,160</u>	<u>\$ 87,068,275</u>

NOTE 11 - PENSION PLAN

NHA has a defined contribution pension plan covering regular full-time employees. NHA's contribution to the pension plan is based upon 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 \$15,000. Also, employees age 50 or over by the end of the plan year are allowed to make up to \$5,000 of additional contributions to the pension plan, in excess of the standard limits. The pension plan is administered by a private pension company. Employer contributions charged to operations for the years ended June 30, 2007 and 2006 were \$1,686,366 and \$1,629,359, respectively.

NEIGHBORHOOD HOUSE ASSOCIATION
Notes to Financial Statements
June 30, 2007 and 2006

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</u> <u>2007</u>	<u>Final</u> <u>2006</u>
All programs	10.5%	10.5%
Delegate agencies	.2%	.2%

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, 2007 and 2006 were \$7,662,233 and \$7,522,078, respectively.

NOTE 13 - CONCENTRATION OF CREDIT RISK

The Federal Deposit Insurance Corporation (FDIC) insures bank accounts up to \$100,000 at participating financial institutions. At June 30, 2007, NHA's deposits with financial institutions exceeded FDIC coverage by approximately \$2.9 million.

During the year, NHA transferred \$1,165,000 into Certificates of Deposits (CD's), thereby lowering the concentration of risk. The CD's are with Merrill Lynch and has been purchased from various financial institutions. Each CD was purchased below the \$100,000 FDIC coverage requirement with maturity dates varying from 10/01/07 to 10/25/08.

NOTE 14 - SUBCONTRACTS EXPENSE

Subcontracts expense for the fiscal years ended June 30, 2007 and 2006 include the following:

	<u>2007</u>	<u>2006</u>
Head Start delegate agencies	\$ 18,149,583	\$ 18,251,889
Head Start/Child Development		
Day care providers	<u>2,547,895</u>	<u>2,525,754</u>
 Total	 <u>\$ 20,697,478</u>	 <u>\$ 20,777,643</u>

NEIGHBORHOOD HOUSE ASSOCIATION
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 15 – SUBSEQUENT EVENTS

Neighborhood House Association (NHA) pursuant to a Support Services Agreement with San Diego Food Bank (SDFB) has agreed to separate itself from the operation of the SDFB effective July 1, 2007. Pursuant to the Support Services Agreement, among other things, certain assets owned by NHA have been transferred to SDFB including certain vehicles, inventory and Service Marks used in the Food Bank operation.

As of the date of this report, the following have been transferred to the San Diego Food Bank. All items are listed at historical cost as of June 30, 2007.

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Goods transferred:			
Inventory	\$ 186,418		\$ 186,418
Title transferred:			
Vehicles	\$ 133,936	123,889	\$ 10,047
Equipment	\$ 161,316	113,634	\$ 47,682

The following liabilities have been transferred to the SDFB:

Accrued annual leave	\$ 26,419
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NHA's subsidy to the operations of the SDFB was \$745,191 for the fiscal year ending June 30, 2006, and \$300,000 for the fiscal year ending June 30, 2007.

Additionally, the SDFB was given use of approximately 67,241 square feet of the building (not including common areas) at 9850 Distribution Avenue, San Diego, CA, and all improvements at a consideration of \$1 per year for the 3 year period commencing July 1, 2007 to June 30, 2010. The fair market value for the rent attributable to this space will be considered a donation to SDFB from NHA.

NHA is the contactor of record on two food commodity contracts through the State of California – CSFP, a commodities food program at \$423,970 and EFAP, an emergency food program at \$211,875. NHA has initiated negotiations to transition these two programs to the SDFB.

NOTE 16 – LOSS OF RETURN OF CONTRIBUTION TO DONOR

During FY 2006, a \$500,000 restricted contribution that was made in the prior year was reversed because the donor has changed his mind about giving the contribution to the organization.