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October 18, 2013

Board of Directors  
United Neighborhoods, Inc. UNI  
5209 Hohman Ave., Suite 203/204  
Hammond, IN 46320

We have reviewed the audit report prepared by McMahon & Associates, Independent Public Accountants, for the period January 1, 2011 to December 31, 2012. 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 United Neighborhoods, Inc. UNI, as of December 31, 2012, 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

UNITED NEIGHBORHOODS, INC.  
AUDITED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEARS ENDED  
DECEMBER 31, 2012 AND 2011

UNITED NEIGHBORHOODS, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
United Neighborhoods, Inc.  
Hammond, Indiana

We have audited the accompanying financial statements of United Neighborhoods, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Neighborhoods, Inc., as of December 31, 2012 and 2011, 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.

*McMahon & Associates Certified Public Accountants P.C.*  
McMahon & Associates Certified Public Accountants, P.C.  
Munster, Indiana

April 23, 2013

UNITED NEIGHBORHOODS, INC.

STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2012 AND 2011

	<u>ASSETS</u>	
	<u>2012</u>	<u>2011</u>
<u>CURRENT ASSETS:</u>		
Cash and cash equivalents	\$ 205,808	\$ 135,600
Accounts receivable	9,473	0
Prepaid expenses	914	1,839
Security deposit	1,590	1,590
CHDO restricted funds	70,298	15,117
Total current assets	<u>288,083</u>	<u>154,146</u>
<u>FIXED ASSETS (NET)</u>	1,024	1,490
<u>PROPERTY HELD FOR SALE</u>	236,745	660,125
<u>OTHER ASSETS</u> - Secondary financing (net)	<u>16,000</u>	<u>0</u>
<u>TOTAL ASSETS</u>	<u>\$ 541,852</u>	<u>\$ 815,761</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts payable	\$ 4,894	\$ 4,430
Accrued expenses and other liabilities	18,407	40,781
Agency funds	70,298	15,117
Total current liabilities	<u>93,599</u>	<u>60,328</u>
<u>NET ASSETS:</u>		
Unrestricted net assets	445,529	752,709
Temporarily restricted net assets	2,724	2,724
Total net assets	<u>448,253</u>	<u>755,433</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 541,852</u>	<u>\$ 815,761</u>

UNITED NEIGHBORHOODS, INC.

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012		
	Unrestricted	Temporarily Restricted	Total
<u>REVENUE, GAINS, AND OTHER SUPPORT:</u>			
City of Hammond - CHDO grants	\$ 153,367	\$ 0	\$ 153,367
City of Hammond General Assistance grant	160,000	0	160,000
Other income	750	0	750
Interest income	10	0	10
Loss on disposal of properties	(433,102)	0	(433,102)
Gain on sale of equipment	5,500	0	5,500
Total revenue, gains, and other support	<u>(113,475)</u>	<u>0</u>	<u>(113,475)</u>
<u>EXPENSES:</u>			
Program services	115,954	0	115,954
Management and general services	77,751	0	77,751
Total expenses	<u>193,705</u>	<u>0</u>	<u>193,705</u>
DECREASE IN NET ASSETS	(307,180)	0	(307,180)
NET ASSETS - BEGINNING OF YEAR	<u>752,709</u>	<u>2,724</u>	<u>755,433</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 445,529</u>	<u>\$ 2,724</u>	<u>\$ 448,253</u>

UNITED NEIGHBORHOODS, INC.

STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

	2011		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUE, GAINS, AND OTHER SUPPORT:</u>			
City of Hammond - CHDO grants	\$ 76,091	\$ 0	\$ 76,091
City of Hammond General Assistance grant	192,000	0	192,000
Other grants and contributions	0	4,000	4,000
Nipsco refund	49,413	0	49,413
Other income	2,264	0	2,264
Interest income	4	0	4
Loss on disposal of properties	(32,973)	0	(32,973)
Fair value adjustment to value of properties	(150,076)	0	(150,076)
Net assets released from restrictions	2,833	(2,833)	0
Total revenue, gains, and other support	<u>139,556</u>	<u>1,167</u>	<u>140,723</u>
<u>EXPENSES:</u>			
Program services	130,491	0	130,491
Management and general services	100,488	0	100,488
Total expenses	<u>230,979</u>	<u>0</u>	<u>230,979</u>
DECREASE IN NET ASSETS	(91,423)	1,167	(90,256)
NET ASSETS - BEGINNING OF YEAR	<u>844,132</u>	<u>1,557</u>	<u>845,689</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 752,709</u>	<u>\$ 2,724</u>	<u>\$ 755,433</u>

UNITED NEIGHBORHOODS, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL</u>
<u>EXPENSES:</u>			
Advertising	\$ 483	\$ 0	\$ 483
Depreciation and amortization	465	0	465
Equipment maintenance and repairs	1,505	0	1,505
Insurance	0	2,530	2,530
Meetings and conferences	1,965	0	1,965
Miscellaneous	847	0	847
Payroll taxes and fringe benefits	7,928	5,286	13,214
Postage and delivery	0	180	180
Professional fees and contract services	23,101	11,606	34,707
Property tax expense	21,169	0	21,169
Rent	0	10,192	10,192
Salaries	57,944	38,629	96,573
Service charges	0	88	88
Supplies	0	841	841
Telephone	0	4,818	4,818
Utilities	0	3,581	3,581
Workshops	547	0	547
TOTAL EXPENSES	<u>\$ 115,954</u>	<u>\$ 77,751</u>	<u>\$ 193,705</u>

UNITED NEIGHBORHOODS, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL</u>
<u>EXPENSES:</u>			
Advertising	\$ 4,821	\$ 0	\$ 4,821
Closing assistance program	2,833	0	2,833
Depreciation and amortization	626	0	626
Equipment maintenance and repairs	3,773	0	3,773
Insurance	0	1,957	1,957
Interest expense	0	7	7
Meetings and conferences	1,523	0	1,523
Membership dues and subscriptions	0	285	285
Miscellaneous	579	0	579
Payroll taxes and fringe benefits	15,493	10,329	25,822
Penalties	0	172	172
Postage and delivery	0	504	504
Professional fees and contract services	25,719	32,865	58,584
Property tax expense	23,969	0	23,969
Rent	0	9,996	9,996
Salaries	49,462	32,975	82,437
Service charges	0	134	134
Supplies	0	3,871	3,871
Telephone	0	4,321	4,321
Utilities	0	3,072	3,072
Workshops	1,693	0	1,693
	<u>130,491</u>	<u>100,488</u>	<u>230,979</u>
TOTAL EXPENSES	\$ <u>130,491</u>	\$ <u>100,488</u>	\$ <u>230,979</u>

UNITED NEIGHBORHOODS, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Decrease in net assets	\$ (307,180)	\$ (90,256)
<u>ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:</u>		
Non-cash items		
Depreciation and amortization	465	626
Write-down of properties held for investment to fair value	486,912	183,049
(Increase) decrease in assets:		
Prepaid expenses and other assets	926	704
Accounts receivable	(9,473)	0
Increase (decrease) in liabilities:		
Accounts payable	464	(7,306)
Accrued expenses and other liabilities	(22,374)	18,439
Net cash provided by operating activities	<u>149,740</u>	<u>105,256</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Sale of property	102,866	0
Improvements to property held for resale	(166,398)	(30,014)
Purchase of fixed assets	0	(1,038)
Secondary financing	(16,000)	0
Net cash used by investing activities	<u>(79,532)</u>	<u>(31,052)</u>
NET INCREASE IN CASH	70,208	74,204
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>135,600</u>	<u>61,396</u>
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<u>\$ 205,808</u>	<u>\$ 135,600</u>
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</u> CASH PAID DURING THE YEAR FOR:		
Interest	\$ <u>0</u>	\$ <u>7</u>

UNITED NEIGHBORHOODS, INC.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - United Neighborhoods, Inc. UNI (“UNI”), is a non-profit organization formed to purchase single-family homes for construction or rehabilitation, within the City of Hammond, and later sells the homes to low to moderate-income individuals and families. UNI strives to improve the community by removing vacant and rundown buildings from the neighborhood and assisting families in acquiring affordable, decent and sanitary housing by placing them into a home ownership program. The proceeds received from the sale of the homes are used to purchase more buildings for rehabilitation. United Neighborhoods, Inc. UNI changed its name from Hammond 2000+, Inc. on July 9, 2004.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting, which is used for financial reporting purposes.

Financial Statement Presentation - UNI has adopted Financial Accounting Standards Board’s Accounting Standards Codification (ASC) 958, which provided guidance to reporting on not-for-profit organizations. Under ASC 958, UNI 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. Contributions whose restrictions are met in the same period as the recognition of the contribution are considered unrestricted for reporting purposes. There were no permanently restricted net assets at December 31, 2012 and 2011. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When temporarily restricted net assets have been used for the purpose of the donated funds, the assets are shown as released from restrictions on the statements of activities.

Use of Estimates in Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates of revenues and expenses during the reporting period.

Cash and Cash Equivalents - Cash and cash equivalents as presented on the accompanying statements of financial position and statements of cash flows includes cash on hand and deposits in interest bearing and non-interest bearing accounts in financial institutions. Cash equivalents consist of highly liquid accounts with original maturities of 90 days or less.

Accounts Receivable - Accounts receivable is reported at the outstanding unpaid principal balance. UNI records bad debts on the direct write-off method when, in management’s opinion, an account becomes uncollectible. The direct write-off method is a departure from generally accepted accounting principles. Bad debt expenses, calculated using the direct write-off method do not differ materially from those calculated using generally accepted methods.

UNITED NEIGHBORHOODS, INC.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Restricted Funds - United Neighborhoods, Inc. (UNI) receives funds through the HOME Investment Partnership Program from the U.S. Department of Housing and Urban Development. These funds are restricted for assistance to low to moderate income home buyers. These funds are recorded on the statement of financial position as restricted cash with a corresponding current liability named agency funds.

Fixed Assets - Fixed assets are carried at cost. Depreciation expense is computed using straight-line methods over the estimated useful life of the assets. When assets are retired or otherwise disposed of, the cost of related accumulated depreciation are removed from the accounts and any gain or loss resulting from the transactions is recognized as income for the period. The cost of repairs and maintenance is charged to income as incurred; significant renewals and betterments are capitalized.

Impairment of Long-Lived Assets - UNI reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset has been impaired and may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered 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 carrying amount or fair value less costs to sell.

Income Taxes - UNI is a nonprofit corporation organized under the laws of the State of Indiana. The Internal Revenue Service has given UNI a favorable determination under Section 501 (c) (3) of the Internal Revenue Code, exempting UNI from taxation.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of UNI.

Advertising - UNI expenses advertising costs as they occur. For the years ended December 31, 2012 and 2011 advertising expense was \$483 and \$4,821, respectively.

Subsequent Events - In preparing these financial statements, UNI has evaluated events and transactions for potential recognition or disclosure through April 23, 2013, the date the financial statements were available to be issued.

UNITED NEIGHBORHOODS, INC.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

NOTE 2 - LINE OF CREDIT

UNI has a \$25,000 revolving line of credit, of which \$25,000 and \$25,000 was unused at December 31, 2012 and 2011, respectively. Bank advances on the line of credit are payable on demand and carry an interest rate of 5.75% at December 31, 2012, and 2011. The credit line is unsecured. The line of credit matured on January 17, 2013. Subsequent to the year end the line of credit was renewed until January 17, 2014 with the same terms. At December 31, 2012 and 2011 UNI had a balance of \$0 and \$0 outstanding on their line of credit, respectively.

NOTE 3 - FIXED ASSETS

Investment in fixed assets at December 31, 2012, consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture and equipment	\$ 1,742	\$ 718	\$ 1,024
Total fixed assets - net	<u>\$ 1,742</u>	<u>\$ 718</u>	<u>\$ 1,024</u>

Depreciation expense for the year ended December 31, 2012 was \$465.

Investment in fixed assets at December 31, 2011, consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture and equipment	\$ 5,306	\$ 3,816	\$ 1,490
Vehicles	<u>27,399</u>	<u>27,399</u>	<u>0</u>
Total fixed assets - net	<u>\$ 32,705</u>	<u>\$ 31,215</u>	<u>\$ 1,490</u>

Depreciation expense for the year ended December 31, 2011 was \$626.

NOTE 4 - PROPERTY HELD FOR SALE

UNI owned lots in Parrish View that were available for sale with a basis of \$375,904 on December 31, 2011. In August 2012 these lots were transferred to the City of Hammond.

During 2010 UNI also acquired property on Northcote Ave. for \$28,131. Additional improvements to the property were done to the property in 2010. The basis of the property at December 31, 2011 is \$86,435. In March 2012 this property was sold.

The Organization owned property in various stages of rehabilitation. At December 31, 2012 and 2011 the total basis for the additional properties is \$236,745 and 197,786, respectively. In total the Organization has \$236,745 and \$660,125 in basis in properties held for sale at December 31, 2012 and 2011, respectively.

UNITED NEIGHBORHOODS, INC.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

NOTE 5 - SIGNIFICANT CONCENTRATIONS

UNI received approximately 51% and 59% of its revenue from the City of Hammond and approximately 49% and 24% of its revenue from the U.S. Department of Housing and Urban Development for the years ended December 31, 2012 and 2011, respectively. At December 31, 2012 100% of the accounts receivable is from the U.S. Department of Housing and Urban Development. UNI's operations are solely in the City of Hammond.

NOTE 6 - OPERATING LEASES

UNI leases office space in Hammond under a one year renewable lease. The lease expires on November 1, 2013. Lease expense for the years ended December 31, 2012 and 2011 was \$10,192 and \$9,996, respectively. Lease expense for 2013 is \$725 per month, or \$7,975 for the remaining term of the lease. UNI has the option to renew the lease for another year.

UNI also has a copier lease. The lease began in December 2011 and is for 60 months. The lease expires in December 2016. The lease is for \$150 per month. The lease payments for the remainder of the lease are \$1,800 per year for the years 2013 through 2016. Lease expense for the years ended December 31, 2012 and 2011 were \$1,800 and \$2,514, respectively. This includes expenses from their prior lease. This lease expense is recorded on the Statement of Functional Expenses under equipment maintenance and repairs.

NOTE 7 - INCOME TAX UNCERTAINTIES

UNI has adopted the provisions of ASC 740-10-25, which requires an organization to disclose any income tax uncertainties, including tax positions for which it is reasonably possible that the unrecognized tax benefit will significantly change in the next 12 months. UNI believes that all income tax positions are reasonable and that the total amounts of unrecognized tax benefits will not significantly increase or decrease within 12 months of the reporting date. As a non-profit organization, the entity is exempt from income taxes. UNI did not recognize any income tax interest or penalties during the fiscal years ended December 31, 2012 or 2011. In general, UNI is no longer subject to examination for the years prior to 2010.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

UNI has received a grant from Centier Bank in 2010 for the restricted purpose of providing home buyer workshops to the residents of Hammond. As of December 31, 2012 and 2011 UNI had \$2,724 and \$2,724 remaining in unspent funds, respectively. These unspent funds are shown as temporarily restricted net asset on the Statements of Financial Position and Statements of Activities.

UNITED NEIGHBORHOODS, INC.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

NOTE 9 - COMMITMENTS AND CONTINGENCIES

UNI owns properties in Hammond, Indiana that currently have been assessed by the local county treasurer for property taxes. UNI has filed for property tax exemptions for the year 2008 forward, but the exemptions have not yet been granted. The Organization believes it is reasonably possible that the exemption will be granted and that these overdue property taxes will be abated.

NOTE 10 - RETIREMENT PLAN

UNI offered a retirement plan for their employees in August 2011. UNI matches employee contributions dollar for dollar up to 3% of their salary. Retirement plan contributions for the years ended December 31, 2012 and 2011 were \$2,766 and \$1,027, respectively. This is recorded on the Statement of Functional Expenses under payroll taxes and fringe benefits.

NOTE 11 - SECONDARY FINANCING

UNI sold a property in December 2012. UNI financed 20% of the selling price per HUD agreement for the seller. The agreement states that the buyer must stay in the house for ten years in order to have the loan forgiven. This mortgage is for \$16,000 and is recorded as an other asset until the buyer has stayed in the house for ten years. Beginning in January 2013 this asset will be amortized for ten years at \$133 per month; \$1,600 per year.