



NEIGHBORHOOD ALLIANCE

**AUDITED
FINANCIAL STATEMENTS**

**YEARS ENDED
DECEMBER 31, 2017 AND 2016**

NEIGHBORHOOD ALLIANCE

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Neighborhood Alliance
Elyria, Ohio

Report on Financial Statements

We have audited the accompanying financial statements of Neighborhood Alliance (an Ohio nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, functional expenses, 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Alliance as of December 31, 2017, 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.

Report on Summarized Comparative Information

We have previously audited Neighborhood Alliance's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 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 July 24, 2018 on our consideration of Neighborhood Alliance'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Neighborhood Alliance's 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 Neighborhood Alliance's internal control over financial reporting and compliance.

Barnes Wendling CPAs
Sheffield Village, Ohio
July 24, 2018

NEIGHBORHOOD ALLIANCE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash	\$ 234,289	\$ 47,722
Grants receivable	166,306	354,610
Current portion of note receivable	-	25,000
Prepaid expenses	<u>359</u>	<u>189</u>
Total current assets	400,954	427,521
Property and Equipment	2,492,808	2,470,966
Less accumulated depreciation	<u>1,790,802</u>	<u>1,684,448</u>
	702,006	786,518
Investments	155,425	133,390
Beneficial interest in perpetual trusts	<u>104,477</u>	<u>97,484</u>
Total assets	<u><u>\$ 1,362,862</u></u>	<u><u>\$ 1,444,913</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of notes payable	\$ 46,048	\$ 55,098
Line of credit	149,586	124,100
Accounts payable	168,892	118,584
Accrued expenses	<u>53,859</u>	<u>68,591</u>
Total current liabilities	418,385	366,373
Long-Term Debt:		
Notes payable, net of current portion and unamortized loan fees	<u>557,237</u>	<u>602,487</u>
Total liabilities	975,622	968,860
NET ASSETS		
Unrestricted	(6,224)	128,209
Temporarily restricted	152,988	133,641
Permanently restricted	<u>240,476</u>	<u>214,203</u>
Total net assets	<u>387,240</u>	<u>476,053</u>
Total liabilities and net assets	<u><u>\$ 1,362,862</u></u>	<u><u>\$ 1,444,913</u></u>

NEIGHBORHOOD ALLIANCE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2017

WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
REVENUES, GAINS, AND OTHER SUPPORT					
Government agencies	\$ 2,441,686	\$ -	\$ -	\$ 2,441,686	\$ 2,205,217
Program fees	59,949	-	-	59,949	64,232
Contributions	125,144	43,454	-	168,598	186,463
Foundations	78,900	135,255	-	214,155	297,122
Investment income	30,976	-	26,273	57,249	37,135
Special events, net	54,135	-	-	54,135	62,366
Other income	25,216	-	-	25,216	646
	<u>2,816,006</u>	<u>178,709</u>	<u>26,273</u>	<u>3,020,988</u>	<u>2,853,181</u>
 Net assets released from restrictions	 <u>159,362</u>	 <u>(159,362)</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 TOTAL REVENUES, GAINS, AND OTHER SUPPORT	 <u>2,975,368</u>	 <u>19,347</u>	 <u>26,273</u>	 <u>3,020,988</u>	 <u>2,853,181</u>
 EXPENSES					
Program services:					
Child enrichment services	871,208	-	-	871,208	869,593
Family support services	856,749	-	-	856,749	864,756
Emergency service	388,938	-	-	388,938	386,700
Senior enrichment services	487,011	-	-	487,011	472,825
Supporting services:					
Management and general	381,278	-	-	381,278	226,308
Fundraising	124,617	-	-	124,617	129,133
	<u>3,109,801</u>	<u>-</u>	<u>-</u>	<u>3,109,801</u>	<u>2,949,315</u>
 TOTAL EXPENSES	 <u>3,109,801</u>	 <u>-</u>	 <u>-</u>	 <u>3,109,801</u>	 <u>2,949,315</u>
 CHANGES IN NET ASSETS	 <u>(134,433)</u>	 <u>19,347</u>	 <u>26,273</u>	 <u>(88,813)</u>	 <u>(96,134)</u>
 NET ASSETS AT BEGINNING OF YEAR	 <u>128,209</u>	 <u>133,641</u>	 <u>214,203</u>	 <u>476,053</u>	 <u>572,187</u>
 NET ASSETS AT END OF YEAR	 <u>\$ (6,224)</u>	 <u>\$ 152,988</u>	 <u>\$ 240,476</u>	 <u>\$ 387,240</u>	 <u>\$ 476,053</u>

NEIGHBORHOOD ALLIANCE

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2016

	2016 Total	2017 Total	Program Services				Support Services	
			Child Enrichment Services	Family Support Services	Emergency Services	Senior Enrichment Services	Management and General	Fund Raising
Salaries	\$ 1,758,399	\$ 1,693,435	\$ 513,438	\$ 610,492	\$ 213,675	\$ 219,241	\$ 65,569	\$ 71,020
Employee benefits	41,696	81,119	14,632	33,755	16,459	7,358	6,028	2,887
Payroll taxes	<u>152,127</u>	<u>177,339</u>	<u>49,333</u>	<u>57,682</u>	<u>19,702</u>	<u>24,313</u>	<u>15,159</u>	<u>11,150</u>
Total salaries and related expenses	1,952,222	1,951,893	577,403	701,929	249,836	250,912	86,756	85,057
Professional fees and contracts	50,056	172,130	7,761	5,586	3,214	3,524	151,554	491
Supplies	219,696	257,698	106,606	12,729	18,661	99,012	11,899	8,791
Telephone	31,152	38,468	7,606	16,007	6,392	4,142	3,683	638
Postage and shipping	3,469	2,753	105	1,844	31	65	604	104
Occupancy	262,262	270,105	92,147	38,643	59,349	41,152	27,932	10,882
Rental and maintenance of equipment	78,978	90,691	19,426	22,419	12,136	15,687	14,642	6,381
Printing and publications	11,065	8,035	2,390	1,411	526	217	1,457	2,034
Mileage/operational travel	78,305	66,348	9,611	33,578	3,278	19,335	324	222
Conferences, conventions, and meetings	10,229	7,847	1,030	4,629	29	243	1,866	50
Specific assistance to individuals	42,835	5,314	-	-	5,296	18	-	-
Membership dues	4,702	8,531	176	3,300	981	1,128	2,306	640
Interest and fees	40,858	34,720	-	-	-	-	34,720	-
Insurance	56,543	62,320	15,659	9,458	5,950	10,723	18,628	1,902
Miscellaneous	5,556	26,594	2,863	124	587	891	14,927	7,202
Depreciation	<u>101,387</u>	<u>106,354</u>	<u>28,425</u>	<u>5,092</u>	<u>22,672</u>	<u>39,962</u>	<u>9,980</u>	<u>223</u>
Total expenses	<u>\$ 2,949,315</u>	<u>\$ 3,109,801</u>	<u>\$ 871,208</u>	<u>\$ 856,749</u>	<u>\$ 388,938</u>	<u>\$ 487,011</u>	<u>\$ 381,278</u>	<u>\$ 124,617</u>

NEIGHBORHOOD ALLIANCE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Changes in net assets	\$ (88,813)	\$ (96,134)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	106,354	101,387
Unrealized gain on investments and perpetual trusts	(29,028)	(8,189)
Non-cash interest expense - loan fees amortization	761	761
(Increase) decrease in assets:		
Grants receivable	188,304	(126,047)
Prepaid expenses	(170)	8,718
Deposits	-	600
Increase (decrease) in liabilities:		
Accounts payable	50,308	62,264
Accrued expenses	(14,732)	10,267
Deferred revenue	-	(10,250)
Net cash provided by (used in) operating activities	<u>212,984</u>	<u>(56,623)</u>
INVESTING ACTIVITIES		
Proceeds from note receivable	25,000	25,000
Purchase of property and equipment	<u>(21,842)</u>	<u>(51,605)</u>
Net cash provided by (used in) investing activities	3,158	(26,605)
FINANCING ACTIVITIES		
Repayments of long-term debt	(55,061)	(52,768)
Net borrowings from line of credit	<u>25,486</u>	<u>101,016</u>
Net cash (used in) provided by financing activities	<u>(29,575)</u>	<u>48,248</u>
NET INCREASE (DECREASE) IN CASH	186,567	(34,980)
CASH – BEGINNING OF YEAR	<u>47,722</u>	<u>82,702</u>
CASH – END OF YEAR	<u>\$ 234,289</u>	<u>\$ 47,722</u>

NEIGHBORHOOD ALLIANCE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 1. Agency Description and Summary of Significant Accounting Policies

- A. Agency Description – Neighborhood Alliance (the "Agency") is a nonprofit social service agency with program operations throughout Lorain County, Ohio. The Agency receives funding support for its programs from a variety of public and private sources.
- B. Reporting – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. The Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent net assets not restricted by donor-imposed stipulations.

Temporarily restricted net assets result from timing differences between the receipt of funds and the incurrence of the related expenses. The Agency reports receipts of cash and other assets as restricted support if they are received with donor stipulations that limit the time of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Permanently restricted net assets represent endowment funds which are subject to the restriction of the donors that the principal be invested in perpetuity and only the income be utilized.

The Agency reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Agency records donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

NEIGHBORHOOD ALLIANCE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 1. Agency Description and Summary of Significant Accounting Policies (Continued)

- C. Grants receivable are due on the 30th day following the month of billing and bear no interest on the unpaid balance. Grants receivable are stated at the amount management expects to collect from balances outstanding at year end. Management reviews all outstanding grants receivable balances. Accounts are written off when deemed uncollectible. Management recorded an allowance for doubtful accounts of \$0 as of December 31, 2017 and 2016. Bad debt expense for the years ended December 31, 2017 and 2016 was \$0.
- D. Investments – The Agency reports all investments in marketable securities with readily determinable values at fair value. The following schedule summarizes the investment income:

	Years Ended December 31,	
	2017	2016
Interest and dividends	\$ 14,201	\$ 27,545
Net unrealized gains	43,048	9,590
	<u>\$ 57,249</u>	<u>\$ 37,135</u>

- E. Concentration of Risk – Grants receivable are primarily due from governmental agencies. Deposits with the financial institution, net of outstanding checks, occasionally exceed federally insured limits.
- F. Notes Receivable – Notes receivable are evaluated for collectability based on credit history of the borrower and their current financial condition. Provisions for losses on notes receivable are determined on the basis of loss experience, the estimated value of the underlying collateral, and current economic conditions. No provision for loss was considered necessary by management at December 31, 2017 and 2016.
- G. Property and Equipment – These assets are stated at cost at the date of purchase or fair market value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets further described in Note 2. The Agency capitalized all expenditures for property and equipment in excess of \$500. Maintenance and repairs of property and equipment are charged to expense when incurred and major additions are capitalized. Depreciation expense was \$106,354 and \$101,387 for the years ended December 31, 2017 and 2016, respectively.
- H. Loan Fees – Legal, accounting, and other expenses associated with the acquisition of the long-term financing loan are being amortized on the straight-line basis (which approximates the effective interest method) over five years. Amortization expense charged to operations amounted to \$761 for both years ended December 31, 2017 and 2016. The Organization expects non-cash interest expense to be \$127 for 2018.

NEIGHBORHOOD ALLIANCE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 1. Agency Description and Summary of Significant Accounting Policies (Continued)

- I. 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. Actual results could differ from those estimates.
- J. Donated Facilities – Donated facilities are reflected in the financial statements at the fair market value upon receipt.
- K. Fair Value Measurement – Fair value is defined as the price the Agency would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. Accounting principles generally accepted in the United States of America establishes a three-tier hierarchy to distinguish between (A) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (B) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Agency's financial instruments. The inputs are summarized in the three broad levels listed below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets accessible at the measurement date for identical unrestricted assets or liabilities (for example, exchange quoted prices).

Level 2 – Inputs to the valuation methodology are observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets not sufficiently active to qualify as Level 1, other observable inputs, or inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs to the valuation methodology are significant to the fair value measurement and unobservable (for example, supported by little or no market activity).

Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The Agency's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

NEIGHBORHOOD ALLIANCE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 1. Agency Description and Summary of Significant Accounting Policies (Continued)

The Agency has determined the fair value of the investments to be within the Level 1 and 2 of the hierarchy as follows:

Description	Level 1	Level 2	December 31, 2017 Total
Beneficial interest JP Morgan Chase	\$ -	\$ 98,015	\$ 98,015
Beneficial interest Community Foundation of Lorain County	-	6,462	6,462
Equities	126,751	-	126,751
Money market	4,195	-	4,195
Fixed income	24,479	-	24,479
	<u>\$ 155,425</u>	<u>\$ 104,477</u>	<u>\$ 259,902</u>
Description	Level 1	Level 2	December 31, 2016 Total
Beneficial interest JP Morgan Chase	\$ -	\$ 91,508	\$ 91,508
Beneficial interest Community Foundation of Lorain County	-	5,976	5,976
Equities	108,045	-	108,045
Money market	2,668	-	2,668
Fixed income	22,677	-	22,677
	<u>\$ 133,390</u>	<u>\$ 97,484</u>	<u>\$ 230,874</u>

The assets held by JP Morgan Trust reflected above are valued at the fair value of the units held by JP Morgan of which the Agency receives 50% of its annual earnings in perpetuity which is estimated to approximate the present value of expected future distributions from the trusts.

NEIGHBORHOOD ALLIANCE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 1. Agency Description and Summary of Significant Accounting Policies (Continued)

The change in value of the perpetual trusts and marketable securities is recognized as permanently restricted revenue in the Statement of Activities.

A portion of the assets held at the Community Foundation of Greater Lorain County (Foundation) reflected above were provided by the Agency to be invested in perpetuity and the Agency named itself as the beneficiary. The assets are valued at the fair value of the Agency's share of the Foundation's master pooled investments. The investments in corporate stock, equities, money market, and fixed income investments are valued at the fair value of units held by the Agency at year end.

- L. Comparative Financial Statements – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended December 31, 2016, from which the summarized information was derived.
- M. Functional Allocation of Expenses – The cost of providing various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Note 2. Property and Equipment

Property and equipment as of December 31, 2017 and 2016 consisted of the following:

	2017	2016	Useful Life (years)
Land	\$ 80,831	\$ 80,831	
Land improvements	106,722	103,515	20 – 30
Buildings	515,388	515,388	40
Building and improvements	1,083,442	1,077,883	5 – 40
Equipment/furniture	658,574	645,498	5 – 10
Playground equipment	6,760	6,760	10
Leasehold improvements	41,091	41,091	5 – 10
	<u>2,492,808</u>	<u>2,470,966</u>	
Less accumulated depreciation	<u>1,790,802</u>	<u>1,684,448</u>	
	<u>\$ 702,006</u>	<u>\$ 786,518</u>	

NEIGHBORHOOD ALLIANCE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 3. Long-Term Debt

Long-term debt is reported net of applicable unamortized debt issuance cost and consisted of the following at December 31, 2017 and 2016:

	<u>Due Date</u>	<u>2017</u>	<u>2016</u>
Note payable to PNC Bank. The note is payable in monthly installments of \$419 including interest at 3.50% and is secured by a vehicle.	March 2019	6,138	10,856
Note payable to PNC Bank. The note is payable in monthly installments of \$6,333 including interest at 4.05% and is secured by substantially all assets of the Agency.	February 2028	<u>597,274</u>	<u>647,616</u>
Total Long-Term Debt		603,412	658,472
Unamortized debt issuance costs		<u>(127)</u>	<u>(887)</u>
		603,285	657,585
Less: Current Portion		<u>46,048</u>	<u>55,098</u>
Long-Term Portion		<u>\$ 557,237</u>	<u>\$ 602,487</u>

Principal payments required to be made are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2018	\$ 46,048
2019	50,543
2020	51,697
2021	54,355
2022	57,078
Thereafter	<u>343,691</u>
	<u>\$ 603,412</u>

Interest expense for all indebtedness for the years ended December 31, 2017 and 2016 was \$34,720 and \$32,362, respectively.

NEIGHBORHOOD ALLIANCE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 4. Note Receivable

Note receivable consists of a non-interest bearing mortgage note receivable from the sale of the Elyria building, secured by a mortgage lien on real estate. The note is due in two annual installments of \$25,000 in November 2016 and November 2017. The balance was \$-0- and \$25,000 at December 31, 2017 and 2016, respectively.

Note 5. Line of Credit

The Agency has a demand line of credit from a bank with a maximum borrowing of \$150,000 with interest at prime (4.50% as of December 31, 2017) plus 1.01%. The line is secured by substantially all assets of the Agency. At December 31, 2017 and 2016, \$149,586 and \$124,100, respectively, had been borrowed against the line of credit.

Note 6. Donation of Building

During 1991, the Jeanne Beattie Butts Home (Home) was donated to the Agency. The building was determined to have a fair market value of \$167,100 by the donor who imposed the condition that in the event the building is sold between January 1, 1993 and December 31, 2018, the Agency will be required to pay 43% of the proceeds to the donor. Management considers the likelihood of a sale of the Home occurring prior to 2018 to be remote and therefore, a liability has not been recorded. Therefore, the Agency recognized the Home in unrestricted net assets.

Note 7. Temporarily Restricted Net Assets

Net assets were temporarily restricted for the following purposes:

	December 31,	
	2017	2016
Program restrictions:		
Child enrichment services	\$ 28,653	\$ 34,261
Emergency services	-	2,500
Senior enrichment services	94,000	87,380
Rising Titans	30,335	
Time restrictions:		
General operations	-	9,500
	<u>\$ 152,988</u>	<u>\$ 133,641</u>

NEIGHBORHOOD ALLIANCE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 8. Endowment

The Agency's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Management and Board of Directors of the Agency have interpreted the Unified Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the State of Ohio, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Return Objectives and Risk Parameters

The Agency has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Agency must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve and build corpus to a sufficient level that allows for a diversified investment strategy.

Strategies Employed for Achieving Objectives

To satisfy its investment objective, the Agency relies on a low risk long-term strategy in which investment returns are achieved through current yield (interest) through money market funds and equity securities.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Agency has a policy of retaining the total return of its endowment until the endowment grows to an undetermined amount at which time, a spending policy will be developed. The spending policy will allow its endowment to grow at an established percent annually that would exceed the funds appropriated for distribution. This is consistent with the Agency's objective to build the endowed corpus held in perpetuity or for a specified term as well as to provide additional real growth through investment return.

NEIGHBORHOOD ALLIANCE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 8. Endowment (Continued)

Endowment net asset composition by type of fund as of December 31, 2017 and 2016:

	Permanently Restricted 2017	Permanently Restricted 2016
Donor-restricted endowment funds	<u>\$ 240,476</u>	<u>\$ 214,203</u>

Changes in endowment net assets for the years ended December 31, 2017 and 2016:

	Permanently Restricted 2017		Permanently Restricted 2016
Endowment net assets, January 1, 2017	\$ 214,203	Endowment net assets, January 1, 2016	\$ 208,301
Investment return:		Investment return:	
Investment income	<u>26,273</u>	Investment loss	<u>5,902</u>
Endowment net assets, December 31, 2017	<u>\$ 240,476</u>	Endowment net assets, December 31, 2016	<u>\$ 214,203</u>

The Agency is also a beneficiary of funds directly provided to and held by the Community Foundation of Lorain County. Based on the funding of these accounts, the Agency does not record them on its financial statements. The value of the funds at December 31, 2017 and 2016 was \$450,875 and \$416,923, respectively. Earnings of \$16,000 and \$17,093 were distributed to the Agency during the years ended December 31, 2017 and 2016, respectively.

NEIGHBORHOOD ALLIANCE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 9. Lease Commitments

The Agency leases office space and equipment under non-cancelable operating leases. The Agency's total monthly lease payments range from \$106 - \$3,000. The total amount charged to expense was \$124,713 and \$110,882, respectively during the years ended December 31, 2017 and 2016.

Future minimum payments on these non-cancelable leases are as follows:

<u>Years Ending</u> <u>December 31,</u>	
2018	\$ 35,771
2019	29,592
2020	4,138
2021	1,824
2022	608
	<u>\$ 71,933</u>

Note 10. Contingencies

The Agency operates in an environment subject to extensive federal and state laws, rules, and regulations, including payment for services, conduct of operations and facility and professional licensure. Changes in law and regulatory interpretations could reduce the Agency's revenue. The Agency is, from time to time, subject to claims and suits for damages arising in the normal course of business. Management believes the ultimate resolution of any claims will not have a material adverse effect on the financial position, changes in net assets, or liquidity of the Agency.

NEIGHBORHOOD ALLIANCE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 11. Income Tax

The Agency is exempt from Federal income taxes under Section 501(c)(3) and is classified as an Agency that is not a “Private Foundation” as defined in Section 509(a) of the Internal Revenue Code.

The Agency is no longer subject to tax examinations for years before 2014 by taxing authorities in jurisdictions where the Agency has filed returns. The Agency did not identify any material unrecognized tax benefits upon evaluation of tax positions taken and therefore, there was no material effect on the Agency’s financial condition or results of operations.

The Agency evaluates at each balance sheet date uncertain tax positions taken, if any, to determine the need to record liabilities for taxes, penalties, and interest. The Agency’s policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2017 and 2016, the Agency had no accrued taxes, interest or penalties related to uncertain tax positions. The Agency estimates the unrecognized tax benefit will not change significantly within the next twelve months.

Note 12. Supplemental Cash Flow Information

Cash paid for interest was \$34,888 and \$32,362 for the years ended December 31, 2017 and 2016, respectively.

Note 13. Subsequent Event

Subsequent events have been evaluated through July 24, 2018, the date these financial statements were available to be issued.

NEIGHBORHOOD ALLIANCE

**TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200
AUDIT REQUIREMENTS**

NEIGHBORHOOD ALLIANCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Expenditures
<u>MAJOR PROGRAM</u>				
United States Department of Health and Human Services passed through the Ohio Department of Developmental Disabilities passed through the Lorain County Board of Commissioners:				
Special Education - Grants for Infants and Families - Help Me Grow Early Intervention Part C	84.181			\$ 539,571
Total Major Programs			<u>\$ -</u>	<u>\$ 539,571</u>
<u>OTHER FEDERAL ASSISTANCE</u>				
Aging - Cluster: United States Department of Health and Human Services passed through Western Reserve Area Agency on Aging:				
Special Programs for the Aging - Title III:				
Part B - Grants for Supportive Services and Senior Citizens	93.044			\$ 8,931
Part C - Early Intervention - Family Supportive Services	93.045			147,302
Part C - Early Intervention - Family Supportive Services	93.045			1,287
Part C - Early Intervention - Family Supportive Services	93.045			<u>109,677</u>
Total Aging Cluster			-	267,197
United States Department of Health and Human Services passed through the Lorain County Department of Jobs and Family Services:				
Social Service Block Grant	93.667			90,000
TANF - Cluster: Temporary Assistance for Needy Families	93.558			<u>94,140</u>
Total Department of Health and Human Services			-	184,140
U.S. Department of Housing & Urban Development passed through the Ohio Department Services Agency - Office of Housing and Community Partnerships:				
Emergency Solutions Grant Program	14.231			194,833
U.S. Department of Housing & Urban Development passed through the Ohio Department of Development and the Board of Lorain County Commissioners				
Emergency Solutions Grant Program	14.231			<u>34,911</u>
Total Department of Housing & Urban Development			-	229,744
U.S. Department of Agriculture passed through the Ohio Department of Education:				
Child and Adult Care Food Program	10.558			<u>75,795</u>
Total Department of Agriculture			-	75,795
Department of Homeland Security passed through the Federal Emergency Management Agency passed through the United Way (as a fiscal agent):				
Projects for Assistance in Transition from Homelessness (PATH)	93.150			34,553
Emergency Management Food and Shelter National Board Program	97.024			<u>17,194</u>
Total Department of Homeland Security			-	51,747
Total Other Federal Assistance			<u>-</u>	<u>808,623</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 1,348,194</u>

NEIGHBORHOOD ALLIANCE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of Neighborhood Alliance and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title U.S. Code of Federal Regulations (CFR), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Agency.

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 the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The Agency has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

INDEPENDENT AUDITORS' 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*

The Board of Directors
Neighborhood Alliance
Elyria, Ohio

We have audited, in accordance with the 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 Neighborhood Alliance (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Neighborhood Alliance'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 Neighborhood Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of Neighborhood Alliance'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 Neighborhood Alliance's financial statements are free from 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.

Barnes Wendling CPAs

Sheffield Village, Ohio
July 24, 2018

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

The Board of Directors
Neighborhood Alliance
Elyria, Ohio

Report on Compliance for Each Major Federal Program

We have audited Neighborhood Alliance'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 Neighborhood Alliance's major federal programs for the year ended December 31, 2017. Neighborhood Alliance's major federal program is identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Neighborhood Alliance'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 Neighborhood Alliance'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 each major federal program. However, our audit does not provide a legal determination of Neighborhood Alliance's compliance.

Opinion on Each Major Federal Program

In our opinion, Neighborhood Alliance 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, 2017.

Report on Internal Control Over Compliance

Management of Neighborhood Alliance 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 Neighborhood Alliance'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 Neighborhood Alliance'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.

Barnes Wendling CPAs

Sheffield Village, Ohio
July 24, 2018

THE NEIGHBORHOOD ALLIANCE

SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issues:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____yes	___x___no
Significant deficiency(s) identified not considered to be material weaknesses	_____yes	___x___none reported
Noncompliance material to financial statements noted?	_____yes	___x___no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____yes	___x___no
Significant deficiency(s) identified not considered to be material weaknesses	_____yes	___x___none reported
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>	
Any audit findings disclosed required to be Reported in accordance with Federal Register 2 CFR Part 200, Subpart F?	_____yes	___x___no

CFDA Numbers

Name of Federal Program or Cluster

84.181	Help Me Grow Early Intervention Part C	
Dollar threshold used to distinguish Type A and type B programs:	\$ 750,000	
Auditee qualified as a low risk auditee?	_____yes	___x___no

Section II - Financial Statement Findings

No findings were noted.

Section III - Federal Award Findings and Questioned Costs

No findings were noted.

THE NEIGHBORHOOD ALLIANCE

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2016

Reference Number	Findings
2017-001	Status – Neighborhood Alliance (Agency) hired a permanent Controller, Margarita Nunez, on October 25, 2017. Ms. Nunez has worked in financial roles since 2003, most recently as a Fiscal Specialist at Children & Families First and in the Fiscal Department of Lorain County Job & Family Services. Within the first several days of Ms. Nunez's employment at the Agency, she completed training on the Agency's accounting and financial reporting software, AccuFund. The Agency has engaged Corrigan Krause CPAs to provide consulting services to facilitate the new controller's integration and assist in the timely and accurate close of the Agency's year end at December 31, 2017. The goals of the new controller integration include (a) supporting Ms. Nunez in establishing proper daily accounting routines among the Agency employees who perform accounting functions and (b) assisting Ms. Nunez in completing the recording of all 2017 accounting transactions and performing related account reconciliations. It is anticipated that the Agency will achieve the December 31, 2017 financial close deadline and will begin fiscal 2018 anticipating a normal, timely, monthly closing cycle.
2017-002	Status – The Agency has engaged Corrigan Krause CPAs to provide consulting services to facilitate its readiness for the audit of its fiscal year 2017 financial statements. The goals of the audit readiness phase of the corrective action plan include (a) recommending and assisting in the establishment of proper accounting policies and procedures; (b) completing the Agency's December 31, 2017 close by the beginning of February 2018; (c) performing a comprehensive review of net asset transactions and functional expense allocations for fiscal year 2017 in its entirety; and (d) training Ms. Nunez in the preparation of Barnes Wendling CPAs' audit PBC templates and work papers and the review of said work papers prior to submission to Barnes Wendling CPAs.