

WeiserMazars LLP

**Neighborhood Risk  
Management  
Corporation**  
Financial Statements  
March 31, 2012 and 2011



# Neighborhood Risk Management Corporation

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March 31, 2012 and 2011

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## Independent Auditors' Report

To the Board of Trustees of  
Neighborhood Risk Management Corporation

We have audited the accompanying statements of financial position of Neighborhood Risk Management Corporation, a nonprofit organization (the "Organization"), as of March 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Risk Management Corporation as of March 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*WeiserMazars LLP*

November 12, 2012

**Neighborhood Risk Management Corporation**  
**Statements of Financial Position**  
**March 31, 2012 and 2011**

	2012			2011		
	Operating	Member Retention Funds	Total	Operating	Member Retention Funds	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 316,497	\$ -	\$ 316,497	\$ 93,796	\$ -	\$ 93,796
Cash, board designated	125,528	-	125,528	125,413	-	125,413
Cash, member retention fund	-	3,042,271	3,042,271	-	2,485,879	2,485,879
Due from (to) operating fund	(85,387)	85,387	-	33,451	(33,451)	-
Accounts receivable, membership fees	90	-	90	8,390	-	8,390
Due from insurance carrier	-	89,203	89,203	-	447,949	447,949
Prepaid expenses	6,213	-	6,213	3,956	-	3,956
Property and equipment, net of depreciation of \$2,048 in 2012 and \$1,280 in 2011	510	-	510	1,278	-	1,278
<b>Total assets</b>	<b>\$ 363,451</b>	<b>\$ 3,216,861</b>	<b>\$ 3,580,312</b>	<b>\$ 266,284</b>	<b>\$ 2,900,377</b>	<b>\$ 3,166,661</b>
<b>Liabilities</b>						
Accounts payable and accrued expenses	\$ 53,476	\$ 237,275	\$ 290,751	\$ 23,912	\$ 237,275	\$ 261,187
Reserve for retention fund payable, general liability	-	2,766,069	2,766,069	-	2,594,199	2,594,199
Advanced retention funding	-	146,688	146,688	-	-	-
Refundable advances	4,672	-	4,672	3,017	-	3,017
<b>Total liabilities</b>	<b>58,148</b>	<b>3,150,032</b>	<b>3,208,180</b>	<b>26,929</b>	<b>2,831,474</b>	<b>2,858,403</b>
<b>Net Assets</b>						
Unrestricted:						
Operating	180,303	-	180,303	114,355	-	114,355
Member retention funds	-	(933,171)	(933,171)	-	(931,097)	(931,097)
Board designated for future activities	125,000	-	125,000	125,000	-	125,000
<b>Total unrestricted net assets</b>	<b>305,303</b>	<b>(933,171)</b>	<b>(627,868)</b>	<b>239,355</b>	<b>(931,097)</b>	<b>(691,742)</b>
Permanently restricted	-	1,000,000	1,000,000	-	1,000,000	1,000,000
<b>Total net assets</b>	<b>305,303</b>	<b>66,829</b>	<b>372,132</b>	<b>239,355</b>	<b>68,903</b>	<b>308,258</b>
<b>Total liabilities and net assets</b>	<b>\$ 363,451</b>	<b>\$ 3,216,861</b>	<b>\$ 3,580,312</b>	<b>\$ 266,284</b>	<b>\$ 2,900,377</b>	<b>\$ 3,166,661</b>

The accompanying notes are an integral part of these financial statements.

# Neighborhood Risk Management Corporation

## Statements of Activities

Years Ended March 31, 2012 and 2011

	2012			2011		
	Operating	Member Retention Funds	Total	Operating	Member Retention Funds	Total
Revenue and support:						
Member liability and property retention funding	\$ -	\$ 2,765,000	\$ 2,765,000	\$ -	\$ 2,396,722	\$ 2,396,722
Membership dues	165,530	-	165,530	161,954	-	161,954
Interest income	5,423	-	5,423	8,695	-	8,695
Donated services	-	-	-	6,500	-	6,500
Contributions and grants	90,000	-	90,000	-	-	-
Miscellaneous income	10,000	-	10,000	1,283	-	1,283
<b>Total revenue and support</b>	<b>270,953</b>	<b>2,765,000</b>	<b>3,035,953</b>	<b>178,432</b>	<b>2,396,722</b>	<b>2,575,154</b>
Operating expenses:						
Member liability and property retention fund claims	\$ -	\$ 2,702,074	\$ 2,702,074	\$ -	\$ 2,628,317	\$ 2,628,317
Professional fees (Note 5)	183,702	65,000	248,702	198,720	-	198,720
Donated services (Note 5)	-	-	-	6,500	-	6,500
Miscellaneous (Note 5)	21,303	-	21,303	57,278	-	57,278
<b>Total operating expenses</b>	<b>205,005</b>	<b>2,767,074</b>	<b>2,972,079</b>	<b>262,498</b>	<b>2,628,317</b>	<b>2,890,815</b>
Change in net assets	65,948	(2,074)	63,874	(84,066)	(231,595)	(315,661)
Net assets, beginning of year, as previously reported	239,355	68,903	308,258	308,360	1,837,347	2,145,707
Prior period adjustments (Note 2)	-	-	-	15,061	(1,536,849)	(1,521,788)
<b>Net assets, end of year</b>	<b>\$ 305,303</b>	<b>\$ 66,829</b>	<b>\$ 372,132</b>	<b>\$ 239,355</b>	<b>\$ 68,903</b>	<b>\$ 308,258</b>

The accompanying notes are an integral part of these financial statements.

# Neighborhood Risk Management Corporation

## Statements of Cash Flows

Years Ended March 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of change in net assets to net cash used in operating activities		
Change in unrestricted net assets	\$ 63,874	\$ (315,661)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation expense	768	512
Accounts receivable, membership fees	8,300	(2,874)
Prepaid expenses	(2,257)	(3,956)
Due from insurance carrier	358,746	(447,949)
Accounts payable and accrued expenses	29,564	7,572
Reserve for retention fund payable, property	-	(463,458)
Reserve for retention fund payable, general liability	171,870	404,260
Refundable advances	1,655	3,017
Advanced retention funding	<u>146,688</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>779,208</u>	<u>(818,537)</u>
Net increase (decrease) in cash	779,208	(818,537)
Cash, beginning of year	<u>2,705,088</u>	<u>3,523,625</u>
Cash, end of year	<u>\$ 3,484,296</u>	<u>\$ 2,705,088</u>

The accompanying notes are an integral part of these financial statements.

# Neighborhood Risk Management Corporation

## Notes to Financial Statements

Years Ended March 31, 2012 and 2011

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### 1. Background and Organization

Neighborhood Risk Management Corporation (a Delaware, not-for-profit corporation) (“NRMC” or the “Organization”) was formed on March 9, 2005 as a member organization. NRMC's members are NeighborWorks America ® (“NW”) organizations who participate in the multi-family initiative. NRMC was established as a mechanism by which members could obtain insurance and alternative risk coverages, which in many cases are not available in their markets because of their size and financial condition. NRMC assists members in obtaining such alternative coverages with third-party insurance companies with broader coverages and at a lower cost than is generally available in the marketplace, and facilitates the establishment of loss control and risk management programs which will minimize losses and costs of members in the fulfillment of their charitable missions.

NRMC also provides risk management training for members. These trainings focus on sound inspection systems, claim mitigation and prevention, and property vendor contract forms. The Board of Directors has developed risk management classes and a website to distribute best practices in risk management and risk management tools.

NRMC is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. NRMC is also exempt from state income taxes. Donors may deduct contributions made to NRMC within the Internal Revenue Code requirements.

### 2. Restatement

During the year ended March 31, 2011, NRMC restated its net assets as of March 31, 2010, primarily to account for accrual adjustments related to its reserve for retention fund payable for previous accident years. The effect of the adjustments resulted in: (i) a net increase in liabilities of \$1,521,788 and (ii) a net reduction of unrestricted net assets of \$1,521,788. The effect of the change in net assets for the year ended March 31, 2010 would have been a decrease of \$1,521,788.

### 3. Summary of Significant Accounting Policies

#### Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the report amounts of revenues and expenses during the reporting period. A significant estimate is the amount of member retention funds payable. Actual results could differ from those estimates.

#### Revenue Recognition

Unrestricted grants and contributions are recorded as revenue when received or unconditionally committed. Funding for the liability and property retention funds is recorded ratably over the period of coverage. Membership dues are recorded as earned for the membership period, which is the same as NRMC's fiscal year.

Donor restricted grants and contributions are recorded as temporarily or permanently restricted revenue and net assets if they are received or committed with donor stipulations that limit the use of the net assets. When a donor's temporary time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets

# Neighborhood Risk Management Corporation

## Notes to Financial Statements

Years Ended March 31, 2012 and 2011

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released from restrictions. There were no temporarily restricted funds for the years ended March 31, 2012 and 2011.

Donor restricted grants and contributions are recorded as permanently restricted revenue and net assets if they are received and committed with donor stipulations that the net assets are held in perpetuity or require specific authorization from donors before they are expended.

Interest income is unrestricted and available for operations.

### **Cash and Cash Equivalents**

Cash consists of operating accounts and risk retention funds held at one bank and one highly rated insurance carrier. Noninterest-bearing accounts held by the bank are fully insured by the Federal Deposit Insurance Corporation ("FDIC"), while interest-bearing accounts held by the bank are insured up to a combined limit of \$250,000. During the normal course of business, balances in the interest-bearing accounts are periodically maintained above the FDIC insurance limit. A portion of the risk retention funds are held by a highly rated insurance carrier for the benefit of members of NRMC. NRMC does not hold collateral for these amounts. NRMC considers short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

### **Furniture, Equipment, and Leasehold Improvements**

Furniture, equipment, and leasehold improvements are capitalized at cost. NRMC's policy is to capitalize all expenditures over \$500. Lesser amounts are expensed. Furniture and equipment are being depreciated over estimated useful lives of five to ten years using the straight-line method, with half of a year's depreciation recognized in the years of acquisition and disposal. Leasehold improvements are being amortized over the shorter of the lease term or useful life.

### **Reserve for Retention Fund Payable**

Reserve for retention fund payable represents the portion of member insurance claims to be paid from member retention funds. The reserve for retention fund payable includes case-basis estimates of reported losses, plus amounts for incurred but not reported losses calculated based upon loss projections utilizing NRMC's historical and industry data. The reserve for retention fund payable has been established on the basis of actuarial assumptions and management judgments. Management believes that its aggregate reserve for retention fund payable at year-end represents its best estimate, based upon the available data, of the amount necessary to cover the ultimate cost of the retention for losses and claims to date for which its members are liable. Projections of future ultimate losses are inherently uncertain because of the random nature of claims occurrences and the dependency on future contingent events, which are affected by economic, legal, political and social factors. Due to these uncertainties, it is not possible to determine whether actual loss experience will conform to the assumptions used in estimating the liability, and as adjustments are necessary, such adjustments are reflected in current operations. All open accident years with outstanding claims are currently either paid up to the full aggregate policy limit or reserved in full to the aggregate policy limit for both programs. Claims for members' losses are paid directly by the third-party insurance companies or their approved third party administrators from the member retention fund held by NRMC on behalf of its members. The reserve for retention fund payable consists of a general liability retention fund of \$2,766,069 and 2,594,199 as of March 31, 2012 and 2011, respectively.

### **Unrestricted Net Assets**

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by NRMC. NRMC has grouped its unrestricted net assets into the following categories:

- **Operating:** consists of amounts which are available for use in NRMC's operating activities.



# Neighborhood Risk Management Corporation

## Notes to Financial Statements

Years Ended March 31, 2012 and 2011

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- **Board designated for future activities:** consists of funds set aside by the Board to be used for future activities of NRMC, including staffing and other operating costs.
- **Member retention fund reserve:** reflects the net book value of NRMC's liability and property retention funds held by NRMC for the individual members of NRMC.

### Permanently Restricted Net Assets

Permanently restricted net assets represent the activities relating to capital grant funds from NW to be held in perpetuity. The funds may be used to fund liability and property risk coverage only with specific written authorization from NW. Interest earned on these funds can be used for general operating purposes.

### Subsequent Events

The Organization has evaluated subsequent events through November 12, 2012, the date these financial statements were available for issuance. With the exception of those matters discussed in Note 6, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

## 4. Insurance Activity

NRMC entered into agreements with two insurance companies to provide occurrence-based coverage to individual NRMC members for general liability and property insurance. NRMC is the first name insured. Individual NRMC members are also named insureds on all policies and the members are invoiced directly by NRMC's broker for their share of the premium and retention funds. All claims made under the policies are administered and paid out by the insurance carriers or other third-party administrators.

### General Liability

There is one general liability policy with a \$2,000,000 limit of liability per occurrence and \$15,000,000 general aggregate, all on a "per location" basis, which renews annually on April 1. Under this policy, NRMC maintains a \$1,200,000 aggregate self-insured liability retention fund.

Individual losses up to the \$100,000 self-insured retention are drawn from the member liability retention fund, subject to a maximum of \$1,200,000. The insurer pays for the amount of the loss that exceeds the \$100,000 self-insured retention and all losses in the aggregate in excess of \$1,200,000 per accident year. NRMC's members are not responsible for any additional premium or contribution to the liability risk fund beyond their initial premium and self-insured retention contribution.

Paid losses will deplete the members' contributions to the member liability retention fund first. Any surplus from the liability retention fund for each accident year will be held in escrow by either the insurer or NRMC, depending on the accident year, until all claims from the accident year are closed (at least three years). After the insurer approves the release of the liability retention funds for that accident year, the remaining money becomes available to fund future accident years' loss funds or to be used for loss control services, as decided by NRMC's Board of Directors.

### Property

The property insurance program is made up of several policies with a total limit of \$500 million, which renew annually on April 1. In addition to the property premium, NRMC's members are also required to contribute to a self-insured retention fund of \$1,500,000. The property retention fund is used to pay all property losses up to the maximum of the \$1,500,000 fund per accident year, subject to each member's

# Neighborhood Risk Management Corporation

## Notes to Financial Statements

Years Ended March 31, 2012 and 2011

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\$5,000 deductible per claim. Should the property retention fund be depleted, the insurer will pay all subsequent losses during the remainder of the accident year subject to each \$5,000 member deductible. Any surplus in the property retention fund at the conclusion of the accident year can be carried forward into the subsequent accident year's property retention fund or can be used for loss control services as decided by NRMC's Board of Directors.

### 5. Operating Expenses

NRMC incurred operating expenses for the following items for the years ended March 31, 2012 and 2011:

	2012	2011
Audit and tax fees	\$ 26,500	\$ 12,109
Bookkeeping	-	18,165
Claims handling expense	-	81,509
Consulting expense	88,928	37,255
Insurance risk and consulting	36,034	35,650
Legal fees	11,540	14,032
Salary and wage expenses	20,700	-
Total professional expenses	<u>183,702</u>	<u>198,720</u>
Membership fees written off	2,876	-
Bank fees and service charges	105	829
Books, subscriptions, and reference material	-	445
Broker search expense	-	15,319
Conference, convention, meeting	1,107	7,239
Directors and officers insurance	7,277	4,692
Depreciation expense	768	512
Equipment rental and maintenance	-	3,193
Marketing	-	4,287
Miscellaneous expenses	134	313
Office supplies	263	2,327
Staff development	-	2,142
Telephone and telecommunications	-	1,561
Temporary help, contract	-	1,721
Travel and meeting expenses	8,773	3,359
Website consulting services	-	9,339
Total miscellaneous expenses	<u>21,303</u>	<u>57,278</u>
Donated professional services	-	6,500
Total operating expenses	<u>\$ 205,005</u>	<u>\$ 262,498</u>

# Neighborhood Risk Management Corporation

## Notes to Financial Statements

Years Ended March 31, 2012 and 2011

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### 6. Related Party Transactions

All members of the Board of Directors also serve as directors, officers, or authorized representatives of NRMC's members.

NRMC receives certain donated services from NW employees. The fair value of these services, as determined by NW, is reflected as donated services in the accompanying statements of activities. During the fiscal years 2012 and 2011, the fair market value of the donated services amounted to \$0 and \$6,500, respectively. NRMC received an unrestricted grant in the amount of \$90,000 from NW in September 2011.

On September 25, 2012, the Organization received grants from NW in the amount of \$200,000 in permanently restricted capital grant funds to be used to support the funding needs for the insurance risk pool and \$100,000 in expendable grant funds to be used to support the business operations of the Organization.

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