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August 21, 2019


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

We have reviewed the audit report prepared of Near Northwest Neighborhood, Inc. which was opined upon by Kruggel, Lawton & Company, LLC, Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. 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, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report on page 24. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding.

In our opinion, Kruggel, Lawton & Company, LLC prepared the audit report in accordance with 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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ANNUAL REPORT
December 31, 2016



Elkhart, Indiana

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

ANNUAL REPORT

December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Near Northwest Neighborhood, Inc. and Subsidiary which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Near Northwest Neighborhood, Inc. and Subsidiary as of December 31, 2016 and 2015, 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.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 June 12, 2017, on our consideration of Near Northwest Neighborhood, Inc. and Subsidiary'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. and Subsidiary's internal control over financial reporting and compliance.

Respectfully submitted,


Certified Public Accountants

Elkhart, Indiana
June 12, 2017

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	244,158	275,137
Grants receivable	58,177	173,693
Prepaid expenses	4,444	22,285
Real estate held for resale, net of valuation allowance	122,561	171,120
Total Current Assets	429,340	642,235
PROPERTY AND EQUIPMENT		
Land	70,960	70,960
Land improvements	59,149	59,149
Buildings and building improvements	1,334,349	1,310,466
Furniture and equipment	49,620	49,620
Total	1,514,078	1,490,195
Accumulated depreciation	(453,393)	(412,459)
Net Property and Equipment	1,060,685	1,077,736
OTHER ASSETS		
Deposits	0	8,035
Certificates of deposit	101,915	100,000
Real estate held for resale - vacant lots	13,672	22,504
Total Other Assets	115,587	130,539
TOTAL ASSETS	1,605,612	1,850,510
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	6,480	116,444
Other accrued expenses	34,210	25,509
Grant advances	123,037	163,239
Total Current Liabilities	163,727	305,192
TOTAL LIABILITIES	163,727	305,192
NET ASSETS		
Unrestricted	1,428,320	1,541,971
Temporarily restricted	13,565	3,347
TOTAL NET ASSETS	1,441,885	1,545,318
TOTAL LIABILITIES AND NET ASSETS	1,605,612	1,850,510

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

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARYSouth Bend, Indiana

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Grant income - federal	854,508	0	854,508
Grant income - other	15,385	13,565	28,950
Rental revenue	39,295	0	39,295
Contributions	20,755	0	20,755
Other revenue	28,438	0	28,438
Loss on sale of real estate held for resale	(457,821)	0	(457,821)
Total Revenue	500,560	13,565	514,125
Net assets released from restrictions:			
Satisfaction of restrictions	3,347	(3,347)	0
NATURAL EXPENSES	617,558	0	617,558
CHANGE IN NET ASSETS	(113,651)	10,218	(103,433)
NET ASSETS, BEGINNING OF YEAR	1,541,971	3,347	1,545,318
NET ASSETS, END OF YEAR	1,428,320	13,565	1,441,885

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

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARYSouth Bend, Indiana

CONSOLIDATED 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	1,484	0	1,484
Contributions	17,051	0	17,051
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
CHANGE 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 Consolidated Financial Statements are an integral part of this statement.

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARYSouth Bend, Indiana

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	(103,433)	(91,492)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	40,934	44,250
Valuation allowance	203,329	305,424
Loss on sale of real estate held for resale	457,821	402,759
Adjustments for changes in operating assets and liabilities:		
Grants receivable	115,516	(51,818)
Prepaid expenses	17,841	(5,595)
Deposits	8,035	(8,035)
Accounts payable	(109,964)	40,372
Other accrued expenses	8,701	15,865
Grant advances	(40,202)	36,881
Net Cash Flows from Operating Activities	598,578	688,611
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(23,883)	(60,779)
Capital expenditures - real estate held for resale	(612,285)	(741,181)
Proceeds from sale of real estate held for resale, net of amounts recaptured by grantor	8,526	351
Purchase of certificates of deposit	(1,915)	(100,000)
Net Cash Flows from Investing Activities	(629,557)	(901,609)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	0	(25,788)
Net Cash Flows from Financing Activities	0	(25,788)
CHANGE IN CASH	(30,979)	(238,786)
CASH AT BEGINNING OF YEAR	275,137	513,923
CASH AT END OF YEAR	244,158	275,137
SUPPLEMENTARY DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Interest paid	0	312

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

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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.

The Local Cup, LLC (the "Subsidiary") operates a neighborhood run coffee shop serving pour over locally roasted coffee and locally made baked goods within the building of the Organization. The Subsidiary began operations in 2016.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated 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.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Organization and the Subsidiary. The Subsidiary is a wholly-owned LLC of the Organization. All significant intercompany accounts and transactions have been eliminated in consolidation.

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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).

USE OF ESTIMATES

The preparation of consolidated 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 and its Subsidiary consider 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.

Cash on the Consolidated Statement of Financial Position includes \$13,565 and \$3,347 restricted for the purposes described in Note 4 at December 31, 2016 and 2015, respectively.

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, 2016 and 2015. 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 \$40,934 and \$44,250 for the years ended December 31, 2016 and 2015, respectively.

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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, 2016 and 2015. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

CONTRIBUTIONS

The Organization records contributions, including promises to give, when the contribution is deemed unconditional. Contributions are reflected in the consolidated 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 consolidated 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 consolidated 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 Subsidiary is a disregarded entity for income tax purposes and is included in the tax return of the Organization.

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

The Income Taxes Topic, FASB ASC 740, clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. ASC 740 requires an organization 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 Organization 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 consolidated financial statements. The Organization's evaluation was performed for all federal and state tax periods still subject to examination. The Organization's 2013 through 2015 federal and state exempt organization returns remain subject to examination by the IRS and state taxing authorities.

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.

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

The following table presents the Organization's fair value hierarchy for the Organization's investment assets at fair value, as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	0	101,915	0	101,915
Real estate held for resale, net of valuation allowance	0	0	136,233	136,233
Total	0	101,915	136,233	238,148

Original cost plus improvements at December 31, 2016 is as follows:

Various lots and improvements	260,190
Valuation allowance	(123,957)
Net real estate held for resale	136,233

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	193,624	193,624
Total	0	100,000	193,624	293,624

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

Various lots and improvements	500,552
Valuation allowance	(306,928)
Net real estate held for resale	193,624

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>2016</u>	<u>2015</u>
Beginning balance	193,624	160,977
Real estate purchased	51,111	74,540
Development and construction costs	561,174	666,641
Change in market value	(203,329)	(305,424)
Real estate sold	(466,347)	(403,110)
Ending balance	136,233	193,624

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Community coffee shop	0	1,107
Solar panels	0	2,240
Community engagement program	13,565	0
Total	13,565	3,347

NOTE 5 - FUNCTIONAL EXPENSE CLASSIFICATION

The Organization and its Subsidiary work 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>2016</u>	<u>2015</u>
Program service	494,530	598,080
Management and general	115,765	112,290
Fundraising	7,263	6,989
Total	617,558	717,359

NOTE 6 - LEASES

Leased property includes the following:

<u>Address</u>	<u>Current Term</u>	<u>Monthly Payment</u>
1005A Portage	March 1, 2017 - February 28, 2018	\$ 500
1005B Portage	August 1, 2016 - July 31, 2017	\$ 500
608 Cottage Grove	August 5, 2016 - July 31, 2017	\$ 683
610 Cottage Grove	August 1, 2015 - July 31, 2017	\$ 683
903 California	October 1, 2016 - September 30, 2017	\$ 500
911 California	August 12, 2016 - July 31, 2017	\$ 500
911 1/2 California	October 1, 2016 - September 30, 2017	\$ 500

Rental income was \$39,295 and \$40,794 for the years ended December 31, 2016 and 2015.

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

2017	31,062
2018	1,000
Total	32,062

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 7 - 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, 2016 and 2015 were \$123,037 and \$163,239, respectively.

NOTE 8 - 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 9 - SUBSEQUENT EVENTS

The Organization and its Subsidiary have evaluated subsequent events through June 12, 2017, the date the consolidated financial statements were available to be issued. No events or transactions occurred during this period which require recognition or disclosure in the consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the consolidated financial statements of Near Northwest Neighborhood, Inc. and Subsidiary as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated June 12, 2017, which contained an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The following Supplemental Consolidated Schedule of Natural Expenses is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Respectfully submitted,

Kruggel, Lawton & Company, LLC
Certified Public Accountants

Elkhart, Indiana
June 12, 2017

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARYSouth Bend, Indiana

SUPPLEMENTAL CONSOLIDATED SCHEDULES OF NATURAL EXPENSES

For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Wages, benefits and payroll taxes	190,720	175,503
Payroll processing	1,773	712
Professional fees	25,137	20,319
Marketing outreach and publication	862	490
General repair and maintenance	12,938	11,572
Education and training	2,116	942
Property taxes	970	995
Hospitality	6,136	4,482
Insurance	11,373	10,694
Coffee shop expenses	14,364	3,873
Dues and subscriptions	132	372
Utilities	11,557	13,478
Security	679	444
Telephone	5,089	13,118
Office supplies	3,571	5,118
Postage	1,101	1,976
Printing and copying	2,112	2,290
Charitable contributions	100	4,280
Miscellaneous	5,846	3,793
Small equipment	745	399
Change in value of real estate held for resale	203,329	305,424
Fees and permits	1,862	853
Rent	18,025	13,664
Rehabilitation	56,087	78,318
Total Expenses Before Depreciation	576,624	673,109
Depreciation	40,934	44,250
TOTAL	617,558	717,359

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
Department of Housing and Urban Development				
Passed-through St. Joseph County Housing Consortium				
Home Investment Partnerships Program (HOME)				
Acquisition/Rehabilitation Project	14.239	14-JH-30	16,570	0
Acquisition/Rehabilitation Project	14.239	15-JH-30	352,395	0
Acquisition/Rehabilitation Project	14.239	16-JH-30 (01)	35,784	0
Acquisition/Rehabilitation Project	14.239	16-JH-30 (02)	16,837	0
Total Home Investment Partnerships Program			<u>421,586</u>	<u>0</u>
Passed-through City of South Bend				
Community Development Block Grant (CDBG) Cluster				
Neighborhood Revitalization Program	14.218	14-JC-23	11,635	0
CDBG Acquisition-Rehabilitation Program	14.218	15-JC-23	200,000	0
Acquisition/Rehabilitation Activity	14.218	16-JC-23	5,556	0
CDBG Activity Delivery Project	14.218	16-JC-84	50,000	0
CDBG Administration Activity	14.218	16-JC-85	40,000	0
Total Community Development Block Grant (CDBG) Cluster			<u>307,191</u>	<u>0</u>
Passed-through Housing Authority of South Bend				
Lead-Based Paint Hazard Control Grant	14.900	INLHB0540-12	<u>85,529</u>	<u>0</u>
Total Department of Housing and Urban Development			<u>814,306</u>	<u>0</u>
Total Expenditures of Federal Awards			814,306	0

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards ("Schedule") includes the federal award activity of Near Northwest Neighborhood, Inc. and Subsidiary (the "Organization") under programs of the federal government for the year ended December 31, 2016. 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 the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1) 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.

2) The Organization has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - LEAD-BASED PAINT HAZARD CONTROL GRANT

The expenditures shown for the Lead-Based Paint Hazard Control Grant include reimbursements of expenditures for lead hazard control work completed and recorded in periods prior to the year ended December 31, 2016. During the year ended December 31, 2016, the Organization was notified by the pass-through agency of additional available federal funds relative to this grant program. The Organization applied for the available funds and was reimbursed for qualifying lead hazard control expenditures made in prior periods. At the time of those prior-period expenditures, the Organization had no expectation or knowledge of potential reimbursement from a federal award. Therefore, there was no reasonable circumstance to report the expenditures as federal expenditures in those prior periods. All expenditures were made within the applicable grant period.

NOTE 4 - FEDERAL GRANT RECONCILIATION

Grant income - federal on Statement of Activities	854,508
Prior year grant advances on Statement of Financial Position	(163,239)
Current year grant advances on Statement of Financial Position	<u>123,037</u>
Federal expenditures on Schedule of Expenditures of Federal Awards	<u>814,306</u>

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. and Subsidiary
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 consolidated financial statements of Near Northwest Neighborhood, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 12, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 consolidated 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
June 12, 2017



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. and Subsidiary
South Bend, Indiana

Report on Compliance for Each Major Federal Program

We have audited Near Northwest Neighborhood, Inc. and Subsidiary's (the "Organization") 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, 2016. 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 the Organization's major federal program 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.

Basis for Qualified Opinion on HOME Investment Partnerships Program CFDA 14.239

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding CFDA 14.239 HOME Investment Partnerships Program as described in finding number 2016-001 for Eligibility. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

Qualified Opinion on HOME Investment Partnerships Program CFDA 14.239

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 HOME Investment Partnerships Program CFDA 14.239 for the year ended December 31, 2016.

Other Matters

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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,

Kruegel, Lawton & Company, LLC
Certified Public Accountants

Elkhart, Indiana
June 12, 2017

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2016

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:	Qualified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	Yes
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. AND SUBSIDIARY

South Bend, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2016

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

2016-001 HOME INVESTMENT PARTNERSHIPS PROGRAM - CFDA No. 14.239; Year ended December 31, 2016

Condition: The Organization rented an income restricted apartment to a non-qualified tenant beginning in August 2016.

Criteria: Eligibility for the rental unit requires low-income qualification.

Cause: Current management of the Organization was not present at the time the HOME assisted rental unit was rehabilitated with federal funds in a prior period and was misinformed of the compliance requirements associated with the rental unit.

Effect: The affordability period of the apartment is required to be extended for the length of the non-qualifying lease.

Context: The finding is related to a HOME grant received in a prior period. The issue was discovered upon request for relevant correspondence from monitoring agencies during the period under audit.

Recommendation: Current management should review compliance requirements associated with federal awards received in periods that were under previous management.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and has discussed the situation with the pass-through entity. Management understands that the unit was leased to a non-qualified tenant and that the Organization is required to extend the affordability period of the unit by the length of time of the non-qualifying lease (10 months). Upon lease renewal, the lease will be updated to include language indicating that the unit is income-restricted and will include the yearly income qualification requirements.

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2016

There were no prior year audit findings.

Near Northwest Neighborhood, Inc.

Corrective Action Plan

Cognizant or Oversight Agency for Audit: Department of Housing and Urban Development

Near Northwest Neighborhood, Inc. respectfully submits the following corrective action plan for the year ended December 31, 2016.

Name and address of independent public accounting firm:

Krugger, Lawton & Company, LLC
317 W. Franklin St.
Elkhart, IN 46517

Audit period: January 1, 2016 - December 31, 2016

The finding from the 2016 schedule of findings and questioned costs is discussed below. The finding is numbered consistently with the number assigned in the schedule.

**FINDING – FEDERAL AWARD PROGRAM AUDITS
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

2016-001 HOME INVESTMENT PARTNERSHIPS PROGRAM – CFDA No 14.239

Issue Raised:

Near Northwest Neighborhood, Inc. (NNN) applied for HUD HOME funding in 2004 to renovate four affordable 1-BR apartments, through the pass-through entity. The intent of the application was that the apartments be “floating units” such that two of the five total apartments in the building would always be Low-Income income-qualified apartments. However, the 2004 HUD HOME contract identified two apartments as “fixed” units.

Both of these units have historically been rented to low-income tenants. However, in August 2016, one unit was rented to a non-qualified tenant. This occurred after the Director, in verifying if this was possible, had contacted the former director to make sure this was possible under the terms of the contract requirements. The former director instructed that the requirements were “floating”, and as long as two apartments in the building were rented to low-income tenants, the requirement was met.

In verifying the HOME requirements in January 2017, it was discovered that this was not accurate, and that the apartments with the requirement were “fixed”. The Director (Kathy Schuth), upon discovering the error, brought it to her staff and Board’s attention, and to the attention of the pass-through entity. They in turn consulted with HUD regarding the required form of action to take. These recommended corrective actions are listed here and have been fully implemented as of the date of the financial statements.

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Corrective Action Plan:

- The client was informed immediately that they are residing in an income restricted unit. At the end of their lease term, should they decide to continue residing in the unit, a re-evaluation of income will be required. Should it be found that the household income is above 80%MFI for the area, the rent will be adjusted to 30% of that. For Example, if the Household Income is calculated to be \$36,000 a year her rent will be adjusted to \$900/m.
- The client understood, and chose to state that they did not desire to renew the lease, as they were moving out of town. NNN allowed the tenant to end their lease early, to help resolve the situation, as well as serve the needs of the tenant, with the lease adjusted to end May 31, 2017.
- The subsequent tenant will only be eligible if the household income is below 80%.
- For any amount of time the unit remains in non-compliance this adds to the future period of months/years the unit would need to remain affordable. This is anticipated to be a period of ten months reflecting the time period of Aug. 1, 2016 through May 31, 2017.
- The lease shall be updated in the future for both units to indicate that these units are HOME assisted units, and income restricted, with incomes re-evaluated on a yearly basis. Leases for both units have been updated and implemented.
- Staff was informed of the issue, of the lease updates, and monitoring of the same is shared with the Director and the Administrative Assistant, although all staff were informed.

Sincerely,



Executive Director, Near Northwest Neighborhood, Inc.
Individual responsible for implementing Corrective Action Plan

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