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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

February 1, 2010

Board of Directors
Near Northwest Neighborhood, Inc.
1007 Portage Ave., P.O. Box 1132
South Bend, IN 46624

We have reviewed the audit report prepared by Jurgonski & Fredlake, CPAs, Independent Public Accountants, for the period January 1, 2008 to December 31, 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 Near Northwest Neighborhood, Inc., as of December 31, 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

NEAR NORTHWEST NEIGHBORHOOD, INC.

FINANCIAL AND COMPLIANCE REPORT

December 31, 2008 and 2007

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Jurgonski & Fredlake CPAs

418 W. Jefferson Blvd., South Bend, Indiana 46601

Office (574) 251-1414

Fax (574) 251-1477

Greg Jurgonski

John A. Fredlake

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Near Northwest Neighborhood, Inc.
South Bend, Indiana

We have audited the accompanying statements of financial position of Near Northwest Neighborhood, Inc. (a not for profit Organization) (the Organization) as of December 31, 2008 and 2007 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Near Northwest Neighborhood, Inc. as of December 31, 2008 and 2007 and the changes in its net assets and its 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 February 26, 2009 on our consideration of Near Northwest Neighborhood, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Near Northwest Neighborhood, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*, 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 taken as a whole.

Jurgonski & Fredlake CPAs

South Bend, Indiana
February 26, 2009

NEAR NORTHWEST NEIGHBORHOOD, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
Cash	\$ 59,960	\$ 202,075
Grants receivable	106,300	115,867
Accounts receivable	695	909
Pledges receivable	4,000	4,000
Prepaid expenses	3,477	7,264
Property and equipment, net of depreciation	671,548	686,217
Real estate held for resale, net of valuation allowance of \$1,026,230 in 2008 and \$920,625 in 2007	<u>471,053</u>	<u>327,341</u>
Total assets	<u>\$ 1,317,033</u>	<u>\$ 1,343,673</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 92,096	\$ 111,416
Accrued expenses and other payables	31,618	28,837
Payable to the City of South Bend	24,970	24,970
HOME Investment Partnership Program payable	71,168	47,765
Notes payable	<u>106,395</u>	<u>114,928</u>
Total liabilities	<u>326,247</u>	<u>327,916</u>
Net assets		
Unrestricted	990,786	1,005,410
Temporarily restricted	<u> </u>	<u>10,347</u>
Total net assets	<u>990,786</u>	<u>1,015,757</u>
Total liabilities and net assets	<u>\$ 1,317,033</u>	<u>\$ 1,343,673</u>

NEAR NORTHWEST NEIGHBORHOOD, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2008 and 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	\$ 14,762	\$	\$ 14,762	\$ 910	\$	\$ 910
Contributions of property				8,000		8,000
Rental income	37,850		37,850	31,179		31,179
Grant income-other	65,500		65,500	190,800	8,405	199,205
Grant income-federal	709,871		709,871	831,702		831,702
Miscellaneous	647		647	5,364		5,364
Interest income	131		131	1,595		1,595
Loss on sale of real property	(28,203)		(28,203)	(262,781)		(262,781)
Net assets released from restrictions	10,347	(10,347)	(10,347)	92,196	(92,196)	(262,781)
Total support and revenue	<u>810,905</u>	<u>(10,347)</u>	<u>800,558</u>	<u>898,965</u>	<u>(83,791)</u>	<u>815,174</u>
EXPENSES						
	825,529		825,529	688,666		688,666
Change in net assets	<u>(14,624)</u>	<u>(10,347)</u>	<u>(24,971)</u>	<u>210,299</u>	<u>(83,791)</u>	<u>126,508</u>
Net assets, beginning of year	1,005,410	10,347	1,015,757	795,111	94,138	889,249
Net assets, end of year	<u>\$ 990,786</u>	<u>\$</u>	<u>\$ 990,786</u>	<u>\$ 1,005,410</u>	<u>\$ 10,347</u>	<u>\$ 1,015,757</u>

NEAR NORTHWEST NEIGHBORHOOD, INC.

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (24,971)	\$ 126,508
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	21,737	19,862
Valuation expense	465,510	236,749
Loss on disposal of assets	28,203	262,781
Change in assets (increase) decrease		
Receivables	9,781	(40,576)
Prepaid insurance	3,787	3,545
Change in liabilities increase (decrease)		
Accounts payable and accrued expenses	(16,539)	18,914
Payable to the City of South Bend		(80,197)
HOME Investment Partnership Program payable	23,403	(50,063)
Net adjustments	535,882	371,015
Net cash provided by operating activities	510,911	497,523
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(736,493)	(915,738)
Proceeds from sale of assets	92,000	396,200
Net cash used in investing activities	(644,493)	(519,538)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments of notes payable	(8,533)	(74,283)
Proceeds from notes payable		36,000
Net cash used in financing activities	(8,533)	(38,283)
Decrease in cash	(142,115)	(60,298)
Cash, beginning of year	202,075	262,373
Cash, end of year	\$ 59,960	\$ 202,075
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 5,518	\$ 7,143

NEAR NORTHWEST NEIGHBORHOOD, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities

Near Northwest Neighborhood, Inc. (the Organization) works to improve the physical, social, and economic environment of the near northwest section of the City of South Bend, Indiana.

A significant portion of the business of the Organization involves purchase and renovation of single family properties for resale to lower income families. The cost of acquisition and repairs normally exceeds the value of the property. Generally subsidies are received from grants to underwrite the difference between value and cost.

The Organization services are funded through contributions, federal, state and local governmental grants, and rental receipts.

Significant Accounting Policies

Basis of Accounting - The financial statements of the Organization have been prepared on the accrual basis.

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.

Fair Value Measurement - Effective January 1, 2008, the Organization adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" (SFAS 157). In February 2008, the FASB issued Staff Position No. 157-2, "Effective Date of FASB Statement No. 157", which provides a one year deferral of the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Organization has adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only and the adoption did not materially impact the financial statements. Management believes the adoption of SFAS 157 for nonfinancial assets and liabilities also will not have a material impact on the financial statements.

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.

Grants Receivable - The Organization receives some grants for reimbursement of expenses incurred. A receivable for the reimbursement of allowable program expenditures due from grantors has been recorded at December 31, 2008 and 2007. No allowance for uncollectible grants has been recorded because the Organization believes the grants are fully collectible.

NEAR NORTHWEST NEIGHBORHOOD, INC.

NOTES TO FINANCIAL STATEMENTS

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

Contributions - Contributions received are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. 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 years ended December 31, 2008 and 2007, 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 (SFAS) No. 116.

Property 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 reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Purchased property and equipment are stated at cost, or if donated, at fair market value at the 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.

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 flows 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. Impairment losses recognized in 2008 and 2007 were \$465,510 and \$236,749, respectively.

NEAR NORTHWEST NEIGHBORHOOD, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. 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.

Note 3. Support from Major Funding Sources/Concentrations of Credit Risk

The Organization 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 effect on the Organization's programs and activities.

The Organization places its cash with high credit quality financial institutions. The Organization does not limit the amount of credit exposure and often has cash balances in excess of the federal depository insurance limits.

Note 4. Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category.

Pledges receivable are expected to be realized in the following period:

December 31, 2009	<u>\$ 4,000</u>
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There is no discounting of the pledges due to the immaterial amount. The Organization considers all outstanding balances as of December 31, 2008 to be fully collectible. Accordingly, no allowance for uncollectible promises has been recorded.

Note 5. Real Estate Held for Resale

<u>Location</u>	<u>Original Cost Plus Improvements at December 31, 2008</u>
911 Lindsey St	\$ 161,427
715 California	65,302
711 California	41,815
923 Portage	27,573
805 Lafayette	143,248
508 Lindsey	182,590
601 Cottage Grove	21,405
622 N. Scott	410
824 Lindsey	26,086
604 Cottage Grove	97,484
709 Rex	17,530
706/708 Cushing	19,182
623 Cottage Grove	33,681
623 N. Scott	25,127
624 N. Scott	24,228

NEAR NORTHWEST NEIGHBORHOOD, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Real Estate Held for Resale (continued)

<u>Location</u>	<u>Original Cost Plus Improvements at December 31, 2008</u>
1001 California	10,646
1019 Woodward	24,565
738 Leland	22,270
727 Portage	12,951
739 Portage	15,801
525 Cottage Grove	195,680
815 Lindsey	161,283
1041 California	10,192
616 Lindsey	148,568
713 Lindsey	995
625 Cottage Grove	<u>7,244</u>
	1,497,283
Valuation reserve	<u>(1,026,230)</u>
	 <u>\$ 471,053</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, (SFAS 144) 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 exceeds 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.

Note 6. Notes Payable

	<u>2008</u>	<u>2007</u>
Note payable, bank, interest only due monthly at prime plus 1.5% or 4.75% at December 31, 2008. The note is collateralized by all the assets held by the Organization.	\$ 28,722	\$ 32,741
Note payable to the Targeted Urban Realty Fund. The note is collateralized by the property located at 727 Portage Ave. The note is non interest bearing and is due in August 2009.	18,000	18,000
Note payable to the Targeted Urban Realty Fund. The note is collateralized by the property located at 739 Portage Ave. The note is non interest bearing and is due in August 2009.	18,000	18,000

NEAR NORTHWEST NEIGHBORHOOD, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6. Notes Payable (continued)

Note payable, bank, due in monthly installments of \$405 including interest at 7.7%. The note is collateralized by a mortgage on the property located at 1002-1011 Portage Ave. A balloon payment is due April 2014.

40,372 42,016

Note payable, bank, due in monthly installments of \$255 including interest at 5%. The note is collateralized by a mortgage on the property located at 1013 Portage Ave. The final payment is due May 2009.

1,301 4,171

\$106,395 \$114,928

Maturities of the notes payable for the five years after December 31, 2008 are as follows:

2009	\$	67,801
2010		1,919
2011		2,073
2012		2,238
2013		2,416
Thereafter		<u>29,948</u>
		<u>\$ 106,395</u>

Note 7. Property and Equipment

Property and equipment at December 31, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
Land and buildings	\$ 812,111	\$ 805,043
Furniture and equipment	<u>46,370</u>	<u>46,370</u>
	858,481	851,413
Less accumulated depreciation	<u>(186,933)</u>	<u>(165,196)</u>
Net property and equipment	<u>\$ 671,548</u>	<u>\$ 686,217</u>

NEAR NORTHWEST NEIGHBORHOOD, INC.

NOTES TO FINANCIAL STATEMENTS

Note 8. Leased Property

Leased property includes three apartments on the second floor of the Organizations' current office facility, two of them are occupied by tenants who have annual leases of \$500 per month. The third apartment is vacant. The two apartments on the second floor of the property formerly known as Van Buren Market (the Market) are occupied by tenants who each have annual leases of \$500 per month. The first floor of the Market is vacant at year end. In addition, the apartments at 608 and 610 Cottage Grove are occupied by tenants having two year leases starting April and May 2008 for \$683 each per month.

Office space at the Organizations' current facility is currently vacant.

Future minimum rentals on noncancellable leases with a term greater than one year are as follows:

Year ending December 31, 2009	\$ 16,392
2010	<u>7,513</u>
	<u>\$ 23,905</u>

Note 9. Pension Plan

The Organization is a member of a defined contribution pension plan on behalf of its employees. The Organization may make discretionary contributions up to 2% of a qualified employees' compensation. There was no pension expense for the years ended December 31, 2008 and 2007.

Jurgonski & Fredlake CPAs

418 W. Jefferson Blvd., South Bend, Indiana 46601

Office (574) 251-1414

Fax (574) 251-1477

Greg Jurgonski

John A. Fredlake

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Near Northwest Neighborhood, Inc.
South Bend, Indiana

Our report on our audits of the basic financial statements of Near Northwest Neighborhood, Inc. for the years ended December 31, 2008 and 2007, appears on page 1. The audits were 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 years ended December 31, 2008 and 2007, taken as a whole.

Jurgonski + Fredlake CPAs

South Bend, Indiana
February 26, 2009

NEAR NORTHWEST NEIGHBORHOOD, INC.

Schedule I

SUPPLEMENTARY STATEMENTS OF ACTIVITIES INFORMATION

For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Wages and benefits	\$ 173,288	\$ 177,003
Payroll processing	281	277
Legal and accounting	11,105	11,295
Marketing/outreach publication	7,255	5,141
Property maintenance	20,361	93,208
Depreciation	21,737	19,862
Property taxes	14,773	25,569
Hospitality	1,483	1,530
Interest	5,518	7,143
Insurance	24,475	25,506
Dues and subscriptions	653	528
Utilities	29,995	23,187
Security	304	264
Telephone	4,511	3,970
Office supplies	7,484	7,178
Postage	4,172	3,331
Training	3,765	257
Printing/copying	1,256	1,035
Contracted services	8,550	9,181
Small equipment		1,778
Miscellaneous	8,681	5,634
Valuation expense	465,510	236,749
Fees and permits	4,487	604
Rehabilitation expense	5,885	28,436
Total expenses	<u>\$ 825,529</u>	<u>\$ 688,666</u>

NEAR NORTHWEST NEIGHBORHOOD, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2008

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- through Number</u>	<u>Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development			
<u>Passed-through St. Joseph County Housing Consortium</u>			
Home Investment in Affordable Housing (HOME)	14.239	Outstanding loan HO 07 830 HO 08 830	\$ 71,168 295,476 <u>210,167</u>
Subtotal HOME			<u>576,811</u>
<u>Passed-through City of South Bend</u>			
Community Development Block Grant	14.218	Outstanding loan CD08-8124 CD08-8185	24,970 8,828 <u>90,400</u>
Subtotal Community Development Block Grant			<u>124,198</u>
<u>Passed-through Housing Authority of South Bend</u>			
Lead Based Paint Hazard Grant	14.980		<u>105,000</u>
Total Federal Awards expended			806,009
Less outstanding liability			<u>(96,138)</u>
Total federal awards included in statement of activities			<u>\$ 709,871</u>

NEAR NORTHWEST NEIGHBORHOOD, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
For the Year Ended December 31, 2008

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- through Number</u>	<u>Disbursements/ Expenditures</u>	<u>Outstanding Liability at December 31, 2008</u>
Community Development Block Grant - prior years	14.218		\$ 24,970	
HOME (St. Joseph County Housing Consortium) Prior years	14.239		<u>71,168</u>	
Total			<u>\$ 96,138</u>	

The above schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**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 Board of Directors
Near Northwest Neighborhood, Inc.
South Bend, Indiana

We have audited the financial statements of Near Northwest Neighborhood, Inc. (the Organization) as of and for the year ended December 31, 2008, and have issued our report thereon, dated February 26, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Near Northwest Neighborhood, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Near Northwest Neighborhood, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of Management, the Board of Directors, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jurgonski & Fredlake CPAs

South Bend, Indiana
February 26, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Directors
Near Northwest Neighborhood, Inc.
South Bend, Indiana

Compliance

We have audited the compliance of Near Northwest Neighborhood, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2008. Near Northwest Neighborhood, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Near Northwest Neighborhood, Inc.'s management. Our responsibility is to express an opinion on Near Northwest Neighborhood, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Near Northwest Neighborhood, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Near Northwest Neighborhood, Inc.'s compliance with those requirements.

In our opinion, Near Northwest Neighborhood, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of Near Northwest Neighborhood, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Near Northwest Neighborhood, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of Near Northwest Neighborhood, Inc.'s internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Near Northwest Neighborhood, Inc.'s internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above.

This report is intended solely for the information and use of Management, the Board of Directors, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jungowski + Friedlake CPAs

South Bend, Indiana

February 26, 2009

NEAR NORTHWEST NEIGHBORHOOD, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2008

1. SUMMARY OF AUDITORS' RESULTS:

- a. The auditors' report expresses an unqualified opinion on the financial statements of Near Northwest Neighborhood, Inc. for the year ended December 31, 2008.
- b. No significant deficiencies relating to the audit of the financial statements are reported in this schedule.
- c. No instances of noncompliance material to the financial statements of Near Northwest Neighborhood, Inc. were disclosed during the audit.
- d. No significant deficiencies relating to the audit of the major federal award programs are reported in this schedule.
- e. The auditors' report on compliance for the major federal award programs for Near Northwest Neighborhood, Inc. expresses an unqualified opinion on the major federal programs.
- f. The programs tested as major programs: Home Investment Partnership Program (HOME), CFDA#14.239 and HUD Lead Based Paint Hazard, CFDA#14.980
- g. The threshold for distinguishing Type A and B programs was \$300,000.
- h. Near Northwest Neighborhood, Inc. was determined to be a low risk auditee.
- i. There were no audit findings required to be disclosed under OMB Circular A-133 Section 510(a).

2. Findings related to the financial statements which are required to be reported in accordance with GAGAS:

None

3. Findings and questioned costs for federal awards including audit findings as defined in OMB Circular A-133 Section 510(a):

None

NEAR NORTHWEST NEIGHBORHOOD, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2008

Near Northwest Neighborhood, Inc. did not have any prior year audit findings.