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February 4, 2010

Board of Directors
Northeast Neighborhood
Revitalization Organization, Inc.
803 Lincolnway West
South Bend, IN 46616

We have reviewed the audit report prepared by Jurgonski & Fredlake, CPAs, Independent Public Accountants, for the period July 1, 2007 to June 30, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Northeast Neighborhood Revitalization Organization, Inc., as of June 30, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

**NORTHEAST NEIGHBORHOOD REVITALIZATION
ORGANIZATION, INC.**

FINANCIAL AUDIT

June 30, 2008

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Jurgonski & Fredlake CPAs

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Greg Jurgonski
John A. Fredlake

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Northeast Neighborhood Revitalization Organization, Inc.
South Bend, Indiana

We have audited the accompanying statement of financial position of Northeast Neighborhood Revitalization Organization, Inc. (a nonprofit Organization) as of June 30, 2008 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Northeast Neighborhood Revitalization Organization, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Northeast Neighborhood Revitalization Organization, Inc. as of June 30, 2008 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Jurgonski & Fredlake CPAs

South Bend, Indiana
August 8, 2008

NORTHEAST NEIGHBORHOOD REVITALIZATION ORGANIZATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2008

ASSETS

Cash	\$	146,927
Receivables		247,852
Real estate held for resale, net of valuation allowance of \$1,514,053		508,069
Leasehold improvements		13,244
Office equipment		31,781
Less accumulated depreciation		<u>(35,756)</u>
Total assets	\$	<u>912,117</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$	<u>3,741</u>
Total liabilities		<u>3,741</u>

NET ASSETS

Unrestricted		870,876
Temporarily restricted		<u>37,500</u>
Total net assets		<u>908,376</u>
Total liabilities and net assets	\$	<u>912,117</u>

NORTHEAST NEIGHBORHOOD REVITALIZATION ORGANIZATION, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:			
Contributions	\$ 312,500	\$ 37,500	\$ 350,000
Grant income	236,960		236,960
Interest income	10,833		10,833
Loss on sale of real property	(105,023)		(105,023)
Miscellaneous	40,580		40,580
Net assets released from restrictions:			
Satisfaction of time restriction	<u>37,500</u>	<u>(37,500)</u>	
Total support and revenue	<u>533,350</u>		<u>533,350</u>
EXPENSES	<u>519,936</u>		<u>519,936</u>
Change in net assets	13,414		13,414
Net assets, beginning of period	<u>857,462</u>	<u>37,500</u>	<u>894,962</u>
Net assets, end of period	<u><u>\$ 870,876</u></u>	<u><u>\$ 37,500</u></u>	<u><u>\$ 908,376</u></u>

NORTHEAST NEIGHBORHOOD REVITALIZATION ORGANIZATION, INC.

STATEMENT OF CASH FLOWS For the Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ <u>13,414</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation	3,098
Valuation expense	230,413
Loss on sale of real property	105,023
CHANGE IN ASSETS INCREASE:	
Receivables	(132,202)
CHANGE IN LIABILITIES DECREASE:	
Accounts payable	<u>(136,026)</u>
Total adjustments	<u>70,306</u>
Net cash provided by operating activities	<u>83,720</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of real property	300,000
Capital expenditures	<u>(508,123)</u>
Net cash used in investing activities	<u>(208,123)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net decrease in line of credit	<u>(24,523)</u>
Net cash used in financing activities	<u>(24,523)</u>
Decrease in cash	(148,926)
Cash, beginning of period	<u>295,853</u>
Cash, end of period	<u><u>\$ 146,927</u></u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for:	
Interest	\$ 1,799

NORTHEAST NEIGHBORHOOD REVITALIZATION ORGANIZATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities

The financial statements of Northeast Neighborhood Revitalization Organization, Inc. (the Organization) have been prepared on the accrual basis. The Organization works to improve the physical, social, and economic environment of the northeast neighborhood of the City of South Bend, Indiana. The Organization was created for the purpose of planning, coordinating and revitalization of the northeast neighborhood. Their services are primarily funded through contributions and governmental grants.

Significant Accounting Policies:

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Income Tax Status - The Organization operates as a not for profit corporation under Internal Revenue Code Section 501(c)(3) and a similar section of the Indiana tax law, which provides exemption from federal and state income taxes.

Contributions - Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions received are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets as net assets released from restrictions.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Contributed Services - A number of unpaid volunteers have made significant contributions of their time to the Organization. During the year ended June 30, 2008, the value of contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the requirements for recognition under Statement of Financial Accounting Standards No. 116.

Basis of Presentation - Financial statement presentation follows the recommendation 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, the Organization 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.

Receivables - Receivables are recorded at the amount the Organization expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, as of year-end, all balances that are not collectible. No allowance for doubtful accounts has been recorded.

NORTHEAST NEIGHBORHOOD REVITALIZATION ORGANIZATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Leasehold Improvements and Equipment - Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization re-classifies temporarily restricted net assets to unrestricted net assets at that time.

Purchased property and equipment are stated at cost. Donated property and equipment are valued at estimated fair market value at date of receipt. Maintenance and repairs are charged to expense as incurred while major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Real Estate Held for Resale - The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to future net undiscounted cash flow expected to be generated by the property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. Real estate held for resale consists of homes and lots purchased for rehabilitation and resale. Real estate is valued at the lower of the purchase price plus the costs incurred for rehabilitation or market. A valuation allowance of \$1,514,053 was recorded on the real estate held for resale at June 30, 2008.

Note 2. Restrictions on Assets

Temporarily restricted net assets at June 30, 2008 represent a \$37,500 time restricted grant from the City of South Bend.

Note 3. Concentration of Credit Risk

The Organization places its cash with a high credit quality financial institution. However, the amount of credit exposure to the financial institution is in excess of the limits established by the Federal Depository Insurance Corporation or \$100,000.

Note 4. Line of Credit

The Organization has a \$240,000 bank line of credit available which was not utilized as of June 30, 2008. The line of credit bears interest at 1% over prime or 6% at year end. The line is secured by a mortgage on each property renovated with the advances.

NORTHEAST NEIGHBORHOOD REVITALIZATION ORGANIZATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Support from Major Funding Sources

The Organization receives a substantial amount of its support from an internationally recognized university, two regional hospitals, a regional behavioral health hospital, and the local government. A significant reduction in the level of support, if this were to occur, may have a significant effect on the Organization's programs and activities. These five contributors, many who also operate as not-for-profit entities themselves, have verbally pledged \$350,000 per year through fiscal 2010. However, these pledges are conditional upon an annual review of the Organization. Accordingly, these conditional contributions will not be recognized by the Organization until each annual review is conducted.

The Organization also receives a substantial amount of its support from federal, state and local agencies. A significant reduction in the level of support, if this were to occur, may have a significant on the Organization's programs and activities.

Note 6. Administrative, Programmatic and Technical Services Agreement

Effective January 8, 2002, the Organization and South Bend Heritage Foundation, Inc. (SBHF) entered into an Agreement for services. SBHF agreed to act as a contractor for the Organization and perform administrative, programmatic, and technical services on behalf of the Organization for activities undertaken in the northeast neighborhood of South Bend, Indiana. In addition, all of SBHF's activities involving decisions about land acquisition or residential or commercial real estate development projects shall be undertaken only with approval of the Organization's Board of Directors. Total fees for the above services for the year ending June 30, 2008 was \$197,499.

Both parties shall review the Agreement between the Organization and SBHF annually and unless terminated, shall continue in effect until December 31, 2009.

Note 7. Real Estate Held for Resale

<u>Location</u>	<u>Original Cost Plus Improvements at June 30, 2008</u>
Various lots	\$ 2,022,122
Valuation reserve	<u>(1,514,053)</u>
Net real estate held for resale	<u>\$ 508,069</u>

Statement of Financial Accounting Standards No. 144, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows estimated to be generated by those assets are less than the assets' carrying amount. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The real estate held for resale is recorded at cost. The eventual sales proceeds from these properties may be less than the carrying value of the property. A write down to market value was recorded on the above properties based on current estimated market value.

NORTHEAST NEIGHBORHOOD REVITALIZATION ORGANIZATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 8. Statement of Financial Position

The Statement of Financial Position of most organizations show separate classifications of current assets and current liabilities permitting a ready determination of working capital. The Organization has several assets and liabilities for which the current/non-current distinction is deemed in practice, difficult to determine. Therefore, the Statement of Financial Position is presented as unclassified and the assets and the liabilities are listed in the projected order of liquidity as permitted by Statement of Financial Accounting Standards (SFAS) No. 117 "Financial Statements of Not-for-Profit Organizations".

Jurgonski & Fredlake CPAs

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Greg Jurgonski
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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors
Northeast Neighborhood Revitalization Organization, Inc.
South Bend, Indiana

Our report on our audit of the basic financial statements of Northeast Neighborhood Revitalization Organization, Inc. for the year ended June 30, 2008, appears on page 1. The audit was conducted for the purpose of forming an opinion on such financial statements taken as a whole. The supplementary information contained in Schedule I, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2008, taken as a whole.

Jurgonski + Fredlake CPAs

South Bend, Indiana
August 8, 2008

NORTHEAST NEIGHBORHOOD REVITALIZATION ORGANIZATION, INC.

Schedule I

**SUPPLEMENTARY STATEMENT OF ACTIVITIES
AND CHANGE IN NET ASSETS INFORMATION**

For the Year Ended June 30, 2008

Program expenses	\$ 46,246
Valuation expense	230,413
Janitorial service, pest control and snow removal	3,455
Repairs and maintenance	3,662
Utilities	5,833
Supplies	806
Professional fees	218,674
Interest	1,799
Security	623
Printing	3,961
Depreciation expense	3,098
Entertainment	<u>1,366</u>
Total expenses	<u>\$ 519,936</u>