

WeiserMazars LLP

**Neighborhood Risk
Management
Corporation**
Financial Statements
March 31, 2013 and 2012



Neighborhood Risk Management Corporation

Table of Contents

March 31, 2013 and 2012

	Page(s)
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities.....	3
Statements of Cash Flows	4
Notes to Financial Statements	5-9

Independent Auditors' Report

To the Board of Trustees of
Neighborhood Risk Management Corporation

We have audited the accompanying financial statements of Neighborhood Risk Management Corporation, a nonprofit organization, which comprise the statements of financial position as of March 31, 2013 and 2012, and the related statements of activities and cash flows for the years 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 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 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 Risk Management Corporation as of March 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

WeiserMazars LLP

August 26, 2013

Neighborhood Risk Management Corporation
Statements of Financial Position
March 31, 2013 and 2012

	2013			2012		
	Operating	Member Retention Funds	Total	Operating	Member Retention Funds	Total
Assets						
Cash and cash equivalents	\$ 391,572	\$ -	\$ 391,572	\$ 316,497	\$ -	\$ 316,497
Cash, board designated	126,814	-	126,814	125,528	-	125,528
Cash, member retention fund	-	6,641,872	6,641,872	-	3,042,271	3,042,271
Due from operating/(to retention) fund	(154,933)	154,933	-	(85,387)	85,387	-
Accounts receivable, membership fees	55	-	55	90	-	90
Due from insurance carrier	-	235,865	235,865	-	89,203	89,203
Prepaid expenses	2,748	-	2,748	6,213	-	6,213
Property and equipment, net of depreciation of \$2,524 in 2013 and \$2,048 in 2012	1,437	-	1,437	510	-	510
Other assets	2,480	-	2,480	-	-	-
Total assets	\$ 370,173	\$ 7,032,670	\$ 7,402,843	\$ 363,451	\$ 3,216,861	\$ 3,580,312
Liabilities						
Accounts payable and accrued expenses	\$ 63,544	\$ 649,773	\$ 713,317	53,476	\$ 237,275	\$ 290,751
Reserve for retention fund payable, property	-	1,584,714	1,584,714	-	-	-
Reserve for retention fund payable, general liability	-	3,479,568	3,479,568	-	2,766,069	2,766,069
Advanced retention funding	-	139,685	139,685	-	146,688	146,688
Refundable advances	4,672	-	4,672	4,672	-	4,672
Total liabilities	68,216	5,853,740	5,921,956	58,148	3,150,032	3,208,180
Net Assets						
Unrestricted:						
Operating	176,957	-	176,957	180,303	-	180,303
Member retention funds	-	(21,070)	(21,070)	-	(933,171)	(933,171)
Board designated for future activities	125,000	-	125,000	125,000	-	125,000
Total unrestricted net assets	301,957	(21,070)	280,887	305,303	(933,171)	(627,868)
Permanently restricted	-	1,200,000	1,200,000	-	1,000,000	1,000,000
Total net assets	301,957	1,178,930	1,480,887	305,303	66,829	372,132
Total liabilities and net assets	\$ 370,173	\$ 7,032,670	\$ 7,402,843	\$ 363,451	\$ 3,216,861	\$ 3,580,312

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

Neighborhood Risk Management Corporation

Statements of Activities

Years Ended March 31, 2013 and 2012

	2013			2012		
	Operating	Member Retention Funds	Total	Operating	Member Retention Funds	Total
Revenue and support:						
Member liability and property retention funding	\$ -	\$ 4,643,167	\$ 4,643,167	\$ -	\$ 2,765,000	\$ 2,765,000
Membership dues	221,322	-	221,322	165,530	-	165,530
Interest income	6,423	-	6,423	5,423	-	5,423
Donated services	2,500	-	2,500	-	-	-
Contributions and grants	130,000	200,000	330,000	90,000	-	90,000
Miscellaneous income	-	-	-	10,000	-	10,000
Total revenue and support	<u>360,245</u>	<u>4,843,167</u>	<u>5,203,412</u>	<u>270,953</u>	<u>2,765,000</u>	<u>3,035,953</u>
Operating expenses:						
Member liability and property retention fund claims	\$ -	\$ 3,600,291	\$ 3,600,291	\$ -	\$ 2,702,074	\$ 2,702,074
Professional fees (Note 5)	332,834	130,775	463,609	183,702	65,000	248,702
Miscellaneous (Note 5)	30,757	-	30,757	21,303	-	21,303
Total operating expenses	<u>363,591</u>	<u>3,731,066</u>	<u>4,094,657</u>	<u>205,005</u>	<u>2,767,074</u>	<u>2,972,079</u>
Change in net assets	(3,346)	1,112,101	1,108,755	65,948	(2,074)	63,874
Net assets, beginning of year	<u>305,303</u>	<u>66,829</u>	<u>372,132</u>	<u>239,355</u>	<u>68,903</u>	<u>308,258</u>
Net assets, end of year	<u>\$ 301,957</u>	<u>\$ 1,178,930</u>	<u>\$ 1,480,887</u>	<u>\$ 305,303</u>	<u>\$ 66,829</u>	<u>\$ 372,132</u>

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

Neighborhood Risk Management Corporation

Statements of Cash Flows

Years Ended March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of change in net assets to net cash used in operating activities		
Change in net assets	\$ 1,108,755	\$ 63,874
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	476	768
Accounts receivable, membership fees	35	8,300
Due from insurance carrier	(146,662)	358,746
Prepaid expenses	3,465	(2,257)
Other assets	(2,480)	-
Accounts payable and accrued expenses	422,566	29,564
Reserve for retention fund payable, property	1,584,714	-
Reserve for retention fund payable, general liability	713,499	171,870
Advanced retention funding	(7,003)	146,688
Refundable advances	-	1,655
	<u>3,677,365</u>	<u>779,208</u>
Net cash provided by operating activities		
	<u>3,677,365</u>	<u>779,208</u>
Cash flows from financing activities:		
Purchase of property and equipment	(1,403)	-
	<u>(1,403)</u>	<u>-</u>
Net cash used in financing activities		
	<u>(1,403)</u>	<u>-</u>
Net increase in cash	3,675,962	779,208
Cash, beginning of year	<u>3,484,296</u>	<u>2,705,088</u>
Cash, end of year	<u>\$ 7,160,258</u>	<u>\$ 3,484,296</u>

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

Neighborhood Risk Management Corporation

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

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 to provide loss mitigation services to not-for-profit organizations that provide affordable housing. NRMC's members are NeighborWorks America® (“NW”) organizations and other not-for-profit organizations that provide affordable, multi-family housing.

NRMC was established to provide risk reduction and loss mitigation services and educational programs to its members so that they in turn can learn to reduce their loss-related expenses and devote more of their limited resources to their affordable housing missions. NRMC also advises its members on insurance and alternative risk coverages. 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 provides risk management training and loss mitigation programs for members and prospective members, including members of NW. These trainings focus on topics such as reliable inspection systems, fire safety, claim mitigation and prevention, property-vendor contract forms and agreements and effective property maintenance. The Board of Directors has developed risk management classes and a website to distribute best practices in risk management and risk management tools. Training and risk mitigation programs and loss mitigation initiatives are provided to NRMC members by the staff of NRMC and also by outside professionals, including insurance brokers (such as Willis), risk management consultants and safety experts, under fee and donated service arrangements with the Organization.

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. 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, consistent with 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 released from restrictions. There were no temporarily restricted funds for the years ended March 31, 2013 and 2012.

Neighborhood Risk Management Corporation

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

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. 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 funds payable totals \$5,064,282 and \$2,766,069 as of March 31, 2013 and 2012, 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, 2013 and 2012

- **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 August 26, 2013, the date these financial statements were available for issuance.

3. 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 \$1,000,000 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 \$1,100,000 and \$1,200,000 aggregate self-insured liability retention fund for the policy years ended March 31, 2013 and 2012, respectively.

Individual losses up to the \$100,000 self-insured retention are drawn from the member liability retention fund, subject to a maximum of \$1,100,000 and \$1,200,000 for the policy years ended March 31, 2013 and 2012, respectively. 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 liability retention fund 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 property retention fund of \$3,500,000 and \$1,500,000 for the policy years ended March 31, 2013 and 2012, respectively. The property retention fund is used to pay all property losses up to the maximum of the property retention fund per accident year, subject to each member's \$5,000 deductible per claim. Should the property retention fund be depleted, the insurer will pay all subsequent losses during

Neighborhood Risk Management Corporation

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

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.

4. Operating Expenses

NRMC incurred operating expenses for the following items for the years ended March 31, 2013 and 2012:

	2013	2012
Audit and tax fees	\$ 21,606	\$ 26,500
Financial consulting	31,550	-
Claims handling expense	-	-
Consulting expense	70,164	88,928
Insurance risk and consulting	32,110	36,034
Legal fees	3,230	11,540
Rental fees	10,628	-
Insurance - employee	765	-
Meal & entertainment	1,147	-
Salary and wage expenses	161,634	20,700
Total professional expenses	<u>332,834</u>	<u>183,702</u>
Membership fees written off	-	2,876
Bank fees and service charges	105	105
Books, subscriptions, and reference material	183	-
Conference, convention, meeting	2,102	1,107
Directors and officers insurance	4,216	7,277
Depreciation expense	476	768
Donated professional services	2,500	-
Marketing	477	-
Miscellaneous expenses	501	134
Office supplies	1,607	263
Telephone and telecommunications	2,379	-
Temporary help, contract	1,925	-
Travel and meeting expenses	11,870	8,773
Website consulting services	2,416	-
Total miscellaneous expenses	<u>30,757</u>	<u>21,303</u>
Total operating expenses	<u>\$ 363,591</u>	<u>\$ 205,005</u>

Neighborhood Risk Management Corporation

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

5. Related Party Transactions

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

In September 2011, NRMC received an unrestricted grant in the amount of \$90,000 from NW. In September 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. In March 2013, the Organization received an additional grant from NW in the amount of \$30,000 in expendable grant funds to be used to support the business operations of the Organization.

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