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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, 2018 to December 31, 2018. 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, 2018 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 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
Paul D. Joyce, CPA
State Examiner

Near Northwest Neighborhood

INCORPORATED



Avenues • Homes • Neighbors
Where We Live!

ANNUAL REPORT
December 31, 2018



Elkhart, Indiana

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

ANNUAL REPORT

December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Near Northwest Neighborhood, Inc. (a nonprofit organization) and Subsidiary
South Bend, Indiana

We have audited the accompanying consolidated financial statements of Near Northwest Neighborhood, Inc. (a nonprofit organization) and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses 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. 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.

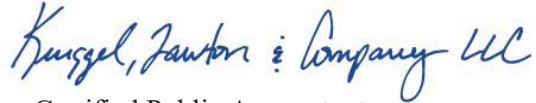
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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. (a nonprofit organization) and Subsidiary as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted,

A handwritten signature in blue ink that reads "Kussel, Fawcett & Company LLC". The signature is written in a cursive style.

Certified Public Accountants

Elkhart, Indiana
June 11, 2019

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARYSouth Bend, Indiana

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	173,994	76,672
Grants receivable	167,529	159,434
Prepaid expenses	0	5,283
Real estate held for resale, net of valuation allowance	372,801	72,937
Total Current Assets	714,324	314,326
PROPERTY AND EQUIPMENT		
Land	70,960	70,960
Land improvements	70,539	59,149
Buildings and building improvements	1,344,174	1,334,349
Furniture and equipment	49,620	49,620
Total	1,535,293	1,514,078
Accumulated depreciation	(531,551)	(492,490)
Net Property and Equipment	1,003,742	1,021,588
OTHER ASSETS		
Investments	80,371	102,987
Real estate held for resale - vacant lots	11,110	15,838
Total Other Assets	91,481	118,825
TOTAL ASSETS	1,809,547	1,454,739
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	55,960	13,965
Other accrued expenses	19,525	11,073
Grant advances	331,660	110,186
Total Current Liabilities	407,145	135,224
TOTAL LIABILITIES	407,145	135,224
NET ASSETS		
Without Donor Restrictions	1,290,564	1,254,588
With Donor Restrictions	111,838	64,927
TOTAL NET ASSETS	1,402,402	1,319,515
TOTAL LIABILITIES AND NET ASSETS	1,809,547	1,454,739

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, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Grant income - federal	501,061	0	501,061
Grant income - other	393,964	94,339	488,303
Rental revenue	47,758	0	47,758
Contributions	9,083	0	9,083
Other revenue	33,759	0	33,759
Loss on sale of real estate held for resale	(86,176)	0	(86,176)
Total Revenue	899,449	94,339	993,788
Net assets released from restrictions:			
Satisfaction of restrictions	47,428	(47,428)	0
FUNCTIONAL EXPENSES			
Program	774,720	0	774,720
Management and general	130,594	0	130,594
Fundraising	5,587	0	5,587
Total Functional Expenses	910,901	0	910,901
CHANGE IN NET ASSETS	35,976	46,911	82,887
NET ASSETS, BEGINNING OF YEAR	1,254,588	64,927	1,319,515
NET ASSETS, END OF YEAR	1,290,564	111,838	1,402,402

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, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Grant income - federal	320,743	0	320,743
Grant income - other	126,789	64,927	191,716
Rental revenue	40,626	0	40,626
Contributions	8,363	0	8,363
Other revenue	28,019	0	28,019
Loss on sale of real estate held for resale	(242,077)	0	(242,077)
Total Revenue	282,463	64,927	347,390
Net assets released from restrictions:			
Satisfaction of restrictions	13,565	(13,565)	0
FUNCTIONAL EXPENSES			
Program	334,444	0	334,444
Management and general	127,110	0	127,110
Fundraising	8,206	0	8,206
Total Functional Expenses	469,760	0	469,760
CHANGE IN NET ASSETS	(173,732)	51,362	(122,370)
NET ASSETS, BEGINNING OF YEAR	1,428,320	13,565	1,441,885
NET ASSETS, END OF YEAR	1,254,588	64,927	1,319,515

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

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2018

	Total Program Services	Supporting Services			Total Support Services	Total 2018
		Management and General	Fund Raising	Fund Raising		
Wages, benefits and payroll taxes	220,214	41,042	5,131	46,173	266,387	
Payroll processing	0	2,060	0	2,060	2,060	
Professional fees	1,350	26,169	0	26,169	27,519	
Marketing outreach and publication	2,852	0	0	0	2,852	
General repair and maintenance	0	20,609	0	20,609	20,609	
Education and training	19,612	0	0	0	19,612	
Property taxes	0	964	0	964	964	
Hospitality	5,404	0	73	73	5,477	
Interest expense	462	0	0	0	462	
Insurance	0	14,647	0	14,647	14,647	
Coffee shop expenses	12,567	0	0	0	12,567	
Dues and subscriptions	0	350	0	350	350	
Utilities	13,891	739	278	1,017	14,908	
Security	0	528	0	528	528	
Telephone	3,235	172	34	206	3,441	
Office supplies	0	8,330	0	8,330	8,330	
Postage	697	174	0	174	871	
Printing and copying	1,055	281	71	352	1,407	
Miscellaneous	0	12,247	0	12,247	12,247	
Small equipment	1,088	1,632	0	1,632	2,720	
Change in value of real estate held for resale	404,309	0	0	0	404,309	
Fees and permits	571	0	0	0	571	
Rent	16,291	0	0	0	16,291	
Rehabilitation	32,710	0	0	0	32,710	
Depreciation	38,412	650	0	650	39,062	
TOTAL FUNCTIONAL EXPENSES	774,720	130,594	5,587	136,181	910,901	

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

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017

	Total Program Services	Supporting Services			Total 2017
		Management and General	Fund Raising	Total Support Services	
Wages, benefits and payroll taxes	179,427	50,545	6,892	57,437	236,864
Payroll processing	0	1,556	0	1,556	1,556
Professional fees	5,950	22,410	0	22,410	28,360
Marketing outreach and publication	482	0	0	0	482
General repair and maintenance	0	7,249	0	7,249	7,249
Education and training	13,621	0	0	0	13,621
Property taxes	0	1,057	0	1,057	1,057
Hospitality	5,568	0	90	90	5,658
Insurance	0	8,782	0	8,782	8,782
Coffee shop expenses	13,187	0	0	0	13,187
Dues and subscriptions	0	700	0	700	700
Utilities	5,133	7,699	0	7,699	12,832
Security	0	660	0	660	660
Telephone	3,276	2,184	0	2,184	5,460
Office supplies	0	5,744	0	5,744	5,744
Postage	1,586	397	0	397	1,983
Printing and copying	764	204	51	255	1,019
Miscellaneous	0	8,343	0	8,343	8,343
Small equipment	652	979	0	979	1,631
Change in value of real estate held for resale	53,082	0	0	0	53,082
Fees and permits	510	0	0	0	510
Rent	16,722	0	0	0	16,722
Rehabilitation	5,161	0	0	0	5,161
Depreciation	29,323	8,601	1,173	9,774	39,097
TOTAL FUNCTIONAL EXPENSES	334,444	127,110	8,206	135,316	469,760

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	82,887	(122,370)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	39,062	39,097
Valuation allowance	404,309	53,082
Loss on sale of real estate held for resale	86,176	242,077
Unrealized loss on investments	182	0
Adjustments for changes in operating assets and liabilities:		
Grants receivable	(8,095)	(101,257)
Prepaid expenses	5,283	(839)
Accounts payable	41,995	7,485
Other accrued expenses	8,452	(23,137)
Grant advances	221,474	(12,851)
Net Cash Flows from Operating Activities	881,725	81,287
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(21,216)	0
Capital expenditures - real estate held for resale	(787,292)	(247,701)
Proceeds from sale of real estate held for resale, net of amounts recaptured by grantor	1,671	0
Purchase of investments	0	(1,072)
Proceeds from maturity of certificates of deposit	22,434	0
Net Cash Flows from Investing Activities	(784,403)	(248,773)
CHANGE IN CASH	97,322	(167,486)
CASH AT BEGINNING OF YEAR	76,672	244,158
CASH AT END OF YEAR	173,994	76,672
SUPPLEMENTARY DISCLOSURE OF CASH FLOWS:		
Interest paid	462	0

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, 2018 and 2017

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.

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 two categories: net assets with donor restrictions and net assets without donor restrictions.

Net assets without donor restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and board of directors.

Net assets with donor restrictions are subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

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.

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. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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 Consolidated Statements of Financial Position, the Organization and its Subsidiary consider all 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 Statements of Financial Position includes \$86,838 and \$29,927 restricted for the purposes described in Note 6 at December 31, 2018 and 2017, respectively. The remaining restrictions in Note 6 are represented by Grants receivable.

GRANTS RECEIVABLE

The Organization receives some grants for reimbursement of expenses incurred. A receivable for the reimbursement of allowable program expenditures due from grantors and other amounts promised from grantors has been recorded at both December 31, 2018 and 2017. No allowance for uncollectible grants has been recorded because the Organization believes the grants are fully collectible.

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. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions 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 \$39,062 and \$39,097 for the years ended December 31, 2018 and 2017, 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

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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, 2018 and 2017. 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 current 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 support that increases net assets with donor restrictions. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restrictions are met in the fiscal year in which the contributions are received.

CONTRIBUTED SERVICES

FASB 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.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the program and other activities have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain costs have been allocated between program and supporting services based upon personnel time and space utilized for the related activities.

Significant expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Wages, benefits and payroll taxes	Time and effort
Utilities; telephone	Square footage

All other allocated expenses are allocated based on estimated actual usage.

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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.

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 2015 through 2017 federal and state exempt organization returns remain subject to examination by the IRS and state taxing authorities.

NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

NOTE 2 - LIQUIDITY AND AVAILABILITY

As of December 31, 2018, the Organization has working capital of \$307,179 and average days (based on normal expenditures) of cash on hand of 68 days.

Financial assets available for general expenditure within one year of the Consolidated Statements of Financial Position date consist of the following:

Cash	87,156
Grants receivable	142,529
Assets limited to use	
Donor-restricted - Cash	86,838
Donor-restricted - Grants receivable	25,000
Total financial assets	341,523

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

The Organization has certain donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above.

As part of the Organization's liquidity management plan, any cash surplus is invested in certificates of deposit. This fund has been established by the Board of Directors and may be drawn upon, if necessary, to meet unexpected liquidity needs. Withdrawals made before the respective maturities of the certificates of deposit would be subject to early withdrawal fees.

Additionally, the Organization maintains a \$276,667 line of credit, as discussed in more detail in Note 5. As of December 31, 2018, the entire balance remained available on the Organization's line of credit.

NOTE 3 - 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 4 - 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, 2018 and 2017

The following table presents the Organization's fair value hierarchy for the Organization's investment assets at fair value, as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	0	80,371	0	80,371
Real estate held for resale, net of valuation allowance	0	0	383,911	383,911
Total	0	80,371	383,911	464,282

Original cost plus improvements at December 31, 2018 is as follows:

Various lots and improvements	821,238
Valuation allowance	(437,327)
Net real estate held for resale	383,911

The following table presents the Organization's fair value hierarchy for the Organization's investment assets at fair value, as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	0	102,987	0	102,987
Real estate held for resale, net of valuation allowance	0	0	88,775	88,775
Total	0	102,987	88,775	191,762

Original cost plus improvements at December 31, 2017 is as follows:

Various lots and improvements	163,276
Valuation allowance	(74,501)
Net real estate held for resale	88,775

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>2018</u>	<u>2017</u>
Beginning balance	88,775	136,233
Real estate purchased	44,106	27,149
Development and construction costs	743,186	220,552
Change in market value	(404,309)	(53,082)
Real estate sold	(87,847)	(242,077)
Ending balance	383,911	88,775

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 5 - LINE OF CREDIT

The Organization maintains a line of credit with Notre Dame Federal Credit Union with initial total available borrowings of \$280,000, decreasing by \$933 at the end of each calendar month through August 2021. The total available borrowings are \$276,667 at December 31, 2018. Interest is charged at 4.85%. The line of credit is collateralized by real estate at 1005 and 1013 Portage along with all included personal property and any leases, rents, or profits generated from use of those properties. There were no outstanding borrowings as of December 31, 2018 and 2017.

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2018</u>	<u>2017</u>
South Bend minority and women contractor training program	55,250	0
Lead outreach	14,499	11,565
Marketing for affordable homeownership program	10,000	10,000
Community engagement program	32,089	32,593
Church in the city	0	769
New construction of single family affordable homeownership house	0	10,000
Total	111,838	64,927

NOTE 7 - LEASES

Leased property includes the following:

<u>Address</u>	<u>Current Term</u>	<u>Monthly Payment</u>
1005A Portage	March 1, 2018 - February 28, 2019	500
1005B Portage	July 1, 2018 - June 30, 2019	500
608 Cottage Grove	October 1, 2018 - September 30, 2019	683
610 Cottage Grove	June 1, 2018 - May 31, 2019	683
903 California	June 1, 2018 - May 31, 2019	500
911 California	October 1, 2018 - September 30, 2019	500
911 1/2 California	October 1, 2018 - September 30, 2019	500

Rental income was \$47,758 and \$40,626 for the years ended December 31, 2018 and 2017, respectively.

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

<u>2019</u>	<u>25,062</u>
Total	25,062

NEAR NORTHWEST NEIGHBORHOOD, INC. AND SUBSIDIARY

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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, 2018 and 2017 were \$331,660 and \$110,186, 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 and its Subsidiary have evaluated subsequent events through June 11, 2019, 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.