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April 2, 2018

Board of Directors
Near Northwest Neighborhood, Inc.
1007 Portage Ave.
South Bend, IN 46616

We have reviewed the report prepared by Near Northwest Neighborhood, Inc. and opined upon by Kruggel, Lawton & Company, LLC, Independent Public Accountants, for the period January 1, 2015 to December 31, 2015. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Near Northwest Neighborhood, Inc. as of December 31, 2015 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Kruggel, Lawton & Company, LLC prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

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


Paul D. Joyce, CPA
State Examiner

Near Northwest Neighborhood

INCORPORATED



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Where We Live!

ANNUAL REPORT
December 31, 2015



Elkhart, Indiana

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

ANNUAL REPORT

December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Near Northwest Neighborhood, Inc. which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 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 auditor's 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 Near Northwest Neighborhood, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2016, on our consideration of Near Northwest Neighborhood, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Near Northwest Neighborhood, Inc.'s internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of Near Northwest Neighborhood, Inc. as of and for the year ended December 31, 2014, were audited by other auditors whose report dated February 27, 2015, expressed an unmodified opinion on those statements.

Respectfully submitted,



Certified Public Accountants

Elkhart, Indiana
May 10, 2016

NEAR NORTHWEST NEIGHBORHOOD, INC.South Bend, Indiana

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	275,137	513,923
Grants receivable	173,693	121,875
Prepaid expenses	22,285	16,690
Real estate held for resale, net of valuation allowance	171,120	160,977
Total Current Assets	642,235	813,465
PROPERTY AND EQUIPMENT		
Land	70,960	70,960
Land improvements	59,149	59,149
Buildings and building improvements	1,310,466	1,252,883
Furniture and equipment	49,620	46,370
Total	1,490,195	1,429,362
Accumulated depreciation	(412,459)	(368,155)
Net Property and Equipment	1,077,736	1,061,207
OTHER ASSETS		
Deposits	8,035	0
Certificates of deposit	100,000	0
Real estate held for resale - vacant lots	22,504	0
Total Other Assets	130,539	0
TOTAL ASSETS	1,850,510	1,874,672
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	116,444	76,072
Other accrued expenses	25,509	9,644
Grant advances	163,239	126,358
Current portion of notes payable	0	5,436
Total Current Liabilities	305,192	217,510
LONG-TERM LIABILITIES		
Notes payable	0	20,352
TOTAL LIABILITIES	305,192	237,862
NET ASSETS		
Unrestricted	1,541,971	1,627,681
Temporarily restricted	3,347	9,129
TOTAL NET ASSETS	1,545,318	1,636,810
TOTAL LIABILITIES AND NET ASSETS	1,850,510	1,874,672

The Notes to Financial Statements are an integral part of this statement.

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Grant income - federal	945,663	0	945,663
Grant income - other	19,628	3,347	22,975
Rental revenue	40,794	0	40,794
Gift-in-kind	5,984	0	5,984
Contributions	12,551	0	12,551
Other revenue	659	0	659
Loss on sale of real estate held for resale	(402,759)	0	(402,759)
Total Revenue	622,520	3,347	625,867
Net assets released from restrictions:			
Satisfaction of restrictions	9,129	(9,129)	0
NATURAL EXPENSES	717,359	0	717,359
DECREASE IN NET ASSETS	(85,710)	(5,782)	(91,492)
NET ASSETS, BEGINNING OF YEAR	1,627,681	9,129	1,636,810
NET ASSETS, END OF YEAR	1,541,971	3,347	1,545,318

The Notes to Financial Statements are an integral part of this statement.

NEAR NORTHWEST NEIGHBORHOOD, INC.South Bend, Indiana

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Grant income - federal	771,191	0	771,191
Grant income - other	2,201	6,499	8,700
Rental revenue	34,188	0	34,188
Contributions	12,429	2,630	15,059
Other revenue	20,073	0	20,073
Loss on sale of real estate held for resale	(54,746)	0	(54,746)
Total Revenue	785,336	9,129	794,465
NATURAL EXPENSES	674,264	0	674,264
INCREASE IN NET ASSETS	111,072	9,129	120,201
NET ASSETS, BEGINNING OF YEAR	1,516,609	0	1,516,609
NET ASSETS, END OF YEAR	1,627,681	9,129	1,636,810

The Notes to Financial Statements are an integral part of this statement.

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in net assets	(91,492)	120,201
Adjustments to reconcile net increase (decrease) in net assets to net cash from operating activities:		
Depreciation	44,250	43,792
Valuation allowance	305,424	363,550
Loss on sale of real estate held for resale	402,759	54,746
Adjustments for changes in operating assets and liabilities:		
Grants receivable	(51,818)	(119,189)
Prepaid expenses	(5,595)	967
Deposits	(8,035)	0
Accounts payable	40,372	58,013
Other accrued expenses	15,865	9,645
Grant advances	36,881	15,558
Net Cash Flows from Operating Activities	688,611	547,283
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(60,779)	0
Capital expenditures	(741,181)	(658,050)
Proceeds from sale of real estate held for resale, net of amounts recaptured by grantor	351	235,554
Purchase of certificates of deposit	(100,000)	0
Net Cash Flows from Investing Activities	(901,609)	(422,496)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings of long-term debt	0	29,055
Principal payments on long-term debt	(25,788)	(36,480)
Net Cash Flows from Financing Activities	(25,788)	(7,425)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(238,786)	117,362
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	513,923	396,561
CASH AND CASH EQUIVALENTS AT END OF YEAR	275,137	513,923
SUPPLEMENTARY DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Interest paid	312	1,764

The Notes to Financial Statements are an integral part of this statement.

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NATURE OF BUSINESS

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 the 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's services are funded through contributions, federal, state and local governmental grants, and rental income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

The Organization adheres to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, which sets standards for reporting on financial statements of not-for-profit organizations. ASC 958-205 requires the classification and presentation of net assets in three categories: unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted net assets represent the part of the net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Organization. Temporarily restricted net assets also include cumulative appreciation and reinvested gains on permanently restricted net assets, which have been restricted by donors but have not been appropriated by management of the Organization.

Permanently restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization did not have any permanently restricted net assets for the years ended December 31, 2015 or 2014.

FAIR VALUE MEASUREMENTS

Management accounts for all assets and liabilities that are measured and reported on a fair value basis under the Fair Value Measurements and Disclosures Topic of FASB ASC 820. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The framework for measuring fair value establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For purposes of the Statement of Financial Position, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash is held at a local bank and is insured up to the limits of the FDIC. It is common throughout the course of operations for the Organization's cash balance to exceed the insured limit.

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 both December 31, 2015 and 2014. No allowance for uncollectible grants has been recorded because the Organization believes the grants are fully collectible. The Organization does not accrue interest on past due grant receivables.

PROPERTY AND EQUIPMENT

Donations of property and equipment are recorded as unrestricted support at their estimated fair value 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. Expenditures for additions, improvements and replacements are added to the property and equipment accounts. Repairs and maintenance are charged to expense as incurred. When equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses arising from the disposition are reflected in income. Depreciation is provided for over the estimated useful lives of the assets using the straight-line method. Depreciation expense was \$44,250 and \$43,792 for the years ended December 31, 2015 and 2014, respectively.

A summary of the range of lives by asset category follows:

Land improvements	15 years
Buildings and building improvements	15 - 40 years
Furniture and equipment	5 - 10 years

GAAP 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. There was no impairment loss recognized during the years ended December 31, 2015 and 2014. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

CONTRIBUTIONS

The Organization records contributions, including promises to give, when the contribution is deemed unconditional. Contributions are reflected in the financial statements at the earlier of the transfer of the assets or at the time an unconditional promise to give is made.

Contributions received are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions are received.

CONTRIBUTED SERVICES

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-605 states that in order to recognize donated services as contributions in the Organization's financial statements the services must require special skills, be provided by individuals who possess those skills, and typically need to be purchased if not contributed. The Organization has a number of unpaid volunteers that have made significant contributions of their time to the Organization's various programs. The value of the contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the requirements for recognition under ASC 958.

INCOME TAXES

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service (IRS) has determined that the Organization is not a private foundation within the meaning of Section 509(a).

The Income Taxes Topic, FASB ASC 740, clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740 requires an enterprise to disclose the nature of uncertain tax positions taken, if any, when filing its income tax return utilizing a two-step process to recognize and measure any uncertain tax positions taken. The entity recognizes a tax benefit only if it is more likely than not the position would be sustained in a tax examination, with a tax examination being presumed to occur. No tax benefit will be recorded on tax positions not meeting the more likely than not test. Interest and penalties accrued or incurred, if any, as a result of applying ASC 740 will be recorded to interest expense and other expense, respectively.

Based on its evaluation, the Organization has concluded that there are no uncertain tax positions requiring recognition in its financial statements. The Organization's evaluation was performed for all federal and state tax periods still subject to examination. The Organization's 2012 through 2014 federal and state exempt organization returns remain subject to examination by the IRS and state taxing authorities.

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 2 - CONCENTRATIONS

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.

NOTE 3 - FAIR VALUE MEASUREMENTS

The three levels of the fair value hierarchy under ASC 820 are described below:

Basis of Fair Value Measurement

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Organization utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The following table presents the Organization's fair value hierarchy for the Organization's investment assets at fair value, as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	0	100,000	0	100,000
Real estate held for resale, net of valuation allowance	0	0	171,120	171,120
Total	0	100,000	171,120	271,120

Original cost plus improvements at December 31, 2015 is as follows:

Various lots and improvements	478,048
Valuation allowance	(306,928)
Net real estate held for resale	171,120

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

The following table presents the Organization's fair value hierarchy for the Organization's investment assets at fair value, as of December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Real estate held for resale, net of valuation allowance	0	0	160,977	160,977
Total	0	0	160,977	160,977

Original cost plus improvements at December 31, 2014 is as follows:

Various lots and improvements	336,598
Valuation allowance	(175,621)
Net real estate held for resale	160,977

Lots and improvements are stated at historical cost plus the cost of improvements. A valuation reserve has been established to adjust properties to fair market value. Fair market value is estimated based on historical sales of similar properties. The eventual sales proceeds from these properties may be less than the carrying value of the properties. If the sales proceeds are less than the carrying value, a loss on sale of real estate held for resale will be recorded. A gain will be recorded if the sales proceeds are greater than the carrying value of the property sold.

The reconciliation of the changes in the real estate held for resale measured on a recurring basis using significant unobservable inputs (level 3) is as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Beginning balance	160,977	163,306
Real estate purchased	74,540	24,426
Development and construction costs	666,641	627,095
Change in market value	(305,424)	(363,550)
Real estate sold	(403,110)	(290,300)
Ending balance	193,624	160,977

NOTE 4 - LONG-TERM DEBT

Long-term debt consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
A note payable to a bank requiring monthly payments in the amount of \$549, including interest at 5% through April 2019, secured by a mortgage on the property located at 1005-1011 Portage Avenue. The note was paid in full during 2015.	0	25,788
Total	0	25,788
Current portion	0	5,436
Net long-term debt	0	20,352

Interest expense was \$0 and \$1,764 for the years ended December 31, 2015 and 2014, respectively.

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2015</u>	<u>2014</u>
Community coffee shop	1,107	6,499
Kitchen equipment	0	2,630
Solar panels	2,240	0
Total	3,347	9,129

NOTE 6 - FUNCTIONAL EXPENSE CLASSIFICATION

The Organization works to improve the physical, social, and economic environment of the near northwest section of the City of South Bend, Indiana. Expenses related to providing these services are as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Program service	598,080	517,901
Management and general	112,290	156,363
Fundraising	6,989	0
Total	717,359	674,264

NOTE 7 - LEASES

Leased property includes the following:

<u>Address</u>	<u>Current Term</u>	<u>Monthly Payment</u>
1005A Portage	September 1, 2015 - August 31, 2016	\$ 500
1005B Portage	August 1, 2015 - July 31, 2016	\$ 500
608 Cottage Grove	May 1, 2015 - April 30, 2016	\$ 683
610 Cottage Grove	August 1, 2015 - July 31, 2017	\$ 683
903 California	October 1, 2015 - September 30, 2016	\$ 500
911 California	August 1, 2014 - December 31, 2016	\$ 500
911 1/2 California	October 1, 2015 - September 30, 2016	\$ 500

Rental income was \$40,794 and \$34,188 for the years ended December 31, 2015 and 2014.

The future minimum lease receipts under the agreements are as follows:

2016	33,428
2017	4,781
Total	38,209

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 8 - GRANT ADVANCES

Under its federal grant agreements, all income received by the Organization upon the sale of property rehabilitated with federal funds shall be returned to the St. Joseph County Housing Consortium as program income. The Organization has estimated a liability for future sales based on the lesser of 1) federal grant money invested in the property or 2) the estimated sales price less all eligible selling expenses. Grant advances recorded as a liability at December 31, 2015 and 2014 were \$163,239 and \$126,358, respectively.

NOTE 9 - CONTINGENCIES

Under the terms of state and federal grants, periodic audits are required and certain costs may be challenged as to allowability under the terms of the grants. Grant resources are expendable only for operating purposes specified by the grant. Such audits could lead to reimbursement to the grantor agencies. However, management is of the opinion that the risk of material disallowance is remote. Therefore, no provision for contingencies has been reflected in the financial statements.

NOTE 10 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 10, 2016, the date the financial statements were available to be issued. Effective February 25, 2016, an operating agreement was signed for the Organization's new wholly-owned subsidiary, The Local Cup, LLC. The wholly-owned subsidiary operates a coffee shop that was formed to advance the purposes of the Organization by strengthening neighborly relations in the near northwest neighborhood of South Bend, Indiana. No other events or transactions occurred during this period which require recognition or disclosure in the financial statements.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of Near Northwest Neighborhood, Inc. as of and for the year ended December 31, 2015, and our report thereon dated May 10, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The following 2015 Schedule of Natural Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The following 2014 Schedule of Natural Expenses was subjected to the auditing procedures applied in the 2014 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2014 financial statements as a whole.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Kruggel, Lawton & Company, LLC'.

Certified Public Accountants

Elkhart, Indiana
May 10, 2016

NEAR NORTHWEST NEIGHBORHOOD, INC.South Bend, Indiana

SUPPLEMENTAL SCHEDULE OF NATURAL EXPENSES

For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Wages, benefits and payroll taxes	175,503	136,858
Payroll processing	712	186
Professional fees	20,319	13,770
Marketing outreach and publication	490	877
General repair and maintenance	11,572	7,709
Education and training	942	0
Property taxes	995	1,021
Hospitality	4,482	1,077
Interest expense	0	1,764
Insurance	10,694	23,242
Repairs and maintenance	3,873	0
Dues and subscriptions	372	285
Utilities	13,478	10,862
Security	444	278
Telephone	13,118	4,767
Office supplies	5,118	4,609
Postage	1,976	1,713
Printing and copying	2,290	2,484
Charitable contributions	4,280	0
Miscellaneous	3,793	5,569
Community space	0	66
Small equipment	399	2,178
Valuation allowance	305,424	363,550
Fees and permits	853	177
Rent	13,664	8,549
Rehabilitation	78,318	38,879
Total Expenses Before Depreciation	673,109	630,470
Depreciation	44,250	43,792
TOTAL	717,359	674,262

NEAR NORTHWEST NEIGHBORHOOD, INC.South Bend, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Passed-through St. Joseph County Housing Consortium			
Home Investment Partnerships Program (HOME)	14.239	14-JH-30	375,820
	14.239	13-JH-30	140,103
Subtotal Home Investment Partnerships Program			<u>515,923</u>
Passed-through City of South Bend			
Community Development Block Grants (CDBG)	14.218	14-JC-23	51,745
	14.218	15-JC-84	40,000
	14.218	15-JC-85	50,000
Neighborhood Stabilization Program 3	14.218	14-JO-88	110,195
	14.218	15-JO-88	51,442
Subtotal Community Development Block Grants			<u>303,382</u>
Total Expenditures of Federal Awards			<u>819,305</u>

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Near Northwest Neighborhood, Inc. under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Near Northwest Neighborhood, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Near Northwest Neighborhood, Inc.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the costs principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allocable or are limited as to reimbursement.

ADDITIONAL REQUIRED REPORTS AND
INFORMATION



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, 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, the financial statements of Near Northwest Neighborhood, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 10, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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*.

Purpose of this Report

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

Respectfully submitted,



Certified Public Accountants

Elkhart, Indiana
May 10, 2016



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Near Northwest Neighborhood, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2015. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Organization'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

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

Respectfully submitted,



Certified Public Accountants

Elkhart, Indiana
May 10, 2016

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended December 31, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No
Identification of major programs:	
<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	Home Investment Partnerships Program
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2015

Section II - Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III - Federal Award Findings and Questioned Costs

There were no findings related to federal awards which are required to be reported in accordance with *Government Auditing Standards*.

NEAR NORTHWEST NEIGHBORHOOD, INC.

South Bend, Indiana

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2015

U.S. Department of Housing and Urban Development

Finding 2014-1: Material Weakness, Community Development Block Grant, CFDA No. 14.218

Condition: The finding was a material weakness stating that management was able to override accounting procedures to affect the timing and reporting of accounting activity. Improper cutoff procedures were used by management to record receipts and disbursements of cash in a closed period, which overstated cash, and understated receivables and payables. In addition, a check was cut and held while being submitted to the grantor as a claim for reimbursement without actually making the payment.

Recommendation: The auditor recommended that cutoff procedures be reviewed and understood by the accountant and management. It was also recommended that a procedure should be implemented requiring any deviation to be reported to a member of the Board of Directors and the auditor.

Current Status: The recommendations were adopted during 2015. No similar findings were noted in the 2015 audit.